inexhaustible
inconspicuous
indispensable

Annual Report 2015
of H&R AG

As an internationally established specialist chemicals company, we process crude-oil derivatives into high-quality products for a large variety of industries.

With more than 1,550 employees, we generated nearly €1.0 billion in sales revenues in 2015. In the years ahead we intend to further increase the value added by our refineries through targeted measures to increase efficiency and through continuous improvements in our processes. At the same time, we intend to further expand our international operations and to benefit from growth in the world's key economic regions.

During the financial year, we generated decent sales revenues of €0.98 billion. At the same time, our operating income was significantly higher than in past years. Overall, the company showed in 2015 that it is well placed in the market and has a stable international position with positive contributions to earnings from virtually all divisions.

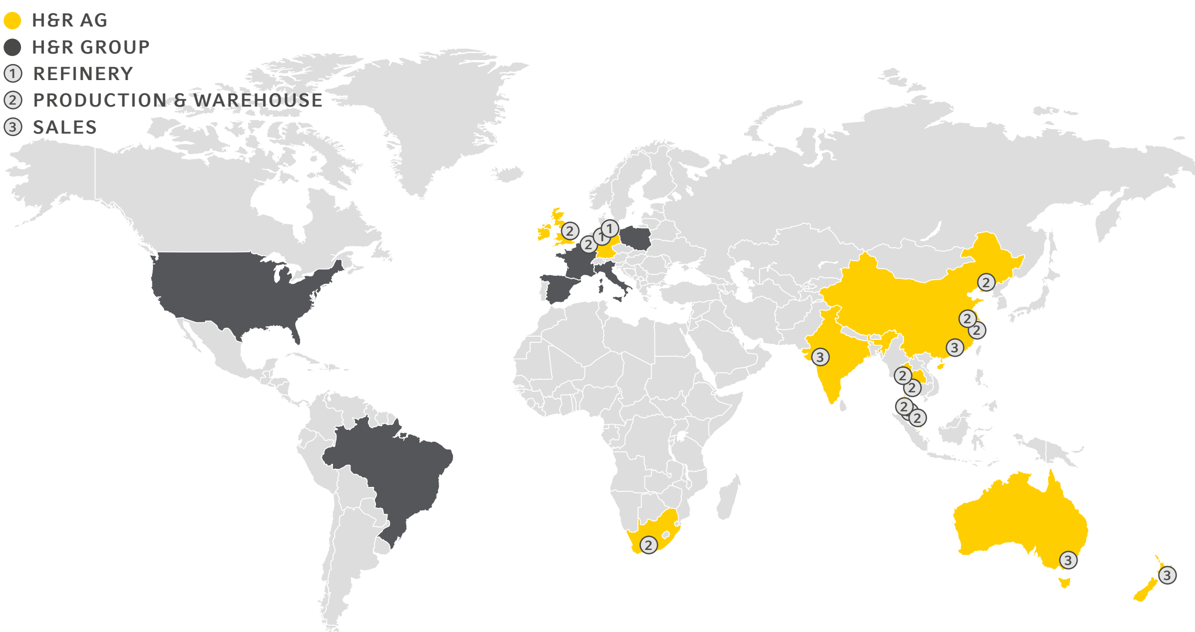
T. 01 **THE H&R GROUP IN FIGURES**

IN € MILLION	2015	2014	Change in absolute terms
Sales revenue	982.9	1.058.6	-75.7
Operating result (EBITDA)	86.0	31.5	54.5
EBIT	49.2	5.8	43.4
Earnings before taxes	34.8	-7.8	42.6
Consolidated earnings (before minority interests)	27.4	-15.6	43.0
Consolidated earnings (after minority interests)	27.5	-15.4	42.9
Consolidated earnings per share (undiluted, in €)	0.77	-0.49	1.26
Operating cash flow	56.4	-0.4	56.8
Equity ratio (in %)	45.7	35.2	10.5
Employees as of 31 December (absolute)	1,568	1,553	15

T. 02 **THE SEGMENTS IN FIGURES**

IN € MILLION	Revenue 2015	Revenue 2014	EBITDA 2015	EBITDA 2014
Chemical and Pharmaceutical Raw Materials Refining				
The ChemPharm Refining Segment produces speciality products from crude oil in the two domestic refineries in Hamburg and Salzbergen.	614.3	768.7	53.3	18.2
Chemical-Pharmaceutical Raw Materials Sales				
Our ChemPharm Sales Segment comprises the production sites abroad and our international sales activities.	320.2	244.7	35.1	18.8
Plastics				
Our Plastics Segment manufactures high-precision plastic parts along with the associated tools and moulds.	60.1	56.5	-0.8	-1.5
Reconciliation	-11.6	-11.3	-1.5	-3.9

OUR SITES

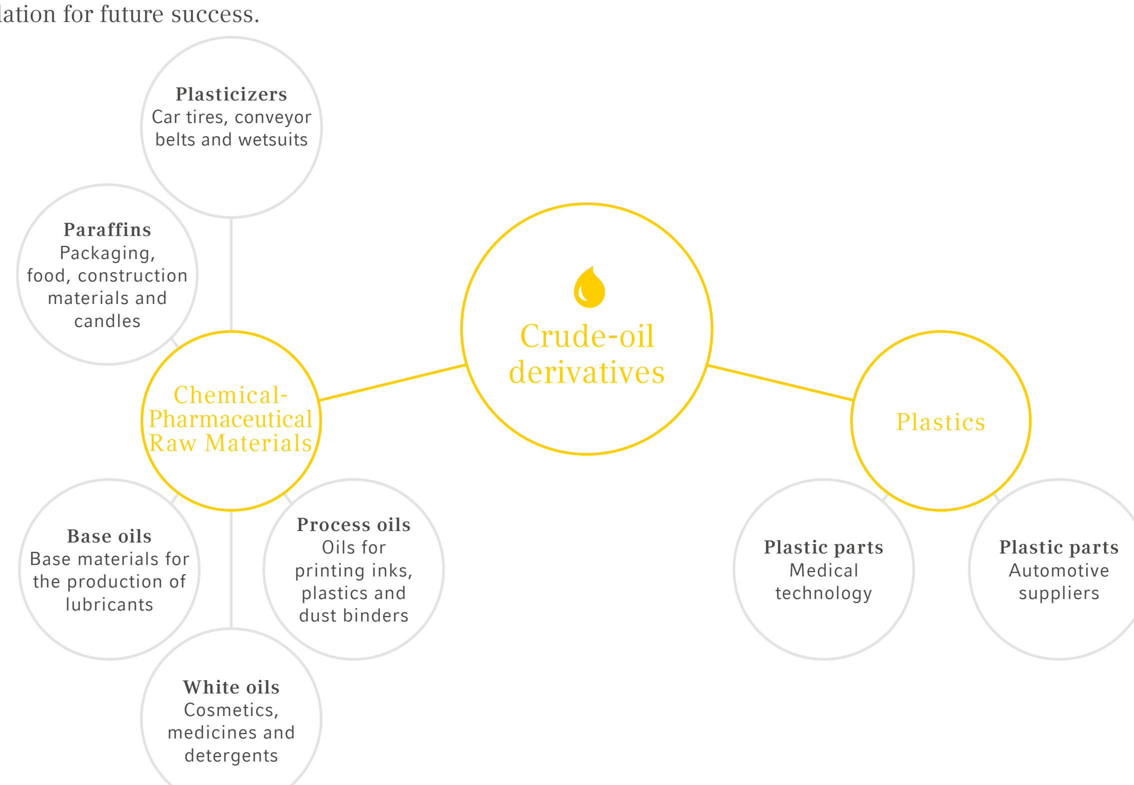


● **H&R AG** ① Germany (Hamburg, Salzbergen) ② China (Ningbo, Daxie, Fushun), Malaysia (Batu Caves, Port Klang), The Netherlands (Nuth), Singapore, South Africa (Durban), Thailand (Sri Racha, Bangkok), Unites Kingdon (Tipton) ③ Australia (Laverton), China (Hong Kong), India (Mumbai), New Zealand (Auckland)

● **H&R GROUP** ② Germany (Hamburg) ③ France (Lyon), Poland (Cracow), Spain (Madrid), USA (Houston), Brazil (Sao Paulo)

OUR BUSINESS MODEL

We apply intelligent processes to obtain more than 800 innovative, environmentally friendly and high-quality products such as plasticizers, white oils and paraffins from crude-oil derivatives. High-precision plastic parts complete our product portfolio. Our feedstock has an almost inexhaustible potential and our products are important building blocks in the processes and products of a great number of industries. These also provide an ideal foundation for future success.



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Informative notes

Link to the H&R homepage

Information to sustainability

Useful information

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

To the Shareholders

Niels H. Hansen
Chairman of the Executive Board

Detlev Wösten
Member of the Executive Board

Dear Shareholders,
Dear Ladies and Gentlemen,
Dear Employees,

Your H&R AG has faced enormous challenges in recent years. Our annual reports showed unsatisfactory business figures, reported on the complex situation of the European refinery sector, described the pressure on margins, and seemed to bear witness to the increased competition and the adverse impact on earnings, caused by the high volatility of crude oil prices.

Our annual reports reflected, on the other hand, a company that switched into crisis mode to meet these challenges.

We continuously reported on strategies we designed to reposition H&R AG. We discussed the steps we were taking to increase efficiency and improve output, to refinance and to improve our management of raw materials, and we described our plans to strengthen our international presence and to distinguish ourselves from conventional lubricant refineries.

As a result, our reports have always borne witness as well to the transformation our company was undergoing.

Today we are pleased to present to you an H&R AG that has emerged stronger than ever from the challenges of recent years. With a level of business performance that is not only significantly higher than that of previous years, but which also approaches that of the most successful years in the company's history. Given the developments over the past four years and the adjustments that we have had to make in virtually every area of the company, we can honestly say that today H&R AG is stronger, more flexible and more competitive than it ever was at the height of its financial success.

To a large extent, therefore, the positive results for 2015 are "homemade". Naturally, lower raw-material prices, good prices for our products, positive margins and high customer demand all contributed. But the company was able to take advantage of these mainly because of its own efforts to reposition itself.

For 2015 as a whole, the Group posted €86.0 million of operating income (EBITDA). Not only was this amount significantly higher than the prior-year figure; it also exceeded the most recent projections. EBIT also followed a very positive trend, increasing by €43.4 million to €49.2 million. The trend was similar for earnings before taxes (EBT), which stood at €34.8 million in 2015 and therefore rose by €42.6 million compared to the previous year.

The adverse effects of commodity prices – the so-called "windfall losses" – also reappeared in 2015. However, unlike in 2014, they were more than offset by the good business and margin trends in 2015. Consolidated net income totaled €27.5 million, i.e., €42.9 million higher than in the previous year.

Earnings improved despite the fact that total sales revenues of €982.9 million were 7% lower than in 2014 because of the lower price of raw materials.

The better figures in 2015 were also reflected in H&R AG's share price: after starting the year under particularly difficult conditions, the share initially reached an all-time low before recovering gradually over the course of the year. Overall interest in our shares was higher in 2015 than it has been for many years.

We especially want to thank you, our dear shareholders, for your loyalty to our shares – not only last year, but especially over the past few years, as well.

We also would like to thank our customers, suppliers and investors for the excellent level of cooperation during the past year. We consider our constructive collaboration to be an excellent foundation on which our relationships can continue to grow over the long term.

We would also like to express our sincere gratitude to our employees. Their great commitment has made an important contribution to our joint efforts to further improve the efficiency of our organization. Thanks to their dedication, our company is an established global player in the market for crude-oil-based specialty products and high-precision plastic components.

Together, we will succeed in further stabilizing H&R AG, step by step, and developing it so that it will generate positive, sustainable earnings in the years to come.

Best regards,

Your H&R AG Executive Board

Niels H. Hansen
Chaiman of the Executive Board

Detlev Wösten
Member of the Executive Board

Salzbergen, March 2016

Company Representative Bodies

The representative bodies of H&R AG 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

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

Niels H. Hansen
Chairman

Detlev Wösten
Member of the Executive Board
Refineries, Production and Technology

The Supervisory Board

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

Chairman of the Supervisory Board

Dr. Joachim Girg
Managing Director of H&R Beteiligung GmbH

Members of the Supervisory Board

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

Nils Hansen
General Partner,
H&R Group

***Anja Krusel** (until 19/5/2015)*
CFO, Microsoft Deutschland GmbH (until 30/4/2015)

Dr. Hartmut Schütter
Consulting Engineer, Schwedt/Oder

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

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

***Matthias Erl** (since 31/1/2016)*
Technician at GAUDLITZ GmbH

Reinhold Grothus
Works Council Chairman at H&R ChemPharm GmbH

Harald Januszewski
Thermoplast Work Preparation at GAUDLITZ GmbH

***Rainer Metzner** (until 31/1/2016)*
Sales Manager – Medical Devices at GAUDLITZ GmbH

Honorary Chairman of the Supervisory Board

***Bernd Günther** (since June 2012)*
Honorary Chairman of the Supervisory Board
H&R AG

The Advisory Board

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

Harald Baumgart
Managing Director of KG Deutsche Gasrußwerke GmbH & Co

Eckbert von Bohlen und Halbach
Managing Director of Bohlen Industrie GmbH

Sabine Dietrich
Member of the Supervisory Board of Commerzbank AG; former member of the Board of Directors of BP Europa SE

Dr.-Ing. Bernd Drouven
Chairman of the Executive Board of Aurubis AG

Dr. Erwin Grandinger
Businessman

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

Wilhelm Scholten
Managing Director of Ölfabrik Wilhelm Scholten GmbH

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

inexhaustible
inconspicuous
indispensable

Atmospheric residue

At the very beginning of our work process is a substance for which conventional refineries no longer have any use: "atmospheric residue", a by-product of crude-oil distillation. But as a specialty refinery, this substance has an almost inexhaustible potential for us: Through a time-consuming separation process as part of an elaborate joint-production process, we can extract from the distillate base oil and more than 800 innovative, environmentally friendly and high-value products.

Our specialty products are used in more than 100 industries. In our everyday lives, we hardly notice them – and yet they are indispensable. Thanks to their qualities and properties, they make it possible to produce countless modern materials and products that we come into contact with every day.

As they become more advanced, both the demand for and demands on our products increase. We are ready to tackle any challenge, anywhere in the world - wherever our customers need us.

Plasticizers
Process oils
Base oils
Paraffins
White oils


MARKET LEADER
EUROPE
CHINA
SOUTHEAST ASIA
Percentage of a tire consisting of plasticizers: 8 percent
5–7% savings
with H&R plasticizers
In-house
R&D lab
IN
HAMBURG

Production sites:
Hamburg, Salzbergen (Germany), Houston (North America), Sri Racha (Thailand), Ningbo (China), Durban (South Africa) and Port Klang (Malaysia)

PLASTICIZERS

Areas of application:
Tires, technical rubber goods (e.g., shoe soles), thermoplastic products (e.g., toothbrush handles), cable sheathing, rubber erasers

As exemplified by:
Tires


H&R PROCESS OILS:
FLEXIBLE AND VERSATILE
Permanently fuse ink to paper
Make banknotes forgery-proof
Help to protect the environment thanks to high-tech lacquers
Protect against corrosion
HIGH VISCOSITY
Thin-layered
-M-I-L-D-
Odorless

Production sites:
Hamburg, Salzbergen (Germany), Ningbo (China), Port Klang (Malaysia), Sri Racha (Thailand)

PROCESS OILS

Areas of application:
Leather treatment (e.g., waterproofing), building protection (e.g., demolding agent), fertilizers, rubber/plastic processing, cable fillers

As exemplified by:
Printing inks


* H&R blends and packages more than 2,000 products. *
150
kt/year
H&R produces 150 kt/year base oils
at both of its refineries
30%
are used in
the automotive
industry
70%
are used in
other industrial
applications
The bottling plant in Salzbergen
is one of the biggest in Europe,
with a production capacity of
200 t/day.
+10%
increase in small-canister bottling volume
2013
2015

Production sites:
Hamburg and Salzbergen (Germany)

BASE OILS

Areas of application:
Basic components of auxiliary and production materials for many industrial, automotive or marine applications, e.g., motor, industrial, machine, marine or turbine oils

As exemplified by:
Hydraulic oil

100
PERCENT
paraffin*
* CANDLE COMPONENT
APPROXIMATELY 50% OF H&R PARAFFINS
ARE PROCESSED INTO CANDLES
TEMPERATURE AT WHICH OIL SEPARATES FROM PARAFFIN
°C
40
30
20
10
0
–10
–20
–30
–40

Production sites:
Hamburg, Salzbergen (Germany), Fushun (China) and Nuth (the Netherlands)

PARAFFINS

Areas of application:
Cosmetics (e.g., lipstick), pharmaceutical products (e.g., ointments), food (e.g., cheesemaking wax), leather care (e.g., shoe polish), coatings for packaging, kneading/modeling compounds, body-cavity sealants, ski waxes, antiozonant waxes, wood preservatives, candles

As exemplified by:
Candle


Typical percentage of medicinal white oil in a cream
20%
in Germany
No.1
200 bar
IS REQUIRED
to remove the last unwanted chemical compounds from base oils during the white-oil hydrogenation process.
CERTIFIED IN ACCORDANCE WITH:
DAB
Ph. Eur.
USP
FDA

Production sites:
Hamburg, Salzbergen (Germany), Ningbo (China),
Durban (South Africa)

WHITE OILS

TECHNICAL/MEDICAL

Areas of application:
Cosmetics industry (e.g., creams, lotions),
pharmaceutical industry (e.g., ointments, oleogels), textile and plastics industry,
food industry (e.g., lubricants used in food-processing) and chemical industry

As exemplified by:
Cream

Supervisory Board Report

Dear Shareholders,

Following two difficult years in 2013 and 2014, H&R AG can look back on a strong 2015 that saw earnings levels almost as high as those seen at the end of the last decade. This was made possible, on the one hand, by a better market environment for lubricant refineries in Europe – and not least by the disappearance of some providers during the crisis period – and, on the other hand, by the clear successes of the measures introduced since 2012 to improve efficiency at our two sites in Hamburg and Salzbergen. We are particularly pleased by the latter, which indeed proves that we are on the right path. H&R AG must and will stay the course in order to maintain and further expand our position as a technologically innovative specialty-refinery operator.

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 2015, the Supervisory Board and the Executive Board had a good, intensive working relationship. The Chairman of the Executive Board kept the Chairman of the Supervisory Board informed about all important issues on a regular basis and in a timely manner. Outside of meetings, the Supervisory Board and the Executive Board also stayed in close contact in order to ensure a constant flow of information and an exchange of opinions.

Whereas during the two previous years the work of the Executive Board and the Supervisory Board was often of a short-term or medium-term nature, in 2015 we were once again able to devote our attention to longer-term issues, i.e., to return to "normal" Supervisory Board activities.

Therefore, in addition to the recurring agenda items regarding the current business trend, the committee reports or the status of individual projects, every Supervisory Board meeting also focused on a key topic. H&R's current position and the targets for the next few years were discussed in detail with the Executive Board and the respective specialists from the subsidiaries.

The initial focal points were the international business, as a driver of overall growth, and China. During the second half of the year, we turned our attention to the individual product segments. The first topic was the Paraffins product segment; then, at the December meeting, we dealt with by-products. Considering the latter at such an early date may seem surprising, but as high-volume products for the refineries, by-products have a significant impact on earnings. We will continue to follow this sequence for our meetings in financial year 2016.

In addition to our general supervisory and control functions, we consider the core mission of our Supervisory Board work to lie in helping the Executive Board to accomplish the following five company goals for the Refinery and International Sales/Distribution segments:

- Reducing low-margin and negative-margin by-products and converting these into high-value specialty products (measured via a statement of refinery quantities)
- Securing and improving our competitive position (measured using comparative refinery analyses by Solomon)
- Expanding the international performance of Sales/Distribution (measured as percentage of sales revenues and earnings)
- Safety and environmental protection (measured by safety and environmental-protection records)
- Generating an EBITDA margin of > 10%.

Over the medium term, we intend to achieve a similarly high EBITDA margin for the Plastics Division.

Members of the Executive Board and of the Supervisory Board must immediately disclose any conflicts of interest to the Supervisory Board. No conflicts of interest involving members of the Executive Board or members of the Supervisory Board arose during financial year 2015.

Composition and Efficiency Audit

As a listed stock corporation that falls under the German One-Third Employee Participation Act (Drittelbeteiligungsgesetz/DrittelbG), H&R AG's Supervisory Board consists of nine members. Six of the members are shareholder representatives, four of whom are independent. The remaining three members are elected by the employees. During the reporting period, all Supervisory Board members attended at least one-half of the Supervisory Board meetings.

H&R AG's Supervisory Board 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 and to a corresponding level of representation within the company's management bodies. The company has set an initial women's quota of 20% by 2017. As a company with international operations, we also want to ensure that particular attention is given to the international side – especially to international experience, foreign languages, cultures and mindsets. Finally, our selection criteria for Supervisory Board candidates also include company-specific characteristics, such as extensive knowledge of refinery technology, plant construction and engineering and specialty oils.

T. 03 **COMPOSITION OF THE SUPERVISORY BOARD AND MEMBERSHIP OF COMMITTEES**

	Training and Professional Focus	Function and Committees	Special Points
Dr. Joachim Girg Chairman of the Supervisory Board	Dipl.-Kfm., Managing Director of H&R Beteiligung GmbH, Hamburg	**Functions** Banking and Capital Markets International Business Strategic Issues Corporate Governance **Committees** Steering Committee (V) Audit Committee Refinery Technology and Strategy Corporate Actions (V) Nomination	Representative of the Majority Shareholder
Roland Chmiel Deputy Chairman of the Supervisory Board	CPA/Chartered Accountant, Partner in the law and accounting firm Weiss Walter Fischer-Zernin, Munich	**Functions** Accounting, Controlling and Compliance Taxes **Committees** Steering Committee Audit Committee (V) Corporate Actions	Supervisory Board's independent financial expert
Nils Hansen	Managing Partner of the H&R Group, Hamburg	**Functions** Entrepreneurship Strategic Issues and Innovations ChemPharm Specialty Products **Committees** Steering Committee Refinery Technology and Strategy Nomination (V)	Majority Shareholder
Anja Krusel (until 19/5/2015)	CFO of Microsoft Deutschland GmbH, Munich (until 30/4/2015)	**Functions** Accounting and Capital Markets **Committees (until 19/5/2015)** Audit Committee Corporate Actions	Independent Member, Supervisory Board
Dr. Hartmut Schütter	Consulting Engineer, Schwedt/Oder	**Functions** Refinery Technology, Plant Construction, Engineering Strategic Issues **Committees** Refinery Technology and Strategy (V)	Independent Member, Supervisory Board
Dr. jur. Rolf Schwedhelm	Tax Attorney and Partner of the law firm Streck Mack Schwedhelm, Cologne	**Functions** Corporate and Tax Law Corporate Governance **Committees** Nomination	Independent Member, Supervisory Board
Dr.-Ing. Peter J. Seifried (from 19/5/2015)	Chemical Engineer, Independent Consultant, Seevetal	**Functions** Refinery Technology, Plant Construction, Engineering Strategic Issues **Committees (from 12/8/2015)** Audit Committee Refinery Technology and Strategy Corporate Actions	Independent Member, Supervisory Board
Reinhold Grothus	Works Council Chairman at H&R ChemPharm GmbH; Salzbergen	**Committees** Steering Committee	Employee Representative
Harald Januszewski	Thermoplast Work Preparation at GAUDLITZ GmbH, Coburg	No committee work	Employee Representative
Rainer Metzner (until 31/12/2015)	Works Council Chairman at GAUDLITZ GmbH, Coburg	No committee work	Employee Representative

During the past year, particular attention was paid to auditing the efficiency of the Supervisory Board. After studying and comparing various offers from specialized service providers, we decided to combine implementation using our own capacity with help from an outside partner. Under the leadership of our Manager of Audit and Compliance, a list of around 150 questions (divided into ten sections) was drawn up in coordination and agreement with the Chairman of the Audit Committee. Logistics were handled by a service provider that guaranteed the necessary anonymity. In turn, the evaluation was carried out by H&R AG's Senior Auditor. After an intensive discussion of the results at a meeting of the Audit Committee held on 7 December 2015, a presentation was given to the entire Supervisory Board on the day following the meeting.

In general, we rate the composition and the work of our Board as good. Nevertheless, during the course of the discussion, we developed improvements for some work processes. We also placed particular emphasis on conflicts of interest. We decided to modify the procedures for how these should be reported and how they can be handled better in the future.

There were two personnel changes that affected the Executive Board and Supervisory Board in financial year 2015. In January 2015, the Executive Board employment contract with Thierry Chevrier was terminated after Mr Chevrier assumed new responsibilities for Acquisitions, Marketing and Sales/Distribution activities within Hansen & Rosenthal KG. In May 2015, Ms Anja Krusel resigned from her position on the Supervisory Board as required by her new employer after she changed jobs.

Visits to the Chinese Locations

While the Supervisory Board Chairman regularly visits domestic production sites, another longer trip to visit our international units took place in 2015. In 2015, the destination was again China, where our site in Ningbo/Beilun celebrated its tenth anniversary. The visit, which took place shortly after the Annual Shareholders' Meeting at the end of May 2015, also included the Chairman of the Executive Board, Mr Niels H. Hansen, and the Managing Director of our Chinese ChemPharm businesses, Mr Hugh Luo. As a result, with the exception of Australia, the Supervisory Board Chairman has visited all major units in recent years. In addition, in September 2015, the Chairman of the Audit Committee and the new auditor jointly visited the sites in China as part of a comparable tour.

Today, the Ningbo/Beilun location is one of the H&R Group's success stories. It serves as a model for further international expansions. Following a difficult start-up phase not untypical for China, development of the Ningbo/Beilun site has been very dynamic and successful since 2007. The initially expected sales volume of 35,000 tons p.a. had already been reached 3 years later. In 2014, the site – which was originally designed with an annual sales capacity of only 50,000 tons – sold more than 75,000 tons. Because further expansion of capacity at that site was not possible, in 2012, following an intensive search, a new site was located around 25 kilometers away, at Ningbo/Daixi, and a modern conversion plant was built and placed into operation at the end of 2014.

The strategic plan calls for continuing the successful first decade in China with the new site at Ningbo/Daixi. On the other hand, with its links to the world's largest paraffin refinery, the Fushun site offers the opportunity to develop into a new international player in this product segment over the long term.

H&R's three locations in China currently have an annual capacity of up to 200,000 tons of primary products. This is roughly comparable to the annual tonnage of primary products from our Salzbergen refinery.

Supervisory Board Meetings

A total of 10 Supervisory Board meetings took place in 2015, six of which were face-to-face meetings and four of which were held via teleconference. The attendance rate was 93%. The Supervisory Board was extensively informed about the company's situation by the Executive Board on a regular basis, both verbally and in writing. To the extent required by law or the Articles of Association, the Supervisory Board approved proposed resolutions after thoroughly reviewing them.

At the beginning of the year (on 15 January and 27 January 2015), two Supervisory Board meetings were held to discuss the reorganization of the Executive Board. As a result, it was decided to terminate the Executive Board employment contract with Mr Thierry Chevrier.

At the meeting held on 20 February 2015, the separate financial statements and the consolidated financial statements of H&R AG and the report on the company's ties to affiliated companies were audited and discussed in the presence of the auditors. In order to give Supervisory Board members time to carefully study the documents, they were adopted at a Supervisory Board meeting held on 27 February 2015. The meeting also discussed the current status of plans to further develop sales/distribution agreements, the company's start to the year and measures planned by individual subsidiaries in 2015. The Supervisory Board's report for the 2014 Annual Report was also approved, as were the newly defined Executive Board responsibilities and the new version of the Statement of Compliance.

The meeting held on 25 March 2015 dealt with the invitation to the Annual Shareholders' Meeting on 19 May 2015 and the proposal, included in the invitation, to elect a new auditor. Following the debate on this, both items were approved unanimously. Other focal points included the status of optimization measures at the Hamburg refinery site and further development of international sales/distribution activities. The status quo and medium-term and long-term goals of the individual units were discussed in detail in the presence of the Manager of Operations for the International Sales/Distribution segment and our Thai subsidiary.

At the meeting held on 18 May 2015, directly before the Annual Shareholders' Meeting, the Supervisory Board considered the current business situation and the status of preparations for the Annual Shareholders' Meeting. Another topic discussed was the current status of new financing for H&R AG.

At the Supervisory Meeting on 17 July 2015, the Chairman and the CFO reported on the results of negotiations with banks regarding refinancing of a major portion of H&R AG's financing. Following an in-depth discussion, the Supervisory Board – which had already been informed during previous meetings about continued developments in the discussions – authorized the Executive Board to conclude the loan agreements presented.

Our activities in China dominated discussions at the 12 August 2015 meeting. The Supervisory Board Chairman reported on his trip to China, while the Executive Board Chairman reported on measures at the Ningbo/Beilun and Fushun sites. In addition, the Executive Board Chairman gave a presentation on the status of various international projects in Asia and Europe. Other major topics included a review of developments at H&R AG's subsidiaries during the first half and the status of the sale of the quartz sand deposits at the Sythengrund site. Finally, by-elections were held for various committees, as required due to the departure of Ms. Anja Krusel.

The Supervisory Board meeting held on 22 September 2015 discussed flood protection at the Hamburg refinery site. Following extensive preparatory work by the RTS Committee, the history and project planning for construction of the flood-protection facilities in accordance with the guidelines set by the Hamburg Port Authority (HPA) were presented and discussed. Current funding-support aspects were also discussed. Following a thorough discussion, the Supervisory Board approved the overall design to build the new flood-protection system at H&R Ölwerke Schindler GmbH by 2019.

At the 20 October 2015 meeting, the Executive Board reported on the company's business situation following the end of the third quarter. Moreover, an overview was given of the results of the comparative refinery study by Solomon. The analysis highlighted the efficiency, competitiveness and sustainability of the H&R Group. In the study, which encompassed almost 50% of the lubricant refineries worldwide, our two refinery sites in Hamburg and Salzbergen consistently occupied good positions. At the same time, though, there was also clearly potential for making improvements in specific segments. The Executive Board presented measures for tapping into and realizing such potential. In addition to the German Corporate Governance Code, the Statement of Compliance and the efficiency audit, paraffins were also discussed. In light of current global changes in this industry, the Executive Board presented the strategic approach of Global Wax, which was discussed in detail.

On 8 December 2015, we focused on the refinery businesses' by-products. Because of their volume, these have a significant influence on earnings. Furthermore, the Executive Board presented its budget for 2016 and the coming years. Following deliberations, the Supervisory Board approved the 2016 budget. This meeting also dealt with the Supervisory Board efficiency audit, the 2015/2016 Statement of Compliance and, in addition, the presentation and discussion of the energy plan for the Salzbergen refinery site. The last Supervisory Board meeting of the year was rounded out by an update on the status of sales/distribution agreements and financing for the Chinese companies.

The Work of the Supervisory Board Committees

Pursuant to the rules of procedure, the Supervisory Board has established five committees:

- the Steering Committee,
- the Audit Committee,
- the Refinery Technology and Strategy Committee,
- the Corporate Actions Committee
- and the Nomination Committee.

It is also empowered to set up ad-hoc committees. Unlike in 2014, it did not exercise that power during the past financial year.

In 2015, the committees' work again focused on meetings of the Audit Committee and the Refinery Technology and Strategy Committee. These two committees accounted for twelve of the fifteen meetings held. At subsequent Supervisory Board meetings, reports were given of the committees' work. As a result of our efficiency audit, in the future we intend to reduce the number of committees to three by abolishing the Corporate Actions Committee and the Steering Committee.

The attendance rate for all fifteen committee meetings was 91%. The composition of the committees is shown on page 24.

In financial year 2015, the members of the **Steering Committee** held one meeting. The meeting's agenda included Executive Board and Supervisory Board issues and general questions about the situation of the company.

All committee members attended the meeting.

The **Audit Committee** held four meetings during the reporting year. In the presence of the auditors and the Executive Board, it dealt with the financial statements and the combined Management Report for H&R AG and the Group, the Subordinate Status Report and the appropriation of net income. In addition, the committee helped to prepare the prospectus for the admission of the new shares to trading in connection with the increase in capital through a contribution-in-kind in September 2014.

Further, the Audit Committee provided the Supervisory Board with a recommendation on the proposal for electing the (new) statutory auditor at the Annual Shareholders' Meeting. The following topics were then discussed in detail: issuing the audit engagement to the auditors for financial year 2015; monitoring the auditors' independence and qualifications; determining the focal points of the audit; and determining the auditing firm's fees.

In addition, the body actively reviewed the efficiency of the work by the Supervisory Board. The type of evaluation procedure, the results of the review and the implementation of improvements were also discussed. In addition, the Audit Committee examined the organizational structure and human-resources situation in connection with the Group's accounting process and internal control system, as well as specific Group compliance issues, and received reports on the activities, results and audit plan of the internal audit function.

On top of the committee meetings, the Chairman of the Audit Committee, the auditors, the Executive Board and the Head of Finance held regular meetings to exchange information and coordinate their work.

The Audit Committee's attendance rate was 92%.

The **Refinery Technology and Strategy Committee** met eight times last year. The committee's work focused mainly on strategic issues, such as evaluating the market environment and market position of our refineries and opportunities for action; assessing energy, chemicals and environmental legislation was also a key area of interest.

The committee also discussed developing and implementing optimization and ad-hoc projects. These included the optimized use and processing of by-products, value-creation concepts, construction of the flood-protection system for the Hamburg refinery site and modernization of energy-generation at our Salzbergen refinery site.

Other important issues related to safety performance at our refinery sites, the fire in the paraffin mold facility at the Salzbergen site on 3 June 2015 and the analysis of the results of the comparative international refinery study by Solomon in 2014. In addition to the above, committee members carry out safety inspections at both refinery sites every year.

The attendance rate for the Refinery Technology and Strategy Committee was 87%.

The **Corporate Actions Committee** held one meeting at the beginning of 2015. The meeting discussed possible corporate actions given the current market environment. Because of the good business performance in the period following the meeting, such considerations were put on ice for the time being.

All committee members attended the meeting of the Corporate Actions Committee.The **Nomination Committee** held one meeting during the past year. In a letter dated 9 February 2015, Ms Anja Krusel notified the Supervisory Board Chairman that she was transferring from Microsoft Deutschland GmbH, Munich to Borealis AG, Vienna effective 1 May 2015. In connection with this change, Borealis AG asked Ms Krusel to resign from her position on H&R's Supervisory Board. After an intensive search and thorough deliberation, the Nomination Committee unanimously recommended at its March meeting to propose Dr.-Ing. Peter Seifried as a Supervisory Board candidate at the Annual Shareholders' Meeting. In the future, as well, when selecting suitable candidates for the Supervisory Board, we will make the interests of the company the sole focus of all deliberations.

All committee members attended the meeting of the Nomination Committee.

Audit of the Separate and Consolidated Financial Statements

Warth & Klein Grant Thornton AG Wirtschaftsprüfungsgesellschaft, Hamburg, audited the separate and consolidated financial statements and the combined management report for H&R AG and the Group for the financial year 2015 and issued an unqualified audit certificate for each.

The separate financial statements for H&R AG and the combined management report for H&R AG and the Group were prepared in accordance with the requirements of the German Commercial Code (HGB). The consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) as applicable in the European Union (EU) and the supplementary provisions of German commercial law required by Article 315a, paragraph 1 of the

HGB. The auditors carried out the audit in accordance with Article 317 of the 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 separate and consolidated financial statements and the combined management report were also dealt with in depth at the Audit Committee meeting on 9 March 2016.

The audit reports by Warth & Klein Grant Thornton were distributed to all Supervisory Board members and were reviewed thoroughly in the presence of the auditors at the Supervisory Board meeting held on 16 March 2016 to discuss the financial statements. The auditors reported on the main findings of their audit and confirmed that the internal control and risk-management system had no major 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 plenum meeting, the Chairman of the Audit Committee gave an extensive report on the Audit Committee's review of the separate and consolidated financial statements.

Based on the recommendation by the Audit Committee, we accepted the results of the audit conducted by the auditors and approved both the separate and the consolidated financial statements. The separate financial statements were thereby adopted. Because the separate financial statements did not report a distributable profit for the reporting year, the Executive Board did not present any proposal for the appropriation of net income to the Supervisory Board.

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

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

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

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

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

The Supervisory Board thanks the members of the Executive Board, all employees worldwide and the employee representatives for their hard work, their personal contributions and their constructive collaboration for the good of the company.

March 2016

Signing for the Supervisory Board

Dr. Joachim Girg
Chairman

Corporate Governance

Declaration on Corporate Governance and Corporate Governance Report

Corporate governance refers to a company's decision-making and control processes. Good corporate governance means making decisions based on long-term value creation, ensuring that a company's Executive Board and Supervisory Board work together effectively and demonstrating a high level of transparency in corporate communications. These factors are the key guiding principles when it comes to the management and supervision of H&R AG.

The Executive Board hereby issues the following Statement on Corporate Governance, in accordance with Article 289a of the German Commercial Code (HGB), which is an integral part of the combined Management Report, thereby also fulfilling Recommendation Number 3.10 of the current German Corporate Governance Code (Preparation of the Corporate Governance Report).

2015/2016 Statement of Compliance

The Executive Board and Supervisory Board issued the last Statement of Compliance pursuant to Article 161 of the German Stock Corporation Act (AktG) on 20 February 2015. The following statement refers to the recommendations of the Code as updated on 5 May 2015, which was published in the electronic version of the Federal Gazette (Bundesanzeiger) on 12 June 2015.

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

– Section 4.2.3, paragraph 2 of the Code:
  The variable remuneration components paid to Detlev Wösten, member of the Executive Board, are made up equally of the annual consolidated operating result (EBITDA), adjusted for any extraordinary result within the meaning of Article 275, paragraph 2, no. 16 of the German Commercial Code (HGB), and personal targets (so-called earnings component). Beginning with the company's 2013 financial year, this is capped at 100% of the fixed annual remuneration. When this form of variable remuneration was selected, Detlev Wösten's position on the Executive Board was initially scheduled to terminate at the end of 2013.

  In November 2014, this contract was renewed until the end of 2016 without any adjustments to the remuneration arrangement. Although a long-term basis theoretically exists for calculating the amount of variable remuneration over several years, it is not used to measure variable remuneration for two additional years; nor are possible negative developments taken into account. The Executive Board and the Supervisory Board are nonetheless certain that this form of variable remuneration sets no incentive that would be contrary to the company's sustainable development, since the variable remuneration components will be capped at 100% of the fixed annual remuneration from financial year 2013. If Mr Detlev Wösten's Executive Board appointment is renewed again after 2016, the Supervisory Board will once again review whether the variable remuneration should be adjusted to the Code recommendations in effect at that time.

– Section 5.1.2, paragraph 2 of the Code:
  Currently, only the executive employment contract with Mr Detlev Wösten stipulates a general age limit of 65. Neither the remaining executive employment contracts currently in force nor the rules of procedure for the Executive Board stipulate a general age limit for members of H&R AG's Executive Board. In view of the current age structure of the company's Executive Board, the Executive and Supervisory Boards to date have seen no reason for such a provision, because a formal age limit would unnecessarily complicate the search for suitable Executive Board members. However, the Supervisory Board intends to set a general age limit of 65 when concluding new executive employment contracts and in the event of any amendments to existing executive employment contracts.

– Section 5.4.6, paragraph 2 of the Code:
  The variable annual remuneration for Supervisory Board members according to Article 15, paragraph 1 of the Articles of Association is linked to the return on capital employed

(ROCE), which is calculated on the basis of the audited and approved consolidated financial statements by dividing earnings before interest and taxes (EBIT) by the interest-bearing capital (capital employed, i.e., the sum of net financial debt, equity and pension provisions). This variable remuneration for the financial year is not geared to sustainable business performance over a period spanning several years, as Article 87, paragraph 1, sentences 2 and 3 of the German Stock Corporation Act (AktG) stipulate for Executive Board remuneration. The Executive Board and the Supervisory Board are currently deciding whether to propose to the Annual Shareholders' Meeting an adjustment to the Supervisory Board's variable remuneration in light of the new Code recommendations.

Salzbergen, 8 December 2015

Niels H. Hansen	***Detlev Wösten***	***Dr. Joachim Girg***
Chairman of the Executive Board	*Member of the Executive Board*	*Chairman of the Supervisory Board*

Corporate Governance Report

In the following section, the Executive and Supervisory Boards report on Corporate Governance at H&R AG pursuant to Section 3.10 of the German Corporate Governance Code. The section also includes the Executive Board Remuneration Report.

Corporate Governance Practices and Compliance

Management and control at H&R AG are based on the Articles of Association, the rules of procedure for the Supervisory Board and Executive Board, the German Corporate Governance Code and the relevant national legislation. Corporate management practices going above and beyond the statutory requirements are summarized in a Group-wide Code of Conduct. This Code defines binding rules of conduct derived from our corporate policy. Our values and the resulting corporate policy can be consulted online at www.hur.com under the heading "About H&R". We work continuously to make our employees aware of the need to behave in accordance with the Code of Conduct when carrying out their jobs. We also hold extensive training sessions on special issues, depending on the area of responsibility. These courses at H&R focus on topics relating to occupational health and safety, environmental protection and anti-trust legislation.

www.hur.com

Compliance infringements are systematically tracked and consistently subjected to disciplinary actions. Compliance with the requirements of the Group-wide Code of Conduct is regularly the subject of deliberations by the Supervisory Board.

Shareholders and Annual Shareholders' Meeting

Our shareholders decide on company matters by exercising their voting rights at a General Shareholders' Meeting which is held at least once a year. The shareholders entitled to attend and vote are those who on the 21st day before the Shareholders' Meeting (Record Date) hold H&R shares and correctly register to attend the Shareholders' Meeting. Each share entitles its holder to cast one vote (one- share-one-vote rule). Every shareholder who is entitled to vote has the option of exercising his voting right in person, appointing a proxy or abstaining from the vote. In addition, we offer shareholders the option to pool their votes through our company's instruction-bound voting-rights representative.

Shareholders have the right to speak at the Annual Shareholders' Meeting, submit motions and request information about matters concerning the company and its affiliated companies insofar as is necessary to reach a constructive assessment of an item on the agenda. Our Annual Shareholders' Meeting elects six of the nine members of the Supervisory Board by rotation. Among other things, it also makes decisions on the appropriation of distributable profit, the formal approval of the activities of the Supervisory and Executive Boards, the appointment of the (Group) auditors, corporate actions and amendments to the Articles of Association. The invitation and all documents to be made accessible to the Annual Shareholders' Meeting are published on the H&R AG section of our website, www.hur.com, in a timely manner. After the Annual Shareholders' Meeting, the results of voting and attendance figures can also be found in this section of the website.

Executive and Supervisory Board Cooperation

In accordance with statutory requirements, we have implemented a dual management system with a strict separation between corporate management and control functions: the Executive Board manages the company independently and under its own responsibility. The Executive Board regularly coordinates and agrees on the strategic direction of the company and the business plan with the Supervisory Board and notifies it about the progress towards meeting targets and implementing the strategy. The Supervisory Board appoints, supervises and controls the Executive Board on the basis of rules of procedure for the Executive Board adopted by the Supervisory Board which, inter alia, regulate Executive Board reporting to the Supervisory Board. It is directly consulted and involved in decisions of fundamental importance for our company. Pursuant to Article 111, paragraph 4, sentence 2 AktG, the Supervisory Board has also issued to the Executive Board a list of transactions that require approval.

Supervisory Board

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

Dr. Joachim Girg and Mr Nils Hansen have been elected to the Supervisory Board as shareholder representatives for the period up to the close of the 2017 Annual Shareholders' Meeting, which will formally approve the activities of the members of the Supervisory Board for financial year 2016.

The same applied to Ms Anja Krusel. However, due to her career change, Ms Anja Krusel resigned from her position on the Supervisory Board, effective at the close of the 2015 Annual Shareholders' Meeting. Dr.-Ing. Peter J. Seifried was elected to replace her on the Supervisory Board. His term of office will end at the close of the 2020 Annual Shareholders' Meeting.

Mr. Sven Hansen was elected as a substitute member for Supervisory Board member Nils Hansen, on condition that he will become a member of the Supervisory Board if Mr Nils Hansen should leave the Supervisory Board before his regular term of office expires.

The 2013 Annual Shareholders' Meeting elected Dr. Hartmut Schütter to the Supervisory Board. His term of office will end at the close of the 2018 Annual Shareholders' Meeting.

The term of office of the Supervisory Board members elected by the 2011 Annual Shareholders' Meeting, Mr Roland Chmiel and Dr. Rolf Schwedhelm, will end at the close of the 2016 Annual Shareholders' Meeting. The Supervisory Board has been chaired by Dr. Joachim Girg since his election to the Supervisory Board at the 2012 Annual Shareholders' Meeting.

The term of office of the three employee representatives on the Supervisory Board, Mr Reinhold Grothus, Mr Harald Januszewski and Mr Rainer Metzner, will also end at the close of the 2017 Annual Shareholders' Meeting. However, because Mr Metzner left the Group on 31 January 2016, on the same date Mr Matthias Erl replaced him as employee representative on the Supervisory Board Mr Erl had already been elected as a substitute member for Mr Metzner at the 2012 Annual Shareholders' Meeting. His term of office will also end at the close of the 2017 Annual Shareholders' Meeting.

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

Mode of Operation. Five committees have been formed from among its members:

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

- A Committee on Corporate Actions and Investments chaired by Dr. Joachim Girg; the other committee members are Mr Roland Chmiel and Dr.-Ing. Peter J. Seifried. This committee prepares Supervisory Board votes on corporate actions. By joining H&R AG's Supervisory Board, Dr.-Ing. Peter J. Seifried replaced Ms Anja Krusel, who left effective at the close of the 2015 Annual Shareholders' Meeting.

- An Audit Committee chaired by Mr Roland Chmiel; the other committee members are Dr. Joachim Girg and Dr.-Ing. Peter J. Seifried. By joining H&R AG's Supervisory Board, Dr.-Ing. Peter J. Seifried replaced Ms Anja Krusel, who left effective at the close of the 2015 Annual Shareholders' Meeting As an auditor, Mr Chmiel has specialist knowledge and experience applying accounting principles and internal control procedures. This is a requirement for chairing this committee under Section 5.3.2 of the German Corporate Governance Code. Moreover, in the opinion of the Supervisory Board, he is qualified as an independent financial expert within the meaning of Article 100, paragraph 5 AktG. The Audit Committee's responsibilities include supervising the accounting process, monitoring the effectiveness of the risk-management system and overseeing the audit of the financial statements, in addition to other responsibilities.

- A Nomination Committee chaired by Mr Nils Hansen; the other members are Dr. Joachim Girg and Dr. Rolf Schwedhelm. This committee's remit is to identify suitable Supervisory Board candidates who are then nominated by the Supervisory Board plenum at the Annual Shareholders' Meeting. Here, the committee is guided – apart from qualifications relating entirely to professional background – by the principle of diversity and it has set a target for women to occupy one-fifth of all positions on the Supervisory Board which are up for election.

- A Refinery Technology and Strategy Committee chaired by Dr. Hartmut Schütter; the other committee members are Dr. Joachim Girg, Nils Hansen and Dr.-Ing. Peter J. Seifried (since May 2015). The Committee's purpose is to advise and supervise the Executive Board on the strategic future development of the H&R Group's refinery sites.

As individuals may not be members of the Executive Board and the Supervisory Board at the same time, the two management bodies have a high degree of independence. There are currently no former members of the Executive Board serving as members of the Supervisory Board. To enable the members of the Supervisory Board to diligently prepare for meetings, the Executive Board informs them in advance of the topics to be addressed.

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

- To ensure that women make up at least 20% of the Supervisory Board members by the middle of financial year 2017; the goal is for an equal percentage to be represented on both the shareholder and employee side. Currently, the Supervisory Board is not meeting this objective.

- Electing Supervisory Board members with an international background.

- Consider special knowledge and experience applying accounting principles and internal control procedures.

- Consider technical expertise, particularly in the field of refining technology.

- Consider knowledge of the company.

- Independence of Supervisory Board members.

- Avoid conflicts of interest.

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

In addition, pursuant to Section 5.1.2 of the German Corporate Governance Code, the Supervisory Board has set concrete objectives for the composition of the Executive Board and the second tier of management, in particular as regards the percentage of women. These objectives are as follows:

– To ensure that women make up at least 20% of the first tier of management (Executive Board) and second tier of management (refinery managers) by the middle of financial year 2017. This target is already being met for the second tier of management and on H&R AG's Advisory Board.

With regard to the criterion of independence of the Supervisory Board members, the Supervisory Board plenum believes that, based on a Supervisory Board consisting of nine members, the number of independent board members should be at least six, taking into account the employee representatives. The Supervisory Board considers the employee representatives in connection with Annex II, Section 1 b) of the Commission Recommendation of 15 February 2005 on the role of non-executive directors/Supervisory Board members of listed companies and on the committees of the Management/Supervisory Board (OJ L 52, 25 February 2005, p.51) to be independent. By separate resolution of the shareholder representatives on the Supervisory Board, these have set the number of independent shareholder representatives to at least three. The current composition of the Supervisory Board of H&R AG at present complies fully with the aforementioned specific objectives. From the perspective of the Supervisory Board, the Board includes four independent shareholder representatives, Mr Roland Chmiel, Dr. Rolf Schwedhelm, Dr. Hartmut Schütter and Dr.-Ing. Peter Seifried. Thus, taking into account the employee representatives on the Supervisory Board, the total number of independent Supervisory Board members is seven.

Further details concerning the work of the Supervisory Board during the reporting period can be found in the Supervisory Board Report on pages 22 to 29 of this Annual Report.

Executive Board

Composition of the Executive Board. The Executive Board represents the company externally. It conducts business transactions for H&R AG independently and manages the company. In doing so, it considers the concerns and interests of shareholders, its employees and other groups affiliated with the company (stakeholders) while pursuing the goal of sustainable added value. It is guided by the law, the Articles of Association, its rules of procedure and resolutions adopted by the Annual Shareholders' Meeting.

The members of the Executive Board have joint responsibility for overall management.

In financial year 2015, the Executive Board to a very large extent consisted of two people with the following responsibilities (inter alia):

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

Detlev Wösten,
Member of the Executive Board:
Refineries, Production and Technology

On 25 November 2014, the Supervisory Board appointed Mr Thierry Chevrier as Chief Operating Officer and a member of the Executive Board, effective 1 January 2015. This Executive Board employment contract was rescinded by mutual agreement on 29 January 2015. Mr Chevrier did not receive any remuneration from the company during his term of employment.

Tasks. The Executive Board develops the corporate objectives, the basic strategic direction, corporate policy and the Group structure. It is responsible for preparing the quarterly and annual reports, including the management reports. Further, the Executive Board oversees an appropriate risk-management and risk-control system and ensures compliance with legal provisions and internal company guidelines and enforces compliance with these by Group companies.

For further information see page 22–29

Mode of Operation. The Executive Board holds regular meetings. These are convened by the Chairman of the Executive Board, who coordinates the Board's work. The results of the meetings are recorded in minutes which are made available to all members of the Executive Board. As the Executive Board is relatively small, it has not formed any committees.

On the Executive Board, cooperation is regulated in detail by rules of procedures issued by the Supervisory Board. Each Board member is required, without first being asked, to inform the other Executive Board member(s) of all significant events in the areas under his responsibility. The rules of procedure also stipulate circumstances which require a unanimous decision by the Executive Board plenum.

Objectives. Pursuant to Section 4.1.5 of the German Corporate Governance Code, the Executive Board has set concrete objectives for the percentage of women at both levels of management below the Executive Board These objectives are as follows:

For further information see page 85

– As for attaining a percentage of women at the first level of management below the Executive Board, the Executive Board, working jointly with the Supervisory Board, has defined a target figure of at least 20% by the middle of financial year 2017; these targets are already being met.

– As for attaining a percentage of women at the second level of management below the Executive Board, the Executive Board has also defined a target figure of at least 20% by the middle of financial year 2017. These targets are already being met as well.

Audit of the Financial Statements by WKGT

For further information see page 154

For further information see page 158

Both the consolidated financial statements of H&R and the quarterly reports were prepared in accordance with International Financial Reporting Standards (IFRS). The separate financial statements for H&R AG were drawn up in accordance with the requirements of the German Commercial Code (HGB). The separate and consolidated financial statements of H&R AG for the 2015 financial year have been audited by Warth & Klein Grant Thornton AG (WKGT), Wirtschaftsprüfungsgesellschaft, Hamburg, which has declared itself to be independent as required by Section 7.2.1 of the German Corporate Governance Code. It was agreed with WKGT that the Supervisory Board Chairman would be notified immediately of any grounds for disqualification or conflicts of interest which may arise during the audit, unless these are resolved immediately. It was also agreed that the Supervisory Board would be notified immediately of any findings and events arising during the audit that are significant to the duties of the Supervisory Board. Finally, WKGT is obliged to inform the Supervisory Board should any facts be identified during the audit which would render incorrect the Statement of Compliance issued by the Executive and Supervisory Boards in accordance with Article 161 of the German Stock Corporation Act (AktG).

Risk Management

We have an early-warning system for risks that is reviewed by the auditor.
For a detailed description of the system, please refer to the section of the Management Report entitled "Risk report".

Avoidance of Conflicts of Interest

There were no consulting or other service agreements or contracts between the Supervisory Board and the company during the year under review.

There were no conflicts of interest of Executive or Supervisory Board members that had to be disclosed to the Supervisory Board without delay. Seats on supervisory boards and/or comparable German and foreign control bodies of business enterprises that had to be set up by law which are held by Executive Board and Supervisory Board members can be found on page 154 of this report in the section entitled "(41) Management Bodies of the Company". Relations with related parties are given in the notes to the consolidated financial statements beginning on page 158.

Deductible for D&O Insurance

The company has taken out property damage liability insurance (D&O) for the members of the Executive Board and the Supervisory Board with an appropriate deductible in accordance with Article 93, paragraph 2, sentence 3 AktG (Executive Board members) or in accordance with the German Corporate Governance Code (Supervisory Board members).

Shares Held by Members of the Supervisory Board and Executive Board

As of 31 December 2015, members of our Supervisory Board held a total of 21,695,429 H&R shares and therefore an interest of considerably more than 1% of the share capital of H&R AG.

According to the last informal notification received from him, Mr Nils Hansen privately held a total of 441,279 H&R shares (1.23% of share capital) as of year-end 2015. In addition, another 15,405,213 H&R shares were attributable to Mr Hansen via H&R Holding GmbH (stake in the share capital: 43.00%) and another 5,847,042 H&R shares were attributable to Mr Hansen via H&R Internationale Beteiligung GmbH (stake in the share capital: 16.32%).

Mr Nils Hansen therefore held a total of 21,693,534 H&R shares as of 31 December 2015, corresponding to 60.55% of the share capital.

As of 31 December 2015, members of our Executive Board held a total of 1,100 shares and therefore an interest of less than 1% of the share capital of H&R AG.

Directors' Dealings

In accordance with Article 15a of the German Securities Trading Act (WpHG), management bodies and related individuals are obliged to disclose transactions involving H&R AG shares with a trading volume exceeding €5,000 in the course of a calendar year.

The regulation also includes financial instruments such as derivatives based on H&R shares. The following transactions have been reported to H&R AG for financial year 2015:

T. 04 **DIRECTORS' DEALINGS 2015**

Date	Place	Name	Function	Denomination of the financial	Type of	Number	Price per unit	Transaction volume
13/3/2015	Xetra	Nils Hansen	Supervisory Board	H&R share	Purchase	10,000	6.27	62,730.00
21/4/2015	Xetra	Nils Hansen	Supervisory Board	H&R share	Purchase	10,000	7.28	72,787.50
2/6/2015	Xetra	Nils Hansen	Supervisory Board	H&R share	Purchase	10,000	7.04	70,408.40
16/6/2015	Xetra	Nils Hansen	Supervisory Board	H&R share	Purchase	10,000	6.88	68,828.00
19/6/2015	Xetra	Nils Hansen	Supervisory Board	H&R share	Purchase	5,000	7.87	39,430.70
30/6/2015	Xetra	Nils Hansen	Supervisory Board	H&R share	Purchase	10,000	7.62	76,188.00
23/7/2015	Xetra	Nils Hansen	Supervisory Board	H&R share	Purchase	10,000	8.83	88,279.00
9/10/2015	Xetra	Nils Hansen	Supervisory Board	H&R share	Purchase	10,000	8.06	80,578.00
16/10/2015	Xetra	Nils Hansen	Supervisory Board	H&R share	Purchase	10,000	8.60	85,988.00
28/10/2015	Xetra	Nils Hansen	Supervisory Board	H&R share	Purchase	10,000	8.23	82,880.00

Transparency

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

For this purpose, important documents – such as quarterly and annual reports, ad-hoc statements and press releases, the Statement of Compliance with the German Corporate Governance Code, the Articles of Association, the invitation to the Annual Shareholders' Meeting and the financial calendar – are all published in the Investor Relations section of the H&R AG website. Interested parties can also register to receive the latest company news automatically via an e-mail newsletter. We also send out free copies of the reports upon request. The Executive Board and the Investor Relations team are in regular contact with both institutional and private investors at capital market conferences and shareholder events. For a detailed description of our capital market activities, please consult the section entitled "H&R on the Capital Market" elsewhere in this Report.

For further information see page 42–45

Remuneration Report

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

Remuneration of the Executive Board

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

At publicly listed companies such as H&R AG, the remuneration structure must also be geared towards sustainable company performance.

Following these requirements, the total remuneration of the Directors of H&R AG consists of both non-performance-related and performance-related components. The non-performance-related portions consist of a fixed salary and benefits, while the performance-related components consist of a two-step variable remuneration with a sustainability component and an annual special or recognition bonus determined at the discretion of the Supervisory Board that is limited to a maximum of €100,000.00.

Special arrangements apply to the variable remuneration components paid to the Executive Board member Detlev Wösten, whose term of office was extended for another two years in 2014; his variable remuneration is derived in equal parts from the annual consolidated operating profit (EBITDA), adjusted by any extraordinary result within the meaning of Article 275, paragraph 2, no. 17 HGB, and from his personal targets.

The criteria for measurement of the Board members' remuneration include the economic situation, the company's performance and its future prospects. In addition, individual remuneration is dependent on the different duties of the members of the Executive Board and on their individual performance.

The amount and structure of the remuneration paid to the Executive Board is reviewed regularly and adjusted as necessary by the Supervisory Board. To evaluate appropriateness, the Directors' remuneration is compared to that of other listed companies in similar industries of a similar size and complexity, as well as with the remuneration structure within the company itself. Moreover, it is also set at a level that ensures the company is in a position to compete for highly qualified top managers.

Fixed Remuneration

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

The fixed salary is reviewed regularly (every two years).

Variable Remuneration

The variable remuneration paid to Executive Board members, apart from Mr Detlev Wösten, is based on a hurdle system with a target range determined using the Group's operating income for the year (EBITDA) and certain long-term objectives for a rolling three-year period. In the case of Mr Niels H. Hansen, the maximum annual bonus is limited to 100% of the respective gross annual salary. One-half of the variable remuneration consists of a component with a short-term incentive effect (referred to as the "earnings component") based on the annual operating group profit (EBITDA), adjusted by any extraordinary result within the meaning of Article 275, paragraph 2, no. 17 HGB, with the other half being a component with a long-term incentive effect (referred to as the "sustainability component").

The earnings component can be up to 50% of the annual target bonus and depends on whether the EBITDA defined in the business plan is achieved. If EBITDA is 110% or more of the plan, the Executive Board member is entitled to 100% of the earnings component (50% of the annual target bonus). The maximum entitlement to the earnings component is reduced on a straight-line basis by the percentage by which EBITDA is below plan. The sustainability component provides for a variable bonus based on the average return on capital employed (ROCE) over a rolling three-year period. The return is calculated as the ratio of EBIT to average capital employed (equity plus net financial debt, pension provisions and other non-current provisions). A maximum of 50% of the annual target bonus is paid if the average annual ROCE reaches 20% or more. The maximum entitlement to the sustainability component is reduced pro-rata to 0% for a ROCE of up to 5%. By including this component, we satisfy the requirements of Article 87, paragraph 1, sentence 3 AktG, which stipulates that variable remuneration components must be calculated based on a timeframe spanning several years.

Should an Executive Board member's term of office end prematurely, any payments agreed for the departing Executive Board member – including fringe benefits – should not exceed the value of twice the annual salary (severance pay cap) or the value of the remuneration that would be payable for the remaining term of the executive employment contract. This is stipulated in Recommendation Number 4.2.3, paragraph 4 of the German Corporate Governance Code as amended on 24 June 2014. The company has followed this recommendation to the extent legally possible by including what are known as "coupling clauses" in executive employment contracts. These stipulate that, if the appointment is revoked, the Board member resigns for good cause or the Board position is otherwise terminated by the company, the employment contracts of Executive Board members will terminate two years after the term of office ends, but no later than the planned end of the appointment period.

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

T. 05 EXECUTIVE BOARD REMUNERATION (GRANTED)

Allocation granted	Niels H. Hansen				Detlev Wösten			
	Chairman of the Executive Board				Member of the Executive Board – Refineries			
	Chairman of the Executive Board since 1 January 2012				Member of the Executive Board since 1 August 2011			
IN €	2014	2015	2015 (Min)	2015 (Max)	2014	2015	2015 (Min)	2015 (Max)
Fixed remuneration	356,747	356,788	356,788	356,788	231,747	231,788	231,788	231,788
Fringe benefits*	251	251	251	251	16,478	17,103	17,103	17,103
Total	**356,998**	**357,039**	**357,039**	**357,039**	**248,226**	**248,891**	**248,891**	**248,891**
One year variable remuneration	92,750	225,000	–	356,788	141,750	225,000	–	231,788
Multiple year variable remuneration	–	–	–	–	–	–	–	–
Total	**449,748**	**582,039**	**357,039**	**713,827**	**389,976**	**473,891**	**248,891**	**480,679**
Pension expenses	–	–	–	–	–	–	–	–
Total compensation	**449,748**	**582,039**	**357,039**	**713,827**	**389,976**	**473,891**	**248,891**	**480,679**

* Inter alia, this item includes the use of a car and accident-insurance premiums

T. 06 EXECUTIVE BOARD REMUNERATION (ACCRUED)

Accrual	Niels H. Hansen		Detlev Wösten	
	Chairman of the Executive Board		Member of the Executive Board – Refineries	
	Chairman of the Executive Board since 1 January 2012		Member of the Executive Board since 1 August 2011	
IN €	2015	2014	2014	2015
Fixed remuneration	356,747	356,788	231,747	231,788
Fringe benefits*	251	251	16,478	17,103
Total	**356,998**	**357,039**	**248,226**	**248,891**
One year variable remuneration	74,375	92,750	126,500	141,750
Multiple year variable remuneration	–	–	–	–
Other	–	–	–	–
Total	**431,373**	**449,789**	**374,725**	**390,641**
Pension expenses	–	–	–	–
Total remuneration	**431,373**	**449,789**	**374,725**	**390,641**

* Inter alia, this item includes the use of a car and accident-insurance premiums

Supervisory Board remuneration

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

Every member of the Supervisory Board receives a fixed annual payment of €20,000.00 in addition to the reimbursement of out-of-pocket expenses. The Chairman of the Supervisory Board receives three times and his deputy one and a half times this amount. In addition to this, every member of the Supervisory Board receives variable annual remuneration linked to the return on capital employed (ROCE), which is calculated on the basis of the audited and approved consolidated financial statements for the respective financial year. The return is calculated by dividing earnings before interest and taxes (EBIT) by the interest-bearing capital (capital employed, i.e., the sum of net financial debt, equity, pension provisions and non-current provisions). A minimum return of 10% must be achieved in order for variable remuneration to be paid. If the minimum return is achieved, €10,000.00 is paid to each Supervisory Board member per financial year. For each percentage point over the 10% minimum return, the variable remuneration increases by €1,500.00 for each Supervisory Board member per financial year. The variable remuneration is limited to a total of €32,500.00 per Supervisory Board member and financial year.

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

The fees paid in 2015 under a consulting contract with the company controlled by the former Chairman of the Supervisory Board, Mr Bernd Günther, i.e., Idunahall Verwaltungs-Gesellschaft m.b.H., amounted to €100,000 (prior year: €102,000).

T. 07 **SUPERVISORY BOARD REMUNERATION**

	Fixed Remuneration		Remuneration for Supervisory Board activities		Variable remuneration		Total	
IN €	2015	2014	2015	2014	2015	2014	2015	2014
Dr. Joachim Girg (Chairman)	60,000	60,000	20,000	20,000	11,050	–	91,050	80,000
Roland Chmiel	30,000	30,000	15,000	15,000	11,050	–	56,050	45,000
Nils Hansen	20,000	20,000	10,000	10,000	11,050	–	41,050	30,000
Dr. Rolf Schwedhelm	20,000	20,000	2,500	2,500	11,050	–	33,550	22,500
Dr. Hartmut Schütter	20,000	20,000	5,000	5,000	11,050	–	36,050	25,000
Dr. Peter Seifried	12,384	–	3,863	–	6,842	–	23,089	–
Reinhold Grothus	20,000	20,000	2,500	2,500	11,050	–	33,550	22,500
Rainer Metzner	20,000	20,000	–	–	11,050	–	31,050	20,000
Harald Januszewski	20,000	20,000	–	–	11,050	–	31,050	20,000
Anja Krusel	7,616	20,000	2,856	7,500	4,208	–	14,680	27,500
Summe	**230,000**	**230,000**	**61,719**	**62,500**	**99,450**	**–**	**391,169**	**292,500**

H&R on the Capital Market

Company Share and Share Price Performance

Shares Close Higher After Another Volatile Year

On the last trading day of a year rated by experts as good overall, the DAX ended 2015 at 10,743. The year of trading that preceded this was nerve-racking and extremely volatile, with the key German stock index increasing by a total of 9.6% – after rising just 2.7% in the previous year. The DAX therefore closed positive for the fourth year in a row – the longest upward trend in almost a decade. Other stock-market segments also performed well in 2015.

A further boost to share prices came from the favorable monetary policies pursued by central banks, which for years have been stimulating the economy – and, consequently, the equity markets – with low interest rates.

However, the year was not worry-free: among other things, investors were concerned about economic performance in China and the abrupt drop in share prices there. Even the collapse in the price of oil, which was welcomed by consumers at the gasoline pump, evoked mixed reactions. Many economists regard it as a symptom of massive oversupply and fear that the geopolitical consequences will be explosive.

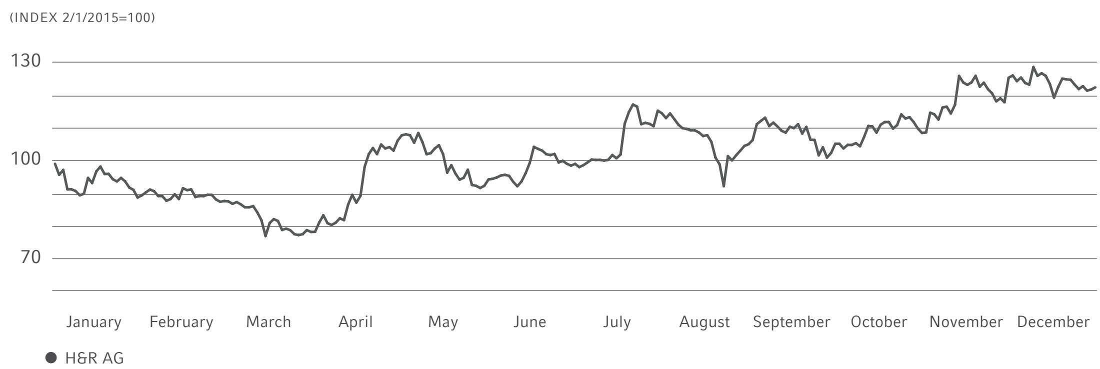
Following the worldwide turbulence in share prices seen at the beginning of the year, expectations for performance of the equity markets in 2016 are also mixed: while some have set a target of 12,000 for 2016, others do not rule out a drop to around 8,500.

H&R Share is Rising Again

H&R's share price had a modest start to trading in 2015. The share price was unable to withstand the strong pressure following publication of the profit warning in December 2014, starting a downward trend from the level of €7.50 that only bottomed out at €5.85 in mid-March.

In the second quarter, the share price performed considerably better, climbing above the €8.00 mark and remaining above €7.00 until well into the summer. Affected by bad news from the stock markets in China toward the end of the summer of 2015, H&R's share price was forced below €7.00

G. 01 PERFORMANCE OF THE H&R SHARE



again for a short time. Attracted by such buying opportunities, investors once again took the plunge and helped the share price to recover to more than €8.50 by mid-September. Good figures for the first nine months and an increase in the projections for the full year gave the share price an additional boost. H&R AG's shares approached the 10-Euro mark, trading at €9.70, and ended trading on 30 December 2015 at €9.24.

At the beginning of 2016, our share price followed the general market trend, dropping below the 8-Euro mark in the wake of discussions about low crude-oil prices and difficulties on the Chinese capital markets.

T. 08 **BASIC DATA ON THE H&R SHARE**

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

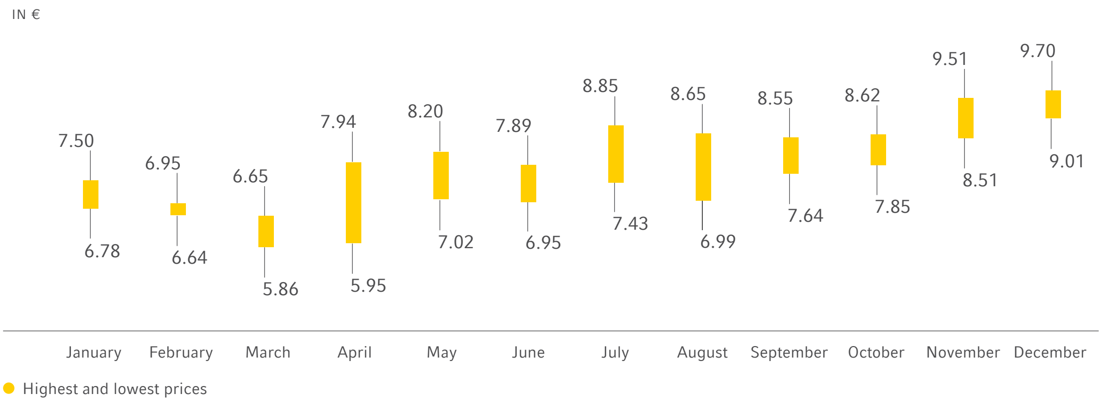
Number of Shares, Market Capitalization and Trading Volume.

The number of company shares issued totaled 35,820,154 on 31 December 2015, unchanged from the previous year.

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

During the past year, interest in our share was very high, as evidenced by the fact that the H&R share's trading activity was nearly twice as high as in the previous year. A total of around 9.1 million shares with a total volume of almost €73.1 million were traded on the Frankfurt Stock Exchange and on Xetra (previous year: €38.0 million).

G. 02 **HIGHEST AND LOWEST PRICES OF THE H&R SHARE, FULL YEAR 2015**



T. 09 **KEY SHARE DATA**

	2015	2014	2013	2012	2011
Number of shares on 31 December	35,820,154	35,820,154	29,973,112	29,973,112	29,973,112
Earnings per share	€0.77	€-0.49	€-0.47	€0.02	€1.29
Highest price for the year	€9.70	€9.40	€13.03	€17.90	€21.86
Lowest price for the year	€5.86	€6.45	€8.05	€11.57	€12.98
Price on 31 December	€9.24	€7.54	€8.70	€11.83	€16.55
Performance (excluding dividend)	23.2%	-19.2%	-28.1%	-28.2%	-21.4%
Market capitalization on 31 December	€330.9 million	€270.1 million	€260.7 million	€354.4 million	€496.1 million
Dividend	–	–	–	–	€0.60
Dividend yield	–	–	–	–	3.6%
Average daily trading volume	€269 thousand	€130 thousand	€324 thousand	€522 thousand	€575 thousand

Board Members Further Increase Stake in H&R AG

During the reporting period, we received notice of 10 directors' dealings in H&R shares.

Supervisory Board member Nils Hansen increased his holdings of H&R shares by a total of 97,000 shares. The individual transactions are listed in the "Directors' Dealings" section on page 37 of this report.

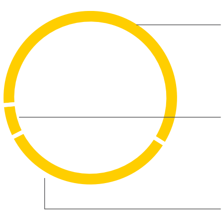
For further information see page 37

Shareholder Structure

According to the notification from Mr Nils Hansen dated 26 September 2014, his share of voting rights, held by H&R Beteiligung GmbH and attributable to Mr Nils Hansen via H&R Holding GmbH, was 41.89% on 25 September 2014 and therefore was below the 50% threshold on that date.

G. 03 **SHAREHOLDER STRUCTURE AS OF 31/12/2015**

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



According to an informal notification on 11 December 2014, H&R Beteiligung GmbH's stake rose by another 1.11%.

According to another notification from Mr Nils Hansen dated 26 September 2014, his share of voting rights, held by H&R Internationale Beteiligung GmbH and likewise attributable to Mr Nils Hansen, exceeded the 15% threshold on 25 September 2014 and amounted to 16.32% on that date.

According to the last informal notification received from Mr Nils Hansen, he personally held an additional 441,279 (1.23%) of the outstanding H&R shares as of year-end 2014.

According to a notification on 2 April 2003 pursuant to the German Securities Trading Act (WpHG), on 28 March 2003, Mr Wilhelm Scholten held 6.65% of the voting rights via the company Wilhelm Scholten Beteiligungen GmbH, which is attributable to him. Following the dilution of voting rights caused by the conversion of preferred shares into ordinary shares in 2008, this corresponded to a notional stake of 6.08%. The increase in capital resulting from the use of approved capital diluted Mr Wilhelm Scholten's share of voting rights on 25 September 2014 to 5.10%.

According to an informal notification, as of 31 December 2015, this share had changed to 6.07%, 5.45% of which is held via Wilhelm Scholten Beteiligungen GmbH and the remaining 0.62%

of which is held via Ölfabrik Wilhelm Scholten GmbH and subsidiary.

The remaining 33.38% of H&R shares were in free float as of 31 December 2015.

Investor Relations

Capital-Market Communications Continue at Usual Level. During the 2015 reporting year, numerous investors, analysts and private investors again took advantage of the opportunity to exchange information with the company by telephone or e-mail. Investors also visited us at our production sites in Hamburg and Salzbergen, where they toured our refineries and received information about current business developments directly from the Executive Board.

Members of the company's management team and employees of the IR department represented the company at roadshows and information events in Hamburg, Munich and Frankfurt.

During the year, we routinely provided information to our target groups through the quarterly reports and company press releases. Important announcements were accompanied by teleconferences with our analysts.

Research Coverage. During the past year, the number of banks covering H&R shares decreased from six to five. This was mainly due to adjustments on the part of the analyst firms; some went out of business and others combined their research departments. In 2015, the following banks wrote research reports on H&R's share and informed investors with regular updates:

T. 10 RESEARCH COVERAGE OF THE H&R SHARE

Bankhaus Lampe
Kepler Chevreux
Oddo Seydler Bank AG
Commerzbank
Baader Bank

We Would Like to Hear from You

Interested parties can download our company reports at any time from the H&R AG section of our website, www.hur.com. We will be happy to send you a printed copy, on request.

www.hur.com

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

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

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Fax: +49 (0) 40-43 218-390
e-mail: investor.relations@hur.com
Website: www.hur.com

Group Management Report[1) 2) 3)]

[1)] For the remuneration report and the declaration on corporate governance pursuant to Art. 289a HGB, which form part of the Group Management Report, please refer to the Corporate Governance Report on page 30 ff. of this report.
[2)] Combined management report for H&R AG and the H&R Group.
[3)] There may be rounding differences.

Group Fundamentals

Group Business Model and Structure

Sectors and Organizational Structure

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

At the same time, we have three business segments: the ChemPharm Refining segment, the ChemPharm Sales segment and the Plastics segment.

Our biggest segment, ChemPharm Refining, includes the refineries in Hamburg-Neuhof and Salzbergen. These two production sites differ from conventional lubricant refineries in that they have a higher output of crude-oil-based specialty products such as plasticizers, paraffins and white oils, while devoting a lower percentage of production to base oils. During the course of our production processes, we create over 800 different products that are used in more than 100 client industries.

For further information see the glossary on page 164 f.

Our Sales segment is comprised of numerous production sites, as well as our distribution sites worldwide. The segment's main products include label-free plasticizers for the tire industry and paraffins for countless applications.

In the Plastics segment, we produce high-precision plastic parts and the molds needed to manufacture them. In addition to the headquarters in Coburg, Germany, we also operate production sites in Eastern Europe and Asia. The Plastics segment's customers include the automotive industry, the medical technology industry and other industries.

Group's Legal Structure

As the Group's holding company, H&R AG is in charge of the strategic management of our business operations. It is responsible for communicating with the public and the capital markets, and for the Group's financing. In addition, it provides various management functions and services for our subsidiaries.

At the end of the reporting period, there were 34 consolidated subsidiaries (31 December 2014: 34). A new addition to the consolidated group is Dunrose Investment (Pty) Ltd., headquartered in Durban, South Africa, to whose premises the production of H&R South Africa (Pty) Ltd., Durban, South Africa, will be relocated in the future. At the same time, there was a disposal: H&R Czechia s.r.o, Prague, was liquidated in 2015.

Our subsidiaries can be found in the list of shareholdings in the notes to the consolidated financial statements under "(5) Scope of Consolidation and Holdings".

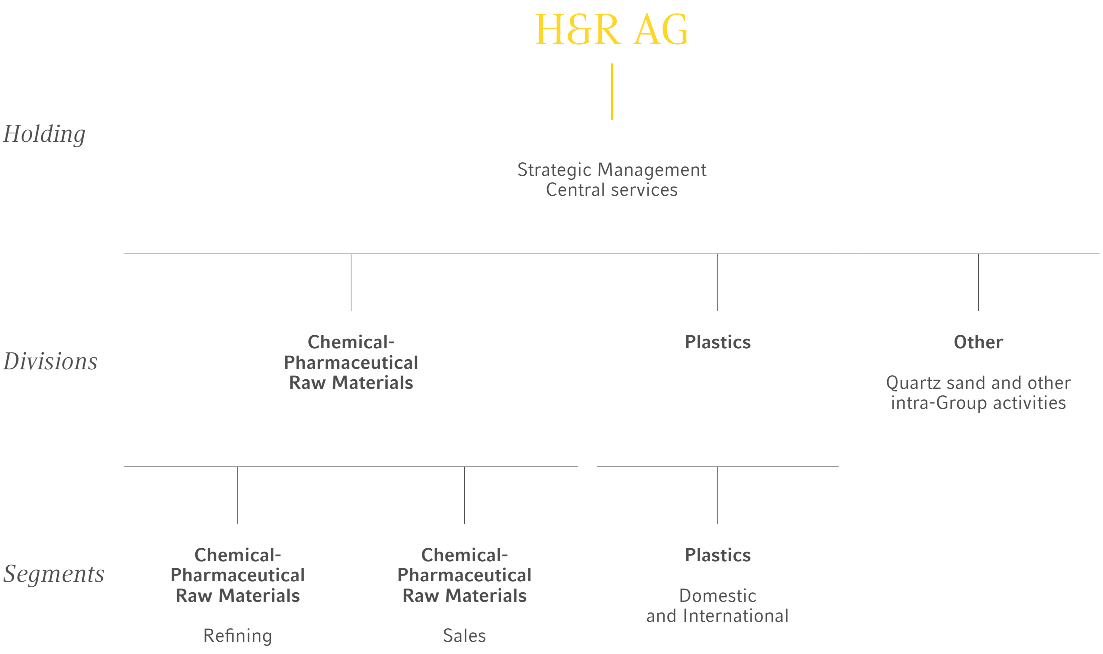
For further information see page 119

The ChemPharm Refining segment, which primarily consists of the refineries in Hamburg and Salzbergen, uses a functional management structure owing to the similarity and regional proximity of the production sites. Managerial staff within this segment have cross-site responsibility for key functions such as raw-materials purchasing, project management, accounting and sales/distribution.

In the ChemPharm Sales segment, which does not possess any refinery capacity of its own, the responsibility for all functions is held by local Managing Directors who report directly to the Group's Executive Board.

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

G. 04 **PRESENTATION OF GROUP STRUCTURE**



Locations

At year-end 2015, our Group employed 1,568 people worldwide. The following overview shows our most important sites with more than 20 employees:

T. 11 **MAIN SITES IN THE H&R GROUP**

Continent	Country	City	Business Division	Employees
Africa	South Africa	Durban	ChemPharm	40
Asia	China	Wuxi	Plastics	137
		Ningbo/Daixi	ChemPharm	105
		Fushun	ChemPharm	49
	Thailand	Bangkok/Sri Racha	ChemPharm	44
Europe	Germany	Hamburg	ChemPharm	266
		Salzbergen	ChemPharm	260
		Coburg	Plastics	344
	Great Britain	Tipton	ChemPharm	38
	Benelux	Nuth	ChemPharm	22
	Czech Republic	Dačice	Plastics	81

Main Products, Services and Business Processes

For further information see the glossary on page 164 f.

So-called atmospheric residue (ATRES) and vacuum-gas oil (VGO) are the primary raw materials used at our ChemPharm Refining segment's specialty refineries in Germany.

We generate more than 800 other crude-oil-based specialty products in joint production processes from these so-called derivatives, which are obtained by distilling crude oil in the upstream fuel refineries. In addition to base oil as a raw material for lubricant production, we primarily produce plasticizers for the rubber industry, technical and medical white oils, paraffins and specialty wax products.

For further information see the glossary on page 164 f.

In our propane deasphalting facilities, we carry out efficient further refinement of by-products and co-products. This creates more high-grade crude-oil-based specialty products and a new co-product, bitumen, which is used in road construction. While in Hamburg we exclusively manufacture our own specialty products, we act as a service provider at the Salzbergen production site: for one of our main customers, we manufacture products to its specifications on a contract basis. Furthermore, at a special filling facility, we also mix lubricants based on different end customers' formulations.

We also refine crude-oil-based feedstock at the ChemPharm Sales segment's production sites. Production here focuses on environmentally friendly, label-free plasticizers and wax emulsions. Partnerships with local producers around the world allow us to lower our investment costs, limit risks and accelerate our growth.

In the Plastics segment, we produce high-precision, injection-molded plastic components as well as the molds required to manufacture them. This division is particularly skillful at producing complex plastic parts that require the use of different types of materials.

Key Sales Markets and Competitive Position

By consistently focusing on customer needs, we have established a solid market presence in the crude-oil-based specialty products business. A comparative study for 2014 published by the renowned U.S. research organization Solomon Associates in 2015 in which companies representing around 50% of the worldwide refinery capacity in the lubricants segment participated evaluates H&R as being "well positioned competitively": as core elements of our ChemPharm Refining segment, our refineries rank within the first or second quartile of the study's peer group, especially in terms of their efficiency and productivity, and based on the product mix generated are more properly regarded as specialty refineries than as lubricant refineries.

This assessment is supported by the fact that H&R's refineries are well established in a market environment which for years has experienced a continual shortage of generating capacity in Group 1 refineries. Thanks to their high percentage of specialty products, our refinery sites can also hold their own against bigger units owned by major oil companies.

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

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

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

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

Hansen & Rosenthal KG currently handles sales and distribution for a large portion of the primary products from our Chemical-Pharmaceutical Division. Our sales/distribution partner has been trading in crude-oil-based specialty products for over 90 years. Thanks to its long-established market presence, Hansen & Rosenthal has excellent market knowledge and close customer contacts.

More and more attention is being devoted to intensifying efforts to market co-products and by-products. As a matter of principle, H&R AG is focusing on maximizing its output of primary products and avoiding by-products. Nevertheless, the production process at our production sites in Salzbergen and Hamburg generates residues which, by using our propane deasphalting plants, we can convert into environmentally friendly, crude-oil-based specialty products and asphalt for use in the road-building industry. Some of this bitumen can also be reused as a raw material by other refinery operators.

The customers of our Plastics Division can be divided into three groups, of which the automotive industry is by far the biggest. Other customer groups include the medical technology industry and other industrial customers. In the latter group, we primarily include products for customers in the electrical, the measuring and control technology and the mechanical engineering segments.

The market for plastic components is highly fragmented and comprises several hundred competitors in Germany alone.

Legal and Economic Factors

REACH (The European regulation on the Registration, Evaluation, Authorization and Restriction of Chemicals) entered into force in the EU in 2007. The main aim of REACH is to protect human health and the environment when dealing with chemical substances. In order to accomplish this goal, REACH places a special level of responsibility on the manufacturer or importer of a substance by requiring it to assess the risks of substances it has brought to market and their uses over the entire lifecycle and to register as a manufacturer or importer with the European Chemicals Agency (ECHA). H&R AG has submitted the required documents for all the substances manufactured at its refineries. The assessment (evaluation) phase by ECHA and domestic agencies is currently underway. Certain substances of very high concern require authorization. Moreover, H&R AG currently also uses substances for which an application must be filed during the first half of 2016. A project team set up for that purpose will ensure that the relevant documents are compiled in a timely manner and are ready to submit before the deadline.

For further information see the glossary on page 164 f.

The price of the crude-oil derivatives used as the primary feedstock at our specialty refineries in Germany generally correlates with the current price of crude oil. The so-called windfall effects result in a temporary change in the earnings situation, i.e., windfall losses or profits. Such effects on earnings have nothing to do with the company's own operating performance, but instead are caused by sudden, random variations in the market situation. At our company, we define windfall losses or profits as negative or positive changes in inventory prices (raw materials, work-in-progress and finished goods) compared to the previous month. In contrast to just-in-time production, due to the length of our production processes, feedstocks are processed with a time lag.

For further information see the glossary on page 164 f.

This is closely related to currency-translation effects: the price of crude oil worldwide is denominated in USD, meaning that H&R AG 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.

Company Control

Internal Management System

For further information see the glossary on page 164 f.

A value-based management system is used to guide and manage the Group. This system is centered around comprehensive reporting of key performance indicators and ratios, which supports management's monitoring 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 on plant availability, reject rates and quality fluctuations. In sales and distribution, we examine sales volume statistics, general market data and leading macroeconomic indicators.

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

Over the past two years, we have shifted the focus of our control instruments to more short-term performance parameters in response to changes in the overall economic environment.

We measure and control profitability, in particular, through profit contributions. Manufacturing planning is based on optimizing contribution margins; the business segments are controlled by means of EBITDA and EBT ratios.

For further information see the glossary on page 164 f.

The long-term WACC (Weighted-Average Cost of Capital) ratio, which consists of the weighted capital costs of our equity and borrowed capital, once again was not taken into account as a control parameter during the course of the year; however, it was used in the medium and long-term planning. For more detail, please consult the notes to the consolidated financial statements.

Likewise, the ROCE profitability ratio (Return On Capital Employed), which compares earnings before interest and taxes to the average committed capital necessary for operations, is applied only as part of medium and long-term planning.

Liquidity. Our free cash flow is essentially determined by the operating result (EBITDA), the change in net working capital (total of inventories and trade accounts receivable less trade accounts payable) and capital expenditure/investments. 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 refineries occur around the same time as the balance-sheet reporting dates. By constantly monitoring our free cash flow, we can reliably detect any issues requiring action so that we can respond accordingly. This also ensures that we will be able to maintain the H&R Group's financial stability in the future.

T. 12 FREE CASHFLOW

IN € MILLION	2015	2014	2013	2012	2011
Cash flow from operating activities	56.4	-0.4	88.9	84.7	-11.8
Cash flow from investment activities	-28.1	-10.1	-16.2	-33.7	-42.3
Free cash flow	**28.4**	**-10.5**	**72.8**	**50.9**	**-54.2**

The main reason for the improved cash flow from operating activities in 2015 was the significant improvement in consolidated earnings to €27.4 million (31 December 2014: €-15.6 million). Therefore, despite having more than doubled our capital expenditures to €28.1 million, we once again generated positive free cash flow of €28.4 million (31 December 2014: €-10.5 million).

Capital Structure. Our goal is to have a balanced capital structure that optimizes the cost of capital for our equity and debt.

Under the terms of our loan agreements and our borrower's note loans, we are obliged to uphold two financial covenants relating to our equity funding and the ratio of our net debt to operating earnings (EBITDA).

Another control parameter relating to our capital structure is net gearing, which compares our net debt to equity. The decrease in net debt in 2015 and the significant improvement in equity caused this ratio to change from 45.6% to 30.2%.

T. 13 CAPITAL STRUCTURE

	2015	2014	2013	2012	2011
Net debt/EBITDA	1.00	3.41	2.24	2.97	2.15
Equity ratio in %	45.7	35.2	31.8	34.2	38.0
Net gearing in %	30.2	45.6	42.2	73.6	79.4

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

We calculate the sales and EBITDA figures both for the individual segments and for the Group as a whole. While sales revenues serve primarily as a performance indicator, EBITDA and net debt are the main relevant control parameters used by the company.

T. 14 EARNINGS AND VOLUME GROWTH

IN € MILLION	2015	2014	2013	2012	2011
Sales volume primary products in kt[1]	762	697	734	839	872
EBITDA	86.0	31.5	32.6	49.4	89.1
EBIT	49.2	5.8	-4.1	25.5	68.1
EBT	34.8	-7.8	-16.8	1.6	54.5

[1] Chemical-Pharmaceutical Raw Materials Division

Research and Development

Focus of Our R&D Activities

Our crude-oil-based specialty products and plastic parts are directly incorporated into our customers' products; we cooperate closely with them to optimize the value of the components we supply for their end products. Another focus of our R&D work is on boosting the efficiency of our production processes, thereby increasing the value we add. Research activities are managed at the divisional level.

i For further information see the glossary on page 164 f.

Our Chemical-Pharmaceutical Division operates R&D laboratories at its domestic refineries. In China, the focus of our labs is on paraffins. Valuable synergies are created both from communication between these areas and from exchanging ideas with other production areas. We apply a similar concept in the Plastics Division by combining our R&D work at the headquarters in Coburg.

As in prior years, in 2015 we once again collaborated closely with universities and research institutes. To the extent possible and expedient, we try to protect our own research results from external use through patents.

i For further information see the glossary on page 164 f.

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

Chemical-Pharmaceutical Raw Materials. Our products, which overall total around 800, are used as inputs in more than 100 different industries. Equally large is the potential for the development of new or improved products. Our sales/distribution staff and partners are an important source of ideas for product innovations; thanks to the customer relationships they have developed over a long period of time, they have an excellent feel for clients' changing needs. Our research activities focus with particular intensity on the paraffin, plasticizer and white-oil product groups.

We are also researching processes that could increase the yield of crude-oil-based specialty products from our raw materials and thereby further improve the level of value added at our refineries. The promising results of this research work have influenced our investment planning. While in the past we focused mainly on expanding our production capacity, in recent years we have increased our investments in plants that can further refine our products. The division's collaboration with the universities of Hamburg, Hanover, Magdeburg, Munich, Rostock (all in Germany), Bangkok (Thailand) and Enschede (the Netherlands) forms an important part of its research activities. These partnerships give us access to the universities' research infrastructure and enable us to establish contact with high-potential R&D candidates at an early stage.

Plastics. The use of increasingly sophisticated technologies in vehicles to reduce fuel consumption and CO_2 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 clients, who are direct suppliers to automobile manufacturers. We further expanded our research and development work in the field of medical technology – an increasingly important market segment for the Plastics Division.

R&D Expenses, Staff and Key Figures

The importance of our research activities has for years been reflected in our consistently high spending and the increase in the number of people we employ in this area. All employees in the Research & Development department have outstanding qualifications, either in the form of technical training in a chemistry-related profession or in some cases a master's qualification. Other staff, such as engineering graduates, are as highly qualified as our employees who hold doctorates in chemistry. At around €1.9 million, R&D spending was at the same level as in the previous year. Our R&D ratio, defined as R&D expense divided by sales revenues, increased slightly from 0.17% to 0.20% due to the decrease in revenues.

T. 15 **RESEARCH AND DEVELOPMENT COSTS**

IN € THOUSAND	2015	2014	2013	2012	2011
Research and Development costs	1,955	1,909	1,906	2,072	2,117
of which ChemPharm	1,749	1,563	1,585	1,720	1,817
of which Plastics	206	346	321	352	300
as % of annual revenues	0.20	0.17	0.16	0.17	0.18

Report on Economic Position

Macroeconomic Conditions

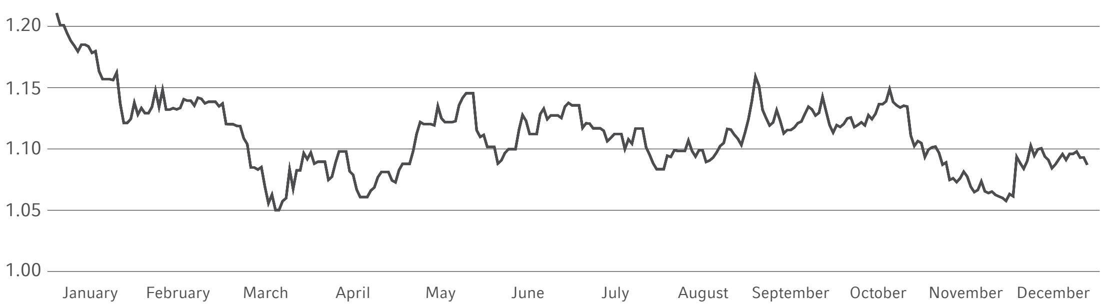
In 2015, around 57.0% of H&R AG's sales revenues were generated in Germany (2014: 65.7%). The pace of Germany's economic expansion continued through the end of the year. In particular, the positive labor-market situation, lower oil prices and higher disposal real incomes boosted consumer spending and with it the German economy. Additional expenditures for housing and integrating refugees could provide additional momentum. By contrast, decreasing demand in emerging economies had a negative impact on German exports.

In their current winter forecast, experts at the Kiel Institute for the World Economy (Institut für Weltwirtschaft in Kiel/IfW) put Germany's GDP growth at around 1.8% in 2015. The economic researchers projected quarterly growth rates of between 0.3% and 0.6%. Over the next two years, the pace of expansion is expected to accelerate to GDP growth rates of between 2.2% and 2.3%.

The euro, which is the functional currency used to calculate the earnings trend at H&R AG, came under severe pressure at the end of 2014/beginning of 2015, at one point in the spring trading at just above parity with the USD, which again reinforced its position as the international reserve currency.

G. 05 **EXCHANGE RATES US$ PER € IN 2015**

(CLOSING RATE US$ PER €)



Global economic momentum slowed in 2015, with quarterly growth rates of only around 0.7% (quarterly data). Overall, researchers at the Kiel Institute for the World Economy (IfW) recently stated that they expect global GDP growth of 3.1% – the lowest increase since 2009. At the same time, growth momentum continued to shift from emerging economies and developing countries to the advanced economies. Above all, the U.S. economy appears relatively strong. The upswing also appeared to continue in the United Kingdom. Once again, the Eurozone turned in moderate growth in the third quarter, thereby recording positive economic performance for the tenth quarter in a row.

In the emerging economies, in particular, the situation has worsened, in part because the weak economy in China has affected these countries' trade. The pace of expansion in the emerging markets of southeast Asia has slowed markedly as a result; Brazil and Russia are in recession.

Overall, however, the IfW believes global output increased by 3.1% in 2015 – more or less the same rate as in the previous year.

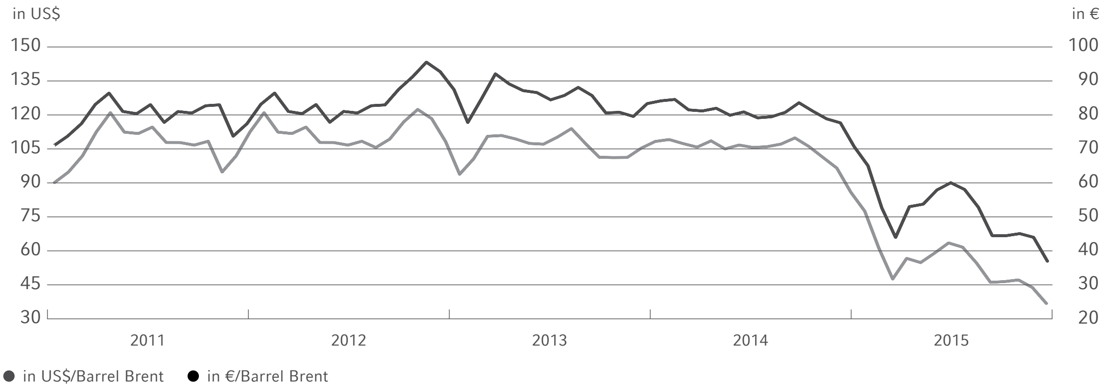
Crude-oil prices (all data refer to the average price of a barrel of North Sea Brent) remained low throughout the year. The rapid drop in prices at the end of the year was initially followed by sidewards movement, with the price ranging from US$68.36 to US$42.57 between May and August. In the following months, Brent managed to recover slightly, mostly trading at more than US$50.00. However, this trend was unsustainable. By mid-December 2015, the price of Brent crude oil fell to US$36.21, its low for the year. This was pri-

i For further information see the glossary on page 164 f.

marily due to the glut of oil on the market. Oil production by OPEC countries remained high; at the same time, the lifting of the sanctions against Iran signaled the return to the market of another major producer of cheap crude oil.

G. 06 **OIL PRICES 2011–2015**

(AVERAGE MONTHLY PRICES)



Industry-Specific Climate

The economic performance of the chemical-pharmaceutical industry in Germany in 2015 was mixed. Although production rose slightly, sales revenues stagnated, mainly because producer prices continued to drop (-2.5%). While overseas exports increased considerably, particularly because of the euro's depreciation against the dollar, domestic demand for chemical products remained weak. Overall, production increased by 1% in 2015.

Overview of Business Performance

H&R AG's Chemical-Pharmaceutical Raw Materials Division sold a total of 762,000 tons of primary products in 2015 (2014: 697,000 tons), generating €982.9 million in sales revenues – less than in the previous year (2014: €1,058.6 million). Above all, persistently low prices for raw materials reduced the cost of materials, the main factor influencing pricing and, therefore, the level of sales revenues.

Unlike at the end of the previous year, year-end 2015 did not see a concentration of negative effects from the continued weakness of crude oil. Although "windfall losses" were spread throughout the entire year of 2015, these were offset by positive countervailing effects, such as acceptable margins resulting from a good price situation for primary and by-products and stable base-oil prices. For 2014 as a whole, the related negative effects reduced net income by €-16.1 million.

To summarize, the company's consolidated operating income (EBITDA) totaled €86.0 million (2014: €31.5 million).

Events with a Major Impact on the Course of Business

Overall, the Group's €0.98 billion of sales revenues were below the prior-year level (2014: €1.06 billion). At the same time, the improved earnings demonstrate that H&R AG's businesses were more profitable in 2015 than in previous years. Cost efficiencies and high levels of facility availability also enabled the company to benefit from the structural changes that have been visible in the market for years. The elimination and restructuring of major Group 1 refinery capacity in Western Europe increased customer demand for our specialty products. In addition to the positive price situation for our entire product portfolio, lower oil prices relieved the burden on the company on the purchasing side.

After OPEC decided in December not to restrict its members' production quotas (and thereby not to transmit any signals to stabilize and/or cause the price of crude oil to recover), the price for a barrel of Brent dropped further. As in the previous year, the Group experienced "windfall losses" during 2015; however, these were offset by the positive business performance and improved demand and margin situation.

H&R AG therefore ended financial year 2015 with a correspondingly positive EBITDA of €86.0 million.

Comparison of the Actual Course of Business with the Forecast Made in the Previous Year

The expectations with which H&R AG started financial year 2015 were based in no small part on the company's repositioning in the international arena. The business and profit projections for 2015 were higher than in 2014.

With sales revenues more or less at the same level as in the previous year, we initially expected operating income (EBITDA) to range from €45.0 million to €65.0 million. During the summer, we first adjusted these expectations, placing target income "in the upper end of the range from €45.0 million to €65.0 million". When the preliminary figures for the first nine months were published, we released a more specific projection, expressing the possibility that the company would surpass the previous forecast by "up to 15%".

Ultimately, we posted revenues of €0.98 billion. The €86.0 million of EBITDA reported on the consolidated income statement for financial year 2015 was above the upper limit in the original forecast and also higher than the excess performance suggested in the most recent forecast.

T. 16 **FORECAST FOR FINANCIAL YEAR 2015**

Forecast Date	17/3/2015	21/7/2015	16/10/2015	Actual value
Sales in ChemPharm Refining	ca. €635 million	Not defined	Not defined	€614.3 million
Sales in ChemPharm Sales	ca. €360 million	Not defined	Not defined	€320.2 million
Sales in Plastics	ca. €64 million	Not defined	Not defined	€60.1 million
EBITDA at Group level	ca. €45 million to €65 million	"Upper end of the range"	"May exceed upper end of range by up to 15%"	€86.0 million

In the Chemical-Pharmaceutical Raw Materials Division, sales revenues after consolidation effects stood at €922.9 million, lower than the prior-year figure (2014: €1,002.1 million). Above all, the decrease in the price of raw materials we used had a major impact on the cost of materials, which in turn affected the amount of sales revenues. We referred to this obvious trend in lower sales revenues in our interim reports but did not change the forecast.

The situation was similar in the Plastics Division. This segment attracted less new customer business than planned and its sales revenues of €60.1 million did not quite reach the sales target announced at the beginning of 2015 (previous year: €56.5 million).

H&R AG's decision to adjust the projected operating income for the first half to the upper end of the range in the original forecast was based primarily on the very good indicators for the second quarter of 2015, which showed significantly more momentum following a generally moderate start to the year. With crude-oil prices stable overall during the first half, the Refining segment, in particular, benefited from a substantial recovery in prices for both primary and by-products – despite the continuing decrease in revenues. The fact that the previous year's total EBITDA had already been exceeded in the second half meant that it was necessary to correct the forecasts accordingly. We initially expected a slowdown in the business and earnings trend in the second half, but then we nevertheless continued to perform at a good level. Because the nine-month figures were correspondingly positive, we again adjusted the forecast upwards. Although the fourth quarter was the weakest in terms of contributions, the company's €86.0 million of EBITDA was its best showing in recent years.

Economic Position of the H&R Group

Earnings Position

In financial year 2015, we continued the trend of recent years, generating €982.9 million of sales revenues (previous year: €1,058.6 million) – somewhat lower than the prior-year figure. Sales revenues from the Chemical-Pharmaceutical businesses (which accounted for 93.9% of sales revenues in 2015; previous year: 94.7%) were lower mainly because of the continued lower cost of raw materials in 2015. In the Plastics business (which contributed 6.1% of sales revenues in 2015; previous year: 5.3%), by contrast, business declined because of lower demand.

Although revenues were considerably lower, H&R AG's operating income was significantly higher than the prior-year figure.

The regional focus of our business activities remains on Germany, where 55.8% of sales revenues were generated in financial year 2015 (2014: 65.7%).

This percentage includes transactions with our sales partner, the Hansen & Rosenthal Group, which in turn generates a large proportion of its sales revenues outside of Germany. The actual percentage of products purchased by foreign end customers is therefore higher than our statistics suggest. Of the remaining 44.2% of revenue, other European countries accounted for 12.8%, while the rest of the world contributed 31.4%.

H&R AG faced some challenges at the beginning of the financial year, because the first quarter of 2015 saw additional "windfall losses". Unlike the situation at the end of 2014, these losses were more than offset by satisfactory margins and, above all, by a significant recovery in prices across our entire portfolio of primary products and by-products. The improved business trend accelerated again over the summer and persisted into late autumn.

Two special effects provided additional momentum for the results in the third quarter of 2015. After a late-summer fire in the paraffin mold facility at the Salzbergen site, H&R AG was able to collect insurance benefits.

The disposal of a property in Haltern am See formerly used in the production of explosives resulted in an extraordinary gain. Since shutting down that division, H&R AG had continuously looked for alternative uses and possibilities for repurposing that land.

These special effects totaled approximately €5.5 million and were recognized in earnings at the end of September 2015.

Although business performance is usually less dynamic towards the end of the year, our customers' demand for specialty products continued virtually unabated through the final quarter of 2015. As a result, the premature de-stocking effects experienced in 2014 did not recur. Instead, customer orders were pleasantly large, even in December. H&R AG believes that one reason for this was the impact of this year's refinery closings at some of our competitors' sites, which may have led to noticeable shortages of certain specialty products.

Overall, the company posted a significantly better result for 2015 that exceeded both the prior-year figure and those of recent years: total consolidated operating income (EBITDA) jumped by €54.5 million, from €31.5 million in 2014 to €86.0 million in 2015. The EBITDA margin rose by 5.7 percentage points, from 3.0% in financial year 2014 to 8.7% in financial year 2015.

The other earnings indicators also improved accordingly. For example, consolidated earnings before interest and taxes (EBIT) totaled €49.2 million in 2015 (previous year: €5.8 million). Earnings before taxes (EBT) also increased significantly, from €-7.8 million in 2014 to € 34.8 million in 2015. Consolidated net income to shareholders rose to €27.5 million (previous year: €-15.4 million).

After a net loss per share of €-0.49 in the prior-year period, the company reported earnings per share of €0.77 for 2015.

T. 17 **CHANGE IN SALES REVENUES AND EARNINGS**

IN € MILLION	2015	2014	2013	2012	2011
Sales revenues	982.9	1,058.6	1,214.4	1,228.9	1,209.5
EBITDA	86.0	31.5	32.6	49.4	89.1
EBIT	49.2	5.8	-4.1	25.5	68.1
Earnings before taxes	34.8	-7.8	-16.8	1.6	54.5
Consolidated earnings after taxes	27.4	-15.6	-14.0	0.4	38.5
Net profit/loss to shareholders	27.5	-15.4	-14.0	0.5	38.5
Earnings per share	0.77	-0.49	-0.47	0.02	1.29

Orders Trend

For 2015 as a whole, new orders for products in our Chemical-Pharmaceutical business remained at a stable level. At the end of the year, in particular, demand remained pleasantly high, unlike in previous years.

In another year of restructuring, figures for much of the Plastics Division remained below those of the previous year, but the order book again increased around the end of the year to around €32.9 million (31 December 2014: €36.2 million).

Trends in the Main Items on the Income Statement

Inventories of finished products and work-in-progress decreased by €27.9 million during the reporting period. In addition to measurement effects caused by cheaper prices during the year for raw materials, economies of scale also contributed to this development. Due to the de-stocking by major customers at the end of 2014/beginning of 2015, H&R AG started financial year 2015 with bigger and, above all, more highly valued inventories.

In financial year 2015, our cost of materials declined by 19.5% to €709.4 million (previous year: €881.4 million) as a direct result of the reduction in the cost of raw materials. The material expenditure rate decreased to 75.0% (2014: 83.2%), mainly due to the decrease in the price of raw materials and to better operating margins.

T. 18 TRENDS IN THE MAIN ITEMS ON THE INCOME STATEMENT

IN € MILLION	2015	2014	2013	2012	2011
Sales revenues	982.9	1,058.6	1,214.4	1,228.9	1,209.5
Changes in inventories	-27.9	0.4	-56.5	-6.4	29.0
Other operating income	32.4	18.7	22.3	19.7	21.0
Cost of materials	-709.4	-881.4	-981.3	-1,017.4	-987.3
Personnel expenses	-79.9	-72.7	-71.4	-72.9	-76.2
Depreciation and amortization	-36.8	-25.6	-36.7	-23.9	-21.0
Other operating expenses	-112.5	-92.4	-95.2	-102.9	-107.2
Operating profit/(loss)	**48.9**	**5.7**	**-4.5**	**25.2**	**67.8**
Financial result	-14.1	-13.5	-12.4	-23.6	-13.4
Consolidated earnings before taxes	**34.7**	**-7.8**	**-16.8**	**1.6**	**54.5**
Consolidated earnings before minority interests	**27.4**	**-15.6**	**-14.0**	**0.4**	**38.5**
Net profit/loss to shareholders	**27.5**	**-15.4**	**-14.0**	**0.5**	**38.5**

Personnel expenses increased by 9.8 % to €79.9 million (previous year: €72.7 million), due to the increase in the total number of employees resulting from the majority inclusion of the Hansen & Rosenthal Group's Chinese businesses in the autumn of 2014. These employees were included in personnel expenses for the entire year for the first time in 2015.

Depreciation and amortization charges, which totaled €25.6 million in the previous year, increased significantly to €36.8 million. This, too, was due to the first-time inclusion of the integrated activities in China for an entire year. This item also increased because of the write-downs of intangible assets that became necessary after impairment tests in the Sales segment.

The cost of financing rose from €14.3 million to €17.1 million in 2015. This was attributable to the reversal, recognized in income and loss, of an accrual associated with an early repayment of variable-interest borrower's note loans, which had been set up in equity in previous years on account of an interest-rate swap entered into for hedging the interest rate on the loans.

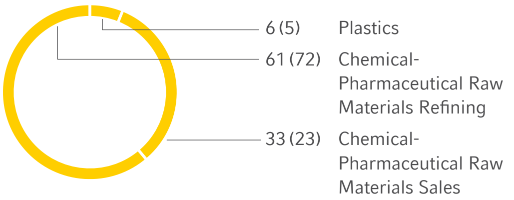
The higher interest expense affected the financial result, which at €-14.1 million was lower than the prior-year figure of €-13.5 million.

Earnings Trends by Segment

ChemPharm Refining. Sales volumes of primary products at our Group's largest segment increased from around 449,380 tons in 2014 to around 466,600 tons in 2015 thanks to the substantial increase in demand in 2015. At the same time, however, segment sales were lower in financial year 2015, primarily because of cheaper raw-material prices; because of our substantial material requirements, the lower commodity prices translated

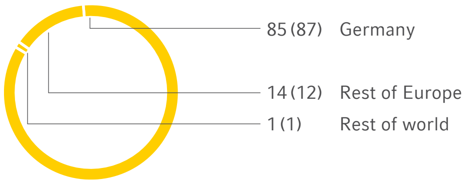
G. 07 REVENUE BY SEGMENT IN 2015

IN % (PREVIOUS YEAR'S FIGURES)



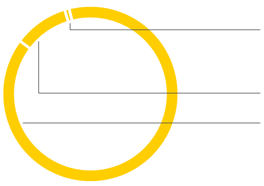
G. 08 REVENUE BY REGION IN THE CHEMPHARM REFINING SEGMENT IN 2015

IN % (PREVIOUS YEAR'S FIGURES)



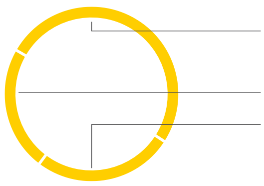
G. 09 **REVENUE BY REGION IN THE CHEMPHARM SALES SEGMENT IN 2015**

IN % (PREVIOUS YEAR'S FIGURES)



G. 10 **REVENUE BY REGION IN THE PLASTICS SEGMENT IN 2015**

IN % (PREVIOUS YEAR'S FIGURES)



into reduced material costs, thereby reducing our sales revenues. Overall sales revenues declined by 20.1% to € 614.3 million (previous year: €768.7 million). Thanks to the positive pricing and market situation and acceptable base-oil prices, the segment's operating income (EBITDA) improved by €35.1 million to €53.3 million, compared to €18.2 million in the previous year.

ChemPharm Sales. Revenues in the international segment increased by 30.9% to €320.2 million (previous year: €244.7 million), mainly because of the expansion of our businesses in China. Sales increased from around 261,410 tons in 2014 to 311,320 tons in 2015. Because of the higher proportion of specialty products with stable margins in the product portfolio, operating income (EBITDA) increased by 86.7% from €18.8 million in 2014 to €35.1 million in 2015.

Plastics. With €60.1 million in sales revenues (2014: €56.5 million), our Plastics segment made a bigger contribution to total sales than in the previous year. This increase was due primarily to contributions by the sites in Wuxi, China and Coburg, Germany. During the reporting period, the segment's results showed a slightly positive trend, contributing €-0.9 million to operating earnings (EBITDA) after posting EBITDA of €-1.5 million the previous year.

T.19 **KEY FIGURES BY SEGMENT**

IN € MILLION	2015	2014	2013	2012	2011
Sales revenues					
Refining	614.3	768.7	941.0	952.2	943.2
Sales	320.2	244.7	231.7	254.1	249.6
Plastics	60.1	56.5	62.7	55.6	52.6
Carry-over	-11.6	-11.3	-21.0	-33.0	-35.9
Operating result (EBITDA)					
Refining	53.3	18.2	20.6	33.1	71.3
Sales	35.1	18.8	16.5	19.3	19.0
Plastics	-0.8	-1.5	0.7	-0.8	2.3
Reconciliation	-1.5	-3.9	-5.1	-3.2	-3.5

Net Assets and Financial Position

Financial Management Principles and Objectives

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

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

To ensure we are in a position to service our debt and to make efficient use of our liquidity, we transfer surplus cash within Germany to a cash pool which supplies the subsidiaries with the necessary liquidity.

In November 2011, borrower's note loans were taken out to refinance already existing investments. The borrower's note loans currently total €36 million, of which €18 million mature in November 2016 and €18 million in November 2018.

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For further information see the glossary on page 164 f.

In addition, an existing syndicated loan was refinanced. Therefore, a new, widely syndicated loan with a maximum volume of €240 million has been available since August 2015. The syndicated loan's main purpose is to finance net working capital, the amount of which affects the maximum utilization under the loan agreement (borrowing-base mechanism). The mechanism ensures that financing needs are covered even when net working capital increases.

In Mai 2009 (€20.0 million), January 2011 (€50.0 million) and September 2015 (€28.8 million), we took out additional redeemable loans from KfW (Kreditanstalt für Wiederaufbau), each for ten-year terms. These loans are part of a funding scheme which offers financing under favorable conditions for environmentally friendly investments.

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

In order to increase planning certainty regarding our interest expense, we hedged a variable interest-risk position from borrower's note loans maturing in November 2016 and November 2018 totaling €80 million with a fixed-interest position under an interest-rate swap. We repaid these borrower's note loans in November 2015. Given the current market situation, we have not liquidated the interest-rate swap.

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

T. 20 **MAIN FINANCING INSTRUMENTS IN THE H&R GROUP**

	Sum in € million	Year issued	Maturity
Syndicated loan	up to 240.0	2015	24/08/2018
Borrower's note loans	18.0	2011	30/11/2016
Borrower's note loans	18.0	2011	30/11/2018
Redeemable loan	20.0	2009	30/6/2019
Redeemable loan	50.0	2011	30/12/2020
Redeemable loan	28.8	2015	30/12/2023

IN € MILLION	2016	2015	2014
Trends in the consolidated net financial debt	~ 95.5	86.7	107.3

Analysis of the Cash Flow Statement

Because of the considerably better consolidated result of €27.4 million, we generated net cash flow from operating activities of €56.4 million during the reporting period (previous year: net use of €-0.4 million). Changes in net working capital totaled €-7.3 million (previous year: €2.2 million). The cash outflow was caused by the fact that the reduction in liabilities to suppliers exceeded the reduction in receivables due from customers and the reduction in inventories.

Cash used in investment activities increased to €-28.1 million (previous year: €-10.1 million). Higher payments related to the replacement of capital assets at our refineries and sites totaling €-29.2 million (2014: €-19.2 million) and additional payments for the acquisition of a subsidiary in South Africa were offset by proceeds from the disposal of land in Sythengrund. Overall, free cash flow (the sum of cash flow from investment and operating activities) was positive (2015: €28.4 million; previous year: €-10.5 million). Financing activities resulted in a net use of cash of €-52.4 million (previous year: €-0.3 million). This item was strongly affected by the refinancing measures implemented in 2015. An amount of around €150.3 million was used to repay financial debts (2014: €-26.3 million); at the same time, €97.8 million of new financial liabilities were contracted (2014: €20.8 million). At the end of the reporting period, cash and cash equivalents amounted to €79.3 million, compared to €101.6 million one year earlier. In the fourth quarter of 2015 alone, the company reported operating cash flow of €22.7 million. Because of the increase in investment activities, free cash flow stood at €8.1 million in the fourth quarter of 2015. Existing payment obligations in the current year consist of €0.4 million for finance leases (previous year: €0.6 million) and €4.9 million for operating leases (previous year: €4.8 million). The total amount of liabilities to banks maturing in 2016 was €82.8 million as of the reporting date.

T. 21 **FINANCIAL POSITION**

IN € MILLION	2015	2014	2013	2012	2011
Cash flow from operating activities	56.4	-0.4	88.9	84.7	-11.8
Cash flow from investment activities	-28.1	-10.1	-16.2	-33.7	-42.3
Free cash flow	28.4	-10.5	72.8	50.9	-54.2
Cash flow from financing activities	-52.4	-0.3	-49.2	-15.3	91.3
Cash and cash equivalents as of 31/12	79.3	101.6	109.6	89.6	53.1

Capital Expenditure

During the reporting period, our €32.0 million of capital expenditure was considerably higher than in the prior-year period (2014: €23.7 million).

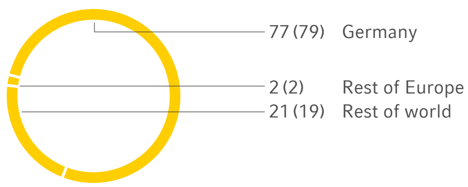
T. 22 **CAPITAL EXPENDITURE SEGMENT**

IN € MILLION	2015	2014	2013	2012	2011
Refining	24.0	18.1	12.0	30.8	37.9
Sales	6.7	4.7	0.5	1.8	1.3
Plastics	1.1	0.8	0.6	3.3	1.4
Reconciliation (other activities)	0.2	0.1	–	0.8	0.5
Group	**32.0**	**23.7**	**13.1**	**36.7**	**41.1**

We invested a total of €30.7 million in the Chemical-Pharmaceutical Raw Materials Division during the 2015 financial year (previous year: €22.8 million). After an overall decline in capital expenditures at the German sites in recent years, a major portion of this total (€24.0 million) has once again been invested in the Refining segment, for use in expanding and replacing capital assets at the Hamburg and Salzbergen refineries. The division's remaining €6.7 million of capital expenditures were divided among our Sales segment's international sites, with a significant share going to projects in Thailand and South Africa.

G.11 **INVESTMENT BY REGION 2015**

IN % (PREVIOUS YEAR'S FIGURES)



Capital expenditure in the Plastics Division rose slightly from €0.8 million in 2014 to €1.1 million in the reporting year. We invested somewhat more than half of the amount in measures at the Coburg site. The rest of the funds were divided among our international sites, with a focus on the business in China. Because of the investments in our refineries, the bulk of our capital expenditure (77.5% of total expenses – previous year 78.7%) again took place in Germany.

Balance Sheet Analysis

As of year-end 2015, total assets (total liabilities plus shareholders' equity) stood at €628.8 million (31 December 2014: €706.6 million).

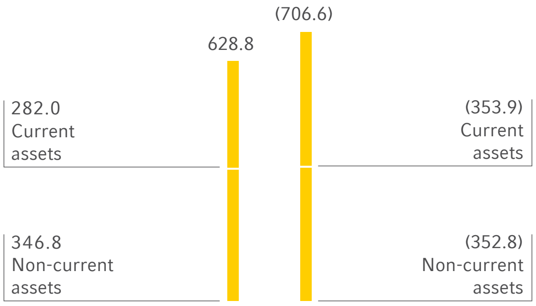
On the assets side, cash and cash equivalents decreased by 21.9% to €79.3 million, compared to €101.6 million at the end of 2014. Trade receivables decreased by 6.4% to €98.8 million at the end of the reporting period (31 December 2014: €105.6 million). The decrease in this balance sheet item is attributable to the oil-price trend and to the valuation on the reporting date.

Because of the trend in the price of crude oil and the valuation of inventories, inventories – one of the main components of current assets – decreased by a considerable 30.0% to €94.0 million (2014: €134.2 million). Overall, current assets declined by 20.3% to €282.0 million as of 31 December 2015, compared with €353.9 million a year earlier. As a proportion of total assets, they decreased to 44.8% (31 December 2014: 50.1%).

Non-current assets decreased slightly (by 1.7%) to €346.8 million in financial year 2015, compared to €352.8 million on 31 December 2014. Property, plant and equipment rose only 0.7%, from €255.3 million to €257.2 million. Over the same period, goodwill dropped 10.8% from €39.9 million to €35.6 million. Deferred taxes decreased by a considerable 18.1%, from €17.1 million to €14.0 million. Overall, non-current assets comprised 55.2% of total shareholders' equity and liabilities.

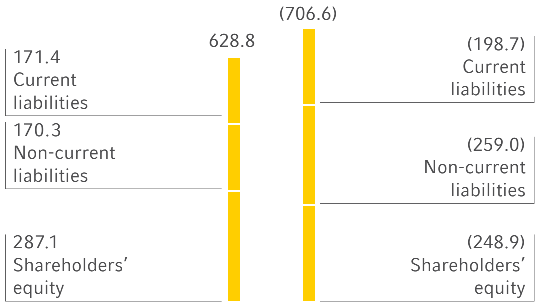
G. 12 **ASSETS 2015**

IN € MILLION (PREVIOUS YEAR'S FIGURES)



SHAREHOLDERS' EQUITY AND LIABILITIES 2015

IN € MILLION (PREVIOUS YEAR'S FIGURES)



On the shareholders' equity and liabilities side, current liabilities decreased by 13.7%, from €198.7 million to €171.4 million. As a proportion of total shareholders' equity and liabilities, they decreased to 27.3% (31 December 2014: 28.1%). Liabilities to banks, which increased substantially from €52.0 million to €82.8 million because of the valuation on the reporting date and the repayment of the variable tranche of the borrower's note loan, were largely offset by the decrease in trade liabilities to €53.3 million (31 December 2014: €112.4 million) as a result of cheaper purchase prices for ship deliveries of our raw materials.

Higher income tax liabilities totaled €6.2 million (31 December 2014: €2.2 million) and other provisions increased to €11.2 million (31 December 2014: €9.3 million). While other financial liabilities decreased from €12.8 million to €9.8 million, at the same time other liabilities decreased from €9.9 million to €8.1 million.

During the same period, non-current liabilities decreased by 34.2% to €170.3 million (31 December 2014: €259.0 million), representing a change from 36.7% to 27.0% of total shareholders' equity and liabilities. Non-current liabilities to banks halved from €156.1 million to €78.2 million. The repayment of the borrower's note loan also had an impact here. Pension and other provisions also decreased. Other liabilities decreased from €4.8 million to €3.9 million.

Deferred tax liabilities decreased by 24.8% from €11.3 million to €8.5 million.

As of the end of the reporting period, H&R AG's equity capital amounted to €287.1 million (31 December 2014: €248.9 million). Thanks to the substantial increase in retained earnings, which after including consolidated net income totaled €105.8 million (31 December 2014: €73.8 million), shareholders' equity was around 15.3% higher than in the previous year. Positive currency-translation effects led to an additional €4.1 million increase in shareholders' equity.

In line with the shareholders' equity figure, the equity ratio also improved. It also increased to 45.7% because of the decrease in total shareholders' equity and liabilities (31 December 2014: 35.2%). Net gearing (the ratio of net financial debt to equity) dropped by more than 15.4 percentage points from 45.6% to 30.2%.

i For further information see the glossary on page 164 f.

Apart from the aforementioned transactions, no companies were acquired or sold during the reporting period. Our off-balance-sheet assets mainly consist of the leased portion of our refinery site in Hamburg and our fleet of leased vehicles.

Non-Financial Performance Indicators

Sustainability

“Oil is far too good to burn!” – Under this motto, H&R AG is acting not only out of economic necessity, although, ultimately, optimizing the use of our raw materials is also a top priority for the Company from a financial standpoint.

At the same time, we see ourselves as a company with responsibility: for H&R AG, oil and the “old economy” go hand in hand with the aspiration to apply modern technology and to do the utmost to protect the work and living spaces in and around our production and business locations. Indeed, we do not exist within a vacuum. Wherever we operate, we are always aware of our role as partners to our customers as well. We are responsible for our employees and their working conditions. We are part of the communities in which our sites are located and we share the same resources with our neighbors. Therefore, we can only succeed in strengthening our Group and successfully prepare for the future if we act in concert with all other stakeholders in pursuit of the same economic, social and environmental objectives.

In this context, we actively face the manifold challenges involved in our mission. Thus, our customers demand not just the same old product quality they have enjoyed for years; instead, nowadays H&R AG must be in a position to deliver these products in an environmentally friendly manner – backed, if possible, by the appropriate certifications. Guidelines intended to guarantee ethical conduct are becoming more and more important and extend to all partners, in addition to our own company. This also encompasses both upstream and downstream aspects of our own value chain.

Demographic change requires us to retain our skilled employees over the long term. We can only succeed in doing so if we offer our employees good jobs and enhanced job security while positioning ourselves as a responsible employer.

The following pages demonstrate what we have already managed to achieve in the area of “Responsibility”.

Employees

At year-end 2015, the number of employees at the H&R Group had increased by 14 to 1,568 (31 December 2014: 1,553). The following table shows a breakdown by division:

T. 23 EMPLOYEES BY DIVISION

	2015	2014	2013
Employees	1,568	1,553	1,405
of which ChemPharm	975	938	801
of which Plastics	562	590	580
Other	31	25	24
Personnel expense in € million	79.9	72.7	71.4

Most of our employees work at the domestic refineries in Hamburg and Salzbergen. As of the end of the reporting period, the refineries employed 630 people (31 December 2014: 616).

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

As we can only compete internationally if we have superbly trained employees on board, we consider our spending on advanced training and professional development to be an investment in the future of our company. When choosing training courses, we follow an individual approach that promotes employees’ strengths and helps them to achieve their career goals.

Our employees are characterized by a high degree of loyalty to the H&R Group. This is demonstrated, in particular, by the high average seniority and the low staff turnover ratio at the sites in Germany. The age structure of our domestic workforce has remained roughly the same in recent years. During the period under review, the 41-to-50 age group was the largest. The age distribution of our employees is thus typical of industrial companies in Germany.

Occupational Health and Safety

A key safety issue at all of our sites is the further training and education of our employees: we hold regular training sessions on topics relating to safety and require all our employees to visit our Internet-based safety instruction system on a regular basis. Contractors working in our factories are also included in our safety strategy.

Detailed analyses of potential losses, a special report on safety-related ratios, safety inspections and the active involvement of the Executive Board ensure that our safety performance is constantly improving. Our accident statistics are based on the international CONCAWE standard (CONservation of Clean Air and Water in Europe) which uses the indicators LWIF (lost workday injury frequency) and LWIS (lost workday injury severity). The LWIF figure shows the frequency of accidents (number of work accidents with at least 1 day lost for every 1 million working hours). The LWIS figure shows the severity of accidents (number of days lost per work accident). Here, both company employees and contractors are taken into account.

For further information see the glossary on page 164 f.

The standards we apply are therefore much stricter than those called for by the employers' liability insurance associations in Germany, for instance. During the past year, our safety efforts once again paid off: in 2015, the LWIF figure for our refineries was 0.6 (previous year: 1.2), so we were again able to notch an improvement over the previous year's track record at our refineries and once again outperformed our competition.

T. 24 **OCCUPATIONAL SAFETY AT THE H&R REFINERIES**

	2015	CONCAWE-standard	2014	2013	2012
Number of occupational accidents with a least one day lost per million working hours – (Lost Workday Injury Frequency; LWIF)	0.6	1.2	1.2	0.0	4.4
Number of occupational accidents with at least one day lost	1.0	–	2.0	0.0	8.0
Number of days lost due to accidents	12.0	–	56.0	13.0	195.0
Number of working days lost per occupational accident (Lost Workday Injury Severity; LWIS)	12.0	44.9	28.0	0.0	24.8
Number of fatal occupational accidents per 100 million working hours	0.0	2.5	0.0	0.0	0.0

Process Safety

As an operator of refineries and production facilities, we are simultaneously entrepreneurs and employers, users of natural resources and neighbors.

As such, we are under the obligation to act safely and sustainably. Our refinery processes use a variety of substances that require extremely careful handling. Since the start of 2011, we have measured our performance in this area by means of the PSPI (Process Safety Performance Indicator). To calculate this figure, we track incidents relating to the safety of our processes (PSE – Process Safety Events) per 1 million working hours.

We ensure that our results are meaningful by comparing them with the reference figure from the industry association CONCAWE. Since we began recording the PSE, we have always performed better than the CONCAWE benchmark standard.

Environmental Report

Environmental protection and the responsible use of natural resources are key goals of our company policy. On the one hand, we are constantly striving to reduce energy consumption and the amount of environmental pollutants caused by the production process. On the other hand, we also develop environmentally friendly products which either offer an alternative to products containing environmental pollutants or which, by virtue of their use, contribute to protecting the environment.

Environmentally Sound Products. Our label-free plasticizers for the tire industry reduce environmental impact in two ways. First, they improve the environmental compatibility of the tire compounds and tire particles. Furthermore, they lower the rolling resistance of the tires and thereby make an important contribution to reducing fuel consumption.

Our label-free plasticizers are also found in many kinds of lagging and insulation materials used to reduce heat loss from buildings. One of the uses of the white oils produced in our refineries is as components of pesticides to improve the yield of renewable raw materials. Our paraffins can be used to weatherproof domestic timber varieties. Their use renders intensive deforestation of slow-growing tropical timber stocks unnecessary. The innovative products from our Plastics Division are increasingly being substituted for parts used in the automotive industry that were previously made of metal. The resulting weight reduction helps to reduce vehicle fuel consumption even further.

At the same time, the amount of energy used in their production is much lower than for comparable metal components.

Energy Efficiency and Climate Protection. In Germany, high energy costs affect particularly energy-intensive production operations.

Although H&R AG claims the exemptions for energy-intensive production sites for the refineries, it pursues a rigorous, systematic policy of lowering this cost factor at its sites.

In order to not only stay competitive but also contribute to protecting the environment at the same time, reducing CO_2 emissions is an important element of our environmental strategy. Given the depth of their value chain (degree of vertical integration), H&R's refineries face particular challenges. In contrast to other refinery operators whose processes end with the production of fuel or base oils, this is the point where our refineries' real role begins. The additional processing stages for high-value specialty products require further energy inputs, which increases CO_2 emissions. At the same time, though, the creation of higher-grade, long-lasting products helps to conserve resources.

CO_2 Emissions. Our CO_2 footprint and our direct emissions together create indirect effects as well, e.g., from purchasing additional energy. We account for the depth of our value chain by calculating the sum of all individual plant throughputs in the course of production. For financial year 2015, our emissions per ton of feedstock came to 397.5kg. Emissions during the past financial year were therefore significantly lower than the prior-year figure (384.3 kg) but at the same time lower than the 2011 benchmark (398.1 kg).

Waste. We try to reduce the amount of waste caused by our production process as far as possible. Most unavoidable waste is recycled. Only when we have exhausted this option do we dispose of the remaining waste in an environmentally compatible way. Fortunately, the total amount of refuse generated by H&R's refinery sites is in any case low. By way of comparison, in 2015 we managed to reduce the amount of waste we produce by approximately 49.0% compared to the benchmark year of 2011 (3.09 kg). Instead of 2.08 kg per ton of feedstock as in 2014, we only generated 1.57 kg per ton last year.

Water Use. Most of the water required for our refineries is used for cooling. This water does not come into contact with our products and can be returned directly to the environment. Our closed-circuit systems enable us to use our cooling water several times in some cases, thereby reducing our overall water consumption. A very small proportion of the water is used directly in our refinery processes. We use sophisticated procedures to purify this water so that it can be returned to the environment as wastewater without any concerns. In total, in 2015 we drained off 686.3 liters of domestic or process wastewater per ton of feedstock, thus performing well below (around 36% below) our 2011 benchmark (861.2 liters). In the prior year, the comparative quantity was even lower, at 604.7 liters.

T. 25 **EMISSIONS BY H&R REFINERIES**

PER TON OF FEEDSTOCK	2015	2014	2013
CO_2 for all energy sources (kg/t use)	397.5	384.3	400.9
Waste water (l/t use)	686.3	604.7	679.5
Waste (kg/t use)	1.57	2.08	1.59

Product Responsibility

Group-wide, we strive to have uniform safety standards that exceed statutory requirements. In doing so, we take the entire value chain into consideration: from the delivery of raw materials to the use of our components in our customers' products.

We apply the standards laid down in REACH, the new EU regulation for chemicals. In 2010, we successfully completed the relevant registration phase for substances with an annual production volume of more than 1,000 tons. During the period under review, we incorporated the additional information required by the regulation into our material safety data sheets. In order to keep the costs of complying with REACH to a minimum and to take advantage of synergies, we play an active role in the CONCAWE association. At the local level, we also joined REACH's network of experts in Hamburg in 2014.

Now that registration has been completed successfully, some of the substances we produce require authorization. However, no costs were incurred for this in financial year 2015.

General Economic Outlook

Assessment of the Economic Situation by Company Management

Over the reporting period, the economic outlook at H&R AG turned out to be considerably more positive than the Executive Board had assumed at the beginning of 2015. In particular, the earnings projections were revised upwards during the year.

Following the trend of previous years, our sales revenues also declined in 2015. At the same time, sales volumes were higher than in 2014 thanks to higher customer demand. The downward trend in sales revenues was a direct consequence of and is explained in its entirety by cheaper prices for raw materials.

At €86.0 million, earnings (EBITDA) were more than twice the prior-year level (2014: €31.5 million). After including some special effects from the disposal of a property formerly used for the production of explosives and from insurance benefits received in connection with fire damage to the paraffin mold facility in Salzbergen totaling €5.5 million, the company posted very satisfactory earnings.

After a first quarter that made the weakest contribution of the entire year to operating income (EBITDA), the company picked up substantial momentum in the second quarter which grew stronger as the year progressed. However, this cannot be explained solely by a generally satisfactory margin situation and the significant recovery in prices for our primary and by-products. In 2015, the company also benefited from the strategic decisions it reached in prior years. For example, the company's more diversified position in its international businesses will help to ensure that its profitability is sustainable, while continuing with contract orders at the Salzbergen site has restabilized our earnings trend.

Further optimizing our smart raw materials management system and achieving internal synergies within the H&R Group were important strategic milestones for ensuring the company's future viability. We now have the ability to analyze samples of raw materials virtually overnight, to determine the "intrinsic value" and to adjust our refineries to produce those products for which there is market demand.

Systematic positioning of the refineries as specialty-products refineries and clearly differentiating them from lubricant refineries has protected our competitive position. Numerous Group 1 base-oil production sites – including major groups' refineries – are leaving the market. It is not only our aforementioned flexibility that enables us to hold our ground. H&R's refineries have an above-average share of high-grade petroleum-based specialty products, waxes and white oils, while our share of lower-margin lubricants is below the market average.

Overall, therefore, we believe the company is significantly more stable than it was even a year ago. In view of the difficult market and macroeconomic conditions, the measures implemented were necessary and appropriate to positively influence the company's earnings trend. In spite of everything we have achieved, we must rigorously adhere to the course upon which we have embarked.

Presentation of the Influence of Financial Policies on the Economic Situation

As in prior years, we have been conservative in exercising discretion and in making estimates. Our net assets and financial position also reflect, inter alia, the steps we have taken to manage working capital (factoring, 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 in this annual report.

For further information see page 107 ff.

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

T. 26 **EARNINGS POSITION OF H&R AG UNDER HGB**

IN € THOUSAND	2015	2014	Change
Sales revenues	1,649	1,079	570
Other operating income	3,258	1,743	1,515
Personnel expenses	-2,029	-1,658	-371
Amortization of intangible fixed assets and depreciation of property, plant and equipment	-18	-20	2
Depreciation and amortization of current assets in excess of the company's customary depreciation and amortization charges	0	-20,000	20,000
Other operating expenses	-7,372	-6,012	-1,360
Income from equity investments	0	123	-123
Income from profit-transfer agreements	24,643	708	23,935
Expenses from loss-transfer agreements	-4,251	-25,714	21,463
Income from lending financial assets	3	5	-2
Impairment losses on investments	-320	0	-320
Other interest and similar income	8,281	10,665	-2,384
Interest and similar expenses	-8,838	-9,461	623
Earnings/(loss) before taxes from ordinary operations	**15,005**	**-48,542**	**63,547**
Extraordinary expenses	-53	-53	0
Extraordinary result	-53	-53	0
Income taxes	-1,451	-52	-1,399
Other taxes	-12	-1	-11
Net income/(loss) for the year	**13,489**	**-48,648**	**62,137**
Loss carryforward	-91,098	-42,450	-48,648
Accumulated deficit	-77,609	-91,098	13,489

We have prepared the separate financial statements for H&R AG in accordance with the German Commercial Code (HGB). They are published in the Federal Gazette (Bundesanzeiger) and are permanently available for downloading from the H&R AG section of the company website, www.hur.com. For financial year 2015, we have combined the management reports of the H&R Group and of H&R AG.

H&R AG's revenues are generated solely by services rendered to companies in the Group. At €1.6 million, sales revenues were 45.5% higher than in the previous year (2014: €1.1 million). During the reporting period, personnel expenses totaled €2.0 million, higher than in the prior-year period (2014: €1.7 million). The fixed-asset depreciation charge of €18,000 was almost the same as that of the previous year (€20,000).

Other operating expenses increased sharply from €6.0 million to €7.4 million.

Income from profit-transfer agreements improved significantly to €24.6 million (previous year: €0.7 million). The increase is related to improved earnings from subsidiaries in the ChemPharm Refining and ChemPharm Sales segments.

The generally less tense earnings situation at most of the subsidiaries with which individual profit-transfer agreements exist was also the main reason for the decrease in expenses from loss-transfer agreements from €25.7 million the previous year to €4.2 million in the reporting period.

www.hur.com

The subsidiaries of H&R AG obtain funding for their financing needs from H&R AG's resources, which in turn are financed on the capital markets via credit lines and borrower's note loans. Other interest and similar income declined slightly from €10.7 million to €8.3 million. Lower financing costs in 2015 resulted in a decrease in interest and similar expenses, from €9.5 million to €8.8 million. Overall, earnings before taxes from ordinary operations increased to €15.0 million (previous year: €-48.5 million).

The tax liability increased from €52,000 in the previous year to €1.5 million. Overall, H&R AG generated net income of €13.5 million (previous year: net loss of €-48.6 million). After netting the annual result against the loss carryforward, the company reported an accumulated deficit of €-77.6 million, compared with €-91.1 million in the previous year.

T. 27 **NET ASSETS AND FINANCIAL POSITION OF H&R AG**

€ THOUSAND	2015	2014	Change
Land, land rights and buildings, including structures on third-party land	8	9	-1
Other equipment, operating and office equipment	85	90	-5
Property, plant and equipment	**93**	**99**	**-6**
Shares in affiliated companies	119,369	119,688	-319
Loans to affiliated companies	72,240	52,311	19,929
Equity investments	1,050	1,050	–
Loans to entities in which the company has a participating interest	38	100	-62
Financial assets	**192,790**	**173,248**	**19,542**
Receivables due from affiliated companies	80,047	104,242	-24,195
Other assets	1,742	3,554	-1,812
Receivables and other assets	**81,789**	**107,796**	**-26,007**
Securities	**151**	**163**	**-12**
Bank balances	12,708	28,206	-15,498
Current assets	**94,648**	**136,165**	**-41,517**
Prepaid expenses	**358**	**430**	**-72**
Assets	**287,797**	**309,843**	**-22,046**
Subscribed capital	91,573	91,573	–
Capital reserve	56,037	56,037	–
Other retained earnings	29,866	29,866	–
Accumulated deficit	-77,609	-91,098	13,489
Shareholders' equity	**99,866**	**86,377**	**13,489**
Provisions for pensions and similar commitments	2,206	2,316	-110
Tax provisions	1,777	–	1,777
Other provisions	6,207	8,240	-2,033
Provisions	**10,190**	**10,556**	**-366**
Liabilities to banks	133,597	165,840	-32,243
Trade accounts payable	21	253	-232
Liabilities to affiliated companies	40,528	43,661	-3,133
Other liabilities	3,594	3,156	438
Liabilities	177,740	212,910	-35,170
Shareholders' equity and liabilities	**287,797**	**309,843**	**-22,046**

H&R AG's total assets fell by 7.1% to €287.8 million as of 31 December 2015 (31 December 2014: €309.8 million). Because of higher loans to affiliated companies totaling €72.2 million (previous year: € 52.3 million), and despite slightly lower shares in affiliated companies of €119.4 million, financial assets increased from €173.2 million to €192.8 million at the end of 2015. Although our subsidiaries repaid issued loans, H&R AG simultaneously made fresh, more extensive funds available.

Due to scheduled loan repayments, receivables due from affiliated companies also decreased from €104.2 million to €80.0 million. Bank balances decreased sharply from €28.2 million to €12.7 million. Overall, current assets dropped 30.6% from €136.2 million to €94.6 million.

On the shareholders' equity and liabilities side, subscribed capital, the capital reserve and other retained earnings were more or less equal to the prior-year figures. The net income generated during the reporting period, €13.5 million, was recognized in the accumulated deficit, which therefore improved to €-77.6 million. Shareholders' equity therefore increased from €86.4 million as of 31 December 2014 to €99.9 million at the end of the reporting period. The equity ratio improved to 34.7% (31 December 2014: 27.9%).

Provisions for pension obligations decreased slightly. There was a somewhat more significant decline in other provisions. This effect was offset by higher tax provisions, with the total Provisions item remaining close to the prior-year level (31 December 2015: €10.2 million; 31 December 2014: €10.6 million).

By contrast, liabilities dropped by a significant amount (16.6%) to €177.7 million (31 December 2014: €213.0 million), mainly due to lower liabilities to banks totaling €133.6 million (previous year: €165.8 million) and lower liabilities to affiliated companies (€40.5 million; previous year: €43.7 million).

Other Statutory Disclosures

Disclosures in Accordance with Article 289, Paragraph 4 and Article 315, Paragraph 4 of the German Commercial Code (HGB)

Item 1: Composition of Subscribed Capital

As of 31 December 2015, H&R AG's subscribed capital (share capital) totaled €91,572,769.63. It is divided into 35,820,154 no-par bearer shares. This corresponds to a notional value of €2.56 per share. There are no different classes of shares; they are all ordinary shares. Each of these shares entitles the holder to one vote.

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

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

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

According to the notification from Mr Nils Hansen dated 26 September 2014, his share of voting rights was 41.89% on 25 September 2014 and therefore was below the 50% threshold on that date. These shares were held by H&R Beteiligung GmbH and are attributable to Mr Nils Hansen via H&R Holding GmbH, Hamburg, Germany. According to an informal announcement on 11 December 2014, H&R Beteiligung GmbH's stake rose by another 1.11%.

According to another notification from Mr Nils Hansen dated 26 September 2014, his share of voting rights, held by H&R Internationale Beteiligung GmbH and likewise attributable to Mr Nils Hansen, exceeded the 15% threshold on 25 September 2014 and amounted to 16.32% on that date.

According to an informal notification, the equity interest attributable to Mr Hansen came to 60.55% on 31 December 2015. Of the total, 1.23% is attributable to Mr Hansen as privately held voting rights.

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

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

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

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

Item 6: Statutory Regulations and Provisions of the Articles of Association on the Appointment and Dismissal of Executive Board Members and Amendments to the Articles of Association

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

Item 7: Powers of the Executive Board, Particularly Regarding the Issuance or Buyback of Shares

The Executive Board has various options for implementing corporate actions. Pursuant to Article 4, paragraph 4 of the Articles of Association, the Executive Board is authorized – with the Supervisory Board's approval – to increase the company's share capital by 12 May 2019 by a maximum of €22,364,796.53 by issuing up to 8,748,348 ordinary no-par bearer shares. The issue may be effected in one or more tranches in return for cash and/or contributions-in-kind (2014 Approved Capital). In principle, the shareholders have a subscription right. The new shares may also be acquired by one or more banks with the obligation to offer them for subscription to shareholders.

Subject to the approval of the Supervisory Board, the Executive Board is entitled to suspend shareholders' subscription rights on one or more occasions,

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

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

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

d) to the extent that the new shares are issued in exchange for contributions-in-kind, especially in the form of companies, parts of companies, interests in companies or receivables.

The maximum amount defined in Article 4, paragraph 4c of the Articles of Association is to be reduced by the proportion of share capital attributable to new or previously acquired treasury shares that have been issued or sold since 13 May 2014 on the basis of a simplified exclusion of subscription rights in accordance or by analogy with Article 186, paragraph 3, sentence 4 AktG, and by the proportion of share capital attributable to shares that can be acquired through option or conversion rights and/or obligations that have been issued since 13 May 2014 by analogous application of Article 186, paragraph 3, sentence 4 AktG. Any reduction is reversed to the extent that authorizations to issue convertible bonds and/or bonds with warrants in accordance with Article 221, paragraph 4, sentence 2 and Article 186, paragraph 3, sentence 4 AktG or to sell treasury shares in accordance with Article 71, paragraph no. 8 and Article 186, paragraph 3, sentence 4 AktG or to issue new shares in accordance or by analogy with Article 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.

The Executive Board is authorized, with the approval of the Supervisory Board, to specify the further details about the capital increase, in particular details regarding the rights accruing to the shares and the terms of issue. The Supervisory Board is authorized, once the increase in share capital has been fully or partially completed, to revise Article 4 of the Articles of Association based on the utilization of the approved capital from time to time and once the authorization period has expired.

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

Shareholders' subscription rights are precluded in this case.

The Supervisory Board is authorized to revise Article 4, paragraph 5 of the Articles of Association once the share capital increase has been fully or partially completed or the authorization period has expired.

The Executive Board last exercised these powers in financial year 2014 in its 17 September 2014 decision – approved by the Supervisory Board – to carry out an increase in contributions-in-kind from the approved capital, while barring existing shareholders' subscription rights. In the process, the Hansen & Rosenthal Group, Hamburg, contributed 51% of its China businesses, which were combined into H&R China Holding GmbH, Hamburg, to H&R AG as a contribution-in-kind in exchange for the issuance of new shares. H&R AG undertook to grant 5,847,042 new shares as consideration for the equity interest it was to receive in the Hansen & Rosenthal Group. This capital increase in the form of a contribution-in-kind was recorded in the Commercial Register on 25 September 2014. The increase in contributions-in-kind from the approved capital increased the company's share capital by €14,947,725.52 to €91,572,769.63, in part by utilizing the approved capital by issuing 5,847,042 new no-par bearer shares.

In addition, the resolution passed by the Annual Shareholders' Meeting on 27 May 2010 authorized the company to acquire treasury shares in the period until 26 May 2015 of up to 10% of existing share capital at the time the resolution was passed.

This authorization expired without being utilized.

Finally, the Annual Shareholders' Meeting passed a resolution on a contingent increase in the company's share capital of up to €7,500,000.00 in the period until 12 May 2019 through the issuance of up to 2,933,745 no-par bearer shares with dividend rights from the beginning of the financial year in which they are issued. The contingent capital is intended to grant shares to satisfy subscription and/or conversion rights and/or obligations of holders of warrant-linked and/or convertible bonds that are issued by the company or a Group company in accordance with the authorization by the company's Annual General Meeting on 13 May 2014.

The Executive Board is authorized, with the approval of the Supervisory Board, to determine the further details for implementing the contingent capital increase (2014 Contingent Capital). The Supervisory Board is authorized to amend Article 4, paragraphs 1 and 6 of the Articles of Incorporation 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 borrower's note loans have the right to call in the loans in the event of a change of control.

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

No such arrangements exist at this time.

Subordinate Status Report (Related-Party Transactions)

Since late 2010, the percentage of voting rights attributable to Mr Nils Hansen has exceeded 50%. Mr Nils Hansen also had a voting majority in prior years. As a result, we produce a subordinate status report each year in accordance with Article 312 AktG.

In the report for the 2015 financial year, our 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 1 January 2015 to 31 December 2015, 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."

Events after the Balance Sheet Date

Between 31 December 2015 and the editorial deadline for this Report, there were no events with a material impact on the net assets, financial position or results of operations.

Forecast, Risks and Opportunities Report

Forecast Report

Orientation of the Group in Financial Year 2016

Statements concerning short-term company trends from 1 January to 31 December of financial year 2016 assume that, based on our current knowledge, there will be no fundamental legal or organizational changes in the structure of the Group.

The main challenge facing our company is how to deal with the trade-off between raw-material prices and market conditions. H&R AG is positioned so that it can actively take advantage of its flexibility at three different levels of the value chain: as a refinery operator and producer, in further processing and in distribution. If, in addition to our in-house expertise, we also need external capacity, we can enlist a network of tried and tested partnerships. Every one of our Group subsidiaries fits into this simple matrix.

At the same time, we need to take goal-oriented, individually tailored steps to achieve our 2016 targets.

In 2016, we will prepare our Chemical-Pharmaceutical Refining business – which as one of our core competencies was the main driver of total revenue growth and earnings during the reporting period – to tackle future challenges through extensive modernization and expansion efforts. Above all, this applies to the efficiency and degree of vertical integration at our refineries. Here, we have instituted measures designed to more clearly highlight the market-driven influences on our business that are only partly within our control while at the same time increasing the level of certainty for medium-term corporate planning. This should minimize the adverse effect of these volatile factors on our earnings accordingly. For the Salzbergen site, this means continuing the contract-production model implemented in 2013, which adds stability and planning predictability to our forecasts for sales revenues and earnings.

In our view, the Hamburg refinery's performance is by far the strongest lever we have for optimizing our results. The important groundwork has already been done in previous years, in terms of optimizing management of raw materials in order to be able to react on short notice and with flexibility to trends in the raw-material and sales markets and to be able to purchase and use raw materials on a just-in-time basis. In 2016, we will again redouble our efforts to find solutions for the ideal selection and use of raw materials and to expand our expertise in order to improve this cost item.

If the mere selection of certain raw materials is capable of increasing the output ratio of primary to co-products or by-products, the marketing of the remaining by-products is particularly important. Financial year 2015 demonstrated that for some of these products which in the past had no contribution margin, or only a small contribution margin, some products were in greater demand and eventually their margins also recovered. In the past, only limited – and in some cases, only seasonal – applications existed for these products. In 2015, we experienced a turnaround which we expect to see accelerate again in the coming years. For example, our bitumen is no longer just the raw material for asphalt; in the future, it will also be used as the input for new coker facilities at other refineries.

In the Chemical-Pharmaceutical Sales segment, our strategy of forming production partnerships to supplement our own production sites has proven to be successful. In financial year 2016, our international business has a firmly established position in global markets and will support H&R AG's overall performance as a stable driver of sales revenues and earnings.

For the Plastics segment, the goal is to reduce dependence on the automotive industry by expanding activities in the fields of medical, electrical, measurement and control technology and to operate the business profitably over the next few years with customary market returns.

Moreover, all areas of the organization are being asked to examine their own positions and to contribute to a financially quantifiable optimization of all processes wherever possible and necessary.

Future Sales Markets

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

Outside of Europe, we are quite clearly focusing on Asia. Despite macroeconomic data that are subdued compared to previous years, China continues to be more than just an important supply hub for our companies' activities in the region. We continue to regard the country as a growth market for our specialty products and are focusing primarily on producing and marketing wax products and label-free plasticizers for the tire industry. In our view, the significance of this market will increase with the relocation of many tire manufacturers from Europe to China.

Throughout the entire region of East Asia, we want to participate in the growth projected for these emerging markets, both by accelerating the expansion of our existing sales activities and by forming new production partnerships.

Future Use of New Technologies and Processes

Constantly improving processes to increase efficiency and raise product quality is a core element of our corporate strategy. By operating new equipment at our facilities, we increase the value added by our domestic refineries. This enables us to convert products previously not capable of being refined into high-grade crude-oil-based specialty products and to minimize the amount of waste residue left over by the production process. At the same time, we are planning to increase our hydrogenation capacity at both domestic sites.

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

Future Products and Services

In the future, we will continue to pursue our successful strategy of developing innovative products that are closely aligned with our customers' needs. In the Chemical-Pharmaceutical Division, our sales partner, Hansen & Rosenthal KG, serves as an interface between our customers and our R&D departments. By constantly testing new product specifications, we aim to have our input materials contribute to further efficiency gains in our customers' production processes and further increase the quality of their products. Moreover, one of the focal points of our research and development activities is to ensure the continued diversification of our primary products while increasing their percentage share of the overall product mix. We are already developing the next generation of these products in order to maintain our technological lead in this field. Work is also under way to develop innovative processes for manufacturing white oils and other crude-oil-based specialty products. New sales and distribution strategies are intended to boost marketing of current by-products.

The Plastics Division enters this financial year in a stronger position. For example, GAUDLITZ GmbH was able to position itself with OEMs and customers in the automotive sector following successful development projects for lucrative new orders and series production orders. At the same time, we aim to expand the customer base in medical technology and industry; we hope to attract new customers through a performance-based reorganization of organizational and production processes from a sales/distribution and operating standpoint and to jointly tap into new markets with existing customers. In recent years, the company has managed to achieve double-digit growth rates in the profitable in-house development segment. We also plan to expand work in this area during the current financial year.

Comparison of Actual and Target Figures

The following table compares the actual values of the main or key control figures used by H&R AG for the past financial year (FY) with the original forecast and shows the outlook for financial year 2016:

T. 28 **COMPARISON OF ACTUAL VALUES WITH FORECAST**

Key Figure	Forecast FY 2015	Actual FY 2015	Outlook FY 2016
Group sales	€1,000 million to €1,100 million	€982.9 million	€900 million to €1,200 million
of which Refining	60%	€614.3 million (ca. 62%)	63%
of which Sales	34%	€320.2 million (ca. 32%)	32%
of which Plastics	6%	€60.1 million (ca. 6%)	5
Reconciliation with Group sales	n. a.	€-11.6 million	n. a.
Consolidated EBITDA	€45.0 million to €65.0 million	€86.0 million	~ €85.0 million
of which Refining	56%	€53.1 million (ca. 60%)	62%
of which Sales	42%	€35.1 million (ca. 40%)	34%
of which Plastics	2%	€-0.8 million (ca. 0%)	2%
Reconciliation with consolidated EBITDA	n. a.	€-1.4 million	n. a.

For the main indicator, sales revenues or sales revenues by segment, the company failed to reach the 2015 target because of the decline in raw-material costs, which are the primary driver of sales revenues. However, the percentage breakdown of sales revenues for the individual segments was largely in line with the assumptions made at the beginning of 2015. We expect sales to generally increase in 2016 and we assume that the ChemPharm segment, in particular, will experience a significant increase in sales volumes. At the same time, our range of expected sales takes into accouunt the potentially lower costs of raw materials and their an impact on sales at our refinery sites, which are are sensitive to such costs.

The target set for operating income (EBITDA) was significantly exceeded. We have again raised our targets for 2016. Here, the higher earnings forecast primarily reflects potential at the Hamburg refinery. However, we also expect our Chinese businesses and the Plastics Division to contribute more to earnings.

Economic Environment in the Next Financial Year

Future Macroeconomic Situation

Lately, the prospects for global economic growth have repeatedly been rated as moderate. Nevertheless, according to a forecast by the Kiel Institute for the World Economy (IfW), global gross domestic product will grow by 3.4% in 2016, i.e., noticeably more than during the reporting period (2015: 3.1%). Experts expect economic output in the Eurozone to increase by 1.7% (2015: 1.5%).

With GDP expected to grow 2.2% in 2016, Germany should, in the opinion of the IfW, again be able to overtake the other countries in the Eurozone.

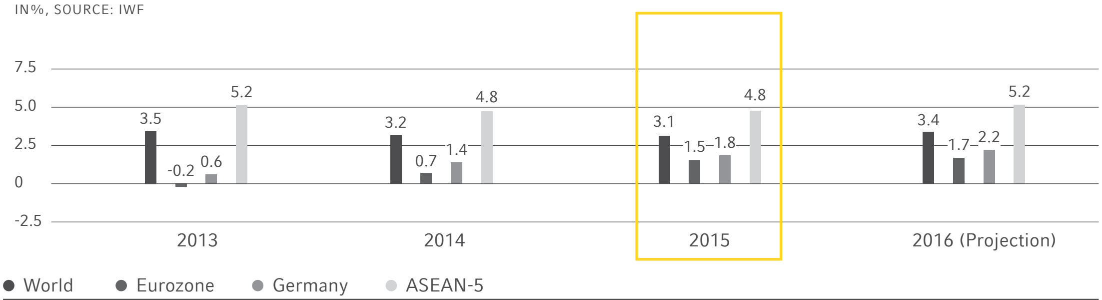
Experts from the OECD are again forecasting higher economic growth rates in the ASEAN-5 countries – which are of great importance to H&R AG – in 2016, following a slowdown in economic growth to 4.6% during the past year. For this economic zone, comprising Indonesia, Malaysia, the Philippines, Thailand and Vietnam, average GDP is expected to grow by 5.2% in 2016. For Thailand, an important site for H&R AG, experts forecast a lower, but still very positive, growth rate of 3.1%.

Our budget for financial year 2016 is based on a USD-EUR exchange rate which we have set at 1.10, in line with the current rate in effect at the beginning of 2016. For crude-oil prices, we also rely largely on the estimates published by the economics departments of major banks. For the budget year 2016, we assumed a price per barrel of North Sea Brent that, as of the planning date, is once again increasing slightly compared to the end of 2015.

i For further information see the glossary on page 164 f.

G. 13 **GLOBAL ECONOMIC GROWTH FORECAST**

IN %, SOURCE: IWF



Future State of the Sector

The German Chemical Industry Association (Verband der Chemischen Industrie/(VCI)) is cautiously optimistic about the future and expects total production to exceed that of 2015 by 1.5%. Companies in the industry also expect sales revenues to improve accordingly and are expecting an increase of around 1.5%. The Association has a slightly more optimistic view of price trends for chemical products. The Association believes that, having decreased sharply in 2015, prices have stopped falling for the time being; however, it currently foresees no signs of any increase.

Clearly, there is still a shortage of Group 1 production capacity for specialty products in the chemical-pharmaceutical industry. For 2014 and 2015 alone, the trade magazine “Lubes’n Greases” list of Group 1 refinery capacity in Western Europe indicates a decrease of more than 10% to the current level of 102,000 barrels/day. Similar shortages of capacity have also been recorded in previous years. Customers of refineries that closed in 2015 – mainly in the Netherlands and France – turned to the remaining providers at other sites to cover their demand, particularly at year-end. We expect this trend to continue.

Over the next few years, we expect the highly fragmented plastics industry to consolidate through mergers and takeovers. Especially in the battle over the automotive industry – a major customer – only those companies capable of manufacturing high-quality products dependably and efficiently will prevail. The medical devices industry is another sector that is gaining in importance as a customer thanks to technological progress and demographic developments.

Expected Results of Operations by Segment

Projected Revenue Trends

Our revenue is significantly affected by the cost of raw materials for our Chemical-Pharmaceutical Division, which we pass on to our customers through our product prices. The price of our most important raw material, long residue, is closely correlated with the price of crude oil. If our planning assumptions for crude-oil prices and the USD-EUR exchange rate prove correct, we anticipate that prices for raw materials and products will remain constant overall.

Our 2016 forecast of sales revenues depends on the estimates of the economics departments of the big banks, which reveal a slight increase in the price of crude oil as a factor influencing turnover, compared to 2015; along with expected higher volumes in the refining segment as a further factor likely to stimulate our sales. We believe there is also further potential in the Sales segment. Overall, we expect 2016 consolidated sales revenues to be significantly higher than the prior-year level. The ChemPharm Refining segment will contribute approximately 63% of revenues. In pure mathematical terms, the Sales business will contribute around 32%, i.e., less than in the previous year. The Plastics Division will contribute around 5%.

Expected Earnings Trends

In terms of demand and volumes of primary products sold Group-wide, results for the past financial year were uneven, but successful overall. Accordingly, operating income was strong, totaling €86.0 million by year-end, i.e., significantly above the prior-year figure and the projections published at the beginning of the year.

First and foremost, therefore, the foundation for comparably positive earnings in 2016 has already been laid; at the same time, we have once again raised the bar in terms of what we expect from ourselves.

In order to continue 2015's earnings trend in 2016, we believe the most important thing we can do is to continue with substantial improvements to the Hamburg refinery site. All the raw materials to be processed are delivered there and considerable quantities are processed.

Our added value and our margins are already significantly affected by the quality of the raw materials we use as inputs at our plants. Their composition has a direct impact on the output and, therefore, on the ratio of lucrative primary products to lower-margin by-products. We deliberately control the procurement of raw materials with this in mind: more effective raw materials that yield a higher percentage of primary products need to be identified and used in a more targeted manner. At the same time, we are redoubling our efforts to sell and distribute by-products and intend to increase sales of these products. All in all, we expect to significantly improve the overall margin for the Hamburg refinery.

To accomplish this, we are focusing on continuing to optimize our refinery and production processes, which will result in cost savings.

In the Sales segment, by focusing heavily on the high-margin international business, we expect stable, positive EBITDA contributions at the same level as last year. As in 2015, we expect the trend in sales revenues and earnings from our international subsidiaries – especially in Asia – to be mixed, but to meet our expectations overall.

In conclusion, we expect 2016 consolidated operating income (EBITDA) to mirror the prior-year level. The earnings contribution from our ChemPharm Refining segment will make up approximately 62% of this amount. The international business will account for approximately 34%. The Plastics Division should contribute around 2% to the Group's operating income (EBITDA).

Expected Trends in the Main Income Statement Items

No structural changes to the income statement are expected for 2016.

Expected Financial Position by Segment

Planned Financing Activities

We are not currently planning to raise any additional equity capital. However, the Annual Shareholders' Meeting of H&R AG has empowered the company to increase the share capital in exchange for cash or contributions-in-kind, so that corporate actions would also be a possibility when reviewing strategic options or other plans that exceed the scope of normal investments.

H&R AG has entered into various loan agreements and borrower's note loans with banks. In 2015, we reduced our financing via borrower's note loans from €116.0 million to €36.0 million and refinanced with cash and through a widely syndicated loan in the amount of €240 million initially maturing in August 2018. This offers us additional flexibility in terms of utilization. The maximum drawdown under this loan changes in line with working-capital requirements (borrowing-base mechanism). In this way, we have ensured that our short-term financing needs for 2016 and the coming years are covered. Environmental loans from KfW form another important pillar of our financing; at year-end, a total amount of €69.1 million was outstanding. Because of the positive environmental aspects of projects at our refineries, these will continue to be available as an important option for our long-term financing.

Various financial covenants have been agreed for the borrower's note loans and the syndicated loan.

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. The activities described there will make a major contribution to reducing our financing requirements.

For further information see page 62

Expected Liquidity Trend

In light of the financing adjustment implemented in 2015, we do not see a need for further structural changes in the current financial year. Thanks to the available credit lines under our syndicated loan, we have sustainable access to sufficient liquidity until 2018, even in the event of higher crude-oil prices and the associated increase in working-capital requirements. Stable liquidity is also supported by our expectation of strong results from operations compared with 2015.

Planned Investments

After several years of moderate capital expenditures, we are planning to significantly increase our investments in maintenance, modernization and added value at our facilities during the current financial year. Around 81% of total capital expenditures will be in the ChemPharm Refining segment.

Around 14.5% of the expenditures will be in the Sales segment and approximately 4.5% will go towards investments in the Plastics segment and on other items. Together with other measures intended to increase the efficiency and cost-effectiveness of our production processes, our capital expenditures will exceed our ordinary depreciation and amortization charges.

Overall Statement by the Executive Board on the Future Business Trend in 2016

Following financial years 2012 to 2014, which brought the company less financial success but were so important to laying the groundwork for sustainable, positive business development, H&R AG created a stable basis for its future in 2015.

Pressing ahead with international expansion will be an important factor in its success. H&R AG has a global presence and its position is particularly strong in areas where economic experts expect to see good growth opportunities in the future. We will increase stability by focusing on operating highly specialized refineries whose yields of high-value, and, above all in-demand products make them superior to conventional lubricant refineries. The results of 2015 demonstrate that even in a shrinking market, our products will allow us to become a more significant player. We will retain this position by investing more in maintenance and capacity expansion at our sites in 2016 and the coming years than in previous years in order to ensure that they are future-proof.

Our overall expectations for 2016 are, if our planned outcomes prove to be true, that our sales revenues will considerably improve. The planned increase will come mainly from the Chemical-Pharmaceutical Raw Materials Division. In the refinery business, we expect a similarly good price and margin trend with continuing low procurement prices for raw materials, as in 2015; as a result, we also expect positive momentum for the earnings trend to increase accordingly. In absolute terms, the Sales segment's international business will contribute higher revenues. If margins remain at the same level as in previous years, we also expect higher earnings contributions from this segment, too.

Risk Report

Risk Policy

H&R AG'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 generally identified and communicated by the managing directors of the respective local operating units. As far as possible, risks are eliminated or otherwise addressed at a local level.

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

Risk Management System

The risks to which H&R AG and its subsidiaries are exposed are identified, assessed, communicated and limited, as appropriate, 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 identification of risks is considered to be the responsibility of all employees. It is encouraged by a flat organizational chart and a culture that encourages open discussion of potential risks, with local managing directors leading by example.

H&R AG uses the COSO (Committee of Sponsoring Organizations of the Treadway Commission) model to assess risks; this method is one of the standards for internal controls 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 by means of a questionnaire, an inventory list, a data collection form and a current calculation document. Risks are classified according to certain criteria. They are then measured using an approach in which the nominal extent of a potential risk is multiplied by the probability of its occurrence. All risks measured for an individual company are entered in the "risk inventory" and reported quarterly to the Risk Control department of the parent company, H&R AG. 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. 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, 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 revenue and earnings figures with the relevant target figures. The Risk Control department analyzes any variances between target and actual figures. These analyses enable the Executive Board to identify undesirable trends at an early stage so that the necessary countermeasures can be implemented immediately.

The regular divisional meetings attended by local managing directors and the Executive Board are another tool used for early risk-detection. The interface thus created between the operating and administrative levels ensures that operational risks are captured by and reflected in the accounting process (e.g., in the form of provisions) and communicated internally.

At Supervisory Board meetings, changes in the risk inventory and the risk strategy are dealt with on a regular basis as part of the risk-management-reporting process. If the risk situation changes significantly, the Supervisory Board is also 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 a regular basis as part of the audit of the financial statements. The results of these audits are taken into consideration in the ongoing refinement of our risk management system.

Description of the Main Features of the Internal Control and Risk Management System with Regard to the Group Accounting Process (Article 289, Paragraph 5 and Article 315, Paragraph 2, no. 5 of the German Commercial Code/HGB)

H&R AG'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 the application of existing regulations at the level of the individual companies. Consolidated financial statements are prepared and drawn up by Group Accounting at H&R AG. The employees of this department also serve as contact persons to answer questions on accounting matters from the subsidiaries.

To minimize the risk of incorrect accounting even in complex circumstances, H&R AG employees involved in the accounting process undergo continuous and extensive training. The relevant departments have the appropriate manpower, 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, processes and measures which ensure that the accounting is effective, economical and correct and complies with the relevant legal requirements.

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 include both manual controls, such as the dual-review principle, and automated IT controls.

The Audit Committee of H&R AG'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 Article 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 systems.

Extensive access regulations for the relevant IT systems and a strict dual-review policy in the Accounting Departments – both at the individual companies and at the Group level – 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 rules. 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 AG has very strict rules governing the use of derivative financial instruments. We only use standard market instruments from selected banks with good ratings. As a rule, the transactions are carried out by the Group Treasury department after approval by the Executive Board and are 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). Derivative financial instruments are not used for speculative purposes. The contracts currently in place serve mainly to hedge interest-rate and currency risks.

Individual Risks

Throughout the Group, we have standardized the classification of all our relevant risks. A risk is classified as low, medium or high based on the parameters "Probability of Occurrence" and "Potential Financial Impact". The resulting risk classification matrix is shown in the following table:

T. 29 **POTENTIAL FINANCIAL IMPACT***

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

*Moderate: Some negative effects on business activity, financial position, results of operations and cash flows if EBITDA falls below €30.0 million in 2016;

Significant: Substantial negative effects on business activity, financial position, results of operations and cash flows if EBITDA falls below €30.0 million over the next two years;

Existential Threat: Considerable negative effects on, e.g., business activity, financial position, results of operations and cash flows owing to which the continued existence of the enterprise would be jeopardized, e.g., with an EBITDA permanently below €30.0 million.

** 1-33%: Unlikely; 34–66%: Possible; 67–99%: Likely

● Low risk ● Medium risk ● High risk

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

T. 30 **CORPORATE RISKS**

	Likelihood of Occurrence	Possible Financial Impact	Risk Situation Compared to Previous Year
Macroeconomic and Industry Risks			
Fluctuations in demand and margins	Possible	Significant	Unchanged
Raw material supply risks	Unlikely	Significant	Unchanged
Risks from the development of substitute products and general competition	Likely	Moderate	Unchanged
Changes in the tax and legal environment	Possible	Moderate	Unchanged
Operating and corporate strategy risks			
Production risks	Unlikely	Significant	Unchanged
Investment risks	Unlikely	Significant	
Risks associated with contractual relationship with Hansen & Rosenthal Group	Unlikely	Significant	Unchanged
Product-liability risks	Unlikely	Moderate	Unchanged
Information-technology risks	Unlikely	Significant	Unchanged
Personnel risks	Unlikely	Moderate	Unchanged
Financial risks			
Liquidity risks	Unlikely	Significant	Unchanged
Risks from the breach of covenants	Possible	Significant	Unchanged
Risks from future refinancing requirements	Unlikely	Significant	Lower
Exchange-rate risks	Possible	Moderate	Unchanged
Interest-rate risks	Possible	Moderate	Lower
Risks from defaulting customers and banks	Unlikely	Moderate	Unchanged
Other risks			
Risks relating to the remediation costs for land in Haltern am See	Possible	Moderate	Lower

Unless stipulated otherwise below, the description of risks applies equally to the H&R Group and to H&R AG. This reflects the fact that, while certain risks may originate with the subsidiaries and not with H&R AG, H&R AG 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.

By contrast, in its capacity as the parent company, H&R AG holds equity investments in Group companies as its own original risk. The carrying amounts of these investments are subject to the risk of an impairment loss in the event of negative changes in the economic situation of these Group companies. This may have a negative impact on H&R AG's net income.

Macroeconomic and Industry Risks

Demand and Margin Fluctuations (Risk Class: High) External influences can cause demand for our chemical-pharmaceutical specialty products and high-precision plastic parts to decline. These external factors may include periods of economic weakness, temporary price dumping by existing competitors or the emergence of new suppliers in relevant markets.

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

In the Plastics Division, there is a risk of excessive dependence on direct suppliers to the automotive industry and/or individual customers, for example because automobile manufacturers' declining sales also affect H&R AG's business indirectly. Accordingly, we make every effort to diversify into new customer areas. Expanding our activities beyond Europe also furthers our global presence and makes us less dependent on developments in the domestic economy.

Closely correlated with the risk of weak demand is the risk of low product margins. As the fixed costs of the complex plants in the chemical industry are relatively high, lower margins are often tolerated at times of weaker demand in order to maintain capacity-utilization rates. We counter this risk with the targeted expansion of the percentage of our business that generates crude-oil-based specialty products that are less price sensitive.

As a rule, fluctuating raw-material prices and low prices for base oils also result in product-margin volatility. Base oil is a by-product of our joint production process and is used to make motor oils, among other things. If commodity prices are high and base-oil prices are simultaneously low, this will affect margins accordingly. Even with moderate raw-material prices, the effects can have a significant impact. The conversion of the Salzbergen Refinery to contract production in 2013 has significantly reduced the risk of these effects overall.

At the same time, for financial year 2015 as a whole, H&R AG benefited from a favorable trend: the difference between the purchase price of raw materials and the selling price of base oil. The company was also able to take advantage of the opportunities the positive trend in primary and by-product prices offered in the form of better margins.

Moreover, because of the fact that the production process in the ChemPharm Refining segment takes several weeks, the sharp decline in crude-oil prices seen in 2014 may lead to a relative increase in material costs (i.e., an increase in the percentage of the product price accounted for by material costs), to lower margins and, in some cases, even to significant losses (so-called “windfall losses”) at H&R AG. The reason for this is that, on the date of their acquisition, the market prices for petroleum-based inputs are considerably higher than the market prices on the date when the primary products manufactured from such inputs are sold. This leads to a substantial increase in the relative material-use ratio for H&R AG, because production planning is based on a stable crude-oil price for the duration of the production run and it is not economical to hedge fluctuations in commodity prices over that period.

Although the “windfall losses” were offset by positive effects in 2015, the company rates this risk as “High” based on the possibility it will occur and the significant impact it can have.

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

Risks Related to Raw Materials Procurement (Risk Class: Medium) At our specialty refineries in Hamburg and Salzbergen, the main raw material is a residue left over when fuels are produced from crude oil. To minimize the risk of supply shortages, we purchase this so-called long residue from different sources. To this end, we sign annual volume agreements with several well-known oil companies in different parts of the world. We purchase another portion on the spot market in order to diversify our sources even further.

In the international Chemical-Pharmaceutical Division and the Plastics Division, our strategy for avoiding raw-material supply shortages is based on always having several suppliers for important raw materials.

Risks from the Development of Substitute Products and General Competition (Risk Class: Medium) One risk applicable to both divisions is the development of substitutes or alternative production methods for our products. Furthermore, for the Chemical-Pharmaceutical segments, there is a risk that customers may develop manufacturing processes which rely to a lesser extent or not at all on crude-oil-based specialty products as feedstock. We address these risks through intensive research and development activities in all the Group’s operating divisions. This approach makes us the leading innovator in some product groups. The high degree of diversification in our product portfolio also reduces the effects individual substitutes would have on Group earnings. Moreover, there are a number of limitations in terms of quality, performance, compatibility with established manufacturing processes, availability, environmental impact and price for potential chemical and renewable raw-material substitutes.

In addition to substitution risk, there is also the possibility, over the lifecycle of a given product, that competitors will develop and bring to market products of their own which are identical to our specialty products. This would expose us to greater competitive pressure.

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

Changes in the Tax and Legal Environment (Risk Class: Medium) As a refinery operator, we are subject to strict regulations governing emissions of CO_2, particulates and noise, as well as water pollution. A potential tightening of these regulations entails the risk of financial costs resulting from the need to make new investments to modernize our plants. We limit these risks by anticipating the introduction of stricter rules, by going beyond the requirements of many current environmental protection standards and by trying to use these aspects for marketing purposes as well. This means that most investments in environmental protection simultaneously increase our profitability. For example, modern tank insulation at our refineries not only reduces our CO_2 emissions, but also cuts our energy costs significantly.

Despite extensive investments to improve energy efficiency, however, operating our refineries continues to be energy intensive. The trend towards lower energy tax subsidies for the manufacturing industry in Germany therefore creates a further risk of competitive disadvantages.

Operating and Corporate Strategy Risks

Technical Production Risks (Risk Class: Medium) The subsidiaries of H&R AG produce crude-oil-based specialty products and high-precision plastic parts. Operating the plants that produce such products entails both operating risks and accident risks. Technical disruptions, flooding, fires or explosions 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 many production risks at an early stage and to adopt suitable countermeasures. We also invest regularly in environmental protection and safety measures at our refineries. The certification of our production sites in accordance with strict ISO standards contributes significantly to ensuring that production processes are safe. If an accident occurs despite these precautions, the financial losses are largely covered by insurance, provided that the risk is insurable and such coverage makes sense from a financial and economic standpoint.

Risks Associated with the Sales/Distribution Relationship with the Hansen & Rosenthal Group (Risk Class: High) Sales of the ChemPharm Refining segment's products are handled almost exclusively by companies belonging to the Hansen & Rosenthal Group, which acts as sales/distribution partner under long-term contracts, reflecting many years of business ties; the Group is also the most significant customer of H&R AG.

If this contractual relationship comes to an end and the Hansen & Rosenthal Group is no longer available as sales/distribution partner, this would have a considerable negative impact on H&R AG's net assets, results of operations and financial position. 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. H&R AG would then have to come up with new funds to finance the refinery business at both locations.

H&R AG estimates the impact of such a risk, if it should occur, as "High"; however, it rates the probability that such a risk will materialize as "Unlikely": H&R AG is part of the Hansen & Rosenthal Group, the main shareholder and Managing Director of which is also H&R AG's majority shareholder.

The interdependencies are not one-sided only; to the contrary, H&R AG is the current sales/distribution partner's biggest supplier. Consequently, a long-term continuation of the sales/distribution relationship is in the interest of both parties.

Investment Risks (Risk Class: Medium) In the years ahead, we intend to keep investing in measures to maintain the value of our existing production sites. In principle, investment projects may entail cost overruns and delays in construction. To mitigate these risks, we deploy project teams with in-depth knowledge of our plants who will therefore professionally coordinate and strictly monitor such value-maintenance measures. In addition, these measures always take place at plants whose technology has already been tried and tested in practice and for which the financial costs can be estimated with above-average certainty.

Product-Liability Risks (Risk Class: Low) Our crude-oil-based specialty products and plastic parts are incorporated directly into our customers' products. Incorrect specifications for our products may result in damages to our customers and give rise to warranty claims. For this reason, all the products in both our Chemical-Pharmaceutical Division and our Plastics Division are subject to intensive quality controls. If we are faced with liability claims despite this, we are largely covered by insurance.

IT Risks (Risk Class: Medium) The increasingly networked nature of our complex information-technology systems carries risks. Vital data can be falsified or deleted by unauthorized access from outside, operating errors or faulty programming.

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

Human-Resources Risks (Risk Class: Low) Qualified and committed employees play an important role in our success. In the chemical industry, there is a great deal of competition for highly qualified staff to operate plants and refine production processes. We limit the associated risk of employee turnover through a number of personnel-policy measures: a pleasant working atmosphere, targeted development opportunities for junior staff and practical training and continuing education for professionals all help to create an attractive working environment.

Our Research & Development department has a wide range of cooperation arrangements with various universities which help establish contact with high-potential candidates at an early stage. A flat organizational chart, good development opportunities and a performance-related remuneration system also make us an attractive employer for experienced professionals.

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

Financial Risks

Our subsidiaries receive the funds they use to execute business and production processes through H&R AG, which in turn ensures that such funds will be available. As a result, risks involving these financing instruments generally originate with H&R AG itself.

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 for our raw materials are subject to fluctuations. The prices for our finished products are similarly volatile.

In order to cover the net working capital (the sum of inventories and trade accounts receivable less trade accounts payable) required for our production activities, a large part of the line of credit under the syndicated loan we renegotiated in August 2015 has been earmarked as a risk cushion; at the end of 2015, €37.9 million had been utilized for cash loans, letters of credit and guarantees. The maximum possible utilization of €240 million is dependent on the level of net working capital (borrowing-base mechanism). Our Group Treasury department monitors our liquidity status on a daily basis to avoid any cash-flow difficulties. The banks in the lending consortium attach financial covenants to the credit lines relating to our equity and the ratio of our net debt to operating earnings (EBITDA). If any of these covenants are breached, the banks are entitled to call in the loan.

Financial Covenant Breach Risk (Risk Class: High) Compliance with the financial covenants will also be a crucial part of the financing agreements in 2016. If these covenants were to be breached, this could jeopardize the continued existence of the financing arrangements and therefore the Group's financial and economic situation. Because of the possibility of occurrence and the potentially significant financial consequences, this is – from an objective standpoint – fundamentally a "High-Risk" issue. Overall, though, we rate the risk situation as noncritical, not least because of our continued compliance with the covenants during the past two financial years.

Risks of Future Need to Refinance (Risk Class: Medium) H&R AG has entered into various loan agreements and borrower's note loans with banks. In 2015, major portions of H&R AG's financing were renegotiated and restructured; as a result, the short-term refinancing risk, in particular relating to the borrower's note loans and principal repayments of KfW loans due in November 2016, is limited.

However, there is no guarantee per se that it will be possible to refinance in the future under the same or more favorable terms and conditions.

In general, banks have shown a great deal of interest in a further loan commitment to H&R AG. Because the lending banks' risk would be manageable even if the company's financial and economic situation should deteriorate (raw material and product inventories that can be sold at short notice), we assume that we will succeed in concluding any follow-up financing agreements required in the future. However, if ultimately we were unable to refinance, the company would have to use a higher percentage of its cash and cash equivalents to repay these amounts. This could have a significant impact on business activities, as well as on the company's net assets, financial position and results of operations.

Risks from Defaulting Customers and Banks (Risk Class: Low) Our indirect risks from delays in payment and/or defaults on the part of our subsidiaries' customers are limited by the 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 further. Trade-credit insurance has also been taken out for a number of major customers.

The default risk for banks with which we have arranged credit lines, entered into hedging transactions or invested funds has increased since the onset of the financial crisis. We counter this risk by only entering into financial transactions with top-rated banks and by spreading larger transactions among several banks.

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

Some of the most important foreign currencies for us are the U.S. dollar, the Australian dollar, the pound sterling, the Thai baht, the Malaysian ringgit and the South African rand. For a sensitivity analysis of exchange-rate fluctuations between the U.S. dollar and the euro, our Group currency, please refer to the notes to the consolidated financial statements. Nonetheless, despite the strong growth in our international business, around 80% of our sales are still invoiced in euros. Overall, we weigh the costs for hedging all foreign currency risks against the financial effects of a potential loss event. So long as the probability of occurrence is below 50%, we will dispense with the corresponding hedge transactions.

For further information see page 107 ff.

The USD-EUR exchange rate also affects our raw-material costs, as we purchase our main raw materials – the crude-oil derivatives long residue and vacuum-gas oil – in U.S. dollars. An appreciation of the U.S. dollar against the euro therefore increases our raw-material expenses; however, we are generally able to pass most of this increase on to our customers.

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. To increase planning certainty for the net interest result, we take out fixed-interest loans and fix some variable-interest financial liabilities.

In order to secure long-term conditions for our Group financing, we first increased our fixed-interest KfW funding with a new loan in 2015. Second, we concluded into a new syndicated loan facility for €240 million maturing in August 2018, including renewal options. We used funds from the syndicated loan facility and cash funds totaling €80 million to cover early repayment of the borrower's note loans, which were primarily variable-interest loans. Currently, fixed-interest borrower's note loans totaling €36 million and maturing in November 2016 and November 2018 are still outstanding. An interest-rate swap was used to convert to fixed interest the variable interest on the €80 million loan maturing in November 2016 and the €40 million loan maturing in November 2018.

For the time being, we have not reversed the interest-rate swap following repayment of the borrower's note loans. The reasons behind this include the currently low interest rates in the Eurozone and existing variable euro interest-rate risks associated with the €30 million short-term drawdown under the syndicated loan facility. Because the nominal amount of the interest-rate swap, under which we pay fixed interest rates and receive variable interest rates, exceeds the variable interest position under the syndicated loan facility, there is currently a net interest-rate risk from decreasing interest rates in the Eurozone.

There is additional exposure to falling interest rates in the form of the locally generated surplus cash of foreign equity investments in the respective currencies. The risk of increased interest expense from rising interest rates currently exists for our Chinese equity investments due to short-term fixed-interest loans denominated in CNY and USD that will have to be refinanced when they mature in 2016.

There are also company retirement liabilities in the form of pension commitments. The actual amount of these commitments is based, on the one hand, on an actuarial forecast and, on the other hand, 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 AG's equity.

Other Risks

Risks Relating to the Remediation Costs for the Land in Haltern am See (Risk Class: Medium)
The site of our factory in Haltern am See was used by the German Empire and Third Reich, respectively, during the two World Wars for the production of armaments, contaminating the ground in a number of areas with compounds typical of explosives. The compounds have also been detected in the groundwater of the surrounding area. For this reason, the Recklinghausen district council issued an order in early 2010 prohibiting the extraction of ground water from domestic wells in the district of Haltern-Lembrake. Even though we did not cause the contamination, there is a risk of financial costs from further investigations or remediation measures. However, the provision of €1.1 million for this contingency means that the balance sheet adequately reflects these risks from today's perspective.

General Statement on the Risk Situation

Assessment of the Risk Situation by Company Management

Our risk-management system and the established planning and control systems are used to assess our overall 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 AG has not been evaluated by an independent rating agency. Our banking partners review the credit standing of H&R AG on an ongoing basis.

Report on Opportunities

Opportunities Management

At the H&R Group, the systematic management of opportunities is closely linked to the management of risks. We define opportunities as developments which could have a positive effect on our results of operations, financial position and net assets. Operating opportunities are identified and exploited in the various segments, because it is within the segments themselves that the greatest product and market knowledge is to be found. Managing strategic opportunities – such as acquisitions, joint ventures or major investments – is the responsibility of the Group's Executive Board. We use a variety of methods to make the best use of both operating and strategic opportunities. For example, we perform analyses of the market and our competitors that are as precise as possible. We develop scenarios for successful market entry, question the focus of our product portfolio, evaluate the cost drivers as well as the relevant success factors and from this information identify specific market opportunities that are then coordinated by the Executive Board in close collaboration with the local operations managers. At the same time, we try to identify future market trends in a targeted manner by holding discussions with customers. In the Chemical-Pharmaceutical segments, there is an active exchange of ideas on these issues between the production sites, our Research & Development department and our sales and distribution partner Hansen & Rosenthal, which 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 probability of occurrence.

Opportunities Arising from Macroeconomic Trends (Opportunity Class: Medium) The Chemical-Pharmaceutical segments could benefit from the gradual withdrawal of the big oil companies from the crude-oil-based specialty-products business. In Western Europe alone, Group 1 refineries' generating capacity has decreased over the past 18 to 24 months due to the shutdown and restructuring of major refinery sites. By contrast, H&R's refineries can continue to provide these products and the fact that a higher share of their capacity is devoted to specialty products than to lubricants may mean that they would have another advantage over the remaining Group 1 refineries. If the demand for crude-oil-based specialty products increases at the same time, our revenues and earnings could exceed current expectations.

Over the last few years, we have laid the foundation for profitable business in a number of emerging markets in East Asia. For 2016, economic researchers currently expect a level of momentum in the ASEAN-5 region that could result in 5.2% growth over the coming year (2015: 4.6%; Source: Kiel Institute for the World Economy/IfW). If these economies develop in line with the forecasts, this could have a positive impact on our company, our results of operations and our cash flows and could lead to better overall performance than expected.

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

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 towards replacing heavy metal parts with lighter plastic components to reduce vehicle weight.

Strategic Opportunities for the Company (Opportunity Class: High) In the Chemical-Pharmaceutical segments, we see considerable opportunities in extending the value chain even further and increasing production efficiency with innovative manufacturing processes. In addition, our Research & Development department is working on innovative products that, once they are ready for market, could create significant added value for our customers. If we make faster progress in our research and development, this could be accompanied by the market launch of newer, improved products. This could have a positive effect on our revenues and our earnings and enable H&R AG to exceed current expectations.

Internationally, we actively monitor market trends and align regional opportunities with our international expansion strategy. To do this, we can rely on our existing network of subsidiaries as important strategic bridgeheads that will enable us to quickly penetrate emerging markets in a carefully targeted manner. An example here is the trend in China. Important players in the tire industry have relocated their manufacturing operations to Asia, where they demand the same quality they previously required at their European sites. China, which is such an important sales market for the automotive industry, will follow this trend and will also ensure a high level of demand for high-quality tires that pose no risk to health. H&R AG possesses the know-how to manufacture such tire components and, thanks to the takeover of the Hansen & Rosenthal Group's Chinese businesses, it now also has the necessary local production capacity.

In the Chemical-Pharmaceutical Division, we are already taking advantage of joint-production agreements with local partners who enable us to develop new markets in a stable and successful manner. Our primary goal in expanding collaboration beyond the production area is to exploit synergies with our sales/distribution partners. Increasing the market penetration of our products could also have a positive effect on our business and lead to an improved earnings situation.

Basically, we should note that, thanks to our high degree of diversification both at the product and customer levels, overall demand for our products is stable. Opportunities also arise from the fact that many of our specialty products are being used simultaneously in several of our numerous customer industries. For example, our high-quality paraffins are used in the candle, building-material and food industries – sectors with very different economic cycles.

Economic Performance Opportunities (Opportunity Class: Medium) The refinery-operation business is very energy intensive. By investing in CO_2 reduction and lower energy consumption, H&R AG has already met important climate goals in the past, with the concomitant reductions in energy costs. At the same time, we availed ourselves of the legal opportunities for an exemption from the surcharge imposed by the Renewable Energy Act (Erneuerbare-Energien-Gesetz/EEG).

We can also benefit – in the form of higher margins – when the supply of our products becomes scarce, such as during shutdowns, closings or capacity reductions at our competitors' refineries. For the Western European Group 1 refineries alone, industry experts expect production capacity to drop by around one-fifth from this year's level over the next two years. Accordingly, not only will the number of suppliers for many of our products decline; because our refineries focus on high-value specialty products while lubricants account for a smaller percentage, these refineries should have a competitive edge over competitors that are more heavily weighted towards lubricants.

More intensive, targeted marketing of our by-products will also create opportunities. For example, we are currently producing bitumen, which is primarily used in road building, as a by-product at our propane-deasphalting plant. However, by building new process-engineering plants, so-called cokers, bitumen can also be used as a feedstock for producing diesel and low-sulfur heating oil. As of 2015, two such cokers have already been built in Europe; others are expected to follow in the USA and in Saudi Arabia. The more bitumen is used as a feedstock, the higher the demand may be for available high-quality bitumen for infrastructure projects.

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

Overall Statement on Opportunities

Assessment of Opportunities by Company Management

Although the absolute number of reported risks is higher than the number of specific opportunities identified, H&R AG assesses the distribution of risks and opportunities as balanced overall.

During the past year, in which the distribution ratio was similar, H&R AG was even able to significantly benefit from the existing opportunities. Among other things, this was attributable to the fact that total sales revenues and earnings are supported by a variety of different chemical-pharmaceutical specialty products sold to different industries. We view this, along with our global presence and our good market position, as the major drivers of opportunities in 2016. H&R AG will actively search for and develop additional opportunities.

Overall Statement on the Expected Development of the Group

The decline in sales revenues in 2015 once again showed that this parameter is not very meaningful: influenced only by lower raw-material costs, the lower sales figure was contradicted by strong demand – even in the traditionally weaker winter months – and higher sales volumes. H&R AG reported a similarly big increase in earnings.

The trend in demand and sales volumes continued at the beginning of 2016, laying the foundation for the company to successfully position itself in the market in 2016 as well.

According to experts in the regions and countries in which we operate, the economic data continue to be positive. At the same time, we are convinced that the markets will improve further, to our benefit. As the operator of specialty refineries, H&R AG has succeeded in significantly increasing the percentage of high-value products it produces compared to conventional lubricant refineries. And it is precisely these products that will be in noticeably short supply as a consequence of the elimination of major refinery capacity in Europe. As a result, by the end of 2015, we had already begun to notice a strong interest on the part of our customers in increasing delivery volumes.

In time-honored fashion, we are responding by taking steps to add further value while increasing efficiency. At the same time, we will invest more than we used to in our sites' capacity in order to satisfy the demands of the market.

H&R is stronger than ever. It is therefore with self-confidence, but also a dose of realism, that we are drawing up our forecasts for 2016 and setting as our target an operating income (EBITDA) figure at the same level as last year.

Consolidated Financial Statements

Consolidated Balance Sheet of H&R AG

as of 31 December 2015

ASSETS

€ THOUSAND	Notes	31/12/2015	31/12/2014
Current assets			
Cash and cash equivalents	(6)	79,274	101,558
Trade accounts receivable	(7)	98,838	105,598
Income tax claims	(33)	198	1,701
Inventories	(8)	93,996	134,202
Other financial assets	(9)	1,783	2,176
Other assets	(10)	7,876	8,630
Current assets		**281,965**	**353,865**
Non-current assets			
Property, plant and equipment	(11)	257,167	255,280
Goodwill	(12)	35,635	39,908
Other intangible assets	(12)	32,071	32,885
Shares in at–equity valued holdings	(13)	975	763
Other financial assets	(9)	5,471	5,382
Other assets	(10)	1,519	1,465
Deferred tax assets	(33)	13,956	17,069
Non-current assets		**346,794**	**352,752**
Total assets		**628,759**	**706,617**

EQUITY AND LIABILITIES

€ THOUSAND	Notes	31/12/2015	31/12/2014
Current liabilities			
Liabilities to banks	(14)	82,752	52,018
Trade accounts payable	(15)	53,343	112,415
Income tax liabilities	(33)	6,207	2,230
Other provisions	(16)	11,174	9,298
Other financial liabilities	(17)	9,820	12,813
Other liabilities	(18)	8,084	9,948
Current liabilities		**171,380**	**198,722**
Non-current liabilities			
Liabilities to banks	(14)	78,248	156,051
Pension provisions	(19)	75,487	82,566
Other provisions	(16)	4,159	4,270
Other financial liabilities	(17)	2,387	4,712
Other liabilities	(18)	1,506	79
Deferred tax liabilities	(33)	8,464	11,314
Non-current liabilities		**170,251**	**258,992**
Equity			
Subscribed capital	(20)	91,573	91,573
Capital reserves	(21)	42,753	43,329
Retained earnings	(22)	105,820	73,773
Other reserves	(23)	4,714	426
Equity of shareholders of H&R AG		**244,860**	**209,101**
Non-controlling interests	(24)	42,268	39,802
Total equity		**287,128**	**248,903**
Total equity and liabilities		**628,759**	**706,617**

Consolidated Income Statement of H&R AG

1 January 2015 to 31 December 2015

€ THOUSAND	Notes	2015	2014
Sales	(26)	982,907	1,058,622
Changes in inventories of finished goods and work in progress	(8)	-27,885	387
Other operating income	(27)	32,391	18,742
Cost of material	(28)	-709,390	-881,350
Personnel expenses	(29)	-79,861	-72,707
Depreciation, impairments and amortisation		-36,769	-25,639
Other operating expenses	(30)	-112,506	-92,350
Income from operations		**48,887**	**5,705**
Result of at-equity reported shareholdings	(13)	336	124
Financial income	(31)	2,680	664
Financial expenses	(32)	-17,137	-14,324
Earnings before taxes (EBT)		**34,766**	**-7,831**
Income taxes	(33)	-7,407	-7,777
Income after taxes		**27,359**	**-15,608**
of which attributable to non-controlling interests		-96	-206
of which attributable to H&R AG shareholders		**27,455**	**-15,402**
Earnings per share (undiluted), €	(34)	0.77	-0.49
Earnings per share (diluted), €	(34)	0.77	-0.49

Consolidated Statement of Comprehensive Income of H&R AG

1 January 2015 to 31 December 2015

€ THOUSAND	Notes	2015	2014
Income after taxes		**27,359**	**-15,608**
of which attributable to non-controlling interests		-96	-206
of which attributable to shareholders of H&R AG		27,455	-15,402
Positions that will not be reclassified into profit or loss			
Remeasurement of defined benefit pension plans		5,952	-18,732
Deferred income taxes		-1,360	5,074
Change in the amount included in equity (remeasurement of defined benefit pension plans)		**4,592**	**-13,658**
Positions that will subsequently possibly be reclassified into profit or loss			
Amount reclassified into profit and loss		2,797	950
Changes recognized outside profit and loss (cash flow hedges)	(37)	**2,797**	**950**
Changes in the fair value of financial assets available for sale		-1	82
Deferred income taxes		-69	52
Changes recognized outside profit and loss (financial assets available for sale)	(37)	**-70**	**134**
Changes of the balancing item due to currency translation		**4,139**	**9,010**
Total other comprehensive income		**11,458**	**-3,564**
of which attributable to non-controlling interests		2,578	852
of which attributable to shareholders of H&R AG		8,880	-4,416
Total comprehensive income		**38,817**	**-19,172**
of which attributable to non-controlling interests		2,482	646
of which attributable to shareholders of H&R AG		36,335	-19,818

Consolidated Statement of Changes in Shareholders' Equity of H&R AG

as of 31 December 2015

€ THOUSAND	Subscribed capital (20)	Capital reserves (21)	Retained earnings (22)
31/12/2013	**76,625**	**18,599**	**102,833**
Capital increase in H&R AG	14,948	24,730	–
Capital increase in affiliates	–	–	–
Changes in scope of consolidation	–	–	–
Dividend payments	–	–	–
Income after taxes	–	–	-15,402
Other comprehensive income	–	–	-13,658
Total comprehensive income	–	–	-29,060
31/12/2014	**91,573**	**43,329**	**73,773**
Capital increase	–	-576	–
Dividend payments	–	–	–
Disposal of non-controlling interests	–	–	–
Income after taxes	–	–	27,455
Other comprehensive income	–	–	4,592
Total comprehensive income	–	–	32,047
31/12/2015	**91,573**	**42,573**	**105,820**

Other reserves					
Market valuation of financial assets (23)	Cash flow hedges (23)	Foreign currency translation differences (23)	Equity share attributable to H&R AG shareholders	Non-controlling shares (24)	Total
131	**-3,747**	**-5,200**	**189,241**	**-79**	**189,162**
–	–	–	39,678	–	39,678
–	–	–	–	4,974	4,974
–	–	–	–	34,261	34,261
–	–	–	–	–	–
–	–	–	-15,402	-206	-15,608
134	950	8,158	-4,416	852	-3,564
134	950	8,158	-19,818	646	-19,172
265	**-2,797**	**2,958**	**209,101**	**39,802**	**248,903**
–	–	–	-576	–	-576
–	–	–	–	–	–
–	–	–	–	-16	-16
–	–	–	27,455	-96	27,359
-70	2,797	1,561	8,880	2,578	11,458
-70	2,797	1,561	36,335	2,482	38,817
195	**–**	**4,519**	**244,860**	**42,268**	**287,128**

Consolidated Cash Flow Statement of H&R AG

1 January 2015 to 31 December 2015

€ THOUSAND			2015	2014
1.		Income after taxes	27,359	-15,608
2.		Income taxes	7,407	7,777
3.		Net interest result	16,386	13,811
4.	+/-	Depreciation, impairment and amortization	36,769	25,639
5.	+/-	Changes in non-current provisions	-4,401	-2,489
6.	+	Interest received	751	512
7.	-	Interest paid	-11,548	-10,529
8.	+/-	Income taxes paid/received	-2,918	-7,090
9.	+/-	Other non-cash expenses and income	-5,488	-1,846
10.	+/-	Increase/decrease in current provisions	1,876	-1,825
11.	-/+	Result from the disposal of fixed assets	-3,280	-4
12.	-/+	Changes in net working capital	-7,275	2,196
13.	+/-	Changes in remaining net assets/other non-cash items	787	-10,908
14.	=	**Cash flow from operating activities (sum of 1. to 13.)**	**56,425**	**-364**
15.	+	Proceeds from disposal of tangible fixed assets	4,653	201
16.	-	Payments for investments in tangible fixed assets	-31,800	-19,189
17.	-	Payments for investments in intangible assets	-928	-313
18.	+	Receipts from acquisitions	–	9,233
19.	-	Payments for investments in financial assets	–	-19
20.	=	**Cash flow from investing activities (sum of 15. to 19.)**	**-28,075**	**-10,087**
21.		**Free cash flow (sum of lines 14. and 20.)**	**28,350**	**-10,451**
22.	+	Receipts from capital increase of Non-controlling shareholders	–	4,974
23.	+	Dividends received from joint ventures	123	284
24.	-	Payments resulting from the settlement of financial debt	-150,345	-26,307
25.	+	Receipts from the taking up of financial debt	97,804	20,794
26.	=	**Cash flow from financing activities (Sum of 22. to 25.)**	**-52,418**	**-255**
27.	+/-	Cash and cash equivalent changes in the financial resources fund (sum of lines 14., 20., 26.)	-24,068	-10,706
28.	+	Cash and cash equivalents at the start of the period	101,558	109,624
29.	+/-	Change in cash and cash equivalents due to changes of exchange rates	1,784	2,640
30.	=	**Cash and cash equivalents at the end of the period**	**79,724**	**101,558**

Notes to the Consolidated Financial Statements of H&R AG

as of 31 December 2015

(1) General Information

H&R AG, 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.

As a stock exchange listed Group parent company, H&R AG, pursuant to Article 315a of the German Commercial Code (HGB), is under the obligation to prepare consolidated financial statements in accordance with international accounting standards and rules. The consolidated financial statements of H&R AG were prepared based on the accounting rules of the International Accounting Standards Board (IASB), whose application was mandatory under EU Regulation No. 1606/2002 as of the balance sheet date, and according to the additionally applicable rules of Article 315a (1) of the HGB. The requirements of the Standards (IFRS/IAS) and interpretations (IFRIC/SIC) whose application was mandatory as of the balance sheet date were met without exception.

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

The changes in H&R AG's shareholders' equity are shown, along with the income statement, the consolidated statement of comprehensive income, the balance sheet and the cash flow statement. Individual, summarized positions are discussed in greater detail in the notes. The income statement is prepared in accordance with the total-cost method. The balance sheet is broken down into current and non-current assets and liabilities. Under this approach, assets are shown under current assets when 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 balance sheet date. Debts are classified as current liabilities in a similar way. Pension provisions as well as deferred tax claims and/or liabilities are in principle treated as being non-current.

The 2015 consolidated financial statements were prepared using the euro (€) as the functional currency. Unless stated otherwise, all amounts are shown in thousands of euros (€ 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 AG and the subsidiaries included in the consolidated financial statements coincides with the calendar year.

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

(2) Effects of New Accounting Standards

Standards and Interpretations to be Applied for the First Time in the Current Financial Year. The International Accounting Standards Board (IASB) published changes to the following Standards whose application is mandatory for the first time in the current financial year:

The interpretation IFRIC 21, “Levies”, published in May 2013 deals with the accounting treatment for government-imposed levies that are not income taxes within the meaning of IAS 12. It provides guidelines for determining when an obligation must be recognized as a liability.

In December 2013, as part of the Annual Improvements Cycle 2011–2013, the IFRS published amendments affecting the standards IFRS 1, IFRS 3, IFRS 13 and IAS 40. These amendments are mainly clarifications and more detailed specifications that should be regarded as editorial corrections to existing standards.

The first-time application of these new accounting rules had no material impact on the consolidated financial statements.

Published Standards and Interpretations that are not yet Being Applied. As of the balance sheet date, the following accounting standards had already been published by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) but application of the standards was not yet mandatory.

PUBLISHED STANDARDS AND INTERPRETATIONS THAT ARE NOT YET BEING APPLIED

Standard/ Interpretation	Title	IASB Effective date	Date of endorsement	EU effective date	Essential effects on H&R
	Amendments to IFRS 11 – Accounting for Acquisitions of Interests in Joint Operations	1/1/2016	24/11/2015	1/1/2016	None
	Amendments to IAS 16 and IAS 41 – Bearer Plants	1/1/2016	23/11/2015	1/1/2016	None
	Amendments to IAS 19 – Defined Benefit Plans: Employee Contributions	1/7/2014	17/12/2014	1/2/2015	None
	Annual Improvements to IFRSs 2010–2012 Cycle	1/7/2014	17/12/2014	1/2/2015	None
IFRS 9	Financial Instruments	1/1/2018	Expected in H2 2016	To be determined	See explanation
IFRS 14	Regulatory Deferral Accounts	1/1/2016	No approval	No application	None
IFRS 15	Revenues from Contracts with Lustomers	1/1/2018	Expected in Q2 2016	To be determined	See explanation
IFRS 16	Leases	1/1/2019	To be determined	To be determined	To be checked
	Amendments to IAS 12 – Recognition of Deferred Tax Assets for Unrealised Losses	1/1/2017	Expected in Q4 2016	To be determined	None
	Amendments to IAS 7 – Disclosure Initiative	1/1/2017	Expected in Q4 2016	To be determined	None
	Amendments to IFRS 10, IFRS 12 and IAS 28 – Investment Entities	1/1/2016	Expected in Q2 2016	To be determined	None
	Amendments to IAS 1 – Disclosure Initiative	1/1/2016	18/12/2015	1/1/2016	None
	Annual Improvements to IFRSs 2012–2014 Cycle	1/1/2016	15/12/2015	1/1/2016	None
	Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Postponed	Postponed	Postponed	None
	Amendments to IAS 27 – Equity Method in Separate Financial Statements	1/1/2016	18/12/2015	1/1/2016	None
	Amendments to IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciation and Amortization	1/1/2016	2/12/2015	1/1/2016	None

In July 2014, the IASB published the final version of IFRS 9, "Financial Instruments". In the future, it will replace IAS 39, "Financial Instruments". In particular, IFRS 9 contains new rules on classifying and measuring financial assets, on accounting for impairment losses to financial assets and on hedge accounting. In the future, the classification and measurement of financial assets will depend on the company's business model and the characteristics of the financial asset's contractual cash flows. The new loss-impairment model means that instead of losses that have actually occurred, entities are now required to recognize expected losses. The purpose of the new hedge accounting rules is to enhance disclosures about a company's risk-management activities. H&R AG does not expect these to have a material impact on the consolidated financial statements.

In May 2014, the IASB published IFRS 15, "Revenue from Contracts with Customers", which in the future will govern revenue recognition as a central standard. The new model provides a five-step framework for revenue recognition. First, the contract with a customer and the separate performance obligations in the contract must be identified. Then, the transaction price must be determined and allocated to the individual performance obligations in the contract. Finally, the revenue must be recognized for each performance obligation in an amount equal to the allocated transaction price as soon as the performance obligation has been satisfied and/or control over the goods or services has been transferred to the customer. For H&R AG, the first-time application of this standard will not have a material impact on the consolidated financial statements.

(3) General Accounting and Measurement Methods

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

Subsidiaries are companies or entities which, according to the criteria listed in IFRS 10, are controlled by H&R AG. According to IFRS 10, H&R AG controls existing rights at these companies that give it the ability to direct the relevant activities of these companies in order to exercise a material influence over the companies' profitability. Control further requires H&R AG 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 consolidated group.

All Group internal business transactions and interim results as well as claims and liabilities existing 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), company mergers are recorded in the financial statements using the acquisition method. In this connection, the acquirer is deemed to be the party that has obtained control over the acquired company and is therefore in a position to derive benefits from the acquired business. 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 the value of 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 and/or being assumed at the time of the transaction. In addition, they contain the fair values of any reported assets or debts 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 assessing the identified assets, debts and contingent liabilities of the acquired company at the time of acquisition at their fair value. Any amount remaining on the asset side after set-off is treated as goodwill. Pursuant to IFRS 3, any negative amount resulting from revaluation of the net assets acquired is immediately charged against income.

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. Interest in associates and in joint ventures are reported in accordance with the equity method. Joint ventures are companies that H&R AG manages jointly with a third party. With associates, H&R AG's interest is between 20% and 50%. Under the equity method, the carrying value of holdings valued at equity is increased or reduced by the change in equity corresponding to H&R AG's interest in the equity of these companies. The Group's interest in associated companies and in joint ventures is the goodwill value generated by the acquisition. The changes in the pro-rata equity affecting the income statement are recognized in the profit or loss resulting from holdings valued at equity. For companies whose financial statements are prepared in accordance with the equity method, an impairment loss must be recognized if the recoverable amount is below the carrying amount. As of 31 December 2015, three joint ventures were being accounted for using this method.

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 balance sheet, receivables and payables in foreign currencies are valued at the exchange rate on the balance sheet date; the resulting exchange-rate gains and losses are recognized on the income statement.

In the consolidated financial statements, the assets and liabilities are converted into euros at the exchange rate on the respective balance sheet date. Any changes taking place during the year, as well as profit and loss items, are converted into euros at the average annual exchange rate. With the exception of revenues and expenses directly recognized in equity, the shareholders' equity is carried at historical exchange rates. The resulting variances are recognized in equity but are not reported on the income statement until the subsidiary is sold.

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

EXCHANGE RATES FOR THE MAIN CURRENCIES

	Exchange rate on the balance sheet date 31/12/2015	Exchange rate on the balance sheet date 31/12/2014	Average rate 2015	Average rate 2014
US dollar	1.0887	1.2141	1.1096	1.3288
British pound	0.73395	0.77890	0.72599	0.80643
Australian dollar	1.4897	1.4829	1.4765	1.4724
South African rand	16.953	14.0353	14.1528	14.4065
Thai baht	39.248	39.910	38.001	43.163
Chinese yuan	7.0608	7.5358	6.973	8.1883
Czech crown	27.023	27.735	27.285	27.536
Malaysian ringgit	4.6959	4.2473	4.3315	4.3472

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

Financial Instruments. Financial instruments are contractually agreed claims or obligations that lead to an incoming or outgoing flow of financial assets or to the issuance of equity capital rights. They also comprise derivative claims or obligations from underlying financial instruments. According to IAS 39, financial instruments are recognized on the income statement at the point in time of inclusion in the following valuation categories: financial assets or liabilities at fair value through profit and loss, loans and receivables, available-for-sale financial assets and held-to-maturity investments, as well as other liabilities.

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

The recognition and valuation of financial assets follow the criteria stipulated in IAS 39. According to these criteria, financial assets are recognized on the balance sheet when H&R AG has a contractual right to receive cash or other financial assets. Financial assets are booked at the value on the trading day on which the Group has committed to the purchase of the asset. Financial assets are categorized according to their initial recognition. Loans and receivables as well as financial assets available for sale are first booked at their fair value plus transaction costs.

Loans and receivables are non-derivative financial assets with contractually fixed or determinable payments that are not quoted on an active market. They are shown on the balance sheet under trade receivables and other financial assets. Loans and receivables are subsequently measured at amortized cost using the effective-interest method. If there are objective and substantial signs of an impairment in value, an impairment test is carried out. Signs of an impairment in value include, among others, the high probability of insolvency proceedings, significant financial difficulties of a debtor or the disappearance of an active market for financial assets.

Financial assets available for sale are non-derivative financial assets that were either specifically and explicitly assigned to this category or that could not be assigned to any other category of financial assets. After their initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognized in equity, without any effect on profit or loss, until the assets are disposed of. Permanent impairment losses are reported on the income statement. Reversals of the impairment losses are offset against equity without any effect on profit or loss, unless they concern a debt instrument and the reversal of the impairment loss relates to an impairment loss previously recognized through profit or loss.

If no fair value can be determined, the interests are valued at amortized cost.

The financial assets valued at fair value and recognized through profit or loss concern securities classified as current assets as well as derivative financial instruments with a positive fair value not included in a hedge (hedge accounting).

Assets are derecognized at the time of the extinction and/or the transfer of the rights to payments arising out of the asset and thus at the point in time at which essentially all risks and opportunities related to ownership were transferred. Before derecognizing receivables that are legally transferred within the scope of receivables sales, H&R AG tests the criteria for derecognition in accordance with the applicable rules with IAS 39. If the criteria are not met, the receivables remain on the balance sheet. There is no full disposal if essentially all the risks and opportunities were neither retained nor transferred and the power of control over the receivables remains with the transferor. In this case, only a partial disposal of the receivables should be booked, taking into account the remaining continuing involvement. Continuing involvement is the extent to which the transferor is still exposed to fluctuations in the value of the receivables.

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.

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

Derivative financial instruments. Derivative financial instruments are used in order to reduce currency and interest-rate risks, e.g. in the form of forward currency contracts and interest-rate swaps.

Derivative financial instruments are carried on the balance sheet at fair value 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 forward currency contracts, the valuation is carried out on a case-by-case basis at the pertinent forward exchange rate and/or price on the balance sheet 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. To the extent expedient, derivative financial instruments that satisfy hedge accounting criteria pursuant to IAS 39 are designated either to hedge the fair value of an asset or a debt (fair-value hedge) or to hedge the risk of fluctuating cash flows from future transactions that are very likely to occur (cash-flow hedge). If derivative financial instruments do not satisfy the criteria for hedge accounting, they are, in accordance with IAS 39, classified as held for trading and recognized in profit or loss on the income statement. The changes in the fair value of derivatives intended as fair-value hedges are recognized on the income statement along with the changes in the fair value of the hedged assets or liabilities allocable to the hedged risk. In these annual financial statements, there were no fair value hedges of assets or liabilities.

The effective portion of changes in the fair value of derivatives designated as cashflow hedges to hedge payment streams is recognized under other profit/(loss) without any effect on the income statement. By contrast, the ineffective portion of such changes in value is recognized directly in profit or loss on the income statement. Amounts deferred or accrued in other profit/(loss) are reposted to the income statement and are recognized as income or expense during the period in which the underlying transaction being hedged affects profit or loss. When a hedge expires, is disposed of or no longer satisfies the criteria for being carried on the balance sheet as a hedge, the cumulative profit or loss up to that date recognized in other profit or loss remains part of equity and is only reclassified to the income statement with an effect on profit or loss if the originally hedged future transaction takes place. If the future transaction is no longer expected to take place, the cumulative gains and/or losses that are recorded under equity with no effect on income or loss must immediately be recognized 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 merchandise), assets in the production process with a view to being sold (work in process) or materials and supplies that are consumed in the scope of the manufacture of products or the provision of services (raw, auxiliary and production materials).

Inventories 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. 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 are stated at fair value. Borrowing costs are not taken into account.

Property, plant and equipment. Tangible fixed assets are valued at acquisition or manufacturing costs less cumulative depreciation and impairment losses. The option to revalue tangible fixed assets pursuant to IAS 16.31 was not used.

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

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

Depreciable fixed assets are subject to scheduled straight-line depreciation over their respective useful lives; residual amounts are taken into account. These useful economic lifespans are reviewed on each balance sheet 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 in profit or loss. The useful lifespans used can be summarized as follows:

ASSETS

	Useful economic life
Buildings	10 to 36 years
Land using 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

Borrowing Costs. Essentially, the cost of borrowed capital is recognized in profit or loss in the period in which the external capital expense is incurred. According to IAS 23, borrowing costs that are directly attributable to the construction, acquisition or production of a qualifying asset form part of the cost of that asset and, therefore, should be capitalized. In financial year 2015, as in the previous year, no interest was paid on borrowed capital.

Leasing. 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. Leasing transactions are classified either as finance leases or as operating leases. If the H&R Group, as the lessee in leasing transactions, bears all essential risks and opportunities related to ownership, then such transactions are treated as finance leases. In that case, the Group capitalizes the leased property at the lower of the fair value and the present value of the minimum lease installments and thereafter depreciates the leased property over the shorter of the estimated useful life or the lease term. At the same time, a matching financial liability is recognized at the lower of the fair value of the leased property and the present value of the minimum lease installments; interest and principal payments will subsequently be made, and the liability adjusted accordingly, using the effective-interest method. All remaining lease agreements in which the Group is the lessee or lessor are treated as operating leases. In this case, lease payments made are recorded under expenses and lease payments received are recorded as income. The asset leased out by H&R AG continues to be shown under property, plant and equipment on the balance sheet.

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

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

The annual goodwill impairment tests take place at the level of the cash-generating units (CGUs) that are relevant for the test. The cash-generating unit represents the lowest level at which goodwill is monitored for internal management purposes. H&R AG essentially considers both strategic business units under standard management with comparable product portfolios and, sporadically, also individual, legally autonomous companies to be cash-generating units. Goodwill impairment is determined by comparing the carrying amount of the cash-generating unit, including the goodwill to be allocated to it, with the recoverable amount for the cash-generating unit. The recoverable amount is the higher of fair value less costs of disposal and the value in use. The recoverable amount here is the value in use determined using the discounted cash flow method. If the carrying amount exceeds the Division's recoverable amount, an impairment loss equal to the difference must be recognized on the income statement. If the calculated impairment loss is equal to or higher than the carrying amount of the goodwill, the goodwill must be written off entirely. The remaining impairment loss is, as a rule, allocated proportionally to the remaining non-current assets of the cash-generating unit.

The expected cash flows of the cash-generating units are derived from H&R Group's five-year plan. For subsequent periods, the cash flow was extrapolated using the prior-year approach, with an expected growth rate of 1% p.a. The plan is based, in particular, on assumptions concerning the trend in sales revenues, 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 to date no cash outflows have occurred are not included. In addition, a stable pricing differential was assumed for a number of finished-product prices for all five plan years.

Average costs of capital were used for the discounted cash flow; these capital costs are calculated based on market values. The after-tax discount rates used were 5.6% in the ChemPharm Refining segment (previous year: 6.1%) and between 6.3% and 11.7% in the ChemPharm Sales segment (previous year: between 6.3% and 10.8%). That is equal to pre-tax interest rates of 7.8% in the ChemPharm Refining segment (previous year: 8.5%) and 8.2% to 16.3% in the ChemPharm Sales segment (previous year: 8.2% to 16.3%). 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.

Other Intangible Assets. Other intangible assets are capitalized at their acquisition or manufacturing costs. Insofar as they have determinable useful lives, they are subject to scheduled depreciation on a straight-line basis over their respective useful lives. The following useful life spans were assumed in determining scheduled depreciation:

ASSETS

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

The H&R Group has received CO_2 emission rights free of charge in connection with the introduction of emissions trading in the European Union; they are valued at a zero acquisition cost.

Any expenses that arise in connection with the registration of products pursuant to the EU Chemicals Regulation (REACH) are capitalized under other intangible assets and amortized over an expected useful life of ten years.

Permanent impairment losses to other intangible assets are accounted for under unscheduled depreciation and amortization. In the event the reasons for unscheduled depreciation/amortization no longer apply, the appropriate write-ups are effected to the extent that the amortized cost is not exceeded. The reasons for unscheduled depreciation/amortization are reviewed on each balance sheet date.

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

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.

Financial Liabilities. Financial liabilities include liabilities to banks, trade payables and derivatives with negative fair values, as well as other 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.

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

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

Government grants for assets are shown on the balance sheet 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.

Pensions and Similar Obligations. Company pensions of the H&R Group 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 and death rates, as well as interest rates. Due to changing conditions, the actual future expenses and liabilities can differ significantly from the estimates in the actuarial report.

Under defined-benefit pension plan accounting rules, interest expense is recognized under net interest result on the income statement. Past service expenses are recorded as personnel expenses. Effects from the remeasurement of defined-benefit pension plans are recognized directly in equity and on the statement of comprehensive income, where deferred taxes are taken into account. The fair value of the plan's assets is deducted from the present value of the pension obligations recorded on the balance sheet. The plan's assets consist of a reinsurance policy for the pension commitment to a former director that is measured at fair value. If the plan's assets exceed the corresponding pension liability, the excess amount is shown as "Other receivable" subject to the upper limit set 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 and 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 present obligation as of the balance sheet 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 balance sheet 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.

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

The annual obligations to return emission rights based on the actual CO_2 emissions of the refineries are at first covered by the emission certificates received free of charge and are valued at their acquisition cost, which is equal to zero. In the event that the emissions rights assigned free of charge should not suffice, provisions for the additional emissions rights that will have to be acquired will be set up at the 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 revenues and other operating income are recognized when the service is provided or when the risk is transferred to the customer or when the claim originates. Moreover, sales revenues are also realized from sales in which legal ownership has been transferred to the customer but delivery has been postponed at the customer's request. Ultimately, it must be possible to determine the amount of sales revenues in a reliable manner and it must be possible to assume that the receivable is recoverable. Sales revenues are reported after deducting value-added tax, after applying reductions in selling price such as returns, discounts or price reductions and after eliminating intercompany sales. Intercompany transactions are conducted as arm's-length transactions.

Income Tax. Income taxes comprise both the taxes levied in the individual countries on taxable profits and changes in deferred taxes that have an effect on profit or loss. The current tax expense is based on the taxable income determined in accordance with the tax regulations of the respective country for the year, taking into account the applicable tax rate in that jurisdiction. Pursuant to IAS 12, deferred taxes reflect differences between the time when asset and liability amounts are reported in the consolidated financial statements under accounting rules and the time when the corresponding amounts are 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 income/loss. In that case, the current and deferred taxes are also recognized in other income/loss.

Deferred tax assets pertaining to deductible temporary differences and loss carryforwards are recognized to the extent it is probable that sufficient taxable profit will be available against which the temporary differences and still unused loss carryforwards can be utilized. This is based on individual company forecasts of the income situation of the Group company concerned. The amount of deferred tax assets recognized for temporary differences and tax-loss carryforwards is determined on the basis of future taxable income within a forecast period of five years. 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 in holdings in subsidiaries and associated companies 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 specific countries at the time of the expected realization are assumed.

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

Contingent liabilities. 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. In principle, contingent liabilities are not reported on the balance sheet. The liability amounts stated in the notes under contingent liabilities match the scope of liability in effect on the balance sheet date.

(4) Discretionary Decisions and Estimates

In preparing the consolidated financial statements, to a certain extent assumptions and estimates must be made that at will affect the asset and liability, income and expense and contingent liability amounts reported for the period under review. Estimates are based on empirical values and other assumptions that are deemed to be appropriate given the circumstances.

Assumptions and estimates are used in particular in testing intangible assets for impairment, in determining overhead surcharges when valuing inventories, in determining the useful economic lives of assets throughout the group in a uniform manner, in estimating the recoverability of receivables and in reporting and valuing provisions. Moreover, discretionary decisions and estimates are necessary in testing intangible assets for impairment and in measuring the amount of deferred tax assets relating to loss carryforwards to recognize. Further details on the individual items can be found in each section.

Signs pointing to an impairment loss, as well as recoverable amounts and fair values identified, are also combined with estimates. These include, in particular, estimated future cash flows, the applicable discount rates, the expected useful lives and residual values.

For sensitivity analyses, generally a possible fluctuation range of 10% is assumed, as a change of up to this amount seems possible, especially over the long term. Sensitivity analyses were carried out in particular for the goodwill impairment tests at the level of the cash-generating units and in connection with financial instruments. For pension provisions, the sensitivity analysis assumes a 50-basis-point change in the interest rate and in the pension trend.

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

The assumptions and estimates are based on currently available information. In addition, the trends in the economic environment in the industries and regions in which the Group does business, which are currently assumed to be realistic, were also taken into account in regard to expected future business developments. Developments in these macroeconomic conditions that deviate from the assumptions and are outside of Management's control may cause the actual amounts to deviate from the original estimates. In such cases, the assumptions and, if required, the carrying amounts of the assets and liabilities affected will be adjusted accordingly.

(5) Scope of Consolidation and Holdings

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

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

CHANGE IN THE NUMBER OF CONSOLIDATED COMPANIES

H&R AG and consolidated companies	Domestic	Other countries	Total
1/1/2015	**17**	**17**	**34**
Additions	–	1	1
Disposals	–	-1	-1
31/12/2015	**17**	**17**	**34**

The disposal refers to H&R Czechia s.r.o, Prague, which was liquidated in August 2015. A new addition to the consolidated group is Dunrose Investment 148 (Proprietary) Limited, South Africa, in which H&R AG acquired 100% of the shares effective 1 July 2015 at a purchase price of €2.5 million. In the absence of any business operations, the acquisition does not constitute a business combination under IFRS 3.

H&R AG helds shares of some companies by trustees. These indirect holdings are fully consolidated in case H&R AG has control about these shares. The holdings can be found in the list of shares. Three companies have not been consolidated since they are not material for the financial situation of H&R AG.

The following disclosures concerning the holdings satisfy the requirements of Article 313 of the German Commercial Code (HGB):

FULLY CONSOLIDATED SUBSIDIARIES

Company name	Company headquarters	Segment	Holding % H&R AG
H&R Chemisch-Pharmazeutische Spezialitäten GmbH			100
H&R Lube Blending GmbH	Salzbergen, Germany	a	100
H&R ChemPharm GmbH	Salzbergen, Germany	a	100
H&R LubeTrading GmbH	Salzbergen, Germany	a	100
H&R International GmbH	Hamburg, Germany	b	100
H&R Ölwerke Schindler GmbH	Hamburg, Germany	a	100
H&R InfoTech GmbH	Hamburg, Germany	d	100
H&R Benelux b.v.	Nuth, The Netherlands	b	100
H&R ChemPharm (UK) Ltd.	Tipton, Great Britain	b	100
H&R Czechia s.r.o.	Prague, Czech Republic	b	90
H&R ANZ Pty Ltd.	Victoria, Australia	b	100
H&R Singapore Pte. Ltd.	Singapore, Singapore	b	100
H&R Global Special Products Co. Ltd.	Bangkok, Thailand	b	100[1)]
H&R Malaysia Sdn. Bhd.	Port Klang, Malaysia	b	100[1)]
H&R ChemPharm (Thailand) Ltd.	Bangkok, Thailand	b	100
H&R WAX Malaysia Sdn. Bhd.	Batu Caves, Malaysia	b	100
H&R South Africa (Pty) Limited	Durban, South Africa	b	100
H&R South Africa GmbH	Hamburg, Germany	b	100
H&R South Africa Sales (Pty) Limited	Durban, South Africa	b	100
H&R China Holding GmbH	Hamburg, Germany	b	51
H&R China (Hongkong) Co., Ltd.	Hong Kong	b	51
H&R China (Ningbo) Co., Ltd.	Ningbo, China	b	51
H&R China (Fushun) Co., Ltd.	Fushun, China	b	51
H&R China (Daxie) Co., Ltd.	Daxie, China	b	51
H&R Grundstücksverwaltungs GmbH	Salzbergen, Germany	a	98.68
H&R Grundstücksverwaltungs-Beteiligungsgesellschaft mbH	Salzbergen, Germany	a	74.04
GAUDLITZ GmbH	Coburg, Germany	c	100
GAUDLITZ Precision Technology (Wuxi) Co. Ltd.	Wuxi, China	c	100
GAUDLITZ Precision s.r.o.	Dačice, Czech Republic	c	93.51
GAUDLITZ Grundstücksverwaltungs-Beteiligungsgesellschaft mbH	Coburg, Germany	c	100
H&R Group Services 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 INVESTMENTS

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

Segments: a) ChemPharm Refining; b) ChemPharm Sales; c) Precision Plastics; d) Other activities

1) Including holdings held in trust: The holdings in the following companies are only indirectly held in trust: In H&R Global Special Products Co. Ltd., Bangkok, Thailand, H&R AG holds 49% of the shares via subsidiaries, 51% are managed for the Group by trust companies. H&R Global Special Products Co. Ltd. in turn holds 60.98% in H&R ChemPharm (Thailand) Ltd., Bangkok, Thailand. A further 38.98% are held by a subsidiary whose shares are wholly-owned by H&R AG. The remaining 0.04% are managed on behalf of the Group by trustees. The Group directly holds 30% of the shares in H&R Malaysia Sdn. Bhd., Port Klang, Malaysia. The remaining 70% are managed on behalf of the Group by trustees.

Notes to the Consolidated Balance Sheet

(6) Cash and Cash Equivalents

€ THOUSAND	31/12/2015	31/12/2014
Cash on hand	18	30
Cash in banks	79,256	101,528
Total	**79,274**	**101,558**

(7) Trade Accounts receivable

€ THOUSAND	31/12/2015	31/12/2014
Trade accounts receivable (gross)	99,599	106,287
Impairment losses	-761	-689
Total	**98,838**	**105,598**

No trade accounts receivable (prior year: €0 thousand) were pledged as credit guarantees. Receivables from related persons or companies are listed under note (42).

Within the scope of what is referred to as "true factoring agreements", the H&R Group sells short-term Trade accounts receivable to credit institutes without recourse. H&R AG can freely decide whether and in what volume receivables will be sold. To the extent that any risks and opportunities related to these receivables remain at H&R AG, they continue to be recognised in the balance sheet. Late payment risk is the only risk remaining at H&R AG and is, moreover, of minor importance. As of 31 December 2015, no receivables were transferred that could lead to a derecognition from the balance sheet (previous year: €7.5 million).

TRADE ACCOUNTS RECEIVABLE

			Including: not impaired at the year-end date and overdue in the following aging periods					
€ THOUSAND	Carrying amount	Including: neither impaired nor overdue at the year-end date	Less than 30 days	Between 31 and 60 days	Between 61 and 90 days	Between 91 and 180 days	Between 181 and 360 days	More than 360 days
31/12/2015	98,838	91,655	5,813	666	296	162	16	373
31/12/2014	105,598	100,371	3,044	1,061	281	115	279	419

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

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

IMPAIRMENTS OF TRADE ACCOUNTS RECEIVABLE

€ THOUSAND	2015	2014
Status as of 1/1	**689**	**755**
Additions	173	211
Utilization	-79	-329
Redemptions	-41	–
Currency translation differences	19	52
Status as of 31/12	**761**	**689**

Impaired trade account receivables are overdue with the following maturity:

TRADE ACCOUNTS RECEIVABLE

€ THOUSAND	Less than 30 days	Between 31 and 60 days	Between 61 and 90 days	Between 91 and 180 days	Between 181 and 360 days	More than 360 days
31/12/2015	49	52	40	3	1	473
31/12/2014	26	144	6	2	17	522

(8) Inventories

€ THOUSAND	31/12/2015	31/12/2014
Raw, auxiliary, and production materials	40,454	54,270
Unfinished products	14,084	26,353
Finished products and products for sale	38,206	51,742
Advance payments on account on inventories	1,252	1,837
Total	**93,996**	**134,202**

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

The fair value less sales expenses at which inventories are carried amounts €5,954 thousand (prior year: €12,575 thousand).

Pursuant to IAS 2.34, writedowns of the net disposal values were recognised as expenses in the reporting period in the amount of €769 thousand (prior year: €2,044 thousand). They concern the Chemical-Pharmaceutical Raw Materials Domestic and Plastics Divisions. For more information on expenditures relating to inventories, please consult note (28).

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

(9) Other Financial Assets

€ THOUSAND	31/12/2015 Total	31/12/2015 Of which long-term	31/12/2014 Total	31/12/2014 Of which long-term
Loans and receivables	2,439	1,870	2,387	1,456
Receivable due from BP	1,383	1,383	1,730	1,730
Other securities	1,226	1,074	1,238	1,075
Other investments	1,055	1,055	1,055	1,055
Other financial assets	1,151	89	1,148	66
Total	**7,254**	**5,471**	**7,558**	**5,382**

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

Further to the takeover of the BP special business in 2004, mutual release agreements were made in regard to those retirees who were allocated either economically or contractually to one of the contractual partners, but who, for purposes of employment law, remained with the other partner. According to the overall contractual arrangements with BP, which included all release claims and liabilities, and taking into account the contractual parties' goal of achieving a total set-off of all payables and receivables, the claims and commitments were recognised based on the same legal background owing to the economic and legal substance of the business event and shown as a balance (€1,383 thousand; previous year €1,730 thousand) pursuant to IAS 1.32.

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

€ THOUSAND	2015	2014
Status as of 1/1	11,894	9,868
Interest income	253	353
Revaluation of the compensation claims	-553	2,361
Claims paid	-609	-688
Status as of 31/12	**10,985**	**11,894**

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

The remaining securities include in particular fund units of the Correnta Funds I and II. These securities are carried at their market value on the balance sheet date. Variances are shown in the other comprehensive income. This position also comprises the securities forming part of the current assets, which amounted to €151 thousand (prior year: €163 thousand) as of the balance sheet date.

Of the remaining financial assets, as of 31 December 2015 €6 thousand (prior year: €6 thousand) had specific valuation allowances.

(10) Other Assets

	31/12/2015		31/12/2014	
€ THOUSAND	Total	Of which long-term	Total	Of which long-term
Reinsurance contracts	1,345	1,345	1,370	1,370
Other tax receivables	5,340	–	6,908	–
Prepaid expenses	1,430	45	815	15
Other assets	1,280	129	1,002	80
Total	**9,395**	**1,519**	**10,095**	**1,465**

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

(11) Property, Plants & Equipment

2015 DEVELOPMENTS

€ THOUSAND	Land and Buildings	Technical equip-ment/machinery	Other facilities/ office equipment	Advance payments and construction in progress	Total
Acquisition and production costs					
Status as of 1/1/2015	**87,390**	**385,558**	**21,497**	**13,685**	**508,130**
Changes in scope of consolidation	2,620	–	-36	–	2,584
Additions	1,378	15,081	1,649	10,366	28,474
Disposals	-3,099	-7,306	-359	-883	-11,647
Currency conversion	2,034	1,245	94	116	3,489
Transfers	1,917	7,974	344	-10,256	-21
Status as of 31/12/2015	**92,240**	**402,552**	**23,189**	**13,028**	**531,009**
Cumulative depreciation					
Status as of 1/1/2015	**27,518**	**208,067**	**17,262**	**3**	**252,850**
Scheduled depreciation	3,481	22,960	1,542	–	27,983
Impairment losses	332	–	–	–	332
Disposals	-119	-6,837	-332	–	-7,288
Changes in scope of consolidation	-6	–	-36	–	-42
Currency conversion	-53	39	21	–	7
Status as of 31/12/2015	**31,153**	**224,229**	**18,457**	**3**	**273,842**
Book value					
Status as of 31/12/2015	**61,087**	**178,323**	**4,732**	**13,025**	**257,167**
Status as of 31/12/2014	**59,872**	**177,491**	**4,235**	**13,682**	**255,280**

2014 DEVELOPMENTS

€ THOUSAND	Land and Buildings	Technical equip-ment/machinery	Other facilities/ office equipment	Advance payments and construction in progress	Total
Acquisition and production costs					
Status as of 1/1/2014	**48,510**	**352,771**	**19,054**	**7,718**	**428,053**
Changes in scope of consolidation	37,825	17,011	760	1,286	56,882
Additions	73	11,219	887	11,192	23,371
Disposals	-557	-672	-262	-1,057	-2,548
Currency conversion	1,216	1,835	159	46	3,256
Transfers	323	3,394	899	-5,500	-884
Status as of 31/12/2014	**87,390**	**385,558**	**21,497**	**13,685**	**508,130**
Cumulative depreciation					
Status as of 1/1/2014	**25,249**	**188,103**	**15,851**	**944**	**230,147**
Scheduled depreciation	2,112	19,498	1,462	–	23,072
Impairment losses	–	–	–	69	69
Disposals	–	-655	-179	-1,010	-1,844
Currency conversion	157	1,121	128	–	1,406
Status as of 31/12/2014	**27,518**	**208,067**	**17,262**	**3**	**252,850**
Book value					
Status as of 31/12/2014	**59,872**	**177,491**	**4,235**	**13,682**	**255,280**
Status as of 31/12/2013	**23,261**	**164,668**	**3,203**	**6,774**	**197,906**

Land and buildings are essentially production sites of the Group companies and the technical plant and machinery are production facilities.

The additions to assets represented by facilities in 2015 refer primarily to the refinery sites in Salzbergen and Hamburg. In Salzbergen, investments were made in the capacity expansion of the hydration refining processes. At the Hamburg site, the additions concern essentially investments aiming at an increase in energy efficiency. Moreover, expenditures made at both sites in connection with planned shutdowns were capitalised.

The H&R Group has entered into a number of financing and operating lease agreements for technical equipment, operating and office equipment: as well as intangible assets.

Finance Lease. The financial leases comprise essentially an agreement that meets the requirements of IFRIC 4 and relates to the supply of energy as well as of cooling and boiler feed water. The Agreement has a term of approximately 20 years and will end on 30 June 2023.

Tangible fixed assets used under finance leases are reported under property, plant and equipment with a carrying amount of €19,521 thousand (previous year: €16,659 thousand). This amount is further broken down into technical equipment and machinery, with a carrying amount of €11,100 thousand (previous year: €8,604 thousand) and land-use rights, with a carrying amount of €8,421 thousand (previous year: €8,055 thousand). These amounts were paid in full in advance. As of the balance sheet date, the acquisition costs of these fixed assets totaled €32,308 thousand (previous year: €28,365 thousand).

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

	Up to 1 year		1 to 5 years		Longer than 5 years	
€ THOUSAND	31/12/2015	31/12/2014	31/12/2015	31/12/2014	31/12/2015	31/12/2014
Minimum leasing instalments	365	634	17	373	–	–
Future financing costs from financial leases	8	39	–	8	–	–
Cash value of the financial lease liabilities	357	595	17	365	–	–

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

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

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

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

	Up to 1 year		1 to 5 years		Longer than 5 years		Total	
€ THOUSAND	31/12/2015	31/12/2014	31/12/2015	31/12/2014	31/12/2015	31/12/2014	31/12/2015	31/12/2014
Land/buildings	1,383	1,284	5,095	4,428	20,511	21,600	26,989	27,312
Technical plant and equipment	1,518	1,792	1,561	1,471	–	–	3,079	3,263
Office and operating equipment	1,952	1,696	1,472	1,904	–	–	3,424	3,600
Total	**4,853**	**4,772**	**8,128**	**7,803**	**20,511**	**21,600**	**33,492**	**34,175**

(12) Goodwill and Other Intangible Assets

The intangible assets developed as follows during financial year 2015:

2015 DEVELOPMENT

		Other intangible assets						
€ THOUSAND	Goodwill	Distri-bution rights and simi-lar laws	Software	Licences	Patents/ copy-rights	Other rights	Total	Total
Acquisition/manufacturing costs								
Status as of 1/1/2015	**55,267**	**18,623**	**10,021**	**4,593**	**13,865**	**235**	**47,337**	**102,604**
Additions	–	42	407	120	–	339	908	908
Disposals	–	-2	–	–	–	-111	-113	-113
Currency conversion	477	1,161	13	-43	892	–	2,023	2.500
Transfers	–	–	11	64	–	-54	21	21
Status as of 31/12/2015	**55,744**	**19,824**	**10,452**	**4,734**	**14,757**	**409**	**50,176**	**105,920**
Cumulative depreciation								
Status as of 1/1/2015	**15,359**	**1,653**	**9,236**	**2,887**	**593**	**83**	**14,452**	**29,811**
Scheduled depreciations	–	1,254	386	549	1,471	–	3,660	3,660
Impairment losses	4,794	–	–	–	–	–	–	4,794
Disposals	–	-2	–	–	–	–	-2	-2
Currency conversion	-44	4	5	5	-19	–	-5	-49
Status as of 31/12/2015	**20,109**	**2,909**	**9,627**	**3,441**	**2,045**	**83**	**18,105**	**38,214**
Book value								
Status as of 31/12/2015	**35,635**	**16,915**	**825**	**1,293**	**12,712**	**326**	**32,071**	**67,706**
Status as of 31/12/2014	**39,908**	**16,970**	**785**	**1,706**	**13,272**	**152**	**32,885**	**72,793**

2014 DEVELOPMENTS

		Other intangible assets						
€ THOUSAND	Goodwill	Distribution rights and similar laws	Software	Licences	Patents/copyrights	Other rights	Total	Total
Acquisition/manufacturing costs								
Status as of 1/1/2014	**47,491**	**1,348**	**9,876**	**3,602**	**238**	**223**	**15,287**	**62,778**
Changes in scope of consolidation	–	16,832	–	–	13,277	–	30,109	30,109
Additions	7,530	17	111	69	–	138	335	7,865
Disposals	–	–	–	-1	–	-107	-108	-108
Currency conversion	246	426	15	39	350	–	830	1,076
Transfers	–	–	19	884	–	-19	884	884
Status as of 31/12/2014	**55,267**	**18,623**	**10,021**	**4,593**	**13,865**	**235**	**47,337**	**102,604**
Cumulative depreciation								
Status as of 1/1/2014	**15,359**	**1,192**	**8,243**	**2,155**	**238**	**38**	**11,866**	**27,225**
Scheduled depreciations	–	363	597	725	313	8	2,006	2,006
Impairment losses	–	75	380	–	–	37	492	492
Disposals	–	–	–	–	–	–	–	–
Currency conversion	–	23	16	7	42	–	88	88
Status as of 31/12/2014	**15,359**	**1,653**	**9,236**	**2,887**	**593**	**83**	**14,452**	**29,811**
Book value								
Status as of 31/12/2014	**39,908**	**16,970**	**785**	**1,706**	**13,272**	**152**	**32,885**	**72,793**
Status as of 31/12/2013	**32,132**	**156**	**1,633**	**1,447**	**–**	**185**	**3,421**	**35,553**

The addition to goodwill in the previous year was due to the takeover of 51% of the Hansen & Rosenthal Group's Chinese businesses as part of a contribution-in-kind.

The carrying value of goodwill is composed as follows:

€ THOUSAND

Reporting Segment	Cash Generating Unit (CGU)	31/12/2015	31/12/2014
ChemPharm Refining	CGU Salzbergen	16,738	16,738
ChemPharm Sales	CGU H&R China	5,277	7,720
ChemPharm Sales	CGU H&R ChemPharm (UK)	282	282
ChemPharm Sales	CGU Asia	374	414
ChemPharm Sales	CGU Australia	–	790
ChemPharm Sales	CGU South Africa	12,964	13,964
Total		**35,635**	**39,908**

In performing the impairment test on the CGU, Management has to make certain future-oriented valuation assumptions. 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 CGU, thereby triggering recognition of an impairment loss.

The impairment tests carried out during the reporting period resulted in unscheduled write-downs of goodwill totaling €4.8 million which are included on the income statement under the item "Depreciation, impairments and amortization".

In the Australia CGU, the change in the business model from a production site to a pure sales/distribution site led to lower future cash flows because of the associated costs. The CGU's recoverable amount totaled €8.4 million, which resulted in an impairment loss of €0.8 million.

The China CGU is burdened by a difficult local market environment; as a result, future cash flows are expected to be lower. The impairment test yielded a recoverable amount of €137.2 million, which required recognizing an impairment loss to goodwill of €3.0 million. This impairment loss was offset by currency-translation effects totaling €0.6 million, so the carrying amount of the China CGU's goodwill decreased by only €2.4 million.

For the South Africa CGU as well, changes in local conditions led to the assessment that future cash flows for the South Africa CGU are expected to be lower. The CGU's recoverable amount as determined during the course of the impairment test was €28.5 million, which resulted in recognition of an impairment loss to goodwill of €1.0 million.

The CGUs' recovery amounts are equal to their values in use. The China CGU and the South Africa CGU consist of the legal entities in each region's Chemical-pharmaceutical Division.

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%, increasing the weighted cost of capital by 10% and lowering the growth rate by one percentage point were analyzed. For the cash-generating units that had already suffered an impairment during the financial year, each negative change in a parameter would result in further impairment losses. For the remaining cash-generating units, the sensitivity analyses indicated that none of these CGUs would require recognition of an impairment loss.

The other intangible assets are essentially production and application software as well as production, control and process flow licenses. Moreover, expenses arising in connection with the registration of products pursuant to the EU Chemicals Regulation (REACH) were also capitalized under other intangible assets. The additions in financial year 2015 primarily refer to the acquisition of new software licenses. The unscheduled depreciation charge of €492 thousand in previous year relates to CGU Gaudlitz GmbH, which is part of the Plastics Division. This impairment loss is attributable to weaker expectations for expected future cash flow contributions by the CGU.

(13) Shares in At-Equity Valued Holdings

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

Data and informations of at-equity valued shares in companies included in the H&R Group Financial Statements are in accordance with the Group accounting policy. The financial year of the at-equity companies corresponds to the calendar year which is applicable for the H&R Group. The following statement comprises the aggregated financial information of the at-equity companies which are not material pursuant to IFRS 12:

€ THOUSAND	31/12/2015	31/12/2014*
Assets		
Long-term assets	2,840	2,276
Current assets	1,358	2,267
Debts		
Non-current liabilities	1,003	1,995
Current liabilities	2,971	2,321
Cumulated equity	**224**	**227**
Revenues	11,848	11,551
Costs	-11,176	-11,303
Earnings after income taxes	**672**	**248**
Other comprehensive income	–	–
Total comprehensive income	**672**	**248**

* Previous year adjusted

H&R AG holds 50% of these amounts leading to a change in the current value of shares in at-equity valued holdings as follows:

€ THOUSAND	2015	2014
Book values 1/1	**763**	**923**
Partial result	336	124
Distribution	-124	-284
Book values 31/12	**975**	**763**

(14) Liabilities to Banks

Liabilities to banks include the following items:

€ THOUSAND	Book value 31/12/2015	Residual term up to one year	Residual term 2017 to 2019	From 2020 onwards
Loans under KfW programs	68,907	9,004	47,623	12,280
Syndicated loan	30,000	30,000	–	–
Borrower's note loan	35,774	17,883	17,891	–
Other loans	26,319	25,865	454	–
Total	**161,000**	**82,752**	**65,968**	**12,280**
of which secured	10,670			

€ THOUSAND	Book value 31/12/2014	Residual term up to one year	Residual term 2016 to 2018	From 2019 onwards
Borrower's note loan	116,000	–	116,000	–
Other loans	92,069	52,018	33,801	6,250
Total	**208,069**	**52,018**	**149,801**	**6,250**
of which secured	13,002			

Loans Under KfW Programs. The KfW funds arranged by various banks were, or will be, used for capital expenditures that qualify for subsidies under the KfW Environmental Program. The KfW funds were provided in the form of fixed-interest loans with interest rates of between 3.5% and 4.15%. The lenders may terminate the loans depending on covenants (net gearing and the equity ratio) or in the event of a change in control.

Borrower's Note Loans. The borrower's note loans consist of two fixed-interest tranches issued in 2011 with original maturities of five and seven years. The conditions and termination rights are dependent on compliance with certain stipulations and financial ratios such as net debt to EBITDA ratio and the equity ratio (covenants). In the event of a change of control, the party extending the borrower's note loans is entitled to terminate the agreements.

Syndicated Loan. On 7 February 2015, as part of the Waiver and Amendment Procedure begun in December of 2014, H&R AG's syndicated loan was amended and restructured. In the process, the syndicated revolving loan for €90 million was transformed into a bilateral revolving loan and letter of credit facility in the amount of €72.5 million with the option of being increased to €90 million. On 24 August 2015, this credit line was transferred to a broadly syndicated loan with a maximum amount of €240 million. The maximum possible drawdown under this loan changes in line with working capital (borrowing-base mechanism), thereby ensuring that financing will be available at attractive conditions even when working-capital requirements increase. The syndicated loan is utilized by H&R AG and by Group companies via branch lines.

The availability and conditions are linked to certain ratios (financial covenants). In the event of a breach of a covenant, the syndicate banks are entitled to terminate the syndicated loan. The syndicated loan is subject to a variable interest rate (EURIBOR + margin). The margin percentage is dependent on certain financial covenants (Net Debt/EBITDA). The adjustment always takes place after the filing of the quarterly and/or annual reports. The syndicated loan was only utilized to a minor extent in financial year 2015.

Other Loans. The other loans were obtained subject to fixed or variable interest rates based on EURIBOR.

Financial Covenants. Financial covenants such as the debt/equity ratio and the equity ratio are included in the agreements for the borrower's note loans and the syndicated loans as well as for bilateral loans. The financial covenants were fully met both at the balance sheet date and also during the course of the year.

Collateral. Assets with a value of €15 million were pledged as collateral for loans from the KfW (Kreditanstalt für Wiederaufbau, Reconstruction

Credit Corporation) environmental program originally amounting to €20 million. Additional collateral has been provided for a loan in South Africa originally totaling the equivalent of €2 million.

No collateral was pledged for either the syndicated loan or for the borrower's note loan.

(15) Trade Payables

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

(16) Other Provisions

€ THOUSAND	HR provisions (16.1)	Environmental protection (16.2)	Trade-related commitments (16.3)	Miscellaneous provisions (16.4)	Total
Status as of 1/1/2015	**9,238**	**725**	**2,161**	**1,444**	**13,568**
of which long-term	3,545	725	–	–	4,270
Interest compounding	37	–	–	–	37
Currency translation differences	45	–	106	40	191
Utilization	-5,337	–	-2,010	-1,584	-8,931
Reversal	-401	–	-107	-104	-612
Additions	6,888	875	1,004	2,313	11,080
Status as of 31/12/2015	**10,470**	**1,600**	**1,154**	**2,109**	**15,333**
of which long-term	3,159	1,000	–	–	4,159

The following cash outflows are expected in connection with the provisions shown on the balance sheet for 2015:

EXPECTED CASH OUTFLOWS FOR OTHER PROVISIONS

€ THOUSAND	Provisions for Personnel Expenses	Environmental Protection	Trade-Related Commitments	Miscellaneous Provisions	Total
2016	7,311	600	1,154	2,109	11,174
2017	167	1,000	–	–	1,167
2018–2020	403	–	–	–	403
2021–2025	893	–	–	–	893
2026 ff.	1,696	–	–	–	1,696
Total	**10,470**	**1,600**	**1,154**	**2,109**	**15,333**

(16.1) Provisions for Personnel Expenses

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

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

(16.2) Environmental Protection

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

SYTHENGRUND GmbH had various assessments carried out about the hazardous materials situation. These assessments revealed that the pollutants plume extending beyond the site borders could not be removed using current technology. The company is therefore focusing its ongoing measures on monitoring and securing the pollutants and supporting research projects into developing more advanced chemical/physical treatment methods. The planned sand removal project has no influence on the grandfathered environmental liabilities situation, as it would not change the spreading direction of the pollutants in the groundwater.

Total provisions of €1.6 million have been set aside, based on estimates by independent experts. We believe that the expenditures already made and the provisions set aside are adequate to cover our portion of the remediation costs. It is currently unclear whether new methods will be developed in the future that would allow a clean-up to take place, thereby requiring additional expenses. This matter is the subject of ongoing monitoring by the Executive Board. Negotiations are also being conducted with the Recklinghausen district – the regulatory authority – to definitively limit our liability for the risks described.

(16.3) Trade-Related Commitments

Provisions for trade-related commitments comprise provisions for complaints, rebates, discounts and price-reductions.

(16.4) Miscellaneous Provisions

The remaining provisions primarily comprise provisions for waste disposal and other commitments.

(17) Other Financial Liabilities

	31/12/2015		31/12/2014	
€ THOUSAND	Total	Of which long-term	Total	Of which long-term
Lease liabilities	374	17	960	365
Loan liabilities	2,947	–	2,960	–
Liabilities arising from derivatives	4,743	2,368	6,653	4,345
Liabilities from acquisitions	3,559	–	3,080	–
Other financial liabilities	584	2	3,872	2
Total	**12,207**	**2,387**	**17,525**	**4,712**

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

The liabilities originating from derivatives result from transactions intended to hedge interest rate risks. Further details about derivatives can be found in note (37.2).

The liabilities from acquisitions result from the purchase of the Chinese activities and are tax liabilities arising from that transaction.

(18) Other Liabilities

	31/12/2015		31/12/2014	
€ THOUSAND	Total	Of which long-term	Total	Of which long-term
Tax liabilities	3,206	–	3,131	–
Prepaid expenses	4,355	1,506	2,775	79
Payments received	1,150	–	3,288	–
Other liabilities	879	–	833	–
Total	**9,590**	**1,506**	**10,027**	**79**

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

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

(19) Pension Provisions

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

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

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

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

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

In accordance with the pension agreement at GAUDLITZ GmbH in the version of 18 December 1978, all employees who joined the company by 10 June 1978 and whose contracts of employment had not been terminated had the right to a company pension. The level of the pension depends on the number of pensionable years of service and the pensionable salary in 1978. For those drawing pensions, in some cases their rights are based on earlier versions of the pension agreement.

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

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

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

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

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

The scope of obligations of H&R Ölwerke Schindler GmbH was taken into consideration as of 31 December 2015 for the individual groups as follows:

€ THOUSAND	31/12/2015	31/12/2014
Group 1	41,147	44,956
Group 3	10,985	11,894

A further category (so-called Group 2) comprises employees of BP who were not taken on by H&R Ölwerke Schindler. For this group of people, H&R Ölwerke Schindler has agreed to reimburse BP for the relevant pension obligations which remain with BP, for an amount of €9,602 thousand (previous year: €10,164 thousand). These obligations were netted off in accordance with IAS 1.32 against a receivable from BP from a reimbursement claim for pension obligations assumed amounting to €10,985 thousand (previous year: €11,894 thousand), which also arose as part of the takeover of the specialty products business [see note (9)]. The balancing receivable of €1,383 thousand (previous year: €1,730 thousand) is shown under receivables from BP in other long-term assets. The obligation may vary due to changes of actuarial parameters.

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

€ THOUSAND	2015	2014
Status as of 1/1	**83,648**	**64,376**
Current service cost	853	716
Interest expenses	1,757	2,325
Revaluations	-6,263	19,485
Including due to changes in financial assumptions	-5,699	20,078
Including due to experiential adjustments	-564	-593
Payments made	-3,148	-3,254
Status as of 31/12	**76,847**	**83,648**

The plan assets of H&R AG are related to a reinsurance policy for a guaranteed pension of a member of the Board, which was recognized at fair value. Plan assets are not listed on any active market. H&R AG does not have any specific risk exposure from these plan assets beyond the normal risk. Future expected annual contributions of H&R AG to this reinsurance policy amount to €249 thousand and will be due in 2016 for the last time.

The fair value of plan assets developed as follows:

€ THOUSAND	2015	2014
Status as of 1/1	**1,081**	**810**
Interest expenses	22	28
Revaluations	10	-6
Payments made	249	249
Status as of 31/12	**1,362**	**1,081**

The development in the carrying amount of the net debt related to benefit oriented pension plans can be described as follows:

€ THOUSAND	2015	2014
Status as of 1/1	**82,566**	**63,566**
Current service cost	853	716
Interest expenses	1,736	2,297
Payments made	-3,148	-3,254
Employee contributions to the plan	-249	-249
Revaluations	-6,271	19,490
Including return on plan assets	-10	6
Including due to changes in financial assumptions	-5,697	20,077
Including due to experiential adjustments	-564	-593
Status as of 31/12	**75,487**	**82,566**

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

	31/12/2015	31/12/2014
Interest rate	2.4%	2.0%
Salary trends	0.0%–4.0%	0.0%–4.0%
Pension trends	0.0%–2.0%	0.0%–2.0%
Retirement age	60/61/63/65	60/61/63/65

The likelihood of leaving is based on the 2005G Heubeck guideline tables. An age-dependent staff turnover probability has been built into the pension provision for employees of H&R Ölwerke Schindler for which tables drawn up by internal experts have been used. By not taking the likelihood of fluctuations into account, the assumption is made by way of simplification that no employee will leave the company before the non-forfeitability deadlines are met and that thereafter the non-forfeitable right to a pension will be exactly financed by the existing provision in each case. There were no plan changes, curtailments or settlements in financial year 2015.

Payments totalling €3,686 thousand (previous year: €3,820 thousand) are anticipated for this financial year. The duration of the benefit obligations is, on average, 15.9 years.

To the extent that the parameters in the following table should change as stated, this would result in pension obligation changes as shown below.

CHANGES IN PENSION OBLIGATION

		31/12/2015		31/12/2014	
	Change in indicators	Change in obligation on increasing in € thousand	Change in obligation on decreasing in € thousand	Change in obligation on increasing in € thousand	Change in obligation on decreasing in € thousand
Change in discount rate	0.50%	-5,601	6,343	-6,352	6,932
Change in future salary increases	0.50%	1,312	-1,203	1,163	-1,066
Change in future pension adjustments	0.50%	3,433	-3,123	3,448	-3,136
Change in expected likelihood of dying	1 year	339	-429	375	-472

The above sensitivity analyses are based on the assumption of a change in one parameter while all other parameters remain constant. These are individual scenarios from a broad spectrum of possibilities, so that the actual trend in the commitment will most certainly deviate from these forecasts. In addition, it is unlikely that only one parameter will change, but, rather, in actual fact an interaction of parameter changes can be expected. The sensitivities were calculated with the same method as the recognition of the benefit obligations in the balance sheet. The methods were not changed as compared to the prior year.

All pension plans within the H&R Group are closed, so that no new employees can gain access to them. Only H&R Ölwerke Schindler GmbH still has active employees with a pension claim.

(20) Subscribed Capital

As of the balance sheet date, subscribed capital totaled €91,573 thousand (previous year: €91,573 thousand), divided into 35,820,154 ordinary bearer shares without face value (previous year: 35,820,154 ordinary bearer shares). This corresponds to a notional value of €2.56 per share. There are no different classes of shares; all shares are ordinary shares. The subscribed capital was fully paid in. Each share conveys one voting right.

Approved Capital. By a decision of the Annual Shareholders' Meeting of 31 May 2011, the Executive Board is entitled, subject to approval by the Supervisory Board, to increase issued capital through one or more issues of ordinary bearer shares without face value in return for cash. Said issuance(s) may occur any time before 30 May 2016, may total up to €1 million in volume (2011 Approved Capital), and must be issued for the purpose of distributing employee shares to the personnel of the Group and its affiliated companies. The shareholders' subscription rights are excluded.

The Executive Board is authorized – with the Supervisory Board's approval – to increase the company's share capital by 12 May 2019 by a maximum of €22.4 million by issuing up to 8,748,348 ordinary bearer shares without face value. The issue may be effected in one or more tranches in return for cash and/or contributions-in-kind (2014 Approved 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. The most recent amendment (reduction in the approved capital) was recorded in the Commercial Register on 25 September 2014.

Authorization to Acquire Treasury Shares. On 27 May 2010, the Annual Shareholders' Meeting authorized the company to purchase the company's own shares, up to a total of 10% of the current share capital, in the period until 26 May 2015. The company did not purchase any of its own shares either in 2015 or in the previous year.

(21) Capital Reserve

Capital reserve includes the amounts by which the proceeds from the issuance of preferred and ordinary shares exceed their face value. In financial year 2015, capital reserves decreased by €576 thousand (previous year: €433 thousand), from €43,329 thousand to €42,753 thousand, due to the expenses associated with raising capital the previous year. This included €408 thousand of tax effects (previous year: €0 thousand) that were immediately credited to capital reserve.

(22) Retained Earnings

Retained earnings amounted to €105,820 thousand as of the reporting date (previous year: €73,773 thousand). Most of this amount consists of cumulative retained earnings of €122,503 thousand (previous year: €95,048 thousand). As of the balance sheet date, the revalued net liability under defined-benefit pension plans recorded under Other comprehensive income totaled €-19,066 thousand (previous year: €-23,658 thousand). Other retained earnings totaled €2,383 thousand as of the balance sheet date (previous year: €2,383 thousand).

Dividends. At the Annual Shareholders' Meeting on 19 May 2015, it was decided not to distribute any dividends from H&R AG's annual net income for financial year 2014 as determined in accordance with the German Commercial Code (HGB). Because the separate financial statements for H&R AG did not report a distributable profit for the reporting year, the Executive Board did not present any proposal for the appropriation of net income to the Supervisory Board.

(23) Other Reserves

Other reserves refer to the cumulative total other comprehensive income and include the currency-translation adjustment, adjustments from marking-to-market financial assets and cash-flow hedges. As of the balance sheet date, reserves relating to the marking-to-market of securities totaled €195 thousand (previous year: €265 thousand). Reserves totaling €2,797 thousand for cash-flow hedges were reversed during the financial year because the associated hedged item was retired. The foreign-currency translation adjustment totaled €4,519 thousand on the balance sheet date (previous year: €2,958 thousand).

(24) Non-controlling Interests

Non-controlling interests include shares of earnings and capital held by shareholders outside the Group; during the year under review, these changed as follows.

€ THOUSAND	2015	2014
Status as of 1/1	**39,802**	**-79**
Addition from contribution of Chinese businesses	–	34,261
Addition from capital increase in subsidiaries	–	4,974
Currency translation differences	2,578	852
Proportionate shares of net income or loss	-96	-206
Disposals	-16	–
Status as of 31/12	**42,268**	**39,802**

Most of the non-controlling interests are accounted for by H&R China Holding GmbH and its subsidiaries who were added to the scope of consolidation in 2014. The non-controlling interest in this company totals 49%.

The table below shows a summary of financial data for H&R China Holding GmbH:

€ THOUSAND	31/12/2015	31/12/2014
Current assets	50,407	72,613
Non-current assets	86,811	86,849
Current liabilities	42,830	69,958
Non-current liabilities	7,974	8,118
Net assets	86,414	81,386
Non-controlling interests' proportionate share of net assets	**42,343**	**39,879**

€ THOUSAND	2015	Oct.–Dec. 2014
Earnings	108,944	25,403
Expenses	-109,083	-25,796
Net income/loss	-139	-393
Non-controlling interests' proportionate share of net income/loss	**-68**	**-192**
Other net income/loss	5,166	1,707
Non-controlling interests' proportionate share of other net income/loss	**2,532**	**836**
Total comprehensive income	5,027	1,314
Non-controlling interests' proportionate share of total comprehensive income	**2,464**	**644**
Cash flow from operating activities	4,907	-4,537
Non-controlling interests' proportionate share of cash flow from operating activities	**2,404**	**-2,223**
Cash flow from investing activities	-2,016	-75
Non-controlling interests' proportionate share of cash flow from investing activities	**-988**	**-37**
Cash flow from financing activities	-20,254	18,849
Non-controlling interests' proportionate share of cash flow from financing activities	**-9,924**	**9,236**

Notes to the Consolidated Income Statement

(25) Research and Development Costs

In financial year 2015, research and development activities in the Chemical-Pharmaceuticals Division focused on optimising product qualities in the product areas of formulated oils, paraffins and white oils. Research and development costs were incurred in the Plastics Division for testing and experiments concerning new materials in the plastics area as well as research relating to the possibility of increased implementation of plastic components in various sectors.

Expenses incurred in 2015 for research and development amounted to €1,955 thousand (previous year: €1,909 thousand). For further information regarding research and development costs we refer the reader to the pertinent section in the Management Report.

(26) Revenue

Sales revenue – less revenue reductions – is recognised at the time when the service is provided or upon the transfer of risk to the customer. The Segment Report gives an overview of the growth of sales by division and by geographical segment [see note (35)].

(27) Other Operating Income

€ THOUSAND	2015	2014
Exchange rate gains from foreign currency items	12,614	5,822
Income from services	5,107	5,366
Income from passing on costs	3,402	2,986
Income from insurances claims	1,689	13
Income from disposal of assets	4,833	45
Income from release of provisions	612	1,503
Income from rents and leases	1,217	1,115
Others	2,917	1,892
Total	**32,391**	**18,742**

The income from passing on costs results mainly from re-invoicing consumption taxes, project-related costs and other costs to the companies in which there is a participating interest, Westfalen Chemie GmbH & Co. KG and SRS EcoTherm GmbH.

(28) Cost of Materials

€ THOUSAND	2015	2014
Raw materials	509,731	700,758
Supplies	15,607	12,866
Trade goods	145,845	129,778
Expenditure for raw, auxiliary and operating materials and for purchased goods	**671,183**	**843,402**
Energy costs	36,994	35,843
Other external services	1,213	2,105
Total expenditure on purchased services	**38,207**	**37,948**
Total	**709,390**	**881,350**

(29) Personnel Expenses

€ THOUSAND	2015	2014
Wages and salaries	67,084	61,680
Social security payments	10,896	9,672
Benefit oriented pension plan expenses	1,083	853
Contribution oriented pension plan expenses	498	454
Other social security expenses	300	48
Total	**79,861**	**72,707**

Amounts arising from the interest compounding of personnel provisions, particularly pension provisions, are not reported as personnel expenses. They are reported with the interest income/expense as part of the financial result.

AVERAGE NUMBER OF EMPLOYEES

	2015	2014
ChemPharm Refining	628	614
ChemPharm Sales	339	221
Plastics	573	578
Others	30	24
Total	**1,570**	**1,437**

(30) Other Operating Expenses

€ THOUSAND	2015	2014
Freight costs, dispatch systems and other distribution costs	24,355	18,152
Third-party goods and services	13,194	12,009
Third-party repairs and maintenance	13,778	12,976
Loss from foreign currency translation	13,886	6,430
Rents and leases	8,970	8,031
IT costs	7,365	6,533
Legal and consultancy costs, costs for year-end accounts and shareholders' meeting	5,166	5,523
Other personnel costs	3,438	3,124
Commissions	1,795	2,553
Insurance premiums, fees and contributions	3,052	3,047
Costs passed on	3,081	2,973
Leasing costs	2,299	2,097
Travel expenses	1,586	1,046
Others	10,541	7,856
Total	**112,506**	**92,350**

(31) Financial Income

€ THOUSAND	2015	2014
Interest income from short-term bank deposits	512	267
Income from loans	20	20
Other interest and similar income	219	225
Total interest income	**751**	**512**
Income from derivatives	1,917	4
Other financial income	12	148
Miscellaneous financial income	**1,929**	**152**
Financial income	**2,680**	**664**

(32) Financial Expenses

€ THOUSAND	2015	2014
Interest expense relating to loan interest	7,094	5,859
Interest expenses from derivatives	2,437	2,607
Interest expense from the compounding of pension provisions	1,736	2,293
Credit commission	369	296
Other interest and similar expenses	1,586	1,938
Total interest expense	**13,222**	**12,993**
Expenses related to derivatives	3,915	1,330
Other financial expenses	–	1
Miscellaneous financial expenses	**3,915**	**1,331**
Financial expenses	**17,137**	**14,324**

(33) Income Tax

Since 1 January 2009, the net income of German companies has been subject to a uniform corporation tax rate of 15% plus a solidarity surcharge of 5.5%. In conjunction with a trade tax burden of 12.98% (prior year: 12.98%), this amounts to a combined income tax rate for the Group in Germany of 28.81% (prior year: 28.81%). Income tax rates for companies abroad are between 17% and 30%. The interest due on follow-up tax payments has been included in interest expense. Deferred income tax expense includes changes in deferred tax assets and liabilities.

Taxes on income paid or owed in individual countries as well as tax accruals and deferrals are shown as income taxes. They are made up as follows:

€ THOUSAND	2015	2014
Current income tax expenses	-10,799	-4,391
Current income tax refunds	726	–
Total current taxes	**-10,073**	**-4,391**
Deferred taxes from timing differences	3,034	-3,551
Deferred taxes from loss carry-forwards	-368	165
Total deferred taxes	**2,666**	**-3,386**
Total	**-7,407**	**-7,777**

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 AG, tax loss carryforwards led to the recognition of €11,292 thousand of deferred tax assets (previous year: €11,611 thousand). Overall, in Group companies that reported a loss in the prior or the current year, deferred tax assets totaling €13,547 thousand were recognized (previous year: €16,599 thousand). Recognition of the deferred tax assets is justified since the Group expects positive future taxable income to exceed the impact on earnings caused by the reversal of the temporary differences.

Besides the deferred tax assets recognized for loss carryforwards, there are also domestic corporation tax losses in the amount of €18,742 thousand (previous year: €27,675 thousand), trade tax losses of €16,352 thousand (previous year: €24,753 thousand) and deductible temporary differences totaling €1,866 thousand (previous year: €3,375 thousand) whose realization is not sufficiently guaranteed and for which therefore no deferred tax assets have been recognized. Domestic loss carryforwards are mainly attributable to the tax entity. Based on current laws, the tax carryforwards cannot expire. As of the balance sheet date, foreign loss carryforwards totaled €12,804 thousand (previous year: €6,868 thousand) and may mostly be utilized without restriction within a period of 1 to 5 years. The tax expense was reduced by €2,556 thousand in the year under review through the capitalization of previously unrecognized deferred tax assets relating to loss carryforwards.

For revalued defined-benefit pension obligations, deferred tax assets totaling €1,360 thousand were reversed (previous year: addition of €5,074 thousand) and recognized in Other comprehensive income. Reversal of the cash-flow hedge reserve due to the retirement of the hedged item resulted in the reclassification of deferred taxes to the income statement, which led to a reduction of €1,118 thousand (previous year: €380 thousand) in Other comprehensive income. The change in financial assets available for sale measured at fair value led to a change in the deferred taxes recognized in Other comprehensive income (with no effect on profit or loss) in the amount of €-69 thousand (prior year: €52 thousand).

For €11,852 thousand of temporary differences in the retained earnings of subsidiaries (previous year: €12,266 thousand), no deferred tax liabilities were recognized, because H&R Group is able to control the timing of the reversal of the temporary differences, as stipulated in IAS 12.39.

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

€ THOUSAND	2015	2014
Earnings before taxes	**34,766**	**-7,831**
Theoretical income tax expense 28.81% (prior year: 28.81%)	**10,015**	**-2,256**
Effects from tax rate differences	-2,110	-1,161
Effects from previous years' taxes	-3,453	2,216
Tax effects from the reversing of deferred taxes	-2,319	59
Non-deductible operating expenses	1,318	900
Goodwill Impairment	864	–
Tax-exempt income	-317	-292
Foreign withholding tax	1,018	240
Effects from changes in tax rates	-12	100
Deferred tax assets on losses carried forwards not capitalized	1,083	6,929
Utilization of tax loss carried forwards	-51	-149
Deferred tax asset allowances	1,237	1,215
Other tax effects	134	-24
Income tax expense per Group income statement	**7,407**	**7,777**

The total deferred tax assets and liabilities according to the Group Financial Statements derive from the following individual balance sheet items:

€ THOUSAND	31/12/2015 Deferred tax assets	31/12/2015 Deferred tax liabilities	31/12/2014 Deferred tax assets	31/12/2014 Deferred tax liabilities
Intangible assets	1,359	11,313	1,238	11,894
Fixed assets	303	7,588	342	6,464
Financial assets	268	873	570	1,403
Inventories	291	5	250	837
Receivables and other assets	400	202	258	570
Provisions for pensions	9,528	–	11,165	–
Other provisions	706	38	356	86
Liabilities	1,790	426	1,338	119
Tax losses carried forward	11,292	–	11,611	–
Subtotal	**25,937**	**20,445**	**27,128**	**21,373**
of which long-term	12,826	19,612	15,014	19,218
Netting	-11,981	-11,981	-10,059	-10,059
Total	**13,956**	**8,464**	**17,069**	**11,314**

(34) Earnings per Share

Earnings per share are determined according to IAS 33 (Earnings per Share) by dividing net income by the weighted average number of ordinary shares in issue during the year. The capital increase as at September 25th 2014 led to an increase of subscibed capital of H&R Aktiengesellschaft. The average number of ordinary shares developed as follows:

	2015	2014
Number of shares issued at the beginning of the period	35,820,154	29,973,112
Additional shares issued on 25. Sep 2014	–	5,847,042
Number of shares issued at the end of the period	35,820,154	35,820,154
Average number of shares in circulation	**35,820,154**	**31,526,984**

€ THOUSAND	2015	2014
Net profit/loss to shareholders in thousand €	27,455	-15,402
Ordinary shares	35,820,154	31,526,984
Earnings per share (undiluted) in €	0.77	-0.49
Earnings per share (diluted) in €	0.77	-0.49

The diluted earnings per share ratio is equal to the basic earnings per share ratio, because H&R Aktiengesellschaft has not issued any potentially dilutive ordinary shares.

Additional Notes

(35) Segment Reporting

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

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

The ChemPharm Refining segment includes both the chemical-production sites in Germany where lubricant refining takes place and where the production processes, organizational structures and distribution networks are closely interlinked. This segment's main products are paraffins, white oils, plasticizers, base oils, lubricants and other crude-oil-based specialty products.

The ChemPharm Sales segment encompasses foreign companies involved in the processing of chemical-pharmaceutical raw materials and in the distribution of these new products and other merchandise. These are mainly paraffins, plasticizers, wax emulsions and other crude-oil-based specialty products. In the future, the newly consolidated Chinese companies will therefore be part of the ChemPharm Sales segment.

The Plastics Division comprises the development, manufacture and sales of highly precise plastic parts produced using the injection moulding method.

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

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

The operating development of the segments and further information on their products and activities are described in the combined Management Report.

Remarks Concerning Segmental Data. Intercompany sales report the level of sales between the segments. Sales and proceeds between the segments are essentially accounted for on an arm's length basis. The sum of external and internal sales provides the segmental sales figure.

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

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

€ THOUSAND	Chemical and Pharmaceutical Raw Materials			
	ChemPharm Refining		ChemPharm Sales	
	2015	2014	2015	2014
External sales	602,656	757,407	320,152	244,727
Intercompany sales	11,600	11,306	–	–
Sales by segment	614,256	768,713	320,152	244,727
Depreciation, amortization and impairments	-21,050	-19,593	-13,324	-2,963
of which impairment losses	–	-69	-4,794	–
Interest income	8	11	498	288
Interest expenses	-7,525	-10,521	-3,379	-1,683
Earnings before income taxes	24,710	-11,903	18,895	16,072
EBIT	32,226	-1,394	21,776	15,791
EBITDA	53,276	18,199	35,100	18,754
Assets	297,640	329,560	212,345	228,005
Debts	44,751	89,779	47,241	58,879
Capital expenditures	23,976	18,147	6,707	4,627
Result of shareholdings reported at-equity	336	124	–	–
Holdings in affiliates valued with the at-equity method	790	578	–	–

H&R AG generated sales of €451.2 million with one customer in the Chemical-Pharm Refining segment (previous year: €553.7 million). External sales in the Chem-Pharm Refining segment include revenues from services rendered totaling €70.6 million (previous year: €67.1 million). All other sales revenues are derived from the delivery of products.

GEOGRAPHICAL INFORMATION

€ THOUSAND	Assets long-term		External sales	
	31/12/2015	31/12/2014	2015	2014
Germany	200,031	200,668	548,762	695,827
Rest of Europe	4,285	4,554	125,818	134,035
Rest of world	120,557	122,851	308,327	228,760
Group	**324,873**	**328,073**	**982,907**	**1,058,622**

RECONCILIATION OF THE OPERATING RESULT TO THE CONSOLIDATED INCOME AFTER TAXES

€ THOUSAND	2015	2014
Operating result of segments (EBITDA)	87,527	35,405
Reconciliation/Consolidation	-1,535	-3,937
Operating result of H&R AG (EBITDA)	**85,992**	**31,468**
Depreciation	-36,769	-25,639
Financial result	-14,457	-13,660
Income Taxes	-7,407	-7,777
Income after taxes	**27,359**	**-15,608**

Plastics				Reconciliation			
Plastics		Others		Consolidation/Reconciliation		Total	
2015	2014	2015	2014	2015	2014	2015	2014
60,099	56,488	–	–	–	–	982,907	1,058,622
–	–	–	–	-11,600	-11,306	–	–
60,099	56,488	–	–	-11,600	-11,306	982,907	1,058,622
-1,759	-2,603	-636	-480	–	–	-36,769	-25,639
–	-492	-332	–	–	–	-5,126	-561
5	6	8,258	10,612	-8,018	-10,405	751	512
-1,377	-1,526	-12,876	-10,994	8,020	10,401	-17,137	-14,323
-3,968	-5,647	-4,863	-6,267	-8	-86	34,766	-7,831
-2,608	-4,151	-2,161	-4,335	-10	-82	49,223	5,829
-849	-1,548	-1,525	-3,855	-10	-82	85,992	31,468
30,147	37,936	128,112	27,344	-39,485	83,772	628,759	706,617
6,204	10,243	6,955	8,921	236,480	289,892	341,631	457,714
1,066	802	253	130	–	–	32,002	23,706
–	–	–	–	–	–	336	124
–	–	185	185	–	–	975	763

(36) Notes to the Consolidated Cash Flow Statement

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

The statement of cash flows divides the payment streams into the three areas of operating business, investment activity and financing activity.

The reported financial resources consist of bank deposits, cash positions and cheques.

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

Cash flow from investment activities includes net investments in intangible, fixed and financial assets, including holdings consolidated for the first time in the financial year.

Cash flow from financing activity includes new and redeemed financial liabilities and liabilities from financial leasing and dividend payments.

The general form of presentation of the statement of cash flows and the utilisation of reporting options are unchanged from the previous period.

The cash flow statement is supplemented by a cash reconciliation.

(37) Financial Instruments

(37.1) General Information

The original financial instruments primarily comprise other financial investments, receivables, short-term securities and cash and cash equivalents on the assets side. Financial assets available for disposal are reported at fair value. Other financial assets are reported at historical costs. The fair values of financial assets available for disposal are derived from the stock market prices or are calculated on the basis of recognised valuation methods. In the case of other financial assets, we work on the assumption that fair value corresponds to the book value.

On the liabilities side, financial instruments mainly contain liabilities valued at historical cost. The stock of financial instruments is reported in the balance sheet. The level of the financial assets corresponds to the maximum default risk. If default risks are identifiable with respect to financial assets, these risks are reported using value adjustments.

As an international company, in the course of its ordinary business activities the H&R Group is exposed to risks from raw material prices, currency fluctuations and interest rate changes. Details concerning the risk management system used to deal with these risks can be found in note (46), Risk Management Policy, Capital Management and Hedging Measures.

(37.2) Information Concerning Derivatives

Derivative financial instruments are employed to hedge foreign exchange risks from the operating business and risks from changes in interest rates related to financing transactions. The types of instruments employed are primarily foreign currency forward transactions as well as interest rate hedging transactions such as caps and interest-rate swaps.

There were no balance sheet based hedging operations as at 31 December 2015.

The following tables show the reported fair values of the various derivative financial instruments as of 31 December 2015 and 31 December 2014.

NOMINAL AND MARKET VALUES OF DERIVATIVES 2015

	Nominal value	Currency	Maturity	Carrying amounts 31/12/2015 € thousand
Interest rate swap	€ thousand 40,000	€	until 2016	-1,133
Interest rate swap	€ thousand 40,000	€	until 2018	-3,604
Currency forward	US$ thousand 10,306	$	until 2016	-6

NOMINAL AND MARKET VALUES OF DERIVATIVES 2014

	Nominal value	Currency	Maturity	Carrying amounts 31/12/2014 € thousand
Interest rate swap	€ thousand 40,000	€	until 2016	-2,186
Interest rate swap	€ thousand 40,000	€	until 2018	-4,467
Currency forward	US$ thousand 8,879	$	until 2015	6

All subsequent changes in the fair value of the derivatives are immediately recognized in profit or loss. The amount recognized in Other comprehensive income up to the date when the hedging instrument expires will be reversed through profit or loss over the remaining life of the derivatives. Because the hedged item was retired in 2015, the entire remaining amount was reclassified to earnings for the period, leading to an expense of €3,915 thousand (previous year: €1,330 thousand). Similarly, relevant pro-rata deferred taxes amounting to €1,118 thousand (previous year: €380 thousand) were recognized as tax income.

In financial year 2015, the net profit on financial instruments measured at fair value through profit or loss totaled €1,916 thousand (previous year: net loss of €244 thousand).

(37.3) Maturity Analysis

The H&R Group's liquidity risk consists of contractually agreed obligations to make future interest rate and amortisation payments for financial liabilities and derivative financial instruments. The maturities of these undiscounted payment streams are shown in the table below:

2015

		Cash flows 2016		Cash flows 2017	
€ THOUSAND	Book value	Interest	Redemption	Interest	Redemption
Trade accounts payable	53,343	–	53,343	–	–
Liabilities to banks	161,000	4,602	82,752	3,484	12,513
Finance lease liabilities	374	–	357	–	17
Liabilities arising out of derivatives without balance sheet based hedging relationships	4,743	–	2,374	–	1,184
Other financial liabilities	7,090	53	7,088	–	–

2015

	Cash flows 2018–2020		Cash flows 2021–2025		Cash flows 2026 ff.	
€ THOUSAND	Interest	Redemption	Interest	Redemption	Interest	Redemption
Trade payables	–	–	–	–	–	–
Liabilities to banks	3,641	53,455	722	12,280	–	–
Finance lease liabilities	–	–	–	–	–	–
Liabilities arising out of derivatives without balance sheet based hedging relationships	–	1,184	–	–	–	–
Other financial liabilities	–	–	–	2	–	–

2014

		Cash flows 2015		Cash flows 2016	
€ THOUSAND	Book value	Interest	Redemption	Interest	Redemption
Trade accounts payable	112,415	–	112,415	–	–
Liabilities to banks	208,069	4,698	52,018	4,230	71,904
Finance lease liabilities	960	45	595	9	347
Liabilities arising out of derivatives without balance sheet based hedging relationships	6,653	2,275	2,308	2,269	2,030
Other financial liabilities	9,912	–	9,910	–	–

2014

	Cash flows 2017–2019		Cash flows 2020–2024		Cash flows 2025 ff.	
€ THOUSAND	Interest	Amortisation	Interest	Amortisation	Interest	Amortisation
Trade payables	–	–	–	–	–	–
Liabilities to banks	4,928	77,897	178	6,250	–	–
Finance lease liabilities	–	18	–	–	–	–
Liabilities arising out of derivatives without balance sheet based hedging relationships	2,263	2,315	–	–	–	–
Other financial liabilities	–	–	–	2	–	–

(37.4) Information on Categories of Financial Instruments

According to IFRS 7, financial assets and liabilities have to be grouped in such a way that a distinction can be made between financial instruments reported at actual cash value and others valued at historical cost.

The following table shows the book values of the individual financial instruments and liabilities for each individual financial instrument category. Together with the details of the financial instruments reported at fair value, the reconciliation against the balance sheet items serves to give the reader an insight into the type and nature of the financial instruments held by H&R AG.

31/12/2015

			Balance sheet valuation acc. to IAS 39				
€ THOUSAND	Valuation category according to IAS 39	Book value	Acquisition costs carried forward	Fair value without impact on net income	Fair value with impact on net income	Balance sheet assumptions according to IAS 17	Fair value (for information)
Assets							
Cash and cash equivalents	LaR	79,274	79,274				79,274
Trade accounts receivable	LaR	98,838	98,838				98,838
Other financial assets							
Loans and Receivables	LaR	3,592	3,592				3,592
Other securities short-term	FAHfT	152			152		
Financial Assets Available for Sale	AfS	2,127	1,055	1,072			
Liabilities							
Trade accounts payable	FLAC	53,343	53,343				53,343
Liabilities to banks	FLAC	161,000	161,000				168,573
Other financial liabilities							
Finance lease liabilities		374				374	
Derivatives without hedging relationship	FLHfT	4,743			4,743		
Other financial liabilities	FLAC	7,090	7,090				
Loans and Receivables	LaR	181,704	181,704				
Financial Assets Available for Sale	AfS	2,127	1,055	1,072			
Financial Assets Held for Trading	FAHfT	152			152		
Financial Liabilities Measured at Amortized Cost	FLAC	221,433	221,433				
Financial Liabilities Held for Trading	FLHfT	4,743			4,743		

31/12/2014

€ THOUSAND	Valuation category according to IAS 39	Book value	Balance sheet valuation acc. to IAS 39: Acquisition costs carried forward	Balance sheet valuation acc. to IAS 39: Fair value without impact on net income	Balance sheet valuation acc. to IAS 39: Fair value with impact on net income	Balance sheet assumptions according to IAS 17	Fair value (for information)
Assets							
Cash and cash equivalents	LaR	101,558	101,558				101,558
Trade accounts receivable	LaR	105,598	105,598				105,598
Other financial assets							
Loans and Receivables	LaR	3,068	3,068				3,068
Other securities short-term	FAHfT	163			163		
Financial Assets Available for Sale	AfS	2,128	1,055	1,073			2,128
Other financial assets	LaR	889	889				889
Liabilities							
Trade accounts payable	FLAC	112,415	112,415				112,415
Liabilities to banks	FLAC	208,069	208,069				217,859
Other financial liabilities							
Finance lease liabilities		960				960	
Derivatives without hedging relationship	FLHfT	6,653			6,653		
Other financial liabilities	FLAC	9,912	9,912				9,912
Loans and Receivables	LaR	211,113	211,113				
Financial Assets Available for Sale	AfS	2,128	1,055	1,073			
Financial Assets Held for Trading	FAHfT	163			163		
Financial Liabilities Measured at Amortized Cost	FLAC	330,396	330,396				
Financial Liabilities Held for Trading	FLHfT	6,653			6,653		

Since trade accounts receivable and trade accounts payable, other financial assets and other financial liabilities as well as cash and cash equivalents generally have short-term maturities, their fair value will not deviate significantly from their carrying amount as of the reporting date. The actual cash value of other long-term receivables and liabilities with remaining maturities of more than one year will correspond to the cash value of their associated payments, subject to the relevant interest-rate parameter.

Net Results by Valuation Category. The expenses, income, profits and losses arising from financial instruments can be broken down as follows:

2015

IN € THOUSAND	Loans and receivables (LaR)	Financial assets held for trading	Financial liabilities held for trading	Financial liabilities measured at amortized cost	Total
Interest income	750	1	–	–	751
Interest expense	–	–	-2,437	-8,401	-10,838
Impairments	-173	–	–	–	-173
Other financial expenses/income	-153	–	-2,012	29	-2,136
Net income/(loss)	**424**	**1**	**-4,449**	**-8,372**	**-12,396**

2014

IN € THOUSAND	Loans and receivables (LaR)	Financial assets held for trading	Financial liabilities held for trading	Financial liabilities measured at amortized cost	Total
Interest income	507	5	–	–	512
Interest expense	-44	–	-2,607	-7,508	-10,159
Impairments	-211	–	–	–	-211
Other financial expens-es/income	259	-30	-1,162	155	-778
Net income/(loss)	**511**	**-25**	**-3,769**	**-7,353**	**-10,636**

There were no reclassifications to the income statement relating to financial instruments available for sale; losses recognized in Other comprehensive income totaled €1 thousand (previous year: gain of €82 thousand). As in the previous year, other financial expenses relating to assets and liabilities held for trading included changes in the fair values of derivative financial instruments and realized losses relating to cash-flow hedges totaling €3,915 thousand (previous year: €1,330 thousand) which were reclassified from Other comprehensive income to the income statement.

(37.5) Additional Information Concerning Financial Instruments

GAUDLITZ GmbH holds financial assets for sale in the form of securities reported at fair value as of the reporting date. The reported market value was €1,072 thousand (previous year: €1,073 thousand).

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

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

€ THOUSAND	31/12/2015 Level 1	Level 2	Level 3	31/12/2014 Level 1	Level 2	Level 3
Assets						
Financial Assets Available for Sale	1,072	–	–	1,073	–	–
Financial Assets Held for Trading	152	–	–	163	–	–
Total	**1,224**	**–**	**–**	**1,236**	**–**	**–**
Liabilities and equity						
Derivatives without hedging relationship	–	4,743	–	–	6,653	–
Total	**–**	**4,743**	**–**	**–**	**6,653**	**–**

The Level 2 financial liabilities are interest rate swaps carried on the balance sheet at their fair value. The fair values are determined by means of interest rate curves observable on the market. There were no reclassifications among the individual levels in financial year 2015.

The following table represents the allocation of the fair values of the financial instruments carried on the balance sheet at book value to the different levels:

ALLOCATION OF FAIR VALUES OF FINANCIAL INSTRUMENTS

€ THOUSAND	31/12/2015 Level 1	Level 2	Level 3	31/12/2014 Level 1	Level 2	Level 3
Liabilities and equity						
Liabilities to banks	–	168,573	–	–	217,859	–

The fair values are determined by means of interest rate curves observable on the market. The expected payment flows were appropriately discounted. There were no reclassifications among the individual levels in financial year 2015.

No offsetting between financial assets and financial liabilities took place as no netting agreements were in existence.

For the presentation of market risks, IFRS 7 demands sensitivity analyses showing the impact of hypothetical changes in relevant risk variables on earnings and equity. This assumes that the position on the reporting date is representative of the whole year.

The open foreign currency positions of the most significant foreign currencies as of the reporting date are documented below.

31/12/2015

		US$ thousand	GBP thousand	SAR thousand	AUD thousand	THB thousand
Cash and cash equivalents	+	2,700	3,475	8,788	5,776	1,614,866
Trade accounts receivable	+	6,233	1,460	173,429	2,940	158,603
of which currency hedged	-	10,306	–	–	–	–
Financial liabilities	-	3,211	360	154,086	1,984	253,352
of which currency hedged	+	–	–	–	–	–
Net exposure	=	**-4,584**	**4,575**	**28,131**	**6,732**	**1,520,117**

31/12/2014

		US$ thousand	GBP thousand	SAR thousand	AUD thousand	THB thousand
Cash and cash equivalents	+	11,724	3,555	74,863	14,151	940,517
Trade accounts receivable	+	6,619	1,260	217,874	5,404	228,620
of which currency hedged	-	8,879	–	–	–	–
Financial liabilities	-	2,357	243	204,460	5,831	279,097
of which currency hedged	+	–	–	–	1,556	–
Net exposure	=	**7,107**	**4,572**	**88,277**	**15,280**	**890,040**

For the currency risk, a sensitivity analysis is carried out using the US dollar as an example, as this is the most important foreign currency for the Group. The indirect quotation for the US dollar against the euro stood at US$1.09/€ as of 31 December 2015, as against US$1.38/€ as of 31 December 2014. Assuming a realistic range of fluctuation of +/-10% in the exchange rate as of the reporting date, the impact in terms of profit (+) or loss (-) would be as follows:

	2015		2014	
€ THOUSAND	US$ 0.98/€	US$ 1.20/€	US$ 1.09/€	US$ 1.34/€
Impact (before taxes)	-468	383	650	-532

A sensitivity analysis for interest-rate risk is performed for loans with variable interest rates. On the 31 December 2015 balance sheet date, a hypothetical 0.5% (or 50 basis-point) increase in the interest rate would have increased interest expense by €413 thousand and reduced the amount of share capital shown accordingly.

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 system. Default risks are addressed through individual impairments and global impairments.

Non-recoverable receivables are derecognized and the impairment recorded in the allowance for doubtful accounts (contra-asset account) 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 balance sheet, 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.

(38) Purchase Commitments

Capital expenditures for which contractual obligations exist on the reporting date but which have not yet been incurred totaled €6,099 thousand as of 31 December 2015 (previous year: €1,712 thousand).

(39) Contingent Liabilities

On the balance sheet date, H&R AG had joint liability for pension commitments totaling €52 thousand (previous year: €61 thousand). As of 31 December 2014, the outstanding liability contributions relating to Westfalen Chemie GmbH & Co. KG totaled €1,187 thousand.

Subsoil contaminated with compounds typical of explosives was discovered some time ago on a piece of land belonging to a Group company that was used to produce explosive materials. The investigations carried out to date have determined that the pollutants cannot be removed using current technology. The company is therefore focusing its ongoing measures on monitoring and securing the pollutants and supporting research projects into developing more advanced chemical/physical treatment methods. As the owner of the properties, the SYTHENGRUND subsidiary is in principle liable for carrying out remediation of the legacy contamination. According to the case law of the German Federal Constitutional Court, liability for environmental pollution is generally limited to the market value of the property in a restored condition (BVerfG NJW 2000, 2573/2576). This liability cap may be adjusted up or down if additional circumstances so dictate. The liability cap could be reduced in light of the fact that the soil contamination is probably attributable to the production of armaments during the First and Second World Wars. In such a case, the authorities would have to review whether the government, instead of the property owner, should bear primary liability for the legacy contamination.

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

In connection with deliveries of lubricants, the tax authorities are currently investigating whether a tax exemption applies or whether value-added taxes must be billed retroactively. The total potential risk associated with unpaid value-added tax is €8.9 million. However, there are equivalent contingent receivable claims arising from rights of recourse against customers. H&R estimates the probability of occurrence at 20% in each case, which is equal to a probability-weighted contingent liability of €1.78 million and a probability-weighted contingent asset of the same amount.

(40) Other Financial Obligations

The financial obligations resulting from long-term rental and lease contracts as well as other obligations stretching over several years, become apparent from the following table (nominal amounts):

€ THOUSAND	31/12/2015	31/12/2014
Due within one year	8,977	8,363
Due > 1 year and 5 years	12,353	10,939
Due > 5 years	21,350	22,456
Total	**42,680**	**41,758**

Other financial liabilities mainly include a long-term rental agreement with Hamburg Port Authority, Hamburg.

In addition, other financial liabilities at the Salzbergen location include contracts for the delivery of natural gas, compressed air and nitrogen as well as maintenance and servicing contracts regarding the process control system.

Further information regarding finance and operate lease contracts can be found in note (11).

(41) Governance Bodies of H&R AG

EXECUTIVE BOARD

	Membership of Supervisory or Advisory Boards
Niels H. Hansen Chairman of the Executive Board Hamburg	–
Detlev Wösten Member of the Executive Board in charge of refineries Buchholz	Member of the Supervisory Board of Glasgard AG, Lollar/Salzböden

SUPERVISORY BOARD

	Membership of Supervisory or Advisory Boards
Dr. Joachim Girg Managing Director of H&R Beteiligung GmbH, Hamburg	Member of the Supervisory Board of Hamburger Getreide-Lagerhaus Aktiengesellschaft, Hamburg
Roland Chmiel Deputy Chairman CPA/Chartered Accountant Partner in the law and accounting firm Weiss-Walter-Fischer-Zernin, Munich	Member of the Supervisory Board of Togal Werk AG, Munich
Nils Hansen Managing Partner of H&R Group companies, Hamburg	Member of the Supervisory Board of Otto M. Schröder Bank Aktiengesellschaft, Hamburg
Dr. Rolf Schwedhelm Tax Lawyer and Partner at Streck Mack Schwedhelm, Cologne	Chairman of the Supervisory Board of Deutsche Anwalt Akademie Gesellschaft für Aus- und Fortbildung sowie Serviceleistungen mbH (German Lawyer Academy Society for Education, Training and Services), Berlin
Dr.-Ing. Peter J. Seifried Chemical Engineer, Independent Consultant (Since 19/5/2015)	Chairman of the Executive Board of the German Lubricants Industry Association (Verband der Schmierstoffindustrie e.V./ VSI) Elected Member of the Executive Board of UNITI, the German Association of Small and Medium-Sized Lubricant Manu- facturers and Retailers (Bundesverband mittelständischer Mineralölunternehmen e.V.) Member of the Board of trustees and the Board of Directors of Oest Group
Anja Krusel CFO of Microsoft Deutschland GmbH, Munich (Until 19/5/2015)	–
Dr. Hartmut Schütter Consulting Engineer, Schwedt/Oder	–

SUPERVISORY BOARD (EMPLOYEE REPRESENTATIVE)

	Membership of Supervisory or Advisory Boards
Reinhold Grothus Works Council Chairman at H&R ChemPharm GmbH, Salzbergen	–
Rainer Metzner Works Council Chairman at GAUDLITZ GmbH, Coburg (Until 31/1/2016)	–
Harald Januszewski GAUDLITZ GmbH, Coburg	–

(42) Disclosures of Relationships with Related Parties according to IAS 24

Transactions with related parties were carried out on arm's-length terms. No transactions were carried out with non-consolidated affiliates.

The following goods and services have been rendered for related companies and persons who might exercise a significant degree of influence, or utilised by them:

TRANSACTIONS WITH HANSEN & ROSENTHAL

	Transactions to Hansen & Rosenthal		Transactions from Hansen & Rosenthal	
€ THOUSAND	2015	2014	2015	2014
Supplies of chemical pharmaceutical products	377,662	393,795	94,498	103,266
Ancillary costs from delivery transactions (freight costs, road tolls, etc.)	–	–	4,309	3,812
Commission fees	155	799	1,283	1,569
Other services and passed-through third party related costs	74,757	71,201	2,899	1,013

All companies of the majority shareholder Nils Hansen, including H&R Beteiligung GmbH as the controlling company, are pooled under Hansen & Rosenthal (H&R). During the current year, there were no business transactions involving H&R Beteiligung GmbH.

The supply of goods for chemical-pharmaceutical products from the Salzbergen site takes place under a long-term distribution and supply contract, by which the relevant Hansen & Rosenthal company purchases the products and then resells them to end customers in its own name and for its own account. In addition, Hansen & Rosenthal receive a commission fee for deliveries from the Hamburg site included in a long-term commission contract for marketing of certain products. Moreover, IT as well as staffing and production-services are provided to the Hansen & Rosenthal Group by subsidiaries of the H&R Group.

The following receivables and liabilities existed as of 31 December 2015:

RECEIVABLES AND LIABILITIES DUE TO HANSEN & ROSENTHAL

	Receivables from Hansen & Rosenthal		Liabilities to Hansen & Rosenthal	
€ THOUSAND	31/12/2015	31/12/2014	31/12/2015	31/12/2014
Goods and services	22,049	16,004	12,947	14,831
Other services	23,419	28,574	8,507	6,033
Total	**45,468**	**44,578**	**21,454**	**20,864**

As of 31 December 2015, no trade receivables due from Hansen & Rosenthal (previous year: €7,482 thousand) had been sold to banks without recourse under factoring agreements.

Other receivables mainly concern receivables from the commission business (€23,419 thousand, previous year: €28,570 thousand), where Hansen & Rosenthal, as commission agent, receives payments from customers and forwards them to H&R AG.

The following services were rendered for joint ventures, or utilised by them:

TRANSACTIONS WITH JOINT VENTURES

	Provided to joint ventures		Received from joint ventures	
€ THOUSAND	2015	2014	2015	2014
Purchase of hydrogen and steam	–	–	1,976	1,840
Interest income	16	15	–	–
Rental income	41	41	–	–
Services	808	1,078	4,551	4,356
Total	**865**	**1,134**	**6,527**	**6,196**

The following receivables and liabilities existed as of 31 December 2015:

RECEIVABLES AND LIABILITIES DUE TO JOINT VENTURES

	Receivables from joint ventures		Liabilities owed to joint ventures	
€ THOUSAND	31/12/2015	31/12/2014	31/12/2015	31/12/2014
Goods and services	473	488	207	205
Other services	587	375	–	–
Total	**1,060**	**863**	**207**	**205**

Executive Board and Supervisory Board. For performing their tasks, members of the Executive Board received total cash remuneration of €1,056 thousand (previous year: €840 thousand). Of this sum, the performance-related components of the remuneration accounted for €450 thousand (previous year: €235 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 members of the Executive Board.

Former members of the Executive Board and their surviving dependents received payments totaling €202 thousand during the financial year (previous year: €208 thousand). For former members of the Executive Board and their surviving dependents, pension commitments amounted to €3,399 thousand (previous year: €3,412 thousand).

For members of the Supervisory Board, remuneration included basic remuneration plus additional compensation for committee work and fees for attending meetings and totaled €391 thousand (previous year: €293 thousand).

In addition to their Supervisory Board remuneration, the employee representatives on the Supervisory Board receive fees that are not related to their work for the Supervisory Board. These fees totaled €175 thousand in financial year 2015 (previous year: €177 thousand).

Members of the Executive Board and the Supervisory Board receive no loans or advances from the company.

Data on the remuneration of individual members of the Executive Board and Supervisory Board are provided in the Remuneration Report, which is an integral part of the combined management report. The Remuneration Report can be found in Chapter Corporate Governance on p. 32.

In October of 2012, H&R AG established an Advisory Board, which advises the Executive Board. Expenses of €120 thousand were incurred for the activities of the Advisory Board in 2015 (prior year: €120 thousand). In 2015, fees paid to members of the governing bodies of H&R AG within the scope of consultant agreements amounted to €105 thousand (prior year: €107 thousand). As of 31 December 2015, liabilities in the amount of

€388 thousand (prior year: €321 thousand) existed in regard to members of the governing bodies.

(43) Declaration of Conformity in Accordance with Article 161 AktG

The declaration on the German Corporate Governance Code specified by Article 161 of the German Companies Act (AktG) was submitted in December 2015. It is published on the Internet at www.hur.com and is included in this annual report.

(44) Group Audit Fees

The following fees for the services provided by Warth & Klein Grant Thornton AG Wirtschaftsprüfungsgesellschaft were recognized as expenses during the financial year:

€ THOUSAND	31/12/2015	31/12/2014
Audits	332	496
Other certification or valuation services	49	130
Tax advisory services	–	8
Other services	–	12
Total	**381**	**646**

Audit fees include the amounts paid for auditing the consolidated financial statements and for the statutory audits of the financial statements of H&R AG and its subsidiaries. The prior-year figures related to services performed by PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft.

(45) Exemption from Disclosure under Article 264 Paragraph 3 HGB

The following fully consolidated subsidiaries have elected to make use of the opportunity to be released from the requirement of disclosure in accordance with Article 264 Paragraph 3 in conjunction with Article 325 of the German Commercial Code (HGB), and partly made use of concessions regarding audits and the preparation of their financial statements:

- H&R Ölwerke Schindler GmbH
- H&R Chemisch-Pharmazeutische Spezialitäten GmbH
- GAUDLITZ GmbH
- H&R Lube Blending GmbH
- H&R ChemPharm GmbH
- H&R Lube Trading GmbH
- H&R International GmbH
- H&R InfoTech GmbH
- H&R South Africa GmbH
- SYTHENGRUND Wasagchemie Grundstücksverwertungsgesellschaft Haltern mbH

(46) Risk Management Policy, Capital Management and Safeguards

However, the operating business as well as the financing transactions of the H&R Group, as an internationally active company, are subject to different financial risks. These specifically include liquidity risk and counterparty default risk, as well as risks associated with fluctuations in raw material prices, currency exchange rates and interest rates. These risks are limited through systematic risk management measures, such as hedging transactions.

H&R AG has implemented a Group-wide risk management system, which serves as the basis for identifying, analysing and valuing these risks, so that informed decisions can then be taken with regard to preventing or limiting such risks. The key components of the risk management systems are planning and controlling, Group-internal regulations and reporting. Regular conferences are held to discuss current business developments, operational results, potential risks and opportunities, objectives and management procedures. Derivative financial instruments are also utilised in this context. The purchase of derivative financial instruments for speculative purposes is not permitted. All transactions with derivative financial instruments must be approved by the Executive Board.

The Group companies are subject to strict risk management. Dealing authorisations, responsibilities and supervision procedures are established on a binding basis in internal guidelines. In this respect, derivative financial instruments may not, as a matter of principle, be implemented for speculative purposes, but instead serve to hedge against risks in connection with the operating business. Credit risk exposure to contractual partners is investigated systematically at the time of signing a contract and monitored on an ongoing basis. In addition to this, credit risk is reduced using appropriate types of security.

The Executive Board defines the equity of the Group as the basic parameter for capital management, which in turn serves to ensure that the Group can continue to cover its investment needs and debt service. In this context, the H&R Group tries to achieve a capital structure that optimises the costs of capital provided both by lenders and by investors. Further important basic parameters with regard to our capital structure are net debt and net gearing which describes the ratio between net debt and equity. These ratios are subject to permanent surveillance by the Executive Board.

Due to the bond loans, the syndicated loans and the bilateral loans H&R AG is obliged to meet the financial covenants that are connected to the relation of net debt to operational result (EBITDA) and the financial equity ratio.

CAPITAL STRUCTURE

	2015	2014	2013	2012	2011
Net Debt/EBITDA	1.00	3.41	2.24	2.97	2.15
Equity ratio in %	45.7	32.5	31.8	34.2	38.0
Net gearing in %	30.2	45.8	42.2	73.4	79.4

Liquidity Risks. The H&R Group 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 AG 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 Risk. The risks arising from delays in payment or defaults on the part of our customers are limited by our broadly diversified customer base and the low level of dependence on individual debtors. Strict receivables management by our sales partner Hansen & Rosenthal reduces these risks even further. Trade credit insurance has also been taken out for a number of major customers.

The default risk for banks with which we have arranged credit lines, hedged transactions or invested funds has increased since the outbreak of the financial crisis. We address this risk by only completing financial transactions with institutions that have exemplary ratings and by spreading larger transactions among several banks.

Raw Materials Price Risk. The H&R Group is exposed to price fluctuation risks among other things in the purchasing of raw materials, particularly the purchasing of atmospheric residue and vacuum gas oil. Most supply agreements concluded with customers relating to specialty products manufactured by the Chemical-Pharmaceutical Raw Materials Division's specialty refineries incorporate prices fixed for a period of three months at the most. A specialty refinery's production process, from the delivery of raw materials to the supply of the finished product to the customer, can take up to eight weeks. This means that rapid increases in raw materials costs cannot be passed on immediately to markets but only with a time delay. Relevant price developments are subject to constant monitoring and analysis. Rising raw materials prices may result in "windfall losses" in earnings, and falling raw materials prices may lead to "windfall profits", which will, as a rule, balance out over time.

Foreign Currency Risks. The international alignment of the H&R Group means that its operating activities give rise to currency risks, among other things, that result from exchange-rate fluctuations between the company's currency and other currencies. These arise particularly in the purchasing area as a result of US dollar transactions. Such risks are hedged using forward transactions in the trading business. Hedging is not performed in the production process, as the length of time entailed in the production process means that the intended hedge may be reversed by the time that the currency forward transaction has concluded.

Interest Rate Risks. The H&R Group employs variable interest-rate facilities, among other things, as part of its financing activities. Interest hedging instruments are implemented to limit risks arising from changes in market interest rates. These concern interest rate caps and interest rate swaps. Such transactions may be entered into on a decentralised basis within the H&R Group but require the prior approval of the Executive Board.

(47) Events after the Reporting Date

During the period between 31 December 2015 and the date of approval of the consolidated financial statements, there were no events with a material impact on the net assets, financial position or results of operations of H&R AG.

(48) Approval of Financial Statements

The financial statements were approved and released for publication by the Executive Board on 19 February 2016.

Salzbergen, 19 February 2016

The Executive Board

Niels H. Hansen
Chairman
of the Executive Board

Detlev Wösten
Member
of the Executive Board

Attestation by the Legal Representatives

We hereby affirm that, to the best of our knowledge and according to the applicable accounting standards, the consolidated financial statements convey a true picture of the financial position and financial performance and the results of operations of the Group and that the combined management report presents the course of business including operating profits and the situation of the Group in such a way that a true and fair view is presented and the material opportunities and risks to the projected development of the Group are described.

Salzbergen, 19 February 2016

The Executive Board

Niels H. Hansen
Chairman
of the Executive Board

Detlev Wösten
Member
of the Executive Board

Auditor's Report

The following repetition of the auditor's opinion in English language is for translation purposes only:

"Auditor's opinion:
We have audited the consolidated financial statements prepared by H&R Aktiengesellschaft, Salzbergen – comprising a consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income for the period, consolidated statement of cash flows, consolidated statement of changes in equity and notes to the consolidated financial statements – and the combined management report of H&R Aktiengesellschaft, Salzbergen and the group for the financial year from 1 January to 31 December 2015. The preparation of the consolidated financial statements and the combined management report and group management report in accordance with IFRS, as adopted by the EU, and with the additional requirements of the German commercial law pursuant to section 315a paragraph 1 HGB are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and combined management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with paragraph 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in and the combined management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the combined management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the combined management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements of H&R Aktiengesellschaft, Salzbergen for the financial year from 1 January to 31 December 2015 comply with IFRS, as adopted by the EU, and the additional requirements of the German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The combined management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitable presents the opportunities and risks of future development."

Hamburg, 19 February 2016

Warth & Klein Grant Thornton AG
Wirtschaftsprüfungsgesellschaft

Dr. Senger	***von Oertzen***
Wirtschaftsprüfer	*Wirtschaftsprüfer*
(German Public Auditor)	*(German Public Auditor)*

Additional Information

Glossary

ASEAN-5

Association of Southeast Asian Nations (Malaysia, Indonesia, Thailand, Singapore and the Philippines)

ATRES

Short for Atmospheric Residue, also known as “long residue”. It is a by-product of crude-oil distillation and is used as a feedstock by H&R to manufacture primary products at its refineries.

Barrel

Unit of measurement for liquid; in relation to oil products, a barrel contains 159 litres.

Blending

In the production of lubricants, blending refers to the mixing of oil and additives to form automotive and industrial lubricants.

Brent

Leading type of oil from the North Sea.

Cash flow

Key financial figure: cash balance of inflow and outflow of funds; split between current operations, investment activity and financing activity.

CONCAWE Standard

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

Earnings per Share

Key financial figure: net income for year divided by the weighted average number of outstanding shares; shows how high the profit is for each share.

EBITDA

(Earnings before interest, taxes, depreciation and amortisation) Key financial figure: defined as consolidated earnings before interest earnings, taxes on income as well as depreciation on tangible assets and amortisation of goodwill. In the case of H&R, operation income.

Equity Ratio

Key financial figure: shows the ratio of equity to total assets and represents the finance structure.

Free cash flow

Key performance indicator: the sum of cash flow from operating activities and cash flow from investing activities; provides information about the liquid funds held after capital expenditure has been deducted.

German Corporate Governance Code

Recommendations and suggestions on conduct from the governmential commission of the same name on corporate management and supervision for listed companies in Germany.

Group I Refinery

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

Net Gearing Ratio

Key performance indicator: the ratio of net financial debt to equity; provides an insight into the financing structure.

Net Working Capital

Key performance indicator: net working capital is defined as trade receivables plus inventories less trade payables.

Paraffin

Products of special refinery production: paraffin is oil-based wax which is used in over 100 different industries and sectors for manufacturing a wide variety of products.

Plasticisers

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

Propane Deasphalting Unit (PDU)

Extraction unit which produces deasphalted oil and asphalt from vacuum residue using propane as solvent.

REACH

Registration, Evaluation, Authorization and Restriction of Chemicals. The acronym stands for the name of the EC regulation on chemical substances.

Return on Capital Employed (ROCE)

Key performance indicator: the ratio of EBIT to average capital employed (equity plus net financial debt, pension provisions and other non-current provisions); crucial for value-based corporate management at H&R AG.

Return on Equity

Key performance indicator: the ratio of profit (consolidated net profit before minority interests) to average equity; provides information about the amount of interest paid on capital from equity providers.

Special Refinery Activities

Production of highly refined raw materials for the chemical and pharmaceutical industries using oil-based materials.

Syndicated Loan

Granting of a fixed credit line for a specified period of time by a consortium of several banks.

Tool

Designation for the injection mould in the manufacture of plastic parts.

Value Creation

Increase in value of goods used in the production process.

VGO

Vacuum-gas oil, like ATRES, is created from the process of refining crude oil and is also used as an input material for H&R's refineries.

WACC

Weighted Average Cost of Capital

White Oil

Product of special refinery production: highly refined and purified oil which is used especially as an input material in the cosmetics and polystyrene industries.

List of Graphics and Tables*

* The tables in the consolidated financial statements are not listed.

Six-Year Overview H&R Group Key Figures (IFRS)

		2015	2014	2013	2012	2011	2010
Sales volume (main products)[1]	KT	762	697	734	839	872	932
Revenue	€ MILLION	982.9	1,058.6	1,214.4	1,228.9	1,209.5	1,056.8
Operating result (EBITDA)	€ MILLION	86.0	31.5	32.6	49.4	89.1	103.4
EBIT	€ MILLION	49.2	5.8	-4.1	25.5	68.1	82.0
Earnings before taxes	€ MILLION	34.8	-7.8	-16.8	1.6	54.5	73.6
Consolidated earnings before minority interests	€ MILLION	27.4	-15.6	-14.0	0.4	38.5	52.0
Group profit/(loss) after minority interests	€ MILLION	27.5	-15.4	-14.0	0.5	38.5	52.0
Consolidated earnings per share (undiluted)	€	0.77	-0.49	-0.47	0.02	1.29	1.74
Dividend per share	€	0	0	0	0	0.6	0.65
Market capitalisation as at 31/12	€ MILLION	330.9	270.1	260.7	354.4	496.1	630.9
Balance sheet total	€ MILLION	628.8	706.6	594.7	623.1	636.6	532.4
Net Working Capital	€ MILLION	139.5	127.4	104.2	188.9	265.0	202.2
Equity	€ MILLION	287.1	248.9	189.2	213.3	236.7	226.4
Equity capital share	%	45.7	35.2	31.8	34.2	37.2	42.5
Net indebtedness	€ MILLION	86.7	107.3	73.1	146.3	183.4	110.4
Net gearing	%	30.2	45.8	38.6	68.6	77.5	48.8
Operating cash flow	€ MILLION	56.4	-0.4	88.9	84.7	-11.8	52.1
Free cash flow	€ MILLION	28.4	-10.5	72.8	50.9	-54.2	19.3

[1] Chemical-Pharmaceutical Raw Materials Division.

Financial Calendar

www.hur.com

Our financial calendar is updated on an ongoing basis. Please visit our website www.hur.com in the Investor Relations section for the latest events.

28 January 2016	Publication of provisional figues for financial year 2015
21 March 2016	Publication of Final Figures 2015, Press and Analysts' Conference
13 May 2016	Publication of Q1 2016
18 May 2016	Annual Shareholders' Meeting, Hamburg
12 August 2016	Publication of Q2 2016
15 November 2016	Publication of Q3 2016

Contact

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Disclaimer

Forward-looking statements

This document contains forward-looking statements that reflect management's current views with respect to future events. Such statements are subject to risks and uncertainties that are beyond H&R's ability to control or estimate precisely, such as future market and economic conditions, the behavior of other market participants, the ability to successfully integrate acquired businesses and achieve anticipated synergies and the actions of government regulators. If any of these or other risks and uncertainties occur, or if the assumptions underlying any of these statements prove incorrect, then actual results may be materially different from those expressed or implied by such statements. H&R does not intend or assume any obligation to update any forward-looking statements to reflect events or circumstances after the date of these materials.

Variances for technical reasons

For technical reasons (e. g. conversion of electronic formats) there may be variances between the accounting documents contained in this annual report and those submitted to the electronic Federal Gazette (Bundesanzeiger). In this case, the version submitted to the electronic Federal Gazette shall be binding.

This English version of the annual report is a translation of the original German version; in the event of variances, the German version shall take precedence over the English translation.

Annual Report 2015

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