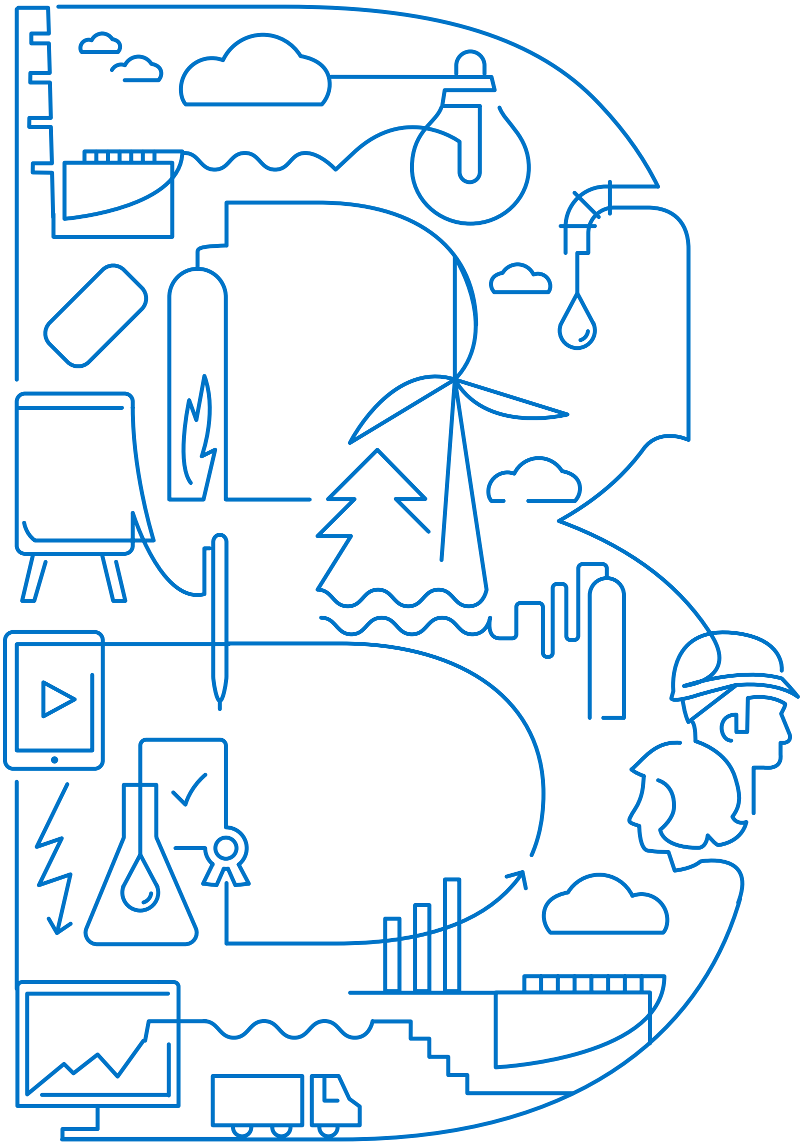
ANNUAL REPORT 2020



BALANCE

H&R GmbH & Co. KGaA

FINANCIAL REPORT

20

H&R GmbH & Co. KGaA

OUR
KEY FIGURES 2020

For us – as it was for the entire global economy – the 2020 financial year was dominated by the effects of the Covid-19 pandemic. After mixed business development and performance, we achieved a robust result with sales revenue of around €0.9 billion and an EBITDA of €55.8 million, which also slightly exceeded the previous year.

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

IN € MILLION	2020	2019	Change in absolute terms
Sales revenue	873.0	1,075.3	-202.4
of which Chemical and Pharmaceutical Raw Materials Refining	524.6	665.0	-140.4
of which Chemical and Pharmaceutical Raw Materials Sales	317.0	376.9	-59.9
of which Plastics	40.1	43.2	-3.1
Reconciliation	-8.7	-9.9	1.2
Operating income (EBITDA)	55.8	52.9	2.9
of which Chemical and Pharmaceutical Raw Materials Refining	35.2	29.2	6.0
of which Chemical and Pharmaceutical Raw Materials Sales	25.9	30.7	-4.8
of which Plastics	-0.4	-4.9	4.5
Reconciliation	-4.9	-2.2	-2.7
EBIT	-0.3	7.4	-7.7
Income before tax	-10.4	-1.2	-9.2
Consolidated income (before non-controlling interests)	-7.8	0.1	-7.9
Consolidated income (after minority interests)	-9.0	-1.4	-7.6
Consolidated income per share (undiluted, in €)	-0.24	-0.04	-0.20
Operating cash flow	60.1	95.9	-35.8
Equity ratio (in %)	46.5	43.3	3.2
Employees as of December 31 (absolute)	1,585	1,625	-40

T. 02 **SUSTAINABILITY KEY FIGURES**

KG PER TON OF FEEDSTOCK	2020	2011 (Reference value)
CO_2 emissions (kg/t)	391.2	385.6
Waste (kg/t)	2.68	3.09
Wastewater (l/t)	673.8	861.2

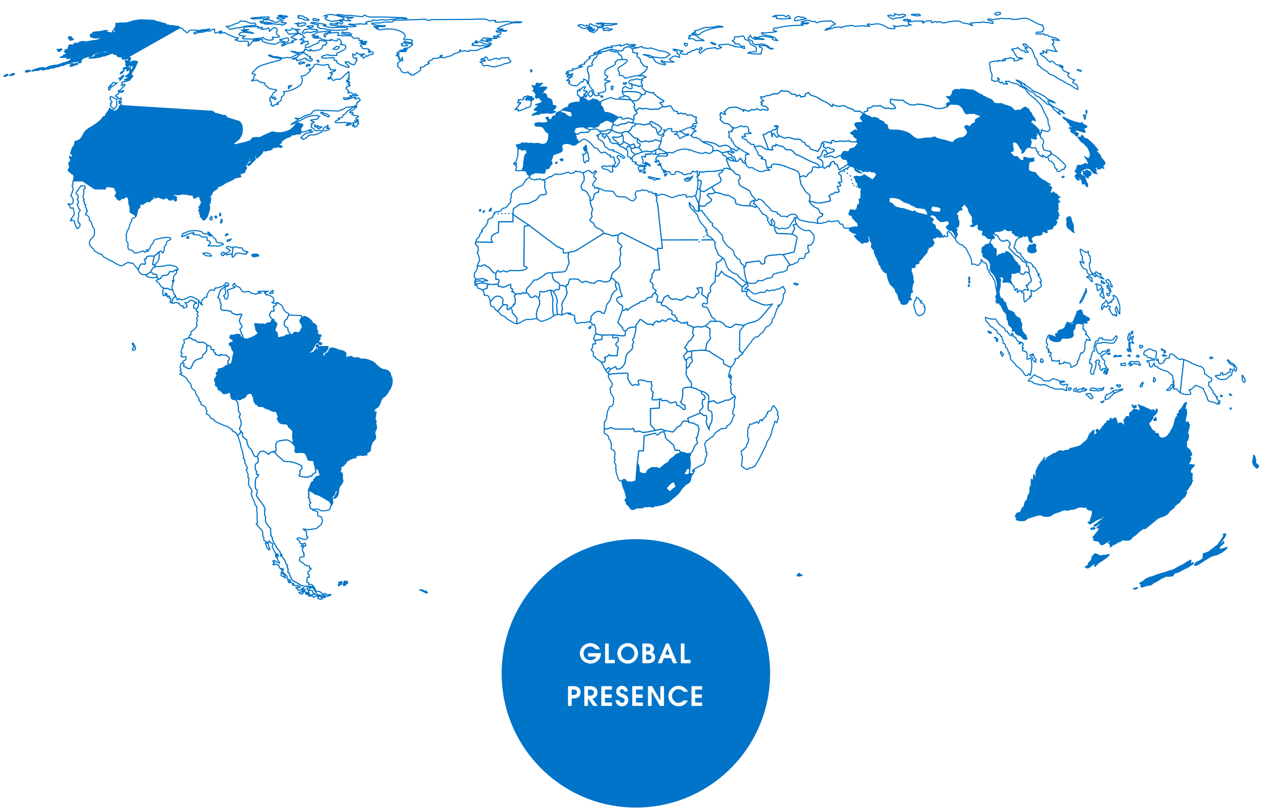
873.0
MILLION EUROS IN SALES 2020

55.8
MILLION EUROS EBITDA 2020

1,585
EMPLOYEES 2020

OUR
MISSION STATEMENT

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



OUR
BUSINESS MODEL

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

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

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

PETROLEUM JELLIES **& WHITE OILS**

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

COSMETIC & PHARMACEUTICAL **SPECIALTIES**

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

WAXES **& EMULSIONS**

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

PROCESS **OILS**

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

CABLE **FILLERS**

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

MINERAL-OIL TRADE **& INDUSTRY**

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

CONSTRUCTION **INDUSTRY**

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

PLASTICS

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

NIELS H. HANSEN
Sole Managing Director

DEAR SHAREHOLDERS,
DEAR READERS,
DEAR EMPLOYEES,

Welcome to a new edition of our company report. The 2020 annual report truly has a lot to tell. But before I get into the details, I would first like to express my hope that you have all come through the Covid-19 pandemic reasonably well and, above all, in good health. Some of you have been with H&R for a few years now, some of you for many years. Together we have to conclude that we have not experienced anything like this in the last few decades of our history.

Last year, the cause of the worst economic and social challenge in German post-war history was incredibly tiny. The effects, however, were gigantic. If we were to name our most-hated terms of 2020 at H&R, “Covid-19”, “hard lockdown” and “7-day incidence” would certainly be at the top of the list.

For your company, this meant that in addition to the already complex issues in day-to-day business, the competitive global situation and the continuation of important innovation and transformation processes, new, no less demanding tasks also had to be mastered. For example, as many employees as possible had to be connected electronically in a short period of time. The norm until then of person-to-person interaction was replaced with remote working and modern conference technology. Meetings in the conference room became virtual get-togethers at every level, from departmental discussions to the regular meetings of the Supervisory Board. Even the Annual Shareholders’ Meeting of H&R KGaA was held as a purely virtual event in 2020 – a point that particularly concerned you, our shareholders. For 2021, we are planning on holding our Annual Shareholders’ Meeting in person and have again booked our old favorite, the Hotel Le Méridien, for July 9. Let us all keep our fingers crossed for this date and remain optimistic.

The pandemic runs like a thread through this annual report. It is reflected as an aspect of our social and corporate responsibility towards our employees, customers and suppliers in our non-financial and sustainability report as well as in the explanations of the business and earnings development in the management report.

As a responsible company with a strong family character, our primary goal was to have effective health and safety measures in place for the employees at our refinery sites. We achieved this goal in an impressive manner last year. Our workforce remained Covid-free at almost all sites, including the sites outside of Germany.

This contributed to H&R KGaA's earnings trend, which in the end was economically robust and can definitely be described as successful given the enormous challenges we faced.

We started last year with the expectation of achieving operating income of up to €65.0 million. In the first quarter, we were still largely on course for this. However, even in this period there were increasing signs of a rapid deterioration of the situation. This then became a reality in the second quarter. At the end of the second quarter we were only able to record a positive contribution to income for two weeks in June, so we had to adjust our expectations downwards. In mid-2020, hardly anyone would have bet on an improvement in the second half of the year. Closures in key German industries and high uncertainty about the sales volumes required by our customers not only negatively impacted H&R but the entire German economic structure.

The recovery in the second half of the year was all the more gratifying.

Low infection figures over the summer and an early pick-up in the Chinese economy created more optimism in many of our customers' industries and caused sales volumes to increase significantly. At the same time, H&R benefited from this development with overall adequate prices as customers primarily relied on supply security and were less price-sensitive. Consequently, we adjusted our expectations once again, this time with an upward trend. We are very pleased that, at the end of the year, we even exceeded our last forecast with an EBITDA of €55.8 million. The strength of the final quarter was also rather remarkable, contributing operating income of €25.1 million to the full-year EBITDA. This was the highest quarterly figure in years.

The business recovery in the second half of the year provided good conditions for a successful start to the 2021 financial year. The figures for the first quarter will probably be published at the same time as this annual report. And indeed, our good performance seems to be continuing in the first quarter. However, let none us of forget that the pandemic did not end on New Year's Eve. Many challenges remain and will continue to bring negative impacts well into the year and beyond.

Nevertheless, a degree of optimism should be allowed. New and, above all, more vaccines should continue to improve the health of people worldwide and, by extension, of our staff. The lessons learned from the two waves of infection we have come out of so far will continue to urge us to be cautious in the months ahead. If we can continue on the successful path we have taken so far, we should be able to harness our potential somewhat better this year. We therefore currently expect our operating income to be in a range between €60.0 million and €75.0 million.

Before I recommend that you continue reading the annual report, I would like to once again thank you, our shareholders, our customers, our suppliers, and, this year especially, our employees. As you will read in our sustainability report, it is our employees who, in all kinds of ways, ensure that our Group remains on course even in challenging times. In the past year, their daily work has demanded a lot from them. It is particularly important to me this year to expressly thank them once again for this!

We wish you all the very best and please stay safe.

Executive Board of H&R KGaA

Niels H. Hansen
Sole Managing Director

Salzbergen, March 2021

Company Representative Bodies

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

Executive Board

As the general partner with full personal liability, H&R Komplementär GmbH is responsible for managing H&R GmbH & Co. KGaA. It runs the business and manages the company. In the 2020 financial year, the Executive Board comprised the following member:

Niels H. Hansen
Sole Managing Director

The Supervisory Board

The Supervisory Board of H&R KGaA is responsible for the supervision of the Executive Board. In financial year 2020, the Supervisory Board of H&R KGaA comprised the members listed below. The Chairman of the Supervisory Board of H&R KGaA is Dr. Joachim Girg.

Chairman of the Supervisory Board

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

Members of the Supervisory Board

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

Sabine U. Dietrich
Graduate Engineer,
Member of the Executive Board of Commerzbank AG,
Member of the Executive Board of MVV Energie AG

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

Dr. Hartmut Schütter
Consulting Engineer

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

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

Holger Hoff
Works Council Chairman of H&R Ölwerke Chemie GmbH & Co. KG

Harald Januszewski
Former employee and Works Council Chairman of GAUDLITZ GmbH

The Advisory Board

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

Eckbert von Bohlen und Halbach
Managing Director of Bohlen Industrie GmbH

Dr. Erwin Grandinger
Entrepreneur

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

Dr. Mazdak Rafaty
Entrepreneur

Wilhelm Scholten
Managing Director of Ölfabrik Wilhelm Scholten GmbH

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

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

DR. JOACHIM GIRG
Chairman of the Supervisory Board

Supervisory Board Report

Dear Shareholders, dear Readers,

In this report last year, I told you that 2019 had been a difficult financial year for the entire refinery sector. The gloom in the industry had already begun the year before. Increasing legal requirements as well as economic and political conflicts made it even more difficult for companies to operate. Accordingly, the results for 2019 did not meet our expectations. At the same time, however, I expressed my confidence that by implementing certain measures, such as the optimized flexibility of our production processes in the refineries and targeted investments, we would present better income again in the future. Unfortunately, this did not happen in the one hundredth year of the H&R Group's existence:

I. With an EBITDA of €55.8 million, the previous year's figure increased by just over 5% only. At the same time, sales fell by almost 20% to €873.0 million.

II. The investments made in previous years at the Hamburg and Salzbergen sites have not yet been able to fully compensate for the increased depreciation and amortization.

III. The international sales segment again proved to be reliable at delivering results, although the development of planned new sites was slower than expected.

Nevertheless, we are not completely dissatisfied with our income for the 2020 financial year. And you can probably already guess why. The Covid-19 pandemic and its effects have of course also left their mark on H&R GmbH & Co. KGaA and destroyed plans and goals for the entire 2020 financial year very early on. Above all, the efforts to contain the infection during the first wave in the spring of 2020 – and I am only mentioning the temporary closure of important key industries such as the automotive industry as a representative example here – led to new consultations on refinery operations and how to maintain production on an almost daily basis. Seen from this perspective, the above results can also be presented in a completely different way:

I. The EBITDA trend in 2020 took the shape of a mathematical root sign (√). After some initial good and positive weeks at the beginning of the year, income deteriorated continuously until the summer. From August onwards, this trend turned around. In the months from October to December alone, EBITDA hit a true record compared to the last five or six quarters, recording over €25 million.

II. Thanks to the investments and increased flexibility, the refineries were able to operate continuously and without unplanned downtime in the past year. Although the demand for our main product groups developed very differently – some products such as waxes and paraffins were even more in demand during the pandemic, while others fell back to a very low percentage of the usual sales volumes – H&R proved to be a reliable partner even in times of crisis.

III. Even though the regional and global effects of Covid-19 had a strong impact on the international sales segment, new projects and partnerships were consistently pursued. For example, the acquisition of a new site in Malaysia was delayed by several months, but should nevertheless be successfully completed in the first half of 2021. Overall, the management and Supervisory Board see the course of the Covid-19 pandemic so far as confirmation of their view that the international business will be able to achieve the largest earnings gains in the coming years.

The net loss for 2020 in the separate financial statements pursuant to the German Commercial Code (HGB) of H&R GmbH & Co. KGaA in the amount of €1.6 million reduces the profit carried forward of €14.1 million to a distributable profit of €12.5 million as at December 31, 2020. H&R GmbH & Co. KGaA would thus theoretically be in a position to distribute a dividend for 2020. Following intensive discussions with the Executive Board, however, we concurred that it would once again be better not to propose a dividend payout for the past financial year, but to carry the full amount of the distributable profit forward. The reasons given last year for prudent and liquidity-preserving management remain unchanged:

I. The volatility on the raw materials markets is continuing unabated.

II. Even after a very good fourth quarter in 2020, the consequences of the Covid-19 pandemic cannot yet be conclusively assessed.

III. Even though the moves to enhance our refinery operating model have not involved a need for any significant investments to expand or replace capital assets to date, we expect to have to make adjustments to tank and logistics capacities.

Another reason for the proposal to refrain from distributing a dividend is the loan conditions for a binding commitment received from KfW on December 15, 2020, for a KfW Entrepreneur Loan in the amount of €40.0 million. With the additional funds, the Executive Board intends to supplement existing financing instruments to ensure the liquidity of the company even in the event of a prolonged or worsening Covid-19 pandemic. One of KfW's conditions for the commitment is that no dividend distributions be made during the term of the loan or until it is repaid in full.

Key Focal Points of Supervisory Board Work

In the 2020 financial year, the work performed by the full Supervisory Board and its committees focused on the following five key topics:

The all-dominant topic unsurprisingly concerned the consequences of the **Covid-19 pandemic** from March 2020 onwards. The Executive Board took the stance of expecting the worst and hoping for the best, and thus ordered a large number of surgical face masks and high-quality FFP2/3 masks for H&R staff from the Chinese office at the beginning of February as a precautionary measure. One hundred years ago, in Hansen & Rosenthal's early days, the Spanish flu raged until 1920. Even though H&R has had to deal with the consequences of a pandemic once before in its history, we could never have envisaged the extent of the challenges and effects of Covid-19. Our efforts focused first and foremost on the health of our employees and the prevention of coronavirus outbreaks in H&R operations.

The closure of national borders as well as entire industrial sectors and the temporary lockdown of our daily lives affected every area of our day-to-day work. This started with getting to work and ensuring good and safe working conditions, but also affected the sourcing of raw materials, maintaining our coupled production process, distribution and the physical delivery of ordered goods. Despite this, we managed to keep the refineries running on schedule and did not experience coronavirus outbreaks at any of our global H&R sites, with one exception. At our plastics processing plant in Coburg, GAUDLITZ GmbH, temporary plant closures at the sites of our most important customers in the automotive industry made it necessary to tighten up the restructuring measures initiated in previous years at an early stage. One final comment on face masks: The Executive Board donated high-quality FFP2/3 masks to the city of Hamburg for its medical staff.

Health is closely associated with the next topic – the ever-present issue faced by our Supervisory Board – **safety**. First of all, the personal health and safety of employees and partners has top priority. However, plant and process safety at H&R sites is just as important. Although H&R GmbH & Co. KGaA performs slightly better than the industry average in this respect, two accidents at the end of the year involving people tripping and a fire in a distillation plant in Salzbergen in May – which was quickly brought under control and extinguished – show that there is always opportunity for improvement. Our main aim is still to achieve zero accidents at all H&R Group sites.

At the beginning of the year, we still assumed that the **further development of the refinery operating model** would be the main topic of Supervisory Board activity in 2020. After extensive preliminary work, this has been in the process of implementation and realization since the fourth quarter of 2019. However, Covid-19 delayed the development of new raw material sources due to temporary plant closures by suppliers. In addition, strong fluctuations and disparities in the demand for individual product groups presented management with new challenges in refinery operations on a daily basis. Close collaboration with our main distribution partner paid off here. The contract-production model at the Salzbergen site proved its worth once again on the earnings side, especially during the difficult summer months. In addition to sales performance, the increased flexibility was a decisive factor in the improved earnings from late summer 2020 onwards.

As well as optimizing our national production sites, we have also not lost sight of the quest to further expand our **international business,** our most stable earnings driver over the last decade. Our medium-term objectives are to safeguard and, wherever possible, further step up our activities in our established locations, and to expand our sales activities in North and Latin America, Africa and India. We have placed a special focus on the South East Asian region.

GAUDLITZ GmbH's business development and performance was significantly influenced by Covid-19 and its impact on the automotive sector. As a result, the extensive restructuring measures implemented at the company headquarters in 2019 did not produce the planned income, especially at the beginning of the pandemic and into the summer. Short-time work was agreed early on for large sections of the workforce. It remains to be seen whether positive business development in the second half of the year will be consistent and thus a sustainable positive course can still be set for the former core company of WASAG Chemie AG, as it was previously called.

Objectives and Composition of the Supervisory Board

According to the legal makeup of H&R GmbH & Co. KGaA, the scope of duties of our company's Supervisory Board is essentially concentrated on exercising control functions and performing an advisory role. In contrast to companies with the legal form of a public limited company (AG), the Supervisory Board of a limited liability company (KGaA) has no statutory co-determination rights when it comes to, e.g., major investment projects or defining the company's strategy, and no human resources competencies regarding the managing directors (e.g., their appointment or dismissal, extending, altering or terminating contracts, and dealing with matters relating to their remuneration). At H&R GmbH & Co. KGaA, this function is performed by an Advisory Board of the company acting as the general partner, which has been composed of independent members of the Supervisory Board since it was set up as part of the change in legal form.

As the 2018 and 2019 reports of the Supervisory Board provided detailed information on the objectives, requirements and composition of the Supervisory Board of H&R GmbH & Co. KGaA, only two new topics will be briefly described below. Interested parties are welcome to download and view the reports of the Supervisory Board in the 2018 and 2019 annual reports on the company's website if need be. The statements made therein continue to apply unchanged.

We review the objectives and composition of the Supervisory Board once a year and, if necessary, adjust or elaborate them. This was last done on April 20, 2021.

As previously announced, the Supervisory Board member Dr. Peter Seifried voluntarily stepped down from his position one year before completing his five-year term of office so that a woman could be elected. At the Annual Shareholders' Meeting on May 24, 2019, the shareholders elected Sabine U. Dietrich as a new member of the Board. The fulfillment of our diversity goals, and in particular the ratio of women of at least 20% is generally seen as the joint responsibility of the shareholder and employee representatives. Employee representatives Reinhold Grothus and Harald Januszewski were elected by the employee representatives in 2018 for a five-year term of office. Mr. Grothus is now in his twentieth year as a member of the Supervisory Board and Mr. Januszewski accepted a severance pay offer made by GAUDLITZ GmbH on October 31, 2019, as part of staff reduction measures. He ceased to be an employee of the H&R Group as of this date, but nevertheless intends to continue to exercise his Supervisory Board mandate.

In order to take into account the constantly increasing national and international legal requirements and to closely monitor the implementation of new requirements and their consequences for our company, it was unanimously decided at the meeting on October 29, 2020, to establish a new Supervisory Board committee. Going forward, this committee will also focus on related party transactions. For this reason, the name of the new committee is “Committee for Related Party Transactions and Other Legal Issues”. The new committee has four members. A substitute member was elected in case of a conflict of interest.

T.03 **SUPERVISORY BOARD COMMITTEES OF H&R GMBH & CO. KGAA AND THEIR COMPOSITION AT THE END OF 2020**

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

General Information About Supervisory Board Activities

The Supervisory Board diligently and conscientiously performed the supervisory and advisory duties required by law, the Articles of Association and internal rules of procedure. During financial year 2020, the Supervisory Board and the Executive Board had a good, intensive working relationship. The Executive Board kept the Supervisory Board Chairman informed about all important issues on a regular basis and in a timely manner. The Supervisory Board and the Executive Board also stayed in close contact outside meetings in order to ensure a constant flow of information and an exchange of opinions.

In addition, the Supervisory Board Chairman took part in the meetings of the Executive Committee (formerly known as Executive Board meetings) at regular intervals. From March 25 to the end of April, he also joined the daily conference calls discussing coronavirus updates. The topics discussed included protective measures taken and planned, the sales development of individual product groups and refinery operations, the situation at GAUDLITZ GmbH, the effects of the temporary closure of a site, short-time working options, etc. Significant developments and new management tools were swiftly passed on to the Supervisory Board members.

Topics Discussed by the Full Supervisory Board

A total of six Supervisory Board meetings were held in 2020. The high level of commitment of the committee members is reflected in an attendance rate of 91%. Of the five absences in 2020, two absences on February 10, 2020, were due to hurricane-related flight and train cancellations, one absence at the August meeting was due to bereavement, and one absence on October 29, 2020, was due to an inpatient treatment relating to illness. The attendance rate for the meetings of each of the three committees was 100%.

It is a well-established practice to hold each regular Supervisory Board meeting according to a specific schedule. In addition to the approval of the minutes of the last meeting, relevant information from production and administration is reported, as is news from committee meetings or discussions with the Executive Board that have taken place in the meantime. The recurring meeting items close with the current course of business and deviations from the current budget. In 2020, three other topics were discussed at all meetings. In order to keep the number of repetitions to a minimum in the following list of meeting topics, these should be mentioned briefly in advance:

I) Increased flexibility in the production processes of our refineries – measures currently being implemented and their effects.

II) GAUDLITZ GmbH in Coburg – above all the further measures and developments at the company headquarters. With the exception of the first two meetings, the Executive Board was present at all meetings of the full Supervisory Board and at the majority of the meetings of the Audit Committee. As a result of the coronavirus pandemic and the temporary closure of German car plants in the first wave, this point took on additional significance.

III) Coronavirus pandemic (as of the second meeting) – hygiene measures implemented, level of illness/employees in quarantine, capacity utilization and maintenance of production and sales, further action.

In the past financial year, the Chairman of the Supervisory Board again conducted safety tours at both refinery sites in Salzbergen and Hamburg in compliance with existing coronavirus regulations.

The first meeting in 2020 was scheduled for **February 10, 2020**. Although, at that time, Deutsche Lufthansa and other European airlines had already temporarily stopped their flights to China because of Covid-19, the Robert Koch Institute (RKI) saw only low to moderate risk for the population in Germany. Due to Storm Ciara raging over Europe on February 9 and 10, 2020, this meeting also took place mainly by telephone – and was in fact the first video conference. In addition to the recurring items on the agenda, the meeting covered the status of the 2019 annual financial statements, a review of the past financial year and the status of the measures to increase the flexibility of the production processes at our two refinery sites. On this latter point in particular, the company considered itself well equipped to realize an earnings target of **€65–70 million** in 2020 as a whole. The first figures of the new financial year showed a trend in the right direction.

The second Supervisory Board meeting, which was held on **April 7, 2020,** was used to discuss the annual financial statements for 2019. After the necessary supporting documents had first of all been discussed by the Audit Committee on March 23, 2020, in the presence of the auditor, the documents were then made available to all Supervisory Board members from this date. Following extensive reading of the documents, the audit reports were debated with the auditors at the meeting. On the recommendation of the Audit Committee, the Supervisory Board approved the company's annual financial statements and the consolidated financial statements after a thorough review. Furthermore, the Board members looked at the 2019 non-financial Group report and the 2019 subordinate status report. After the internal audit had again not revealed any need for additions or changes, the publication of the 2019 non-financial report in its submitted form was unanimously approved.

On the recommendation of the Audit Committee, the Supervisory Board decided to propose that the Annual Shareholders' Meeting appoint Warth & Klein Grant Thornton AG Wirtschaftsprüfungsgesellschaft, Hamburg, as auditors of the financial statements and the consolidated financial statements for financial year 2020. Although H&R GmbH & Co. KGaA achieved distributable profit of **€14,075,445.85 million** based on the separate financial statements pursuant to the German Commercial Code (HGB), which would, at first glance, appear to offer potential for distributing a dividend, the Supervisory Board decided, following intensive discussions with the Executive Board, to propose to the Annual Shareholders' Meeting that the distributable profit for the 2019 financial year be carried forward in full to new account, and that no proposal be made regarding the payment of a dividend. Liquidity conservation due to the uncertain effects of the coronavirus crisis, the persistence of volatilities on the commodity markets and the expected changes to tank and logistics capacities were the reasons for this approach.

In addition, the 2019 Supervisory Board Report and the recommendation made by the Nomination Committee to nominate Sabine U. Dietrich for reelection as a Supervisory Board member at the Annual Shareholders' Meeting was discussed and unanimously approved. The same applies to the agenda and other resolution proposals made by the Supervisory Board to the 2019 Annual Shareholders' Meeting. In this context, intense discussions were held on whether to keep

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

	Name	Dr. Joachim Girg	Roland Chmiel	Sabine U. Dietrich	Reinhold Grothus
	Age	**56**	**63**	**60**	**60**
	Function	Chairman of the Supervisory Board; representative of the majority shareholder	Deputy chairman; independent financial expert	Independent member of the Supervisory Board	Employee representative; Group works council chairman H&R GmbH & Co. KGaA; works council chairman H&R ChemPharm Group, Salzbergen
	Occupation/Professional Background	MBA	MBA; Certified Public/Chartered Accountant	Graduate Engineer	Chemical Technician
Profile requirements	**Family-run SME, capital market operator**	x	x		
	Refinery business & petroleum specialty products; plastics			x	x
	Application research & product development				
	Production; marketing; sales/distribution; digitalization, sustainability			x	
	Internationality	x		x	
	Accounting & auditing	x	x		
	Controlling & risk management	x	x	x	
	Financing & capital market	x			
	Law & taxes		x		
	Boards*	Audit Committee; RTS; Nomination Committee	Audit Committee (Chairman)	Audit Committee; RTS	none
	On the panel since/elected until	September 2011/Annual Shareholders' Meeting 2022	May 2011/Annual Shareholders' Meeting 2021	May 2019/Annual Shareholders' Meeting 2025	2001/Annual Shareholders' Meeting 2022
	Panel activity (# meetings/participation)	Meetings 6/6 Boards 9/9	5/6 7/7	6/6 8/8	5/6 –
	Additional board functions	none	TW Beteiligung AG, München: member of the supervisory board	COMMERZBANK AG, Frankfurt; MVV Energie AG, Mannheim; Member of the Supervisory Board	none

* The committee for transactions with related parties and other legal issues, which was newly established in 2020, was not yet operational in the financial year and is therefore not included in this overview.

Sven Hansen	Holger Hoff	Harald Januszewski	Dr. Hartmut Schütter	Dr. Rolf Schwedhelm
52	63	58	76	65
Majority shareholder, entrepreneur	Employee representative; works council chairman H&R Ölwerke Schindler, Hamburg	Former employee representative; former works council chairman GAUDLITZ GmbH, Coburg	Independent member of the Supervisory Board	Independent member of the Supervisory Board
Industrial Manager (degree in Business Administration)	Trained retail salesman	Plastics and Rubber Process Mechanic	Certified Engineer; Independent consultant	Attorney; Specialist lawyer (tax law)
x				x
x	x	x	x	
x			x	
x			x	
x				
				x
				x
RTS; Nomination Committee (Chairman)	none	none	RTS (Chairman)	Audit Committee; Nomination Committee
August 2016/Annual Shareholders' Meeting 2022	September 2011/Annual Shareholders' Meeting 2012, May 2017/Annual Shareholders' Meeting 2022	May 2012/Annual Shareholders' Meeting 2022	May 2013/Annual Shareholders' Meeting 2023	May 2011/Annual Shareholders' Meeting 2021
6/6 6/6	6/6 –	4/6 –	6/6 5/5	5/6 8/8
none	none	none	none	Deutsche Anwalt Akademie Gesellschaft für Aus- und Fortbildung sowie Serviceleistungen mbH, Berlin: chairman of the supervisory board

the scheduled date for the Annual Shareholders' Meeting on May 29, 2020, and to make use of the possibilities of holding a virtual Annual Shareholders' Meeting or to postpone the Annual Shareholders' Meeting to a later date in the year. After weighing up all the advantages and disadvantages, the unanimous decision was made to take the necessary steps to hold a virtual Annual Shareholders' Meeting. The meeting closed with a discussion on the composition of the Supervisory Board, taking diversity into special consideration.

On **May 28, 2020,** the day before the Annual Shareholders' Meeting, the Supervisory Board held its third meeting and focused on three main topics. The first topic concerned the status of the implementation of the recommendations and suggestions for improvement from the last audit of the annual financial statements. In addition, the Executive Board presented and intensively discussed possible refinancing measures for different pandemic scenarios. The agenda was rounded off by an update on the state of preparation and probable course of the virtual Annual Shareholders' Meeting the following day.

The fourth meeting of the Supervisory Board focused on the economic situation of the company after the first half of the year as well as discussions about the business development and performance of our international sites in the United Kingdom, Benelux and South Africa during the coronavirus pandemic. It took place on **August 12, 2020.** After the first wave of the pandemic had subsided, this was the only face-to-face meeting in 2020 at which at least seven Supervisory Board members and the Executive Board physically met – in compliance with the recommended coronavirus regulations. Nevertheless, this meeting was also conducted as a video conference and the managers of the above-mentioned branches tuned in to certain agenda items. After a short briefing on current events in each country and the impact on our business development and performance, the established protective measures and strategic impact on local business were discussed. The Board also discussed what had happened so far since the United Kingdom left the EU on January 31, 2020. Another important item on the agenda was the report on a fire at distillation plant 1 at the refinery in Salzbergen, the response to it and its economic consequences.

In the fifth Supervisory Board meeting, held on **October 29, 2020,** the Supervisory Board dealt with the impact of the pandemic on our Asian subsidiaries, especially in China and Thailand. As in the August meeting, the situation on site, measures introduced, adjustments to our 2020 business plan and medium-term strategic effects were discussed with the management team, who had tuned in to the meeting. The second topic of the meeting was a review of the measures to increase flexibility in the refinery processes of our two production sites in northern Germany, a process we had started twelve months earlier. The last item on the agenda was an update on legal developments in Supervisory Board activities. In collaboration with a lawyer from a renowned international law firm, detailed discussions were held on current governance issues, the effects of the Covid-19 pandemic, news about insider trading law and ad hoc requirements, the effects and significance of environmental, social and governance (ESG) criteria as well as requirements of the planned new German Association Sanctions Act (VerSanG).

The 2020 series of meetings was concluded with the sixth session held on **December 8, 2020.** As in previous years, the meeting focused on a review of the current financial year, the 2021 budget, and the five-year mid-term planning. The updated statement of compliance and the implementation of the efficiency audit were discussed intensively, and the former was also unanimously adopted. As a result of the legal issues discussed earlier in the meeting, the members of the Supervisory Board also unanimously decided to establish a new Supervisory Board committee to deal with current legal requirements and their impact on our company, and related party transactions. The Chairman of the Supervisory Board was instructed to have the internal rules of procedure of the Supervisory Board amended accordingly. Since the end of 2020, interested parties have been able to view these on the company's website under "Investor Relations / About the KGaA / Supervisory Board", as well as brief CVs of the individual Supervisory

Board members and the Board's profile requirements.

The Work of the Supervisory Board Committees

In 2020, a total of nine committee meetings were held, including three meetings of the Audit Committee, one meeting of the Refinery Technology and Strategy Committee (RTS) and one meeting of the Nomination Committee. Four combined meetings of the RTS and the Audit Committee were also held. The latter dealt with developments and measures to increase the flexibility of our refinery operating model, the consequences and effects of the coronavirus pandemic, and further investment in our Green Refinery target. A physical meeting of the Audit Committee was also held in Cologne without the participation of the Executive Board on June 30, 2020.

There were no absences at any of the committee meetings held in 2020, putting the attendance rate at 100%.

Audit Committee

The Audit Committee held a total of seven meetings in financial year 2020, four of which were held jointly with the Refinery Technology and Strategy Committee (RTS).

As is the case every year – one key area of the committee's work was discussion of the annual financial statements and the combined management report for H&R GmbH & Co. KGaA and the Group, the non-financial Group report, the subordinate status report and the proposal for the appropriation of net income. These documents relating to the 2019 financial year were discussed in detail with the auditor and the Executive Board. The Audit Committee then gave the Supervisory Board its recommendations regarding approval of the financial statements for financial year 2019 and the proposal to the Annual Shareholders' Meeting concerning the appropriation of net income and the election of the auditors for financial year 2020.

The Audit Committee's work also particularly included issuing the audit engagement to the auditors elected for financial year 2020, defining the focal points of the audit and determining the auditing firm's fees. The course and results of the audit of the financial statements were also followed, discussed and evaluated in a timely manner. Regarding the monitoring of the auditors' impartiality and qualifications, the Audit Committee implemented appropriate measures to ensure that it is notified in a timely manner of intended letters of engagement to the auditors and/or to members of the auditing firm's network regarding non-audit services. After assessing the admissibility of such services and/or potential risks they might pose to the auditors' independence, the letters of engagement were approved in advance in each case, provided that they were found to be unobjectionable.

The Audit Committee also dealt with individual aspects of the internal control system and the Group's compliance and risk management system, the activity reports of the Internal Audit department, the regular reports on the risk situation and topics relating to data protection. Individual and procedural questions regarding the assessment of related party transactions (RPT), the completion of the tax compliance system and, above all, the external audit of the Group-wide IT system were some of the key points discussed. The committee also took a close look at business performance, personnel and restructuring measures in the Plastics division. Other topics of discussion included – particularly given the ongoing Covid-19 pandemic – the development of the net assets, financial position and results of operations, as well as the liquidity situation, budget planning for the coming financial years, possible financial effects of the implementation of the refinery operating model, trends in non-financial and sustainability reporting, and the statement of compliance with the German Corporate Governance Code (GCGC). For the purposes of self-assessment of the Supervisory Board and its activities, the assessment procedure applied to date involving a detailed questionnaire was again conducted for financial year 2020. Support for this internal solution by external consultants for the 2021 financial year is to be discussed in due course.
On top of the committee meetings, the Chairman of the Audit Committee, the Executive Board, the Head of Finance, and the Head of Internal Audit

held regular discussions to exchange information and coordinate their work. The Chairman also provided close support with the preparation and audit of the annual financial statements of H&R GmbH & Co. KGaA, the consolidated financial statements and the annual financial statements of individual Group companies, holding numerous discussions with the auditor in this regard. In addition, he visited the Group's site in Coburg in November 2020 and discussed the preparation and audit activities for the 2020 annual financial statements in detail with the local management team and the employees responsible, also discussing the business plan for the years from 2021 onwards.

Refinery Technology and Strategy

During the reporting year, the Refinery Technology and Strategy Committee held a meeting on February 10, 2020. Items on the agenda were the safety performance in the refineries in 2019, news and final reviews of individual major projects as well as current innovation considerations.

In the four meetings held jointly with the Audit Committee, the focus was on the further development and measures to increase the flexibility of our refinery operating model, the consequences and effects of the coronavirus pandemic and other investment projects relating to the Green Refinery target, as well as on safety issues. The agenda also includes the topics of the necessary medium-term set-up of our two refinery sites (April 7, 2020), technical processes for the reduction of sulphur dioxide and new processes for the production of TDAE (May 28, 2020), the causes and effects of the fire in destillation plant 1 at the Salzbergen site and possibilities for upgrading secondary extracts (August 12, 2020) and raw material analysis as well as the development and implementation of the VDU furnace project with flue gas cleaning (December 8, 2020).

Nomination Committee

After several preliminary discussions, the Nomination Committee met in Hamburg on February 10, 2020. At this meeting, the committee unanimously recommended to the full Supervisory Board that Sabine U. Dietrich be nominated for election again by the Annual Shareholders' Meeting on the basis of her personality, teamwork skills, integrity, impartiality and professional qualifications. Ms. Dietrich had already been appointed to the Supervisory Board by the Annual Shareholders' Meeting in the previous year because Dr. Peter Seifried voluntarily resigned from office one year before the end of his elected five-year term in order to more quickly achieve the quota for women set by the plenum itself. Reelection was therefore necessary after the end of Dr. Seifried's term of office.

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

Warth & Klein Grant Thornton AG Wirtschaftsprüfungsgesellschaft, Hamburg, audited the annual and consolidated financial statements and the combined management report for H&R GmbH & Co. KGaA and the Group for financial year 2020 and issued an unqualified audit certificate for each.

The annual financial statements for H&R GmbH & Co. KGaA and the combined management report for H&R GmbH & Co. KGaA and the Group were prepared in accordance with the requirements of the German Commercial Code (HGB). The consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and the additional requirements as set forth in Section 315(a), paragraph 1 of the HGB. The auditors carried out the audit in accordance with Section 317 HGB and the generally accepted auditing principles promulgated by the Institute of Public Auditors in Germany (IDW). The Executive Board distributed the aforementioned documents to the Supervisory Board in good time. The annual and consolidated financial statements and the combined management report were explained and discussed in detail by the auditor at the Audit Committee meeting on April 8, 2021.

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 on the financial statements held on April 20, 2021. The auditors reported on particularly important audit matters, the main findings of their audit and confirmed that the internal control and risk management system had no major weaknesses as far as the accounting process was concerned. In addition, the auditors talked about significant transactions and decisions that had been taken concerning accounting policies. At the plenary meeting, the Chairman of the Audit Committee gave an extensive report on the Audit Committee's review of the annual and consolidated financial statements.

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

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

The Executive Board has prepared a separate non-financial Group report for the 2020 financial year – as part of a broader sustainability report – in accordance with the provisions set out in Sections 289b et seq. in conjunction with Sections 315b et seq. HGB, which is published on the company's website. The Audit Committee and the entire Supervisory Board duly examined this report with regard to the correctness and appropriateness of the reporting. This assessment did not give rise to any objections.

The report prepared by the Executive Board pursuant to Section 312 AktG on relationships with affiliated companies (subordinate report) was also audited by the auditor. The auditors informed the Supervisory Board of the outcome of the audit and issued the following auditors' opinion:

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

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

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

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

Stay safe.

On behalf of the Supervisory Board

Dr. Joachim Girg, Chairman

H&R in the Capital Market

Capital Markets and Share Price Performance

Capital Market Survives Another Year of Crisis

After a positive start to the year, veritable decimation of the capital markets followed in February and March due to the outbreak of the coronavirus pandemic. The global lockdown in spring led to an unprecedented slump in economic output, putting share prices under extreme strain in the months of February and March in particular. This was counteracted with massive aid packages issued by governments and central banks, which allowed the stock markets to make a V-shaped recovery.

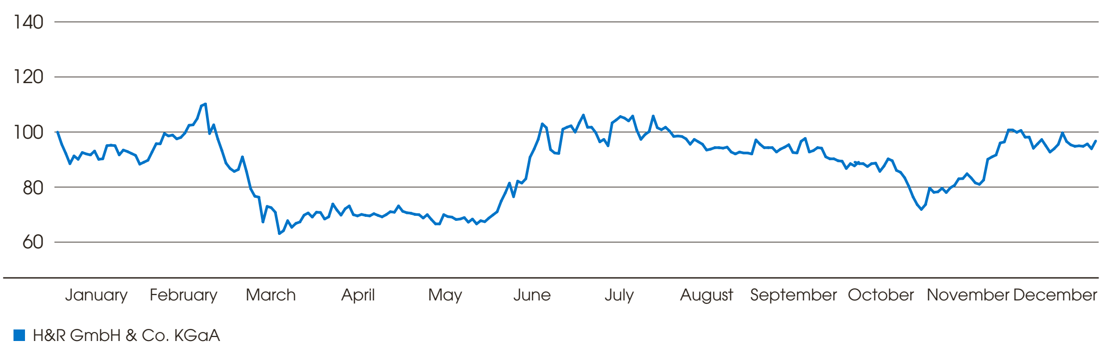
Over the year as a whole, the stock markets behaved as if there were no pandemic risks for investors. While the companies themselves did suffer from the economic and societal burdens, in some cases massively, and had to shoulder significant challenges in terms of their sales and income, share prices and in particular indices continued to rise. It was not until the second half of the year that this development was backed up by any substance, for example the improved figures and ongoing recoveries of many companies. Investor speculation was given a lift at the end of the year by the US elections and the vaccine development successes. At year-end, the DAX proved to be a “comeback kid” and performed like a boxer who not only avoids the inevitable knockout blow, but even ultimately wins by a small margin. The benchmark index consequently concluded the year approximately 3% above its January 2020 starting price.

H&R Share Price Stable at Year-end Following Major Ups and Downs

Joy and sorrow were closely intertwined for H&R KGaA’s shares once again last year. While the share, which started the year at €5.65, initially followed the general upward trend in the markets at the beginning of the year, even hitting a high for the year of €6.23 in February, it was driven down to a new all-time low of €3.56 in March as the dimensions of the pandemic became more apparent. Share prices increasingly recovered in the subsequent months, but remained under pressure due to the expectations for the year as a whole being revised downward midyear. The H&R share was only buoyed again when the significantly improved figures for the first nine months were published and there was the prospect of total comprehensive income for financial year 2020 being pleasing after all. The shares closed trading on December 30, 2020, at €5.47.

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

(INDEX 2.1.2020=100)



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

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

Number of Shares, Market Capitalization and Trading Volume

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

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

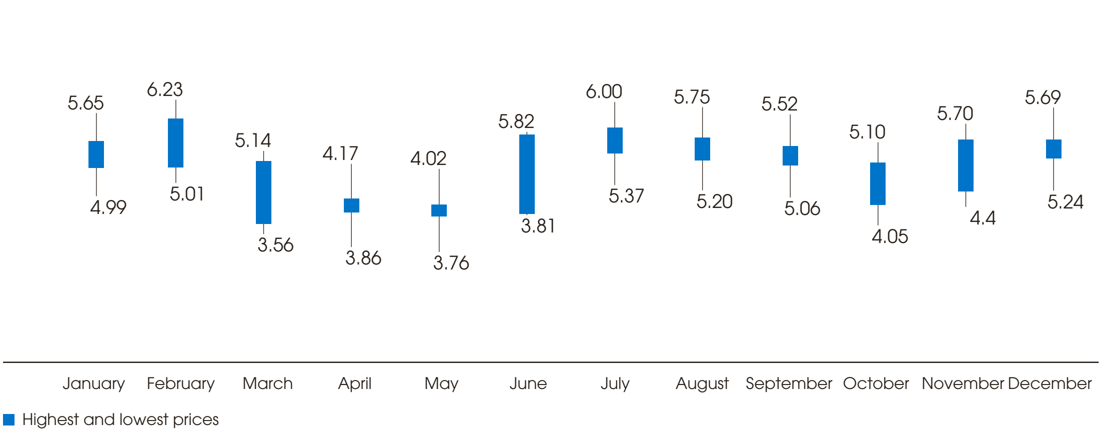
During the past year, interest in our shares was greater than in the previous year, with around 4.3 million shares in total being traded on the Frankfurt Stock Exchange and on Xetra. Another 2.8 million shares changed hands via Tradegate, Deutsche Börse's platform for private investors. There were therefore approximately 7.1 million traded shares in 2020, compared to 6.4 million in 2019. In terms of daily volumes and closing prices, the total trading volume stood at around €35.6 million.

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

	2020	2019	2018	2017	2016
Number of shares on December 31	37,221,746	37,221,746	37,221,746	36,536,553	35,820,154
Earnings per share	-€0.24	-€0.04	€0.59	€0.88	€1.06
Highest price for the year	€6.23	€7.99	€15.40	€15.91	€19.97
Lowest price for the year	€3.56	€4.93	€5.78	€11.49	€7.31
Price on December 31	€5.47	€5.22	€6.09	€14.60	€14.95
Market capitalization on December 31	€203.6 million	€194.3 million	€226.7 million	€553.4 million	€535.5 million
Average daily trading volume	€316 thousand	€162 thousand	€228 thousand	€436 thousand	€608 thousand

G. 02 **HIGHEST AND LOWEST PRICES OF THE H&R SHARE, FULL YEAR 2020/XETRA CLOSING RATES**

IN €



Shareholder Structure

We were not informed of any changes in the shareholdings of our majority shareholder in the financial year under review. According to an informal notification, the share of the company's share capital that is attributable to Mr. Nils Hansen corresponds to a total of 61.44% of the voting rights.

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

The remaining 32.5% of H&R shares were in free float as of December 31, 2020. Of these, around 5.8% were in turn held by institutional investors.

Investor Relations

The 2020 reporting year presented listed companies with numerous communication challenges. For example, important conferences and meetings were canceled or could not be attended – the priority of protecting people's health was reason enough for physical meetings to be precluded. At the same time, the convening of larger groups was prevented by changing legal parameters which were not always uniform. This had an impact first and foremost on the 2020 Annual Shareholders' Meeting, which we were compelled to conduct as a virtual event for the first time. Overall, our company acted cautiously like society in general and reduced personal interactions to a minimum. Management and the IR department fielded an especially large number of telephone calls from investors, who were quite keen to receive information about the company.

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

In 2020, analysts from Kepler Cheuvreux, Commerzbank, DZ Bank and Baader Bank covered our shares.

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

Kepler Cheuvreux
Baader Bank
DZ Bank
Commerzbank

We Would Like to Hear From You

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

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

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

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

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Fax: +49-40-4321-8390
E-mail: investor.relations@hur.com
Website: www.hur.com

COMBINED MANAGEMENT AND GROUP MANAGEMENT REPORT **OF H&R GMBH & CO. KGAA**

Group Fundamentals

Corporate Structure and Business Model

Sectors and Organizational Structure

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

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

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

Our Plastics segment primarily produces precision plastic parts. In addition to the segment's headquarters in Coburg, Germany, we also operate production sites in Eastern Europe and Asia. The customers buying our Plastics products include the automotive industry, the medical technology industry and other traditional industrial sectors.

Group´s Legal Structure

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

At the end of the reporting period, there were 44 consolidated subsidiaries (December 31, 2019: 42). The list of shareholdings can be found in the notes to the consolidated financial statements under "Scope of Consolidation and Holdings".

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

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

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

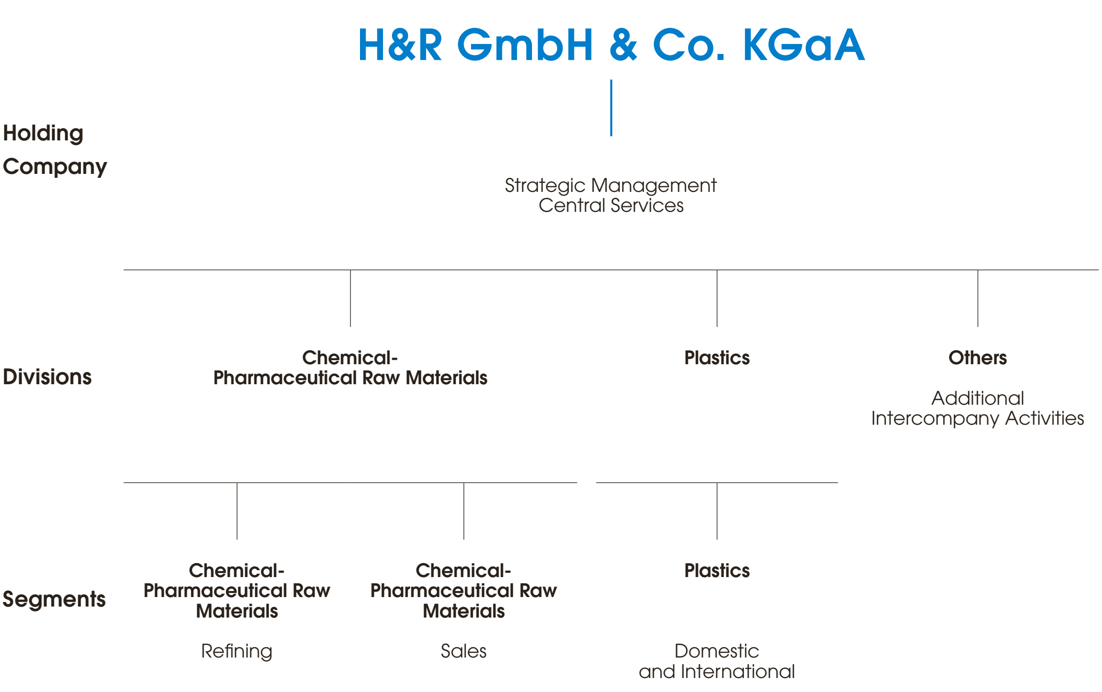
Sites

At year-end 2020, our Group employed 1,585 people worldwide (previous year: 1,625). The following overview shows our most important sites with more than 25 employees:

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

Continent	Country	City	Division	Employees
Africa	South Africa	Durban	ChemPharm	59
Asia	China	Wuxi	Plastics	121
		Ningbo/ Daxie	ChemPharm	119
		Fushun	ChemPharm	96
	Thailand	Bangkok/ Si Racha	ChemPharm	63
Europe	Germany	Hamburg	ChemPharm	302
		Salzbergen	ChemPharm	397
		Coburg	Plastics	147
	Benelux	Nuth	ChemPharm	28
	United Kingdom	Tipton	ChemPharm	47
	Czech Republic	Dačice	Plastics	109

G. 03 **OVERVIEW OF GROUP STRUCTURE**



Main Products, Services and Business Processes

In our domestic specialty refineries in the ChemPharm Refining segment, we primarily use petroleum-based raw materials. These are used to produce approximately 800 crude-oil-based specialty products: process oils, technical and medical white oils, paraffins and wax products. By-products and co-products produced as part of our processes are either processed to produce other high-quality crude-oil-based specialty products or are used in bitumen to build roads. Another part is sold on to other types of refineries as feedstock. At special filling facilities, we also mix lubricants based on well-known end customers' formulations.

We also refine crude-oil-based feedstock at the ChemPharm Sales segment's production plants. Production here focuses on environmentally friendly, label-free plasticizers and wax emulsions. Partnerships with local producers around the world allow us to avoid building our own refinery capacities.

Our Plastics segment produces high-precision plastic parts. This division is particularly skillful at producing complex plastic parts while using different types of materials simultaneously.

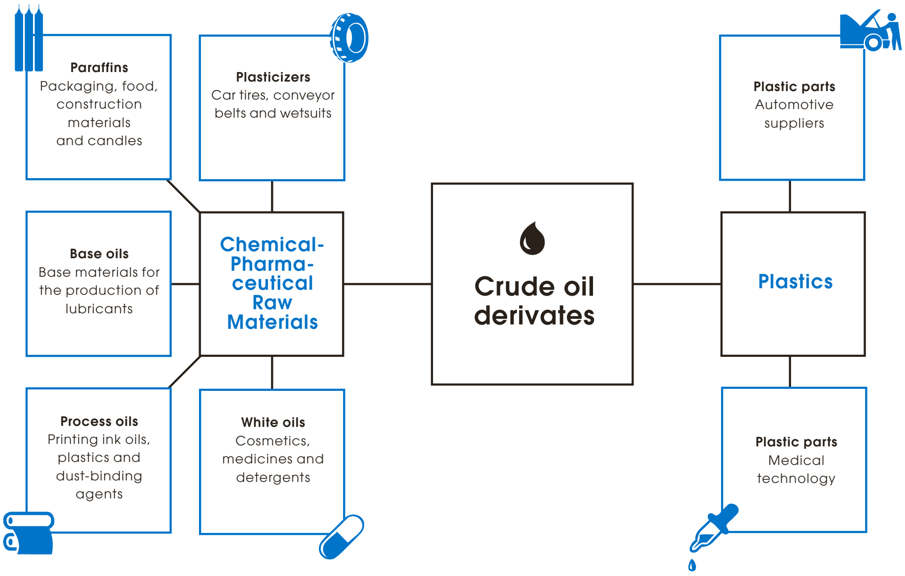
Objectives and Strategy

Key Sales Markets and Competitive Position

By consistently focusing on customer needs for decades, we have developed a solid market presence in the crude-oil-based specialty products business in our Chemical-Pharmaceutical Raw Materials division.

Our specialty products include, among others, environmentally friendly label-free plasticizers, which are used in the rubber blends of wellknown car tire manufacturers as well as in additional

G. 04 **CRUDE OIL SPECIALTIES**



rubber products. Our main competitors in this product area are the major oil companies.

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

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

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

The competitive situation for these specialty/core products in the past financial year can certainly be described as "challenging". A comparative biennial study published by the renowned US research organization HSB Solomon Associates LLC® (most recently in 2019), in which around 50% of the worldwide refinery capacity in the lubricants segment participated, recently rated H&R as being "well positioned competitively" with regard to the output structure of waxes and specialty products. The market as a whole nevertheless continued to be characterized by high base oil basic production capacity which considerably exceeded demand in 2020. Above all, the coronavirus pandemic had a significant influence on demand from major sectors such as the automotive industry and the mechanical engineering sector, which purchased considerably smaller volumes between April and May 2020 in particular due to the global impacts of the lockdown measures. In general, however, these products will remain in demand.

There was a similar situation in the specialty products markets: waxes and paraffins, which had already come under pressure from Chinese low-cost products in the previous year due to the USA's trade disputes with China, only began to improve significantly again in the summer.

As far as our by-products and combustion products are concerned, the situation varied from product group to product group: in some cases, the production process at our production sites in Salzbergen and Hamburg generated 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. Various combined by-products are also used as a raw material by other refinery operators. Demand and prices for these refined by-products known as cracker feed remained largely stable.

Regarding sulfurous components, which until now have been used in marine fuels (otherwise known as bunker fuel), we expected to see sales opportunities come under considerable pressure with the introduction of IMO 2020 and the resultant lowering of sulfur thresholds as of January 1, 2020. Due to the coronavirus pandemic, this scenario did not occur to the extent anticipated – with considerably less commuter traffic on the roads and a significant reduction in global air passenger numbers, demand for light fuels fell, thereby also changing the breakdown of the raw materials we used. On the one hand, this gave us a more advantageous output structure with a smaller proportion of by-products, while on the other hand, it stabilized the prices of and demand for these components for use in cracker feed.

The customers of our Plastics division can be divided into three customer groups: the automotive industry, the medical technology sector and industry. In the latter group, we primarily include products for customers in the electrical industry, the measurement and control technology industry, and the mechanical engineering industry. Our biggest customer group by far is the automotive industry. The past financial year was doubly challenging for this industry as, in the opinion of many experts, the technological shift from the internal combustion engine to e-mobility was accelerated. What's more, the coronavirus lockdown measures in 2020 resulted in a considerable slump in demand and therefore also lower sales and income contributions. Should manufacturers further standardize their vehicle platforms and components on grounds of cost, this could have a positive impact on demand for components – fewer different components in total but higher quantities translate into better capacity utilization and more competitive production costs.

Legal and Economic Factors

Economic Factors:
An economic factor of major importance in the past financial year was undoubtedly the coronavirus pandemic and the consequences of this. In particular, the endeavors to contain the spread of infections resulted in massive direct burdens on economies and social structures. Especially in the first half of the year, the resultant closure of key industries and the slowed development of the global growth markets indirectly had a material impact on the underlying economic and market developments. These therefore also influenced our business and earnings trend: as a global company, H&R is exposed to the laws of supply and demand, pricing and margin pressure, as well as to global political developments and events. To an extent, however, this international structure also makes us less reliant on individual regional markets or products.

Prices of the crude oil derivatives used as the primary feedstock at our specialty refineries in Germany up to now are closely correlated with the current price of crude oil. Price changes regularly result in so-called windfall effects on our results of operations. Such effects on earnings have nothing to do with the company's own operating performance, but instead are caused by short-term variations in market prices. At our company, we define windfall losses or profits as negative or positive changes in inventory prices (raw materials, work in progress and finished products) 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.

This is closely related to currency translation effects. The price of crude oil worldwide is denominated in US dollars, meaning that H&R is directly affected by fluctuations in this reserve currency and the corresponding currency translation effects, due to its high requirements for raw materials and the fact that raw material supplies are sourced internationally. In the Plastics segment, too, we may see currency translation effects due to the multinational distribution of sites across Germany, China, the United States and the Czech Republic. These effects were of an insignificant magnitude in financial year 2020.

Legal Factors:
H&R complies with the European Union's Regulation on the Registration, Evaluation, Authorization and Restriction of Chemicals (REACH), and thus takes special responsibility for the risks associated with the substances it places on the market and their use. Our company is in close contact with its customers and suppliers to ensure that all players are meeting their obligations under REACH. H&R is also actively involved in REACH forums and European industry associations. Our activities aim to ensure the ongoing production and supply of our products in line with the REACH requirements.

Substances of very high concern are subject to an authorization requirement under REACH. This category includes some operating resources used in the refining process at H&R in its capacity as a downstream user. The H&R refineries were granted the authorizations for the use of these substances. The European Chemicals Agency (ECHA) also imposes similar regulations for various substances used in the production of plastics, and these have to be observed accordingly by the downstream processor within the value chain.

Objectives

Across all of its divisions, H&R strives to achieve sustainable and commercially successful development in its income. As far as the Plastics segment is concerned, we are aiming to make a return, in the long run, to the positive trend that had emerged in previous years following the implementation of the personnel restructuring measures initiated in financial year 2019 and the efficiency measures continued in financial year 2020.

With regard to our segments in the Chemical-Pharmaceutical Raw Materials division, we are responding to the macroeconomic developments described above. We have set a Green Refinery target for our production sites in Germany. This reflects our efforts to reduce the proportion of combustion products in the product portfolio to an absolute minimum and to rise to the competition in the base oil product area by decisively reducing the proportion of these products.

At the same time, we are seeking to consolidate our operational strengths in international business on the basis of additional production partnerships. We also want to have a global presence through our own further processing facilities and sales/distribution units.

Strategy

The umbrella term used to describe our strategic approach is G.A.T.E., referring to a "gateway to the future". In line with our goal of achieving further international expansion, we see ourselves as a company that thinks globally. At the same time, we are building regional connections and we operate at a local level. The most important driver of our economic activity is our proximity to the market, which enables us to always act with a deep understanding of our customers' specifications and needs in a user-oriented manner. We also remain "technovative" by ensuring that our sites are always on the cutting edge of technological development and by keeping a close eye on innovative process and product solutions. We successfully combine economy and ecology, acting in an economically prudent way, with full awareness of the resources we are using. Eco², i.e., "ecology x economy", increases the potential in both areas exponentially while representing a key step toward sustainability.

As far as our chemical-pharmaceutical raw materials are concerned, we are still guided by the maxim that “Oil is far too valuable to burn!”, which primarily means avoiding combustion products as marine fuel, but also includes the use of lubricants for mobility purposes. We aim to avoid the extremely intense competition to secure shares of sales volumes in the base oil market by also significantly reducing the production of these products. We will achieve this by strategically enhancing our refinery operating model to make it more flexible. Based on an expanded feedstock and by-product portfolio for the Hamburg refinery, we aim to achieve production which is market-oriented and which systematically focuses on specialty products.

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

We generally adhered to our strategy and objectives in spite of the coronavirus pandemic and in some cases actually expedited our realization endeavors with even greater momentum. We are of the opinion that there are no alternatives to topics such as sustainability, resource conservation and the efficient use of resources; in other words, objectives which are important not only to the company, but also sociopolitically.

Nonetheless, we were unable to effect our endeavors to the degree we had hoped to in 2020. We were, for example, only partially successful in securing supplies of new raw materials as the suppliers – primarily refineries with a different production focus – could only provide these components to a limited degree, if at all. As such, our objective of continued specialization came under pressure in the reporting year.

Nonetheless, fewer by-products were ultimately combusted. Thanks to target-oriented sales/distribution and customers requesting specific compositions of certain by-products, we succeeded in selling more of these components to other refinery customers. Instead of being used for combustion, for example as marine diesel oil, these components, which are known as cracker feed, were converted into other value added products.

Company Control

Internal Management System

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

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

Control Parameters

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

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

H&R KGaA calculates EBITDA as follows:

Consolidated income
+/– Income taxes
+/– Net interest income
+/– Other financial income
+ Depreciation, impairments and amortization of intangible assets and property, plant and equipment
= EBITDA

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

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

IN € MILLION	2020	2019
Operating income (EBITDA) of H&R GmbH & Co. KGaA	55.8	52.9
Depreciation and amortization of intangible assets and property, plant and equipment	-56.1	-45.5
Reversals of fixed-asset impairments	–	0.04
Financing income	0.5	0.3
Financing expenses	-10.6	-8.9
Income taxes	2.6	-1.3
Consolidated income	-7.8	0.1

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

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

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

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

IN € MILLION	2020	2019	2018	2017	2016
Cash flow from operating activities	60.1	95.9	23.3	46.2	75.5
Cash flow from investing activities	-38.1	-75.1	-69.7	-58.1	-38.8
Free cash flow	22.0	20.8	-46.5	-11.9	36.7

The starting point for calculating and reporting cash flow from operating activities in 2020 was, first of all, the significant year-over-year decrease in consolidated income to €-7.8 million (December 31, 2019: €0.1 million). With this as a basis, we generated cash flow from operating activities of €60.1 million despite an increase in depreciation and amortization (December 31, 2019: €95.9 million). Investing activity was around 49% lower in the past financial year, amounting to €-38.1 million. As a result, there was a corresponding improvement in free cash flow, which rose slightly from €20.8 million to €22.0 million.

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

Another control parameter relating to our capital structure is net gearing, which is the ratio of our net financial debt to equity. With the ratio of debt to operating income improving slightly in the course of 2020 and equity being lower, this metric changed from 37.4% to 35.3%.

T. 11 **CAPITAL STRUCTURE**

	2020	2019	2018	2017	2016
Net debt/EBITDA	2.25	2.42	1.38	0.55	0.41
Equity ratio in %	46.5	43.3	48.9	51.7	49.0
Net gearing in %	35.3	37.4	28.9	16.0	15.1

Operating Performance. We regularly 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, which is invoiced in US dollars, always has a direct impact on the cost of materials, which affects H&R KGaA's sales revenues for reasons related to the business model.

On its own, our revenue is therefore only of limited use as a performance indicator.

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

T. 12 **INCOME AND VOLUME TREND**

IN € MILLION	2020	2019	2018	2017	2016
Sales volume of core products in kt[1]	805	815	836	832	849
EBITDA	55.8	52.9	74.7	97.9	101.4
EBIT	-0.3	7.4	40.6	54.8	64.2
EBT	-10.4	-1.2	33.7	46.2	54.2

[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 incorporated directly into our customers' products. This calls for close and direct dialogue with our customers.

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

Our Chemical-Pharmaceutical division operates R&D laboratories primarily at the production sites in Germany. We apply a similar concept in the Plastics division by combining our R&D work at the headquarters in Coburg.

Chemical-Pharmaceutical Raw Materials. Our products, which total around 800, are used as feedstock in almost all areas of life. As a result, there is considerable potential for developing new, and improving existing, products. Our sales/distribution staff and partners are an important source of ideas for product innovation; thanks to the customer relationships they have developed over a long period of time, they have an excellent feel for clients' changing needs. In our research work, we place particular emphasis 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 further improve the level of added value at our specialty refineries. The results of this research work have influenced our investment planning.

Another important pillar of this division's research activities is project-based collaboration with universities. Cooperative projects give us access to the academic research infrastructure and enable us to establish contact with key players in the R&D field at an early stage.

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

R&D Expenses, Employees and Key Figures

The importance of our research and development activities has for years been reflected in our consistent spending in this area. All employees in the Research and Development department have specialist qualifications, either in the form of technical training in a chemistry-related occupation or in some cases even the title of master craftsman. Other staff, such as engineering graduates, are as highly qualified as our employees who hold doctorates in chemistry.

At just over €2.8 million, R&D spending was approximately on a par with the previous year. Our R&D ratio, defined as R&D expense divided by sales, was up once again in a year-over-year comparison to 0.32% due to the drop in sales.

T. 13 **RESEARCH AND DEVELOPMENT COSTS**

IN € THOUSAND	2020	2019	2018	2017	2016
Research and development costs	2,795	2,801	2,695	2,423	2,054
of which ChemPharm	2,240	2,216	2,170	2,160	1,904
of which Plastics	555	585	525	263	150
as % of annual sales	0.32	0.26	0.24	0.24	0.22

Report on Economic Position

Trends in the Business Environment

Macroeconomic Conditions

Like everyone else, the economic experts had a difficult time in 2020 due to the pandemic, as it made making reliable forecasts virtually impossible. In December 2020, the researchers at the German Institute for Economic Research (DIW Berlin) forecast a decline in German economic output of 5.1%, but nevertheless anticipated that there would be a strong recovery of 5.3% in the new year.

The gross domestic product of the euro area is likely to have shrunk by 7.1% in 2020. The researchers at the Kiel Institute for the World Economy (IfW) are forecasting a growth rate of 5.3% in 2021 and 2.6% in 2022.

Global economic activity dwindled by close to 10% in the first six months of 2020 due to the Covid-19 pandemic, but went on to make a strong recovery in the second half of the year. In the opinion of the researchers in Kiel, the further normalization of economic activity is likely to occur at a considerably slower pace, firstly because the pandemic has not yet been overcome and secondly because significant sections of the economy will continue to suffer for some time yet due to the restrictions related to the coronavirus. There will likely have been a 3.8% decline in global output in 2020. For 2021, a sharp increase in production of 6.1% is expected.

The euro, the currency which is significant for H&R's earnings development, started the financial year in a weak position against the US dollar at an exchange rate of US$1.12 and it took until mid-August 2020 for it to achieve an interim high for the year of US$1.19. The euro exchange rate picked up again in December following a sideways trend lasting several months, and overall the euro appreciated around 9.0% against the US dollar in the course of the year. At year-end, it was trading at US$1.22.

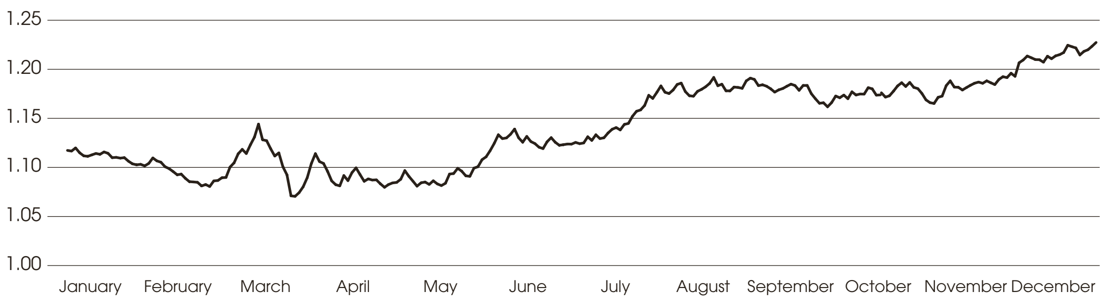
Crude oil prices (all data refer to the daily closing prices for a barrel of North Sea Brent) fell significantly if we restrict our analysis to the prices that applied at the beginning and end of the year. Having started the year at around US$67, the price fell significantly as the impact of the coronavirus pandemic on the global economy increased. By the end of April, it was being quoted at less than US$20, although this had improved to just over US$40 by early June. From then, the price of oil remained relatively stable up to mid-November, when it took an upward turn to finish the year on US$51. We had originally assumed a higher average annual price of US$65 per barrel of North Sea Brent for budget year 2020.

Industry-specific Climate

Business in the chemical-pharmaceutical industry recovered again in the second half of 2020 following setbacks in the first half of the year related to the pandemic. Production in Germany's third-largest industrial sector increased sharply.

G. 05 **EXCHANGE RATES US$ PER € IN 2020**

(CLOSING RATE US$ PER €)



In contrast to previous years, it was the basic chemicals sector which benefited the most in 2020, rather than the pharmaceutical industry. Industry sales and producer prices likewise developed positively again. All the key figures were significantly down year-over-year, however.

The German Chemical Industry Association (VCI) most recently predicted a 3.0% year-over-year decline in production in the chemical-pharmaceutical industry and forecast a 6.0% drop in industry sales to approximately €186.0 billion.

The coronavirus pandemic made 2020 a challenging year for Germany's automotive industry, in particular because of the lockdown measures in the second quarter of 2020.

In the final quarter of 2020, the industry's capacity utilization increased considerably again and there was a higher number of new vehicle registrations by German manufacturers. However, this increase was driven primarily by electric and hybrid cars, of which German manufacturers have only a few models in their fleet portfolios. All in all, there were significant decreases in new registrations of passenger vehicles (-19.1%) and commercial vehicles (arithmetic average for various classes of commercial vehicle: -10.3%) in Germany in 2020.

Overview of Business Development and Performance

In 2020, H&R sold a total of 804,523 tons of core products from its Chemical-Pharmaceutical Raw Materials division (2019: 815,254 tons) to outside buyers. Price factors meant it generated lower sales year-over-year of €0.87 billion (2019: €1.08 billion). At €634.3 million, expenses for raw materials were lower year-over-year, too (2019: €844.6 million). In spite of the unusual circumstances caused by the global pandemic, with vast sections of industries being closed down in some cases, our sales of core products to our customers were only marginally lower. All in all, the operating income (EBITDA) generated by the Group amounted to €55.8 million (2019: €52.9 million).

Events With a Major Impact on Business Development and Performance

Overall, the Group's €873.0 million of sales fell around 18.8% short of the prior-year level (2019: €1.08 billion). The dominant topic of financial year 2020 was without a doubt the coronavirus pandemic, with its impacts on global economic development and virtually all areas of society and life.

The market participants in our customer industries noticed the effects of the pandemic in the months March to June in particular, either directly due to, for example, plant closures in key industries or due to more muted customer behavior. While our sales volumes were still stable at the beginning of the crisis, allowing us to achieve a respectable first-quarter result, contributions to income in the second quarter were limited almost exclusively to the last two weeks of June. The recovery that started at this time continued and allowed H&R to achieve a robust result in spite of the immense burdens caused by Covid-19.

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

The expectations with which H&R KGaA started financial year 2020 were based on the assumption that developments would be more positive than they actually were: we predicted rising sales as against 2019 and operating income (EBITDA) ranging between €50.0 million and €65.0 million.

After a robust start to the year, it was initially not to be expected that H&R KGaA would fall short of the targeted operating income for the year as a whole. Accordingly, we confirmed our expectations again after the first three months of business. Toward the middle of the year, however, it became clear that the above-mentioned measures to contain the pandemic would result in considerable deviations from the expectations. In view of a half-year result of €16.6 million, it became unlikely that we would achieve our original targets. At the same time, even though the second quarter was more than disappointing, we were still then optimistic enough to set our sights on an income of up to €45.0 million.

H&R did indeed achieve the turnaround we predicted and recovered markedly. The third quarter matched the entire first half of the year, allowing the operating earnings target of up to €45.0 million to be confirmed when the figures for the first nine months were published. With the situation continuing to develop well, we felt compelled to revise our earnings target upward once again in mid-December to an EBITDA of up to €53.0 million.

In the end, sales revenue of €873.0 million was achieved. At €55.8 million, the EBITDA recognized in the consolidated income statement for the financial year was slightly above our adjusted maximum expectations of December 2020.

The consolidated income attributable to shareholders, which we did not, however, forecast, came to € -9.0 million for 2020 (2019: €-1.4 million).

T. 14 **FORECAST FOR FINANCIAL YEAR 2020**

Forecast date	Publication of the 2019 annual report	Publication of interim statement for Q1/2020	Publication of the 2020 half-year report	Publication of interim statement for Q3/2020	Ad hoc December 2020	Actual value
Total sales	"€1,000.0 million to €1,200.0 million"	not defined	not defined	not defined	not defined	873.0
Sales in ChemPharm Refining	"≥ €580.0 million"	not defined	not defined	not defined	not defined	524.6
Sales in ChemPharm Sales	"≥ €370.0 million"	not defined	not defined	not defined	not defined	317.0
Sales in Plastics	"≥ €50.0 million"	not defined	not defined	not defined	not defined	40.1
EBITDA at Group level	"between €50.0 million and €65.0 million"	"between €50.0 million and €65.0 million"	"up to a maximum of €45.0 million"	"up to €45.0 million"	"up to €53.0 million"	55.8

In the Chemical-Pharmaceutical Raw Materials division, sales fell year-over-year to €841.7 million due to volume-related factors (2019: €1.04 billion). We drew attention to the trend of declining sales for our business segments in our reporting during the year, but abstained from adjusting our sales forecast. On the earnings side, we struggled with the difficult overall economic situation in both the Refining and Sales segments. Instead of the figure of at least €46.0 million expected at the start of the year, our ChemPharm business nevertheless generated €61.1 million.

Performance in the Plastics division was down considerably. The segment generated revenue of €40.1 million, down year-over-year (2019: €43.2 million) due to the closures of plants in the automotive industry during the first wave of the coronavirus pandemic. There was a significant improvement in the EBITDA deviation, with EBITDA totaling €-0.4 million. The previous year's figure was burdened in particular by one-time effects caused by HR restructuring at the Coburg site (2019: EBITDA of €-4.9 million).

Economic Position of the H&R Group

Assessment of Economic Performance and Overall Statement by the Executive Board

Overall, H&R's business performed noticeably worse during the reporting period than the Executive Board had expected at the beginning of 2020. This was primarily due to global economic developments.

The coronavirus pandemic resulted in the economy taking its biggest hit in decades in 2020. Having its headquarters in Germany and based on its position in many important developed countries and growth markets, H&R KGaA benefited on the whole from the recovery in summer when the restrictions on public life were gradually lifted. The pandemic was nevertheless presenting many of our customer industries with an economic and societal challenge, the likes of which have not been seen since the end of the Second World War. In spite of positive signals such as the development of vaccines and society being better prepared for a second wave of infections at the end of the year, financial year 2020 was marked by uncertainty right to the end.

This is all reflected in the figures: sales fell by 18.8%. At the same time, operating income remained relatively stable at approximately €55.8 million. Overall, however, we were anticipating a stronger recovery in our figures at the start of 2020.

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

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

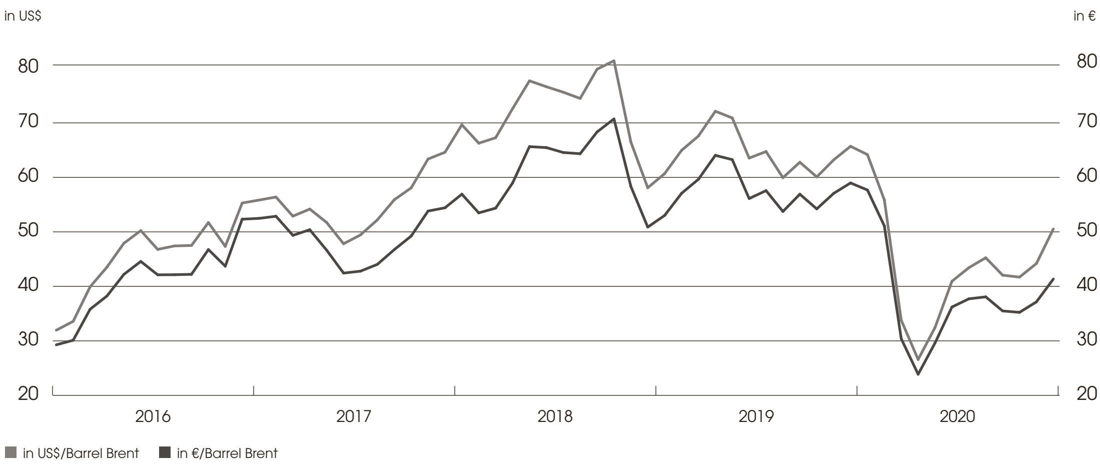
Results of Operations

In financial year 2020, we generated sales of €873.0 million (previous year: €1,075.3 million), down on the previous year's level. The revenue share from the Chemical-Pharmaceutical business (sales contribution in 2020: 95.4%; previous year: 96.0%) was mixed, with losses of 21.1% in the Refining segment and 15.9% in the Sales segment. The decline in sales was slightly more moderate in the Plastics segment at -7.3% (sales contribution in 2020: 4.6%; previous year: 4.0%). In terms of operating income (EBITDA), there was an encouragingly strong recovery in the Refining segment in particular, of 20.5%. Meanwhile, the Sales segment slumped sharply to -15.6%, but did still record a positive EBITDA, of course. As already mentioned, the improvement in the Plastics segment is attributable to the absence in the reporting year of the previous year's one-time effects, with its EBITDA remaining negative overall.

The regional focus of our business activities remains on Germany, where 53.7% of our sales were generated in financial year 2020 (2019:

G. 06 **OIL PRICES 2016–2020**

(AVERAGE MONTHLY PRICES)



56.7%). Europe-wide, H&R's direct sales from foreign customers stood at 11.8% (2019: 11.1%). Sales from outside of Europe accounted for 34.5% of the total (2019: 32.2%).

For H&R, financial year 2020 was primarily characterized by the global economic slowdown caused by the coronavirus pandemic.

All in all, the company achieved stable and optimistic-looking income which was not entirely unexpected for such a difficult financial year; overall, consolidated operating income (EBITDA) totaled €55.8 million (previous year: €52.9 million). The EBITDA margin improved as a result of the slightly better income result and, above all, a drop in sales of 1.5 percentage points to 6.4%, compared to 4.9% in financial year 2019.

Due to higher depreciation and amortization, consolidated income before interest and taxes (EBIT) totaled €-0.3 million in 2020 (previous year: €7.4 million). Income before tax (EBT) decreased from €-1.2 million in 2019 to €-10.4 million in 2020. Consolidated income attributable to shareholders amounted to €-9.0 million (previous year: €-1.4 million).

The company reported a loss per share of €-0.24 for 2020, as against a loss per share of €-0.04 in the prior-year period.

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

IN € MILLION	2020	2019	2018	2017	2016
Sales revenue	873.0	1,075.3	1,114.2	1,025.1	942.7
EBITDA	55.8	52.9	74.7	97.9	101.4
EBIT	-0.3	7.4	40.6	54.8	64.2
Income before tax	-10.4	-1.2	33.7	46.2	54.2
Consolidated income attributable to shareholders	-9.0	-1.4	21.6	32.1	38.4
Earnings per share	-0.24	-0.04	0.59	0.89	1.07

Trend in Orders

Throughout 2020, new orders for products in our Chemical-Pharmaceutical business essentially followed the economic trend characterized by the pandemic. After a degree of optimism at the beginning of the year, there followed a massive slump in demand and volumes sold as a result of the first lockdown measures, before a pronounced recovery began in July. The volume of the core products sold by the refineries even increased year-over-year in spite of the coronavirus pandemic. In the Sales segment, sales volumes fell shy of the previous year's level due to the diversity of the challenges faced in different regions around the world because of the coronavirus.

In the Plastics division, the closure of various automobile manufacturers' plants had a direct impact on orders at GAUDLITZ. Once the measures had been lifted, the automotive production chain ramped up again, but it lacked dynamic momentum and call-off of deliveries was in some cases reduced or delayed.

Trends in the Main Items on the Income Statement

During the reporting period, there was a €-24.8 million change in inventories of finished products and work in progress (previous year: €-1.7 million). Our cost of materials fell by 24.9% to €634.3 million in financial year 2020 (previous year: €844.6 million); this is a direct consequence of the lower sales volumes. The change in the material expense ratio to 74.8% (2019: 78.7%) is likewise largely due to both price and volume effects.

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

IN € MILLION	2020	2019	2018	2017	2016
Sales revenue	873.0	1,075.3	1,114.2	1,025.1	942.7
Changes in inventories	-24.8	-1.7	12.9	9.8	9.2
Other operating income	28.0	25.6	27.3	26.5	21.6
Cost of materials	-634.3	-844.6	-877.5	-764.3	-671.8
Personnel expenses	-83.0	-88.5	-87.1	-86	-86.7
Depreciation and amortization	-56.1	-45.5	-34.2	-43.1	-37.2
Other operating expenses	-103.2	-113.8	-115.4	-113.7	-114.1
Operating result	**-0.3**	**6.9**	**40.2**	**54.3**	**63.7**
Financial income	-10.1	-8.1	-6.4	-7.8	-9.5
Consolidated income before taxes	**-10.4**	**-1.2**	**33.7**	**46.2**	**54.2**
Consolidated income before minority interests	**-7.8**	**0.1**	**22.3**	**29.5**	**39.3**
Consolidated income attributable to shareholders	**-9.0**	**-1.4**	**21.6**	**32.1**	**38.4**

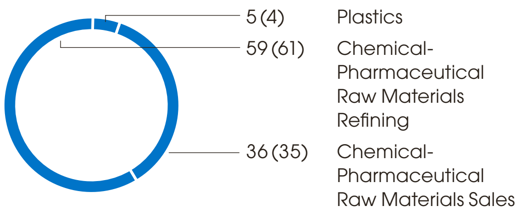
Personnel expenses fell by 6.2% to €83.0 million (previous year: €88.5 million). In total, there were 40 fewer employees working for the company around the world year-over-year. In particular, the personnel restructuring measures implemented at the Coburg site in 2019 had a positive effect. Relief was also provided in Coburg by the comprehensive introduction of short-time work – an instrument which was only used temporarily or to a limited degree at the refinery sites.

Depreciation and amortization, which stood at €45.5 million in the previous year, increased considerably to €56.1 million.

Of this, €5.1 million is attributable to goodwill impairment.

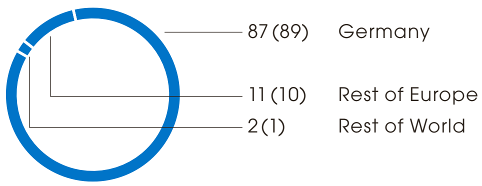
G. 07 **SALES BY SEGMENT IN 2020**

IN % (PREVIOUS YEAR'S FIGURES)



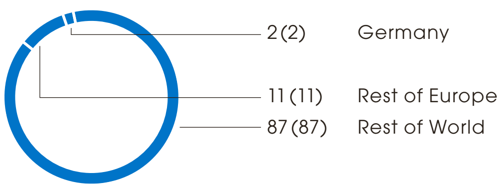
G. 08 **SALES BY REGION IN THE CHEMPHARM REFINING SEGMENT IN 2020**

IN % (PREVIOUS YEAR'S FIGURES)



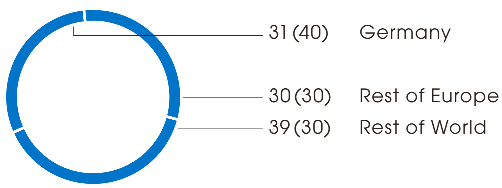
G. 09 **SALES BY REGION IN THE CHEMPHARM SALES SEGMENT IN 2020**

IN % (PREVIOUS YEAR'S FIGURES)



G. 10 **SALES BY REGION IN THE PLASTICS SEGMENT IN 2020**

IN % (PREVIOUS YEAR'S FIGURES)



Financing costs increased in 2020 from €8.9 million to €10.6 million. Overall, financial income came to €-9.8 million and was thus lower than the previous year's value of €-8.1 million.

Earnings Trend by Segment

ChemPharm Refining. Sales volumes of core products at our Group's largest segment were up marginally year-over-year at approximately 442,632 tons (previous year: approximately 440,749 tons).

As such, it was mainly lower product prices that were a key factor in segment sales likewise being lower. All in all, sales amounted to €524.6 million (previous year: €665.0 million). Meanwhile, operating income (EBITDA) for the segment improved significantly to €35.2 million, compared with €29.2 million in the previous year.

ChemPharm Sales. Sales in the international segment fell by 15.9% to €317.0 million (previous year: €376.9 million). At the same time, we recorded a slight drop in sales volumes from around 388,462 tons in the previous year to 376,375 tons in 2020. As in previous years, there were mixed developments in income at our subsidiaries. All in all, income was approximately 15.6% down year-over-year, with operating income (EBITDA) totaling €25.9 million (2019: €30.7 million).

Plastics. With €40.1 million in sales, our Plastics segment made less of a contribution to total sales than in the previous year (2019: €43.2 million). After contributing €-4.9 million to operating income (EBITDA) in the previous year, the segment achieved EBITDA of €-0.4 million in the reporting period. The better figure for 2020 was attributable, above all, to the absence of additional restructuring costs, following those incurred in 2019.

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

IN € MILLION	2020	2019	2018	2017	2016
Sales revenue					
Refining	524.6	665.0	694.5	616.8	567.2
Sales	317.0	376.9	374.9	357.2	328.0
Plastics	40.1	43.2	55.0	59.6	56.5
Reconciliation	-8.7	-9.9	-10.2	-8.5	-9.1
Operating income (EBITDA)					
Refining	35.2	29.2	46.0	63.7	64.5
Sales	25.9	30.7	30.1	34.4	39.4
Plastics	-0.4	-4.9	3.0	3.7	2.6
Reconciliation	-4.9	-2.2	-4.4	-3.8	-5.1

Net Assets and Financial Position

Financial Management Principles and Objectives

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

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

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

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

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

	Original loan amount in € million	Year issued	Current loan amount in € million	Maturity
Syndicated loan	up to 240.0	2018	52.0	7/25/2024
Redeemable loan	28.8	2015	12.4	12/31/2023
Redeemable loan	10.0	2017	7.7	6/30/2027
Redeemable loan	19.0	2017	12.5	6/30/2026
Redeemable loan	14.5	2017	12.2	9/30/2027
Redeemable loan	4.0	2018	1.25	6/30/2023
Redeemable loan	4.0	2018	1.25	6/30/2023
Redeemable loan	4.0	2018	1.25	6/30/2023
Redeemable loan	4.0	2018	1.25	6/30/2023
Redeemable loan	7.0	2019	5.4	3/31/2027

As of December 31, 2020, there were firmly agreed but unused credit lines in the amount of €169.4 million.

Analysis of the Cash Flow Statement

Based on the lower consolidated income figure of €-7.8 million, cash flow from operating activities totaled €60.1 million in the reporting period (previous year: €95.9 million). This amount included higher depreciation and amortization of €57.9 million (previous year: €45.4 million). The lower changes in net working capital, however, which amounted to €4.9 million (previous year: €60.6 million), had a very significant impact.

Cash flow from investing activities fell markedly from €-75.1 million to €-38.1 million. The main component of this item was the €-37.1 million spent on the reporting year's lower investments in property, plant and equipment in connection with projects realized in our specialty refineries and sites (2019: €-74.5 million).

In total, free cash flow improved to €22.0 million (previous year: €20.8 million).

Overall, financing activities resulted in a net cash outflow of €-57.7 million (previous year: €25.2 million). Financial liabilities, which had already been steadily reduced in the past, were further reduced in 2020 (€-133.6 million; 2019: €-56.2 million). At the same time, the total new financial liabilities taken out also fell to €76.0 million (2019: €81.2 million). At the end of the reporting period, cash and cash equivalents amounted to €55.0 million, compared to €94.8 million a year earlier.

In the fourth quarter of 2020 alone, the company reported a reduced cash flow from operating activities of €15.6 million (Q4/2019: €24.7 million). One major factor here was the significantly improved consolidated income for Q4/2020 (€6.3 million) as compared with Q4/2019 (€-4.8 million). However, relief was provided by lower investing activities of €-7.9 million (2019: €-28.5 million), such that the free cash flow for the fourth quarter of 2020 amounted to €7.7 million (Q4/2019: €-3.8 million).

The company was always able to fulfill its payment obligations in 2020.

The total amount of liabilities to banks in 2020 was €130.5 million as of the reporting date.

T. 19 **FINANCIAL POSITION**

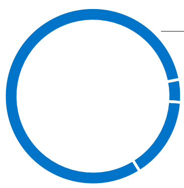
IN € MILLION	2020	2019	2018	2017	2016
Cash flow from operating activities	60.1	95.9	23.3	46.2	75.5
Cash flow from investing activities	-38.1	-75.1	-69.7	-58.1	-38.8
Free cash flow	22.0	20.6	-46.4	-11.9	36.7
Cash flow from financing activities	-57.7	25.4	33.2	15.3	-58.9
Cash and cash equivalents as of 31/12	55.0	94.8	46.5	59.0	58.0

Capital expenditure

During the reporting period, our investments in property, plant and equipment of €24.7 million were down on the prior-year period (2019: €82.8 million). We invested a total of €24.0 million in the Chemical-Pharmaceutical Raw Materials division in 2020 (previous year: €81.1 million). A substantial portion of this amount (€19.9 million) was again invested in the ChemPharm Refining segment, where it was used to expand and replace capital assets at the specialty refineries in Hamburg and Salzbergen.

G. 11 **CAPITAL EXPENDITURE BY REGION IN 2020**

IN % (PREVIOUS YEAR'S FIGURES)



The division's remaining €4.2 million of capital expenditure was divided among our ChemPharm Sales segment's international locations.

In the Plastics segment, investments in property, plant and equipment came to €0.6 million due to the replacement of old machinery.

In total, order commitments for property, plant and equipment amounting to €8.0 million existed as of December 31, 2020. Their financing was secured by existing resources and credit lines.

T. 20 **CAPITAL EXPENDITURE BY SEGMENT**

IN € MILLION	2020	2019	2018	2017	2016
Refining	19.9	75.3	84.5	54.2	34.0
Sales	4.2	5.8	4.0	3.9	4.5
Plastics	0.6	1.7	2.9	0.8	0.8
Reconciliation (other activities)	–	0.1	0.1	–	–
Group	**24.7**	**82.8**	**91.6**	**59.1**	**39.3**

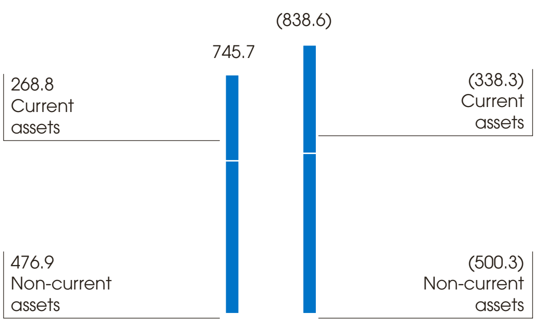
Analysis of the Statement of Financial Position

As of year-end 2020, the balance sheet total stood at €745.7 million (December 31, 2019: €838.6 million).

On the assets side, cash and cash equivalents decreased from €94.8 million at the end of the previous year to €55.0 million. Meanwhile, there was a more moderate decrease in trade receivables of -6.1% to €81.6 million (December 31, 2019: €86.9 million).

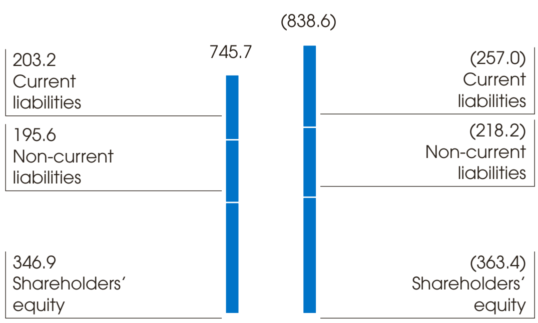
G. 12 **ASSETS 2020**

IN € MILLION (PREVIOUS YEAR'S FIGURES)



LIABILITIES AND SHAREHOLDERS' EQUITY 2020

IN € MILLION (PREVIOUS YEAR'S FIGURES)



Inventories – one of the main components of current assets – fell by 17.0% to €105.8 million (2019: €127.5 million), primarily as a direct result of the lower cost of materials. Overall, current assets dropped by -20.5% to €268.8 million as of December 31, 2020, compared with €338.3 million at the end of the previous year. They accounted for 36.0% of the balance sheet total.

Non-current assets fell by a marginal 4.7% to €476.9 million in financial year 2020 (December 31, 2019: €500.3 million). Property, plant and equipment fell from €433.0 million to €412.2 million. Goodwill fell from €22.5 million to €17.4 million, while other intangible assets dropped by 9.5% to €14.3 million (2019: €15.8 million). Other financial assets barely changed at €11.6 million, while deferred taxes increased from €11.1 million to €17.2 million.

Overall, non-current assets comprised 64.0% of balance sheet total.

On the liabilities side of the statement of financial position, current liabilities decreased by 20.9% from €257.0 million to €203.2 million and their percentage of the balance sheet total decreased to 27.2% (December 31, 2019: 30.6%). Liabilities to banks, which fell from €112.4 million to €87.4 million as a result of the redemption of existing loans, and lower trade payables of €80.5 million (December 31, 2019: €108.4 million) were offset by lower income tax and contract liabilities of €2.7 million/€2.2 million (December 31, 2019: €5.1 million/€3.4 million).

In contrast, there were increases in lease liabilities, which amounted to €9.5 million (December 31, 2019: €9.0 million), as well as in other liabilities totaling €10.9 million (December 31, 2019: €7.3 million).

During the same period, non-current liabilities decreased by 10.4% to €195.6 million (December 31, 2019: €218.2 million), changing their percentage of the balance sheet total from 26.0% to 26.2%. Non-current liabilities to banks dropped from €69.3 million to €43.0 million. Pension provisions fell by around €4.5 million to €82.2 million and lease liabilities decreased by around 5.4% to €37.5 million. Other liabilities increased sharply to €25.8 million (December 31, 2019: €14.9 million). Deferred tax liabilities decreased by 18.1% from €4.1 million to €3.3 million.

H&R KGaA's equity amounted to €346.9 million at the end of the reporting period (December 31, 2019: €363.4 million). This was around 4.6% lower year-over-year, primarily as a result of the significantly lower retained earnings and other reserves.

Due to the reduced balance sheet total, the equity ratio came to 46.5% as of the reporting date (December 31, 2019: 43.3%). Net gearing (the ratio of net financial liabilities to equity) fell by 2.1 percentage points from 37.4% to 35.3%.

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

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

IN € THOUSAND	2020	2019	Change
Sales revenue	980	1,156	-176
Other operating income	1,799	4,588	-2,789
Personnel expenses	-678	-1,005	327
Depreciation and amortization of intangible assets and property, plant and equipment	-12	-21	9
Other operating expenses	-7,063	-6,557	-506
Income from profit transfer agreements	12,239	1,250	10,989
Expenses from loss transfer agreements	-8,650	-15,165	6,515
Income from lending financial assets	1,744	2,134	-390
Other interest and similar income	4,658	3,989	669
Interest and similar expenses	-4,519	-4,597	78
Income before tax	**497**	**-14,228**	**14,725**
Income taxes	-2,071	2,009	-4,080
Other taxes	-33	-400	367
Net income/loss for the year	**-1,608**	**-12,619**	**11,011**
Profit or loss carryforward	14,075	26,694	-12,619
Distributable profit/accumulated deficit	12,468	14,075	-1,607

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

They are published in the Bundesanzeiger (Federal Gazette) and are permanently available for download from the Investor Relations/Publications section of our website (https://hur.com). For financial year 2020, we have combined the management reports of the H&R Group and of H&R KGaA.

H&R KGaA's sales revenues are generated solely by services rendered to companies in the Group. They totaled around €1.0 million, lower than in the previous year (2019: €1.2 million). Personnel expenses for the reporting period were likewise down year-over-year at €0.7 million (2019: €1.0 million).

Depreciation of property, plant and equipment fell from €21 thousand to €12 thousand. Other operating income came to €1.8 million in the reporting year, down considerably on the prior-year figure (2019: €4.6 million).

There were significant improvements in income from profit transfer agreements, which rose from €1.2 million to €12.2 million. Meanwhile, expenses from loss transfer agreements fell sharply to €8.6 million (2019: €15.2 million).

The subsidiaries of H&R KGaA obtain funding for their financing needs from H&R KGaA's resources, which in turn are financed via credit lines. Due to slightly higher demand, other interest and similar income once again increased, from €4.0 million to €4.7 million. Financing costs, however, dropped slightly in 2020; interest and similar expenses fell from €4.6 million to €4.5 million.

Overall, income before tax amounted to €0.5 million (previous year: €-14.2 million). Tax income of €2.0 million in the prior-year period was offset by a tax expense of essentially the same amount. Overall, H&R KGaA generated a significantly reduced net loss for the year of €-1.6 million (2019: €-12.6 million).

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

IN € THOUSAND	2020	2019	Change
Other equipment, operating and office equipment	28	32	-4
Advance payments and construction in progress	10	–	10
Property, plant and equipment	**38**	**32**	**6**
Shares in affiliated companies	124,675	124,675	–
Loans to affiliated companies	55,178	87,070	-31,892
Holdings	1,050	1,050	–
Financial investments	**180,903**	**212,796**	**-31,893**
Trade receivables	22	0	22
Receivables due from affiliated companies	172,785	157,702	15,083
Other assets	128	6,700	-6,572
Receivables and other assets	**172,935**	**164,310**	**8,625**
Securities	**41**	**52**	**-11**
Bank balances	156	31,663	-31,507
Net current assets	**173,132**	**196,116**	**-22,984**
Accruals and deferrals	**40**	**24**	**16**
Active difference from offsetting of assets	34	4	30
Assets	**354,147**	**408,972**	**-54,825**
Subscribed capital	95,156	95,156	–
Capital reserve	60,340	60,340	–
Other retained earnings	29,866	29,866	–
Distributable profit/accumulated deficit	12,468	14,075	-1,607
Equity	**197,830**	**199,437**	**-1,607**
Provisions for pensions and similar commitments	1,763	1,848	-85
Tax provisions	169	468	-299
Other provisions	1,221	1,359	-138
Provisions	**3,153**	**3,675**	**-522**
Liabilities to banks	111,481	159,198	-47,717
Trade payables	266	226	40
Liabilities to affiliated companies	40,795	46,422	-5,627
Other liabilities	622	14	608
Liabilities	**153,164**	**205,860**	**-52,696**
Liabilities and shareholders' equity	**354,147**	**408,972**	**-54,825**

As of December 31, 2020, H&R KGaA's balance sheet total had decreased by a good 13.4% to €354.1 million (December 31, 2019: €409.0 million). Loans to affiliated companies decreased to €55.2 million (previous year: €87.1 million), but once again related predominantly to loans for projects in the reporting year. As a result, the company mainly invested in the maintenance and capacity of the existing process units and their added value at both refinery sites. Overall, at €180.9 million, financial assets remained below the previous year's value of €212.8 million.

Receivables due from affiliated companies increased from €157.7 million to €172.8 million in total. This was mainly due to increased receivables from cash pooling.

Bank balances fell significantly from €31.7 million to €156 thousand.

All in all, net current assets fell from €196.1 million to €173.1 million.

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

The significantly improved net loss generated during the reporting period of €-1.6 million was posted to distributable profit, which then fell to €12.5 million. Equity followed suit and as of December 31, 2020, came to €197.8 million, compared to €199.4 million at the end of the previous year's reporting period. With the balance sheet total being lower, the equity ratio recovered significantly to 55.8% (December 31, 2019: 48.8%).

Provisions for pension commitments fell slightly once again, as did other provisions. Lower tax provisions additionally reduced the burden, causing the total provisions item to drop from €3.6 million on December 31, 2019 to €3.2 million.

Liabilities fell by 25.6% to €153.2 million (December 31, 2019: €205.9 million), due first and foremost to a decrease in liabilities to banks to €111.5 million (previous year: €159.2 million) and to liabilities to affiliated companies that were likewise down (€40.8 million; previous year: €46.4 million).

Other Legally Required Disclosures

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

Item 1: Composition of Subscribed Capital

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

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

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

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

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

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

In an informal voting rights notification dated December 31, 2020, Mr. Nils Hansen reported that his share of voting rights totaled 61.42% of the company's voting rights due to his own direct holdings and the attribution of voting rights held by or attributed to H&R Beteiligung GmbH, H&R Internationale Beteiligung GmbH, and H&R Holding GmbH. According to the aforementioned notification, (i) the share of voting rights of H&R Beteiligung GmbH totaled 59.74% of the company's voting rights due to direct holdings and the attribution of voting rights; (ii) the share of voting rights of H&R Internationale Beteiligung GmbH totaled 26.14% of the company's voting rights due to direct holdings and the attribution of voting rights; and (iii) the share of voting rights of H&R Holding GmbH totaled 59.74% of the company's voting rights due to the attribution of voting rights.

In accordance with an informal notification made at the end of 2020, Mr. Nils Hansen also holds 1.69% of the shares as privately owned shares, meaning that he holds shares corresponding to 61.42% of the share capital in total.

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

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

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

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

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

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

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

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

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

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

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

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

Under Section 4, paragraph 7 of the Articles of Association, the general partner with full personal liability is additionally authorized by way of a resolution passed by the Annual Shareholders' Meeting on May 24, 2018 – with the Supervisory Board's approval – to increase the company's share capital by May 23, 2023, by a maximum of

€24,000,000.00 by issuing new, ordinary no-par bearer shares. The issue may be effected in one or more tranches in return for cash and/or contributions in kind (2018 Approved Capital). Within this context, the number of shares must increase in proportion to the share capital.

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

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

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

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

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

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

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

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

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

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

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

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

No such arrangements exist at this time.

Subordinate Status Report

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

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

In the report for financial year 2020, the Executive Board came to the following conclusion:

"With regard to the transactions listed in the Report on Relationships with Affiliated Companies for the reporting period from January 1, 2020, to December 31, 2020, based on the circumstances that we were aware of at the time such transactions took place, our company received appropriate consideration for every transaction. No relevant measures were implemented or omitted during the reporting period."

Non-financial Report

The 2020 non-financial report will be published by April 30, 2021, as part of the sustainability report and made available for download on the company's website at www.hur.com.

Statement on Corporate Governance

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

Remuneration Report

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

Executive Board Remuneration

The Executive Board of H&R KGaA consists of up to three members. H&R Komplementär GmbH reviews and makes decisions about the remuneration system for the Executive Board and the total remuneration for the individual members of the Executive Board through its Advisory Board based on reasonable interpretation of both Section 87 AktG and the recommendations of the German Corporate Governance Code, applied mutatis mutandis. To evaluate appropriateness, the 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.

At listed companies such as H&R KGaA, the remuneration structure must also be geared toward sustainable company performance. Following these requirements, the total remuneration of the members of H&R KGaA's Executive Board 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 Advisory Board of H&R Komplementär GmbH as general partner with full personal liability that is limited to a maximum of €100,000.00.

The criteria for measuring the remuneration for members of the Executive Board 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.

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. Members of the Executive Board 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 maximum annual target bonus is limited to the amount of the fixed salary. One half consists of a component with a short-term incentive effect (referred to as the "earnings component") based on the annual consolidated operating income (EBITDA), adjusted by any extraordinary result within the meaning of Section 275, paragraph 2, no. 17 HGB (old version), 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 comes to 110% or more of the amount planned, the Executive Board member is entitled to 100% of the earnings component (50% of the annual target bonus), i.e., a maximum of 50% of the maximum possible bonus. The maximum entitlement to the earnings component is reduced on a straightline 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) at H&R KGaA.

A maximum of 50% of the annual target bonus is paid if the average annual ROCE reaches 15% 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 Section 87, paragraph 1, sentence 3 AktG, which stipulates that variable remuneration components must be calculated based on a time frame spanning several years.

Should the term of office of a member of the Executive Board end prematurely, any payments agreed for the departing member – including fringe benefits – should not exceed the value of twice the annual remuneration (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 June 24, 2014. The company has followed this recommendation to the extent legally possible by including what are known as "coupling clauses" in the employment contracts of members of the Executive Board. These stipulate that, if the appointment is revoked, the member resigns with good cause or the board position is otherwise terminated by the company, the employment contracts of members of the Executive Board will terminate two years after the term of office ends, but no later than the end of the scheduled appointment period.

The executive employment contracts of all members of the Executive Board 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 where it is deemed unreasonable for the company to adhere 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 have been extended to members of the Executive Board.

T. 23 **EXECUTIVE BOARD REMUNERATION (GRANTED)**

		Benefits granted	
Members of the Executive Board	IN €	**2019**	**2020**
Niels H. Hansen Chairman of the Executive Board (until 7/31/2019) Sole member of the Executive Board (since 8/1/2019)	Fixed remuneration	654,583	500,000
	Fringe benefits[1]	10,597	371
	Total	**665,181**	**500,371**
	One-year variable remuneration	154,098	205,874
Detlev Wösten Member of the Executive Board (until 7/31/2019)	Multiple-year variable remuneration	57,865	–
	Total	877,144	706,245
	Pension expenses	–	–
	Total remuneration	**877,144**	**706,245**

[1] Inter alia, this item includes the use of a car and casualty insurance premiums

T. 24 **EXECUTIVE BOARD REMUNERATION (RECEIVED)**

		Benefits received	
Members of the Executive Board	IN €	**2019**	**2020**
Niels H. Hansen Chairman of the Executive Board (until 7/31/2019) Sole member of the Executive Board (since 8/1/2019)	Fixed remuneration	654,583	500,000
	Fringe benefits[1]	10,597	371
	Total	**665,181**	**500,371**
	One-year variable remuneration	232,000	122,058
Detlev Wösten Member of the Executive Board (until 7/31/2019)	Multiple-year variable remuneration	221,234	45,833
	Total	1,118,415	167,891
	Pension expenses	–	–
	Total remuneration	**1,118,415**	**668,263**

[1] Inter alia, this item includes the use of a car and casualty insurance premiums

Supervisory Board Remuneration

Since the change in legal form went into effect, Supervisory Board remuneration has been governed by Section 13 of our Articles of Association and primarily comprises the following elements:

Every member of the Supervisory Board receives a fixed annual payment of €30,000.00 in addition to the reimbursement of out-of-pocket expenses. The Chairman of the Supervisory Board receives three times, and their deputy one and a half times, this amount. Supervisory Board members who are also members of Supervisory Board committees receive an additional fixed remuneration of €10,000.00 per committee; if there is a Nomination Committee, its members receive a fixed annual remuneration of €5,000.00. Supervisory Board members who chair one of the committees receive twice the remuneration payable for membership of the committee in question.

T. 25 **SUPERVISORY BOARD REMUNERATION**

	Fixed remuneration		Remuneration for committee work		Total	
IN €	2019	2020	2019	2020	2019	2020
Dr. Joachim Girg (Chairman)	90,000	90,000	25,000	25,000	115,000	115,000
Roland Chmiel	45,000	45,000	20,000	20,000	65,000	65,000
Sven Hansen	30,000	30,000	20,000	20,000	50,000	50,000
Dr. Rolf Schwedhelm	30,000	30,000	15,000	15,000	45,000	45,000
Dr. Hartmut Schütter	30,000	30,000	20,000	20,000	50,000	50,000
Dr. Peter Seifried (until 5/24/2019)	11,835.36	–	7,889.76	–	19,725.12	–
Sabine Dietrich (since 5/24/2019)	18,164.64	30,000	12,110.24	20,000	30,274.88	50,000
Reinhold Grothus	30,000	30,000	–	–	30,000	30,000
Holger Hoff	30,000	30,000	–	–	30,000	30,000
Harald Januszewski	30,000	30,000	–	–	30,000	30,000
Total	**345,000**	**345,000**	**120,000**	**120,000**	**465,000**	**465,000**

Events After the Reporting Date

Between December 31, 2020, and the date of this combined group management report, there was one event with a potentially material impact on the net assets, financial position and results of operations.

Our subsidiary H&R CPS at the Salzbergen site operates its own industrial power plant. Since 2002, this has been run jointly with RWE Power AG and in conjunction with the waste incineration plant operated by SRS EcoTherm GmbH. These two companies each use a share of the generation capacity to generate the electricity they need. On January 29, 2021, the transmission system operator lodged a claim against SRS EcoTherm GmbH at Osnabrück Regional Court and gave H&R CPS notice of this. For more information, please refer to Section 40 “Contingent Liabilities” in the notes.

Report on Risks and Opportunities

Risk Report

Risk Policy

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

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

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

Risk Management System

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Risk Management System as it Relates to Derivative Financial Instruments

H&R KGaA has very strict rules governing the use of derivative financial instruments. We only use standard market instruments from selected banks with good ratings. As a rule, the transactions are carried out by the Group Treasury department after approval by the Executive Board of H&R Group Finance GmbH and are then monitored on an ongoing basis. They are used to hedge underlying transactions that either exist already or are highly likely to take place in the future (anticipatory hedging). In financial year 2020, we restricted ourselves to micro-hedging individual risk positions in the area of current foreign currency book positions, the continued existence of which during the hedging period is monitored by the hedging entity. These are forward purchases of US dollars for raw material purchases and the hedging of loans. In view of the terms of a maximum of six months, the market values and therefore also the counterparty risks remained manageable.

Derivative financial instruments are not used for speculative purposes. At the reporting date, no open interest rate positions were in existence. With regard to currencies, nominal amounts of US$3.9 million, HKD 10.2 million and ZAR 52.1 million were hedged. Valuation units were not shown.

Specific Risks

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

T. 26 **POTENTIAL FINANCIAL IMPACT**[1)]

	Likelihood of occurrence[2)]		
	Unlikely	Possible	Likely
Existential threat	●	●	●
Significant	●	●	●
Moderate	●	●	●

1) Moderate: some negative effects on business activity, financial position, results of operations and cash flows, for example if EBITDA falls below €50.0 million in 2021.
Significant: substantial negative effects on business activity, financial position, results of operations and cash flows, for example if EBITDA falls below €50.0 million annually over the next two years.
Existential threat: substantial negative effects on business activity, financial position, results of operations and cash flows owing to which the continued existence of the enterprise would be jeopardized, e.g., with an EBITDA permanently below €50.0 million.
2) 1–33%: unlikely; 34–66%: possible; 67–99%: likely

● Low Risk ● Medium Risk ● High Risk

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

T. 27 **CORPORATE RISKS**

	Likelihood of occurrence	Possible financial impact	Risk classification	Risk situation compared to previous year
Macroeconomic and industry risks				
Fluctuations in demand and margins	possible	significant	high	unchanged
Raw material supply risks	unlikely	significant	medium	unchanged
Composition of raw materials	likely	significant	high	unchanged
Risks from the development of substitute products/general competitive pressure	likely	significant	high	unchanged
Changes in the tax and legal environment	possible	moderate	medium	unchanged
Brexit – composition of European Union	likely	moderate	medium	unchanged
Operating and corporate strategy risks				
Technical production risks	possible	moderate	medium	unchanged
Investment risks	unlikely	significant	medium	unchanged
Risks associated with contractual relationship with Hansen & Rosenthal Group	unlikely	significant	medium	unchanged
Product liability risks	unlikely	moderate	low	unchanged
Financial risks				
Liquidity risks	unlikely	significant	medium	unchanged
Risks from the breach of covenants	possible	significant	high	unchanged
Risks from future refinancing requirements	unlikely	significant	medium	unchanged
Currency risks	possible	moderate	medium	unchanged
Interest rate risks	possible	moderate	medium	unchanged
Risks from defaulting customers and banks	unlikely	moderate	low	unchanged

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

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

Macroeconomic and Industry Risks

Demand and Margin Fluctuations (Risk Class: High). External influences can cause demand for our products to 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.

As a company with global operations, we pick up on global economic factors and weak phases in key global industries. They can have a significant impact on changes in our sales and income.

Closely correlated with the risk of weaker demand is the risk of lower product margins. Due to the high complexity of the plants used in the chemical industry, lower margins are often tolerated at times of weaker demand in order to nevertheless maintain capacity utilization rates. In general, H&R KGaA has countered this risk by taking targeted measures to expand the percentage of our business involving crude-oil-based specialty products that are less price sensitive. Our refinery sites recorded a generally stable demand situation and a comfortable margin situation in 2020, in spite of the first lockdown period in May/June. Demand recovered from the summer onward in particular and continued into the winter months, which are normally weaker. While total sales volumes and therefore also revenue were down year-over-year in 2020, the income generated was ultimately still comparable with that of 2019.

As such, as far as the results of operations of H&R KGaA in the past financial year are concerned, it is noted that demand and margin risk did actually materialize, but had a significantly more muted impact than had to be expected following the half-year figures.

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

In the Plastics division, we are – like other component manufacturers for automotive suppliers – dependent on industry trends. This applies, in particular, to components called off on a just-in-time basis, which fluctuate depending on the production figures of the OEMs/automobile manufacturers themselves. There were instances of automobile manufacturers and suppliers closing in 2020, meaning that we sold fewer plastic parts than planned. The personnel restructuring measures implemented and the streamlining of our mold construction activities proved to be the right steps to take, but their impact was felt only to a limited degree due to the adverse market conditions. With the economic environment as it is, the risks therefore remain “high”.

The extent to which demand and margins would have shown better development in the past year were it not for the Covid-19 pandemic remains, to a large extent, purely speculative. However, it can be said that improved prospects for 2021 depend on the fast, comprehensive availability of effective vaccines. If this is not the case, other effects may come into play where cases of Covid-19 or protective measures may lead to increased pressure on demand for our products or the prices that can be achieved.

Risks Related to Raw Materials Procurement (Risk Class: Medium). At our specialty refineries in Hamburg and Salzbergen, we use raw materials from a range of sources as feedstock. At the same time, we diversify our sources of supply by taking deliveries from renowned oil companies in different parts of the world and buying another portion on the spot market. To enhance the refinery operating model, we also rely on an adjusted and more diversified raw materials portfolio. In terms of the implementation of our plans in 2020, the Covid-19 pandemic led to restrictions in availability for some essential new raw materials, which, combined with partial changes to production processes for upstream raw materials manufacturers, led to delays. This risk is still present at the start of the 2021 financial year but looks set to decrease significantly as more of the population is vaccinated. Increasing vaccination rates should lead to increased mobility and thus to a larger range of products and larger range of composition of the raw materials of our raw materials manufacturers.

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

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

Risks From the Development of Substitute Products and General Competitive Pressure (Risk Class: High). One risk applicable to both divisions is the development of substitutes or alternative production methods for our products. We address these risks through intensive research and development activities in all the Group's operating divisions. The high degree of diversification in our product portfolio also reduces the effects individual substitutes would have on consolidated income.

A further risk lies in an ongoing technological shift among new refineries for lubricant production, meaning that total capacities will be increasingly dominated by plants using Group II technology or higher. The base oils produced in these plants are of a higher quality, but are not necessarily any more expensive than our products. We are addressing this mounting competition in the lubricants sector by focusing on the further development of our operating model, which focuses on avoiding Group I base oils by changing the use of raw materials. Our strategy also includes transforming our own product portfolio to comprise petroleum-based, renewable and synthesized products.

Moreover, we believe there are a number of limitations in terms of quality, performance, compatibility with established manufacturing processes, availability, environmental impact, and price regarding potential substitutes for the competition's chemical or renewable raw materials.

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

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

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

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

Changes in the Composition of the European Union – Brexit (Risk Class: Medium). The outcome of the Brexit negotiations in December 2020 has initially secured the parameters for contractual agreement. A number of detailed issues nevertheless require new regulation in the wake of the United Kingdom leaving the EU, and as such, it is impossible to rule out a scenario in which, especially during the transitional period, component imports or the export of finished products could become complicated and delay the handling of business transactions.

Operating and Corporate Strategy Risks

Technical Production Risks (Risk Class: Medium). H&R KGaA's subsidiaries produce crude-oil-based specialty products and high-precision plastic parts. Operating the plants that produce such products entails both operating risks and the risk of accidents. Technical disruptions, 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 regularly invest in environmental protection and safety measures at our specialty refineries.

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

Furthermore, a situation such as the one last year also poses the risk of significant disruptions to our own production processes, such as through hard lockdowns, which may also include professional activities or restrict permitted business activities solely to key industries. However, no such regulations came into force in 2020. Thanks to comprehensive health and safety measures to protect our own staff, the number of suspected cases or identified infections were kept under control at our sites so effectively that no restrictions to business operations occurred.

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

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

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

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

Investment Risks (Risk Class: Medium). In the years ahead, we intend to keep investing in measures to maintain the added value and competitiveness of our existing production sites. To mitigate the risks associated with the project implementation process, we deploy project teams with in-depth knowledge of our plants to professionally coordinate and strictly monitor such value maintenance measures. In principle, however, investment projects may entail cost overruns and delays in construction. If the vaccination campaign fails and Covid-19 cases rise, the implementation of our projects may be delayed.

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

Financial Risks

Our subsidiaries receive the funds they use to execute business and production processes through H&R KGaA, which in turn ensures that such funds will be available. As a result, risks involving these financing instruments generally originate with H&R KGaA itself. In addition to the risks described in detail above, there is an overarching risk in the continuation of the Covid-19 pandemic. If the latest efforts to provide comprehensive, short-term access to vaccines are not successful, a situation such as the one in 2020 may reoccur, or reach even more acute levels. In addition to the effects of a loss of income on business operations, this may also impact the net assets and financial position and result in an exacerbation of the financial risks detailed below.

Financial Covenant Breach Risk (Risk Class: High). Compliance with the financial covenants will also be a crucial part of the financing agreements in 2021. If these covenants were to be breached, which is not expected to happen, this could jeopardize the continued existence of the financing arrangements and therefore the Group's financial and economic situation. Due to the possibility of occurrence and the potentially significant financial impact, this is – from an objective standpoint – fundamentally a "high-risk" issue. In general, we take a proactive approach to this risk by renegotiating financing terms with our financing partners early on. This we did once again in 2020, reaching agreement on greater leeway for H&R, particularly with regard to debt parameters. Although this means that we have reduced this risk, it is still classified as "high" due to the importance of this financing.

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

In order to cover the net working capital (the sum of inventories and trade receivables less trade payables) required for our production activities, a large part of the line of credit under the syndicated loan we renewed in July 2019, which currently amounts to €240.0 million, has been earmarked as a risk cushion. At year-end, €56.6 million had been utilized for cash loans, €2.7 million for guarantees and €11.2 million for credit requests/guarantees for lines in China.

Our Group Treasury department monitors our liquidity status on a daily basis to avoid any cash flow difficulties. The credit lines granted by the banks in the lending consortium are subject to financial covenants relating to our equity base and the ratio of our net debt to operating income (EBITDA). If any of these covenants are breached, the banks are entitled to call in the loan. Looking ahead to 2020, increased financial covenants for net gearing have been agreed with our banking partners.

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

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

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

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

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

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

In principle, we weigh the costs for hedging foreign currency risks against the financial effects of a potential loss event.

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

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

There is additional exposure to falling interest rates in the form of the locally generated surplus cash of foreign equity investments in the respective currencies. There is currently a risk of increased interest expense from rising interest rates for our Chinese equity investments due to short-term fixed-interest loans denominated in Chinese renminbi that will have to be refinanced when they mature in 2021.

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

General Statement on the Risk Situation

Assessment of the Risk Situation by the Executive Board

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

Company Rating

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

Report on Opportunities

Opportunities Management

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

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

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

Specific Opportunities

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

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

The possibility of increased demand within society for products with a smaller carbon footprint or even for climate-neutral qualities could afford H&R additional opportunities. Our three-pillar strategy and our de facto ability to already refine "traditional" petroleum-based products in our processes using green hydrogen are initial steps in this direction. At the same time, green hydrogen in conjunction with green carbon that we intend to source from the flue gas from our thermal waste recovery offers us additional opportunities – long-chain hydrocarbon compounds can be obtained from these two materials together in the course of synthesization. In turn, these can be turned in our processes into products which are very similar to the existing petroleum-based qualities.

Over the past few years, we have laid the foundation for profitable business, particularly in the international business. China was already making an impression toward the end of 2020, for example, with very pronounced economic momentum. As the global population is increasingly vaccinated in the course of the year, we can expect to see a sustainable reduction in the risks of infection and ongoing normalization of the underlying conditions once again in those places where growth significantly slumped for a time, too. For example, the researchers at the Kiel Institute for the World Economy (IfW) are forecasting an increase in global output of 6.1%.

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

Strategic Opportunities for the Company (Opportunity Class: High). We believe that considerable opportunities lie in the enhancement of our operating model under the motto of “Strengthening strengths”. These strengths include our plant configuration flexibility and our ability to actively manage our output structure. Here, we are focusing on our core products. We are aiming to avoid competition in base oils by producing less of them. The same applies, as a logical consequence, to combustion products. The right, diversified use of raw materials could have just as positive an effect on the quantity, composition and quality of our end products and by-products as plant configuration measures.

The positive effects of the business model transformation were delayed in financial year 2020. This was first and foremost attributable to a lack of availability of suitable raw materials at the refineries selected by us as potential suppliers, due to there being no quantities, insufficient quantities or unfavorable delivery terms. Regardless, we are convinced that this area offers a great deal of potential: based on a revamped and expanded feedstock and by-product portfolio for the Hamburg refinery, we aim to strengthen market-oriented production that focuses exclusively on specialty products. We are additionally optimizing the operating modes and the utilization of the individual production steps, which will allow us to better manage which products we want to produce, and in what volumes, in the future.

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

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

All in all, we see the debate on climate change and the efforts to forge ahead with the energy transition not only as a challenge, but also as an opportunity. We believe that a commitment to the increased production of green hydrogen and green carbon offers significant potential. This approach was singled out for subsidization by the Federal Minister for Economic Affairs in the Living Labs for the Energy Transition ideas competition. If the step from the conceptual stage to funding approval to implementation is successful in the near future, the Salzbergen site could soon supply CO_2 and hydrogen for industrial applications, providing an active link between the energy sector and industry.

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

In addition to the positive effects resulting from the change in the use of raw materials, opportunities to market our lower-margin products will also arise. While we will continue to produce bitumen, which we primarily sell to the road building sector, at our propane deasphalting plants, we no longer see this step in the production process as a necessary part of the linear coupling process and will instead manage production more in line with demand by buying the required quantities of raw materials.

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

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

Overall Statement on Opportunities

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

Forecast Report

Future Focus of the Group

Companies and Segments

Statements concerning short-term company performance from January 1 to December 31 of financial year 2021 assume that, based on our current knowledge, the structure of the Group will remain largely unchanged.

How to deal with the trade-off between raw material prices and market conditions continues to be a major challenge for our company.

H&R KGaA 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 fall back on a network of tried and tested partnerships. Every one of our Group subsidiaries fits into this simple matrix.

In the period leading up to 2020, we prepared our ChemPharm Refining segment – which, as our core business, was the main driver of total sales and also made the biggest contribution to income during the reporting period – to tackle future challenges through numerous modernization and expansion efforts. In our view, performance at the production site in Hamburg is key to improving our results.

For the Salzbergen site, the continuation of the contract-production model has been adding stability and planning predictability to our sales and income forecasts since 2013.

In the ChemPharm Sales business segment, our strategy of forming production partnerships to supplement our own production sites has proven to be successful. In its current form, our international business is also already well positioned in the global markets for financial year 2020. In the current financial year, we plan to expand our Asian footprint by ramping up operations in Vietnam. All in all, we expect the segment to support H&R KGaA's overall performance as a stable generator of sales and income.

In the Plastics division, the personnel restructuring phase had already been largely completed in 2019. The resulting reduction in personnel at the headquarters in Coburg should take some of the cost pressure off us and give the Executive Board leeway to tackle the issues that will shape our future, such as the sustainable expansion of our new customer business and simultaneous reduction in our reliance on individual customers or sectors.

Sales Markets

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

Technologies and Processes

Constantly improving processes to increase efficiency and enhance the output structure is a core element of our corporate strategy. We combine long-standing expertise with the use of new technologies, carving out a role for ourselves less as a lubricant producer than as a manufacturer of high-quality crude-oil-based specialty products. In order to meet the challenges facing us at present and achieve a return to stronger results in the foreseeable future, we will continue to forge ahead with moves to enhance our refinery operating model. This will see us rely on a differentiated range of raw materials, which is just as decisive for the quantity, composition and quality of our end products and by-products as plant configuration measures are. Based on a revamped and expanded feedstock and by-product portfolio for the Hamburg refinery, we aim to achieve market-oriented production focusing exclusively on specialty products. As well as applying this principle, we are optimizing the operating modes and the utilization of the individual production steps, which will allow us to better manage which products we want to produce, and in what volumes, in the future.

Products and Services

Despite the above-mentioned changes in the refinery operating model, our product portfolio will remain largely unchanged. In the Chemical-Pharmaceutical division, our sales partner, Hansen & Rosenthal KG, serves as a liaison between our customers and our R&D departments. It will help us to ensure that the quality and performance of our products remain constant, even if the refineries' operating methods change, i.e., are enhanced.

Following the implementation of the personnel restructuring measures at the Coburg headquarters, the Plastics division can now rise to the competitive challenge equipped with a strengthened cost structure.

The decisive factor, however, will be how GAUDLITZ GmbH can manage to reposition itself with former customers/expand its customer base, especially in the medical technology and industrial sectors. We are, however, confident that we will be able to attract new customers and jointly tap into new markets with existing customers based on a performance-oriented reorganization of sales/distribution and further improvements in the operational production processes.

Expected Performance in Financial Year 2021

Macroeconomic Conditions

General Economic Environment

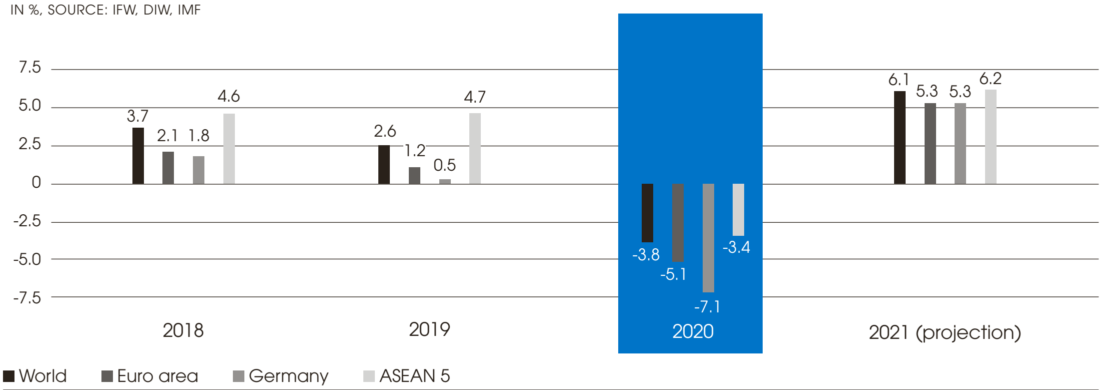
During the course of the last year, the growth forecasts for virtually all of the world's key economies were massively lowered due to the coronavirus pandemic. As a consequence, experts expect to see dynamic development in global economic output in 2021, with a growth rate of over 6.1% compared with 2020. The impact on Germany of the global acceleration in growth is slightly more moderate. The German Institute for Economic Research (DIW Berlin) is forecasting GDP growth of 5.3% in 2021, while nevertheless referencing the uncertainties relating to, for example, continued unfortunate developments in infection numbers.

Our budget for financial year 2021 is based on a US dollar/euro exchange rate, which we set at 1.15 for the purposes of the planning process.

For crude oil prices, we rely on the estimates published by the economics departments of major banks. For budget year 2021, on the planning date we assumed a price of US$50 per barrel of North Sea Brent, which is slightly higher than the average annual price of US$43 seen in 2020.

G. 13 **GLOBAL ECONOMIC GROWTH FORECAST**

IN %, SOURCE: IFW, DIW, IMF



Industry Environment

Demand for chemical products remained largely stable at the end of the year. Accordingly, the German Chemical Industry Association (VCI) interprets the mood among the companies within the industry as being predominantly confident. For 2021, the VCI is therefore forecasting increases in both production (1.5%) and sales (2.5%) in the chemical-pharmaceutical industry.

2021 is likely to be a key year for the automotive industry as a key sales markets for our plastics business. Going forward, not only is the market for plug-in hybrids likely to grow in particular, for which experts consider double-digit percentage growth in Europe to be entirely realistic – so too will the market for fully electric vehicles. Government buying incentives should boost demand.

Company Performance

Sales and Income

The following table compares the actual values of the main or key control figures used by the H&R Group for the past financial year with the original forecast and shows the outlook for financial year 2020:

T. 28 COMPARISON OF ACTUAL VALUES WITH FORECAST

Key figure	Original forecast FY 2020	Actual FY 2020	Outlook FY 2021
Consolidated sales	€1,000 million to €1,200 million	€873.0 million	€900 million to €1,100 million
of which Refining	58%	€524.6 million (approx. 59%)	66%
of which Sales	37%	€317.0 million (approx. 36%)	31%
of which Plastics	5%	€40.1 million (approx. 5%)	3%
Reconciliation with consolidated sales	n.a.	€-8.7 million	n.a.
Consolidated EBITDA	approx. €50 million to €65 million	€55.8 million	approx. €60 million to €75 million
of which Refining	46%	€35.2 million (approx. 63%)	65%
of which Sales	46%	€25.9 million (approx. 46%)	32%
of which Plastics	8%	€-0.4 million (–)	3%
Reconciliation with consolidated EBITDA	n.a.	€-4.9 million (approx. -9%)	n.a.

Sales. Our revenue is affected considerably by the cost of raw materials for our Chemical-Pharmaceutical division. If our planning assumptions for crude oil prices and the US dollar/euro exchange rate prove correct, we anticipate that prices for raw materials and products will remain constant overall. For 2021, we are first and foremost expecting increased momentum in the ChemPharm Refining segment and a stable situation in the ChemPharm Sales segment.

All in all, we expect consolidated sales in 2021 to be higher than in 2020. The contribution from our ChemPharm Refining segment will account for around 65% of this amount. The ChemPharm Sales business will contribute approximately 32%, a lower percentage than in the previous year. The Plastics division is expected to contribute around 3% to total sales.

Income. The past financial year was checkered as a result of the coronavirus pandemic and its consequences. The company nevertheless achieved a generally pleasing recovery in the second half of 2020, in view of the major challenges facing the market. Operating income of €55.8 million in 2020 was therefore stable considering the circumstances and reflected the fact that, with its current setup, H&R is perfectly able to withstand adversities and can more than merely get by in times of crisis.

In the specialty business, we believe the key to a good earnings trend again in 2021 lies in continuing with the contract-production model in Salzbergen and taking advantage of the potential at the Hamburg site. Last year, the ongoing development of our refinery operating model was prevented from making more of an impact on our operating income by internal factors (adaptation of internal workflows for as comprehensive coronavirus protection as possible) and external parameters (availability of the raw materials and volumes needed).

With something of a delay, we therefore expect business in the ChemPharm Refining segment to be better than in 2020 looking at the year as a whole.

In contrast, there had been no signs as yet of a recovery in the ChemPharm Sales segment comparable to that of our refinery business. The segment fell short of expectations in terms of both sales and income, but should significantly gather momentum in 2021. In North Asia in particular, we expect to see rising sales of our core products and consequently stable EBITDA contributions with year-over-year improvements, thanks to our strong focus on the high-margin international specialty products business.

The Plastics segment is also set to record an improved earnings trend. For one thing, no further restructuring measures – or their resulting negative one-time effects – are planned. If we are mostly spared coronavirus effects in 2021, this should additionally improve our personnel expenses structure.

All in all, we are expecting consolidated operating income (EBITDA) of between €60.0 million and €75.0 million in 2021, higher than last year's EBITDA.

In view of the imminent developments and a further leveling off of the coronavirus pandemic, we expect the contribution to earnings made by our activities in the ChemPharm Refining segment to be around 65%. International business should account for approximately 32%. The Plastics division should contribute around 3% to the Group's operating income (EBITDA).

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

No structural changes to the income statement are expected for 2021.

Liquidity

Due to the ongoing uncertainties relating to the coronavirus crisis and its impacts on liquidity procurement opportunities over the next two years, we applied for a KfW Entrepreneur Loan in the amount of €40.0 million as part of the special coronavirus program, and this was paid out in January 2021. This provides us with the liquidity needed for the necessary investments in maintaining our profitability and thus particularly for maintaining our refinery sites in Germany. The unused part of the 2018 credit line will cover in particular oil price-related increases in working capital, refinancing requirements and other liquidity needs up to 2023/2024. With the new KfW Entrepreneur Loan and the unused credit line, we consider our liquidity to be secured in the long term.

Capital Expenditure

Following considerable investment in maintenance and modernization measures, and efforts to boost added value at our facilities, we plan to be more restrained in our capital expenditure in the current financial year. Around 77% of total capital expenditure will be in the ChemPharm Refining segment. Around 16% of capital expenditure will be in the Sales segment and approximately 7% will be focused on investments in the Plastics segment and on other items.

Financing Measures

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

H&R KGaA has entered into various loan agreements with banks.

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

We currently cover our long-term financing needs primarily using redeemable loans that are refinanced by the German development bank KfW. Our application for a KfW Entrepreneur Loan in the amount of €40 million was accepted in the fourth quarter and was subsequently paid out in January 2021. This will secure the financing of the investments needed in Germany in 2021 and 2022, in particular at the refinery sites.

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

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

Overall Statement by the Executive Board on Future Business Trends

H&R GmbH & Co. KGaA ended the last financial year with an improved EBITDA. This could hardly have been anticipated in the course of the year, with the coronavirus pandemic having nullified all kinds of plans or at least made them a lot more difficult to realize. As such, the result also stands as a testament to the fundamental stability of our business model as well as to our having laid the right foundations in recent years.

If we roughly adjust last year’s result, it shows that the Plastics division benefited from the restructuring measures effected in 2019 in spite of the coronavirus and could have made a larger contribution to income under normal circumstances. The refinery operating model proved to be stable and competitive considering the adverse circumstances and boosted the contribution to income. The international activities, which are highly diverse in terms of both products and sites, paid the price for the varying impacts of the pandemic, but nevertheless remained successful overall.

All of this tells us that the basis for positive business performance is intact. We are particularly confident about our own strengths, be it our ability to push ahead with international expansion or our focus on the further enhancement of the operation of our highly specialized refineries. The advantages these refineries offer, such as an improved output of high-quality products, the targeted transformation in the direction of greater sustainability and synthesized products, need to be expanded, thereby improving their competitive standing compared to the competition.

This is what we want and we firmly believe we can achieve this, too.

It is therefore with self-confidence, but also a dose of realism, that we are drawing up our forecasts for 2021 and setting as our target an operating income (EBITDA) figure that should range between €60.0 million and €75.0 million.

CONSOLIDATED FINANCIAL STATEMENTS

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

as of December 31, 2020

ASSETS

IN € THOUSAND	Notes	12/31/2020	12/31/2019
Current assets			
Cash and cash equivalents	(6)	55,029	94,794
Trade receivables	(7)	81,578	86,881
Income tax refund claims		72	4,300
Contract assets		476	–
Inventories	(8)	105,758	127,469
Other financial assets	(9)	17,821	16,260
Other assets	(10)	8,080	8,586
Current assets		**268,814**	**338,290**
Non-current assets			
Property, plant and equipment	(11)	412,246	432,967
Goodwill	(12)	17,376	22,466
Other intangible assets	(12)	14,265	15,752
Shares in holdings valued at equity	(13)	2,922	4,682
Other financial assets	(9)	11,578	12,013
Other assets	(10)	1,355	1,328
Deferred tax assets	(34)	17,159	11,099
Non-current assets		**476,901**	**500,307**
Total assets		**745,715**	**838,597**

LIABILITIES AND SHAREHOLDERS' EQUITY

IN € THOUSAND	Notes	12/31/2020	12/31/2019
Current liabilities			
Liabilities to banks	(14)	87,449	112,384
Trade payables	(15)	80,453	108,424
Income tax liabilities		2,663	5,106
Contract liabilities	(16)	2,210	3,403
Other provisions	(17)	9,351	10,580
Other financial liabilities	(18)	10,173	9,740
Other liabilities	(19)	10,945	7,314
Current liabilities		**203,244**	**256,951**
Non-current liabilities			
Liabilities to banks	(14)	43,006	69,250
Pension provisions	(20)	82,211	86,684
Other provisions	(17)	3,535	3,528
Other financial liabilities	(18)	37,678	39,784
Other liabilities	(19)	25,819	14,874
Deferred tax liabilities	(34)	3,340	4,080
Non-current liabilities		**195,589**	**218,200**
Equity			
Subscribed capital	(21)	95,156	95,156
Capital reserve	(22)	46,867	46,867
Retained earnings	(23)	162,702	170,069
Other reserves	(24)	2,858	12,310
Equity of H&R GmbH & Co. KGaA shareholders		**307,583**	**324.402**
Non-controlling interests	(25)	**39,299**	39,044
Equity		**346,882**	**363,446**
Total liabilities and shareholders' equity		**745,715**	**838,597**

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

January 1, 2020, to December 31, 2020

IN € THOUSAND	Notes	1/1 –12/31/2020	1/1 –12/31/2019
Sales revenue	(27)	873,033	1,075,322
Changes in inventories of finished and unfinished goods		-24,818	-1,721
Other operating income	(28)	27,952	25,608
Cost of materials	(29)	-634,259	-844,563
Personnel expenses	(30)	-83,030	-88,522
Depreciation, impairments and amortization of intangible assets and property, plant and equipment	(11,12)	-56,068	-45,412
Other operating expenses	(31)	-103,156	-113,796
Impairment loss from financial assets		-658	-1,891
Other		-102,498	-111,905
Operating result		**-346**	**6,916**
Income from holdings valued at equity	(13)	48	530
Financing income	(32)	501	259
Financing expenses	(33)	-10,633	-8,891
Income before tax (EBT)		**-10,430**	**-1,186**
Income taxes	(34)	2,603	1,270
Consolidated income		**-7,827**	**84**
of which attributable to non-controlling interests		1,193	1,452
of which attributable to shareholders of H&R GmbH & Co. KGaA		**-9,020**	**-1,368**
Earnings per share (undiluted), €	(35)	-0.24	-0.04
Earnings per share (diluted), €	(35)	-0.24	-0.04

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

January 1, 2020, to December 31, 2020

IN € THOUSAND	Notes	1/1 – 12/31/2020	1/1 – 12/31/2019
Consolidated income		**-7,827**	**84**
of which attributable to non-controlling interests		1,193	1,452
of which attributable to shareholders of H&R GmbH & Co. KGaA		-9,020	-1,368
Positions that will not be reclassified into profit or loss			
Remeasurement of defined-benefit pension plans		3,071	-10,262
Deferred taxes		-1,418	3,024
Total remeasurement of defined-benefit pension plans		**1,653**	**-7,238**
Equity instruments		-444	6,631
Deferred taxes		6	-97
Total change in equity instruments		**-438**	**6,534**
Positions that will not be reclassified into profit or loss		**1,215**	**-704**
Positions that may subsequently be reclassified into profit or loss			
Changes in the currency translation adjustment item		-9,952	6,695
Total positions that may subsequently be reclassified into profit or loss		**-9,952**	**6,695**
Other comprehensive income		**-8,737**	**5,991**
of which attributable to non-controlling interests		-938	280
of which attributable to shareholders of H&R GmbH & Co. KGaA		-7,799	5,711
Total comprehensive income		**-16,564**	**6,075**
of which attributable to non-controlling interests		255	1,732
of which attributable to shareholders of H&R GmbH & Co. KGaA		-16,819	4,343

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

as of December 31, 2020

IN € THOUSAND	Subscribed capital (21)	Capital reserve (22)	Retained earnings (23)
1/1/2019	**95,156**	**46,867**	**178,675**
Consolidated income	–	–	-1,368
Other comprehensive income	–	–	-7,238
Total comprehensive income	–	–	-8,606
12/31/2019	**95,156**	**46,867**	**170,069**
Consolidated income	–	–	-9,020
Other comprehensive income	–	–	1,653
Total comprehensive income	–	–	-7,367
12/31/2020	**95,156**	**46,867**	**162,702**

	Other reserves/cumulative other comprehensive income				
	Equity instruments (24)	Currency translation adjustment	Equity share attributable to shareholders of H&R KGaA	Non-controlling interests (25)	Total
	–	**-639**	**320,059**	**37,312**	**357,371**
	–	–	-1,368	1,452	84
	6,534	6,415	5,711	280	5,991
	6,534	6,415	4,343	1,732	6,075
	6,534	**5,776**	**324,402**	**39,044**	**363,446**
	–	–	-9,020	1,193	-7,827
	-438	-9,014	-7,799	-938	-8,737
	-438	-9,014	-16,819	255	-16,564
	6,096	**-3,238**	**307,583**	**39,299**	**346,882**

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

January 1, 2020, to December 31, 2020

IN € THOUSAND			Notes	2020	2019
1.		Consolidated income		-7,827	84
2.		Income taxes		-2,603	-1,270
3.		Net interest income		8,307	8,464
4.	+/–	Depreciation and amortization/appreciation on fixed assets and intangible assets		57,876	45,412
5.	+/–	Increase/decrease in non-current provisions		-2,367	-1,802
6.	+	Interest received		501	259
7.	–	Interest paid		-7,440	-4,267
8.	+/–	Income tax received/paid		-7,814	-6,606
9.	+/–	Other non-cash expenses/income		602	-543
10.	+/–	Increase/decrease in current provisions		-1,032	-741
11.	–/+	Gain/loss from the disposal of intangible assets		193	366
12.	–/+	Changes in net working capital		4,891	60,260
13.	+/–	Changes in remaining net assets/other non-cash items		16,858	-4,121
14.	**=**	**Cash flow from operating activities (sum of items 1 to 13)**	(37)	**60,145**	**95,855**
15.	+	Proceeds from disposals of property, plant and equipment		135	84
16.	–	Payments for investments in property, plant and equipment		-37,129	-74,523
17.	–	Payments for investments in intangible assets		-1,117	-639
18.	**=**	**Cash flow from investing activities (sum of items 15 to 17)**	(37)	**-38,111**	**-75,078**
19.	**=**	**Free cash flow (sum of items 14 and 18)**		**22,034**	**20,777**
20.	+	Dividends received from holdings valued at equity		–	212
21.	–	Payments for settling financial liabilities		-133,644	-56,241
22.	+	Proceeds from taking up financial liabilities		75,986	81,246
23.	**=**	**Cash flow from financing activities (sum of items 20 to 23)**	(37)	**-57,658**	**25,217**
24.	**+/–**	**Changes in cash and cash equivalents (sum of items 14, 18 and 23)**		**-35,624**	**45,994**
25.	+	Cash and cash equivalents at the beginning of the period		94,794	46,495
26.	+/–	Change in cash and cash equivalents due to changes in exchange rates		-4,141	2,305
27.	**=**	**Cash and cash equivalents at the end of the period**		**55,029**	**94,794**

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

as of December 31, 2020

(1) General Information

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

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

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

The 2020 consolidated financial statements were prepared in euros (€). Unless stated otherwise, all amounts are shown in thousands of euros (in € thousand). Rounding can lead to the amounts mentioned in this report not adding up exactly to the sums stated, and to percentages not exactly matching the amounts reported.

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

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

(2) Effects of New Accounting Standards

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

STANDARDS AND INTERPRETATIONS TO BE APPLIED FOR THE FIRST TIME

Standard/ interpretation	Title	IASB effective date	Date of EU endorsement	EU effective date	Material impact on H&R
	Amendments to References to the Conceptual Framework in IFRS Standards	1/1/2020	11/29/2019	1/1/2020	none
Amendments to IFRS 3	Business Combinations – Definition of a business	1/1/2020	4/21/2020	1/1/2020	none
Amendments to IFRS 16	Leases – Covid-19-Related Rent Concessions	6/1/2020	10/9/2020	6/1/2020	none
Amendments to IAS 1 and IAS 8	Definition of "Material"	1/1/2020	11/29/2019	1/1/2020	none
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform (Phase 1)	1/1/2020	1/15/2020	1/1/2020	none

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

PUBLISHED STANDARDS AND INTERPRETATIONS THAT ARE NOT YET BEING APPLIED

Standard/interpretation	Title	IASB effective date	Date of EU endorsement	EU effective date	Material impact on H&R KGaA
Amendments to IFRS 4	Insurance Contracts – Deferral of the application of IFRS 9	1/1/2021	12/15/2020	1/1/2021	none
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4, IFRS 16	Interest Rate Benchmark Reform (Phase 2)	1/1/2021	1/13/2021	1/1/2021	none
IFRS 14	Regulatory Deferral Accounts	1/1/2016	not recognized	none	none
IFRS 17	Insurance Contracts	1/1/2023	to be determined	to be determined	none
Amendments to IAS 1	Classification of Liabilities as Current or Non-Current	1/1/2023	to be determined	to be determined	none
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies	1/1/2023	to be determined	to be determined	none
Amendments to IAS 8	Definition of Accounting Estimates	1/1/2023	to be determined	to be determined	none
Amendments	Amendments to IFRS 3/IAS 16/IAS 37/Annual Improvements Project 2018–2020	1/1/2022	H2 2021	to be determined	none

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

(3) General Accounting and Measurement Methods

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

Subsidiaries are companies or entities which, according to the criteria listed in IFRS 10, are controlled by H&R KGaA. Accordingly, H&R KGaA controls rights at these companies that give it the ability to direct the relevant activities of these companies in order to influence the companies' returns. Control further requires H&R KGaA to be exposed to variable returns from the subsidiaries and to have the ability to affect those variable returns through its decision-making power. If it loses control over a subsidiary, the subsidiary is no longer included in the scope of consolidation.
All intragroup business transactions and interim results as well as existing receivables and payables between consolidated companies are eliminated in the course of consolidation. Deferred income tax effects arising from the consolidation process are appropriately taken into account.

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

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

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

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

Shares in Holdings Valued at Equity
Interests in associates and in joint ventures are reported in accordance with the equity method. Joint ventures are companies that H&R KGaA manages jointly with a third party. H&R KGaA's interest in associates ranges from 20% to 50%. Under the equity method, the carrying amount of holdings valued at equity is increased or reduced by the change in equity corresponding to H&R KGaA's interest in the equity of these companies. The Group's interest in associated companies and in joint ventures includes the goodwill arising from the acquisition. The changes in the pro rata equity affecting the income statement are recognized under income from holdings valued at equity. If there are any objective indications of the need to recognize an impairment loss for holdings valued at equity, the need for an impairment loss is calculated. Impairments are carried out where the recoverable amount is lower than the carrying amount. The recoverable amount is the higher of fair value less costs of disposal and the value in use.

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

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

In the consolidated financial statements, the assets and liabilities are converted into euros at the exchange rate on the respective reporting date. Any changes taking place during the year, as well as items on the income statement, are converted into euros at the average annual exchange rate. The equity is carried at historical exchange rates. 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 currency translation have changed as follows:

EXCHANGE RATES FOR THE MAIN CURRENCIES

	Closing rate 12/31/2020	Closing rate 12/31/2019	Average rate 2020	Average rate 2019
US dollar	1.2271	1.1234	1.1413	1.1196
British pound	0.899	0.85080	0.88921	0.87731
Australian dollar	1.5896	1.5995	1.6554	1.6106
South African rand	18.0219	15.7773	18.7685	16.1731
Thai baht	36.727	33.415	35.693	34.765
Chinese renminbi	8.0225	7.8205	7.8708	7.7339
Czech crown	26.242	25.408	26.456	25.670
Malaysian ringgit	4.934	4.5953	4.7935	4.6372

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

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

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

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

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

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

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

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

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

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

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

Within the scope of real factoring agreements with a term until March 31, 2021, H&R KGaA sells short-term trade receivables to a bank. H&R KGaA is free to decide whether or not, and to what extent, receivables are sold within certain limits. All material opportunities and risks were transferred to the buyer, meaning that the receivables sold were fully derecognized and no continuing involvement was recognized in the statement of financial position. Receivables that qualify for factoring but are not sold to the factor are recognized at fair value through profit or loss.

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

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

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

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

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

Derivative financial instruments are carried on the statement of financial position 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 currency forward contracts, the valuation is carried out on a case-by-case basis at the pertinent forward exchange rate on the reporting date. The fair value of derivative financial instruments for interest rate hedging is determined by discounting future incoming and outgoing cash flows. Standard market interest rates which have been adjusted to reflect their own credit risk and which correspond to the respective time to maturity of the financial instruments are used for discounting. No derivatives were designated as hedges either in the financial year or in the previous period.

Inventories
According to IAS 2, inventories include those assets held for sale in the ordinary course of business (finished products and products for sale), assets in the process of production for sale (work

in process), or materials and supplies that are consumed in the production of inventory or in the rendering of services (raw, auxiliary and production materials).

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

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

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

Acquisition costs consist of the price of the acquisition, the ancillary acquisition costs, and subsequent acquisition costs less acquisition price reductions obtained. Borrowing costs that are directly attributable to the construction, acquisition or production of a qualifying asset are capitalized. Expenses for the ongoing repair and maintenance of property, plant and equipment are 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 respective property, plant or equipment.

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

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

ASSETS

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

Leases
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.

Since January 1, 2019, H&R KGaA has generally accounted for leases in accordance with IFRS 16, which requires the recognition of a right to use the leased assets, and a liability for the payment obligations entered into, for each lease in the statement of financial position.

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

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

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

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

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

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

ASSETS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Income Taxes
Income taxes comprise both the taxes levied in the individual countries on taxable profits and changes in deferred taxes that have an effect on profit or loss. The current tax expense is based on the taxable income for the year determined in accordance with the tax regulations of the respective country, taking into account the applicable tax rate in that juris-

diction. Pursuant to IAS 12, deferred taxes reflect temporary differences between assets and liabilities reported in the consolidated financial statements under accounting rules and the amounts reported under tax rules governing the determination of taxable income. Current and deferred taxes are essentially recognized in profit or loss, unless they are related to circumstances recognized in other comprehensive income or directly in equity. In that case, the current and deferred taxes are also recognized in other comprehensive income or directly in equity.

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

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

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

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

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

(4) Discretionary Decisions and Estimates

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

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

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

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

In the case of other provisions, estimates relating to future expenses are necessary in addition to the discount rate. This also applies to the possibility of a cash outflow due to dismantling obligations, which is described in greater detail in Note (40).

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

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

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

(5) Scope of Consolidation and Holdings

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

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

CHANGE IN THE NUMBER OF CONSOLIDATED COMPANIES

H&R KGaA and consolidated companies	Germany	Abroad	Total
1/1/2019	**20**	**22**	**42**
Additions	–	–	–
Disposals	–	–	–
12/31/2019	**20**	**22**	**42**
Additions	–	2	2
Disposals	–	–	–
12/31/2020	**20**	**24**	**44**

The additions relate to new companies established in Vietnam and Malaysia.

In addition, as in the previous year, four domestic joint ventures are included in the consolidated financial statements of H&R KGaA using the equity method.

H&R KGaA holds shares in some companies via trust companies. These indirect shares are also fully consolidated whenever H&R GmbH & Co. KGaA exercises control. The holdings are shown in the list of shareholdings. Although controlled by H&R KGaA, two companies were not included in the scope of consolidation, as they have no material significance for the net assets, financial position and results of operations of H&R KGaA.

The following table provides an overview of the companies included in the consolidated financial statements of H&R KGaA. The holdings are unchanged compared to the previous year. This does not include newly founded companies.

FULLY CONSOLIDATED SUBSIDIARIES

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

OTHER INTERESTS

Company name	Company headquarters	Segment	Interest held by H&R KGaA in %	Income after tax (in € thousand)	Equity (in € thousand)
Joint ventures					
Westfalen Chemie GmbH & Co. KG	Salzbergen, Germany	a	50	187	26
Westfalen Chemie Verwaltungsgesellschaft mbH	Salzbergen, Germany	a	50	2	70
HRI IT–Service GmbH	Berlin, Germany	d	50	48	897
HRI IT-Consulting GmbH	Münster, Germany	d	50	177	915
Unconsolidated subsidiaries					
WAFA Kunststofftechnik GmbH & Co. KG, i. K.	Augsburg, Germany	c	100	–[2]	–[2]
WAFA Kunststofftechnik Verwaltungs GmbH, i. K.	Augsburg, Germany	c	100	–[2]	–[2]
Other interests					
SRS EcoTherm GmbH	Salzbergen, Germany	a	10	3,435	17,193

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

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

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

Notes to the Consolidated Statement of Financial Position

(6) Cash and Cash Equivalents

IN € THOUSAND	12/31/2020	12/31/2019
Cash in hand	19	23
Bank balances	55,010	94,771
Total	**55,029**	**94,794**

As of December 31, 2020, €1,000 thousand (previous year: €1,000 thousand) was recognized as cash and cash equivalents, which was deposited in pledged accounts as part of a factoring program and therefore subject to access restrictions.

(7) Trade Receivables

IN € THOUSAND	12/31/2020	12/31/2019
Trade receivables (gross)	83,869	89,015
Impairment	-2,291	-2,134
Total	**81,578**	**86,881**

No trade receivables were pledged as credit guarantees (previous year: €0 thousand). Receivables from related parties are listed under Note (42).

As of December 31, 2020, the carrying amount of the receivables transferred through factoring amounted to €15,582 thousand (previous year: €20,981 thousand). Overall, H&R KGaA had factoring lines of €30,000 thousand at its disposal. As of December 31, 2020, there are receivables that qualify for factoring, which are to be allocated to the category at fair value through profit or loss in the amount of €2,676 thousand (previous year: €1,393 thousand).

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

CHANGES IN IMPAIRMENTS OF TRADE RECEIVABLES

IN € THOUSAND	2020	2019
As of 1/1	**2,134**	**584**
Additions	658	1,891
Utilization	-201	–
Reversals	-268	-370
Currency translation differences	-32	29
As of 12/31	**2,291**	**2,134**

The previous year's increase in impairment losses mainly related to the risk provision for a receivable from the recycling of catalysts in the amount of €1.3 million. This impairment loss is part of the risk provision at Level 3. The risk provision had to be made as there were considerable doubts as to the recoverability of the receivable.

(8) Inventories

IN € THOUSAND	12/31/2020	12/31/2019
Raw, auxiliary and production materials	40,477	39,703
Work in progress	14,709	20,756
Finished products and products for sale	44,475	62,256
Advance payments on inventories	6,097	4,754
Total	**105,758**	**127,469**

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

The carrying amount of inventories recognized at the lower net realizable value amounted to €3,278 thousand in the reporting year (previous year: €11,884 thousand).

Impairment of net realizable values in the amount of €772 thousand (previous year: €1,559 thousand) were recognized as an expense in the reporting period in accordance with IAS 2.34. These affected the ChemPharm Refining and Plastics segments. For more information on expenditures relating to inventories, please consult Note (29).

(9) Other Financial Assets

IN € THOUSAND	12/31/2020 Total	12/31/2020 of which non-current	12/31/2019 Total	12/31/2019 of which non-current
Bills receivable	6,895	–	10,262	–
Subsidies	12,827	2,509	7,522	2,564
Other interests	7,237	7,237	7,681	7,681
Receivables due from BP	1,745	1,745	1,661	1,661
Other financial assets	695	87	1,147	107
Total	**29,399**	**11,578**	**28,273**	**12,013**

Bills receivable refer to receivable claims in China secured by bills of exchange. The subsidies relate to support provided for investment projects at the refinery sites. The holding relates to shares in SRS EcoTherm GmbH, Salzbergen.

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

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

IN € THOUSAND	2020	2019
As of 1/1	**11,572**	**10,541**
Interest income	124	205
Reassessment of compensation claims	97	1,447
Claims paid	-630	-621
As of 12/31	**11,163**	**11,572**

The net receivable can be broken down as follows:

IN € THOUSAND	12/31/2020	12/31/2019
Compensation claims	11,163	11,572
Liability	9,418	9,911
Net receivable	**1,745**	**1,661**

Additional information can be found in Note (20).

Other financial assets include loans and receivables as well as current securities. Of the other financial assets, as of December 31, 2020, €8 thousand (previous year: €6 thousand) had specific valuation allowances.

(10) Other Assets

IN € THOUSAND	12/31/2020 Total	12/31/2020 of which non-current	12/31/2019 Total	12/31/2019 of which non-current
Reinsurance contracts	1,311	1,311	1,318	1,318
Other tax receivables	5,011	–	6,354	–
Accruals and deferrals	2,157	44	1,570	10
Other assets	956	–	673	–
Total	**9,435**	**1,355**	**9,915**	**1,328**

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

(11) Property, Plant and Equipment

(11.1) Property, Plant and Equipment Including Right-of-Use Assets

CHANGES IN 2020

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

CHANGES IN 2019

IN € THOUSAND	Land and buildings	Technical equip-ment/machinery	Other facilities/ Operating and office equipment	Advance payments and construction in progress	Total
Acquisition and production costs					
As of 12/31/2018	**92,237**	**497,558**	**25,736**	**49,638**	**665,169**
Additions	44,262	54,486	4,867	35,340	138,955
Disposals	-1,078	-9,277	-505	-164	-11,024
Currency translation	863	1,638	126	48	2,675
Reclassifications	10,063	17,459	548	-28,610	-540
As of 12/31/2019	**146,347**	**561,864**	**30,772**	**56,252**	**795,235**
Cumulative depreciation/amortization					
As of 12/31/2018	**39,712**	**271,002**	**18,365**	**3**	**329,082**
Depreciation and amortization	6,223	33,109	3,288	–	42,620
Disposals	-882	-9,105	-477	–	-10,464
Currency translation	169	781	81	–	1,031
As of 12/31/2019	**45,222**	**295,787**	**21,257**	**3**	**362,269**
Carrying amounts					
As of 12/31/2019	**101,125**	**266,077**	**9,515**	**56,249**	**432,966**
As of 12/31/2018	52,525	226,556	7,371	49,635	336,087

Land and buildings are essentially the Group companies' production sites and the technical equipment and machinery are production facilities. The capital expenditure relates primarily to the two production sites in Hamburg and Salzbergen, and includes additions from lease agreements as per IFRS 16. Additional information can be found in Note (11.2).

The items advance payments and construction in progress include expenses incurred before the completion of the corresponding property, plant and equipment in the amount of €11,813 thousand (previous year: €55,520 thousand). No borrowing costs were capitalized in financial year 2020 (previous year: €192 thousand). This figure for the previous year was calculated using a financing cost rate of 1.8%. Compensation of €1,592 thousand paid out as a result of assets destroyed in a fire with a residual carrying amount of €32 thousand was recognized through profit or loss.

(11.2) Leases – Right-of-Use Assets

The property, plant and equipment presented under (11.1) includes right-of-use assets under leases as follows:

CHANGES IN 2020

IN € THOUSAND	Land and buildings	Technical equipment/machinery	Other facilities/ Operating and office equipment	Advance payments and construction in progress	Total
Acquisition and production costs					
As of 12/31/2019	**34,615**	**25,696**	**3,368**	**–**	**63,679**
Additions	3,020	4,128	800	–	7,948
Disposals	-642	-1,736	-251	–	-2,629
Currency translation	-413	-208	-22	–	-643
As of 12/31/2020	**36,580**	**27,880**	**3,895**	**–**	**68,355**
Cumulative depreciation/amortization					
As of 12/31/2019	**3,379**	**4,852**	**1,006**	**–**	**9,237**
Depreciation and amortization	2,591	6,252	1,267	–	10,110
Disposals	-616	-1,709	-250	–	-2,575
Currency translation	-200	-75	-9	–	-284
As of 12/31/2020	**5,154**	**9,320**	**2,014**	**–**	**16,488**
Carrying amounts					
As of 12/31/2020	**31,426**	**18,560**	**1,881**	**–**	**51,867**
As of 12/31/2019	31,236	20,844	2,362	–	54,442

CHANGES IN 2019

IN € THOUSAND	Land and buildings	Technical equipment/machinery	Other facilities/ Operating and office equipment	Advance payments and construction in progress	Total
Acquisition and production costs					
As of 12/31/2018	**–**	**–**	**–**	**–**	**–**
Additions 1/1/2019 – operating lease	25,540	15,492	1,619	–	42,651
Additions 1/1/2019 – finance lease	7,853	–	–	–	7,853
Additions	1,210	10,508	1,741	–	13,459
Disposals	-11	-408	–	–	-419
Currency translation	72	55	8	–	135
Reclassifications	-49	49	–	–	0
As of 12/31/2019	**34,615**	**25,696**	**3,368**	**–**	**63,679**
Cumulative depreciation/amortization					
As of 12/31/2018	**–**	**–**	**–**	**–**	**–**
Additions 1/1/2019 – finance lease	886	–	–	–	886
Depreciation and amortization	2,480	5,194	1,003	–	8,677
Disposals	–	-365	–	–	-365
Currency translation	13	23	3	–	39
As of 12/31/2019	**3,379**	**4,852**	**1,006**	**–**	**9,237**
Carrying amounts					
As of 12/31/2019	**31,236**	**20,844**	**2,362**	**–**	**54,442**
As of 12/31/2018	–	–	–	–	–

The right-of-use assets recognized in the balance sheet relate, in particular, to leases for land and for the rental of tank capacities and tank wagons.

The amortization of right-of-use assets is included in the item "Depreciation and amortization" in the income statement. Further information on leases can be found in Notes (3), (18), (31) and (33).

(12) Goodwill and Other Intangible Assets

The table below shows changes in intangible assets during financial year 2020:

CHANGES IN 2020

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

CHANGES IN 2019

IN € THOUSAND	Goodwill	Other intangible assets: Distribution and similar rights	Software	Licenses/ product rights	Patents/ (production) technology	Other rights	Subtotal	Total
Acquisition and production costs								
As of 12/31/2018	**54,865**	**17,914**	**13,442**	**3,997**	**13,254**	**189**	**48,796**	**103,661**
Currency translation	73	116	6	20	89	–	231	304
Additions	–	–	465	11	–	108	584	584
Disposals	–	–	-1,390	–	–	–	-1,390	-1,390
Reclassifications	–	–	706	7	–	-173	540	540
As of 12/31/2019	**54,938**	**18,030**	**13,229**	**4,035**	**13,343**	**124**	**48,761**	**103,699**
Cumulative depreciation/amortization								
As of 12/31/2018	**32,410**	**9,825**	**12,485**	**2,666**	**6,501**	**–**	**31,477**	**63,887**
Currency translation	62	51	4	7	31	–	93	155
Depreciation/amortization	–	763	711	160	1,195	–	2,829	2,829
Impairment	–	–	–	–	–	–	–	–
Disposals	–	–	-1,390	–	–	–	-1,390	-1,390
Reclassifications	–	–	–	–	–	–	–	–
As of 12/31/2019	**32,472**	**10,639**	**11,810**	**2,833**	**7,727**	**–**	**33,009**	**65,481**
Carrying amounts								
As of 12/31/2019	**22,466**	**7,391**	**1,419**	**1,202**	**5,616**	**124**	**15,752**	**38,218**
As of 12/31/2018	22,455	8,089	957	1,331	6,753	189	17,319	39,774

Goodwill

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

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

Reporting segment	Cash-generating unit (CGU)	Carrying amounts in € thousand		Discount rate after tax in %		Discount rate before tax in %	
		12/31/2020	12/31/2019	2020	2019	2020	2019
ChemPharm Refining	Salzbergen CGU	16,738	16,738	6.1	5.9	8.4	8.3
ChemPharm Sales	H&R ChemPharm (UK) CGU	282	282	6.8	6.8	8.2	8.0
ChemPharm Sales	Asia CGU	356	382	8.4	7.6	10.3	9.6
ChemPharm Sales	South Africa CGU	–	5,064	11.2	11.4	15.7	15.1
Total		**17,376**	**22,466**				

The impairment tests performed in the reporting period resulted in the impairment of goodwill in the amount of €5.1 million (previous year: €0.0 million), which is included on the income statement under the item "Depreciation, impairments and amortization of intangible assets and property, plant and equipment". As a result of a persistently tough local market environment for the South Africa cash-generating unit, the Group believes that future cash flows will grow more slowly than originally expected. The impairment test performed revealed a recoverable amount of €12.9 million (previous year: €24.9 million), resulting in a goodwill impairment of €5.1 million (previous year: €0.0 million).

In the sensitivity analyses performed on the cash-generating units to which goodwill has been allocated, the effects of reducing future cash flows by 10% and increasing the weighted cost of capital by 10% were analyzed. In the case of the Salzbergen cash-generating unit, a 0.6% increase in the cost of capital or a 9.6% reduction in future cash flow would cause the recoverable amount to be equal to the carrying amount. The recoverable amount exceeds the carrying amount by €11.9 million. For the other cash-generating units, these sensitivities would have no impact. In the previous year, a 0.2% increase in the cost of capital or a 2.4% reduction in cash flow in the Asia cash-generating unit would have caused the recoverable amount to be equal to the carrying amount.

Other Intangible Assets
The other intangible assets mainly consist of customer relationships with a residual carrying amount of €6.4 million (previous year: €7.4 million) and (production) technologies with a residual carrying amount of €4.3 million (previous year: €5.6 million). The additions in financial year 2020 primarily refer to the acquisition of new software licenses.

(13) Shares in Holdings Valued at Equity

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

IN € THOUSAND	12/31/2020	12/31/2019
Assets		
Non-current assets	1,788	2,297
Current assets	4,891	3,685
Liabilities		
Non-current liabilities	973	1,000
Current liabilities	3,798	2,346
Cumulative equity	**1,908**	**2,636**
Income	11,839	15,777
Expenses	-11,425	-14,281
Earnings after income taxes	**414**	**1,496**
Other comprehensive income	–	–
Total consolidated income	**414**	**1,496**

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

IN € THOUSAND	2020	2019
Carrying amounts as of 1/1	**4,682**	**4,350**
Addition	–	14
Proportionate share in income	48	530
Impairment	-1,808	–
Distribution	–	-212
Carrying amounts as of 12/31	**2,922**	**4,682**

Impairments of €1,183 thousand are attributable to HRI IT-Consulting GmbH, Münster, and €625 thousand are attributable to HRI IT-Service GmbH, Berlin. These were recognized under financing expenses. The recoverable amount for each holding corresponds to fair value less costs to sell. The fair values of the holdings belonging to the Other Activities segment are allocated to Level 1. The depreciation and amortization are largely the result of structural changes in the focus of the two holdings.

(14) Liabilities to Banks

Liabilities to banks include the following items:

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

IN € THOUSAND	Carrying amount as of 12/31/2019	Residual term up to one year	Residual term 2021 to 2024	As of 2025
Loans under KfW programs	86,202	16,305	45,072	24,825
Syndicated loan	72,034	72,681	-647	–
Other loans	23,398	23,398	–	–
Total	**181,634**	**112,384**	**44,425**	**24,825**
of which secured	306			

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

Syndicated Loan. The syndicated loan was taken out on July 25, 2018, with a maximum volume of €200 million and an initial term of five years, including two options to extend the loan by one year in each case. The first extension option was exercised in 2019. The loan volume was increased to €240 million in 2019. The second extension option was not exercised. The syndicated loan serves to secure the Group's financing in the event, for example, of an increase in working capital requirements triggered by rising oil prices. The syndicated loan is utilized by H&R KGaA and by Group companies via branch lines.

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

Other Loans. Other loans mainly include a loan redeemable through scheduled installments at fixed interest rates, as well as subsidiaries' variable-rate working capital loans, including drawdowns under branch lines of the syndicated loan secured by credit requests and guarantees.

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

Collateral. As in the previous year, collateral assignments have been provided for a redeemable loan in South Africa originally totaling the equivalent of €2 million. No collateral has been pledged for the KfW loans or the syndicated loan agreement.

(15) Trade Payables

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

(16) Contract Liabilities

Contract liabilities amounted to €2,210 thousand as of December 31, 2020. The carrying amount as of December 31, 2019, was €3,403 thousand. This amount included €3,403 thousand that was recognized as revenue in the reporting period.

(17) Other Provisions

Changes in other provisions in 2020 were as follows:

IN € THOUSAND	HR provisions (17.1)	Restructuring (17.2)	Trade-related commitments (17.3)	Miscellaneous provisions (17.4)	Total
As of 1/1/2020	**11,146**	**1,772**	**720**	**470**	**14,108**
of which non-current	3,528	–	–	–	3,528
Utilization	-6,546	-1,696	-381	-370	-8,993
Reversal	-445	-76	-181	-23	-725
Additions	6,691	1,006	330	643	8,670
Compounding/ discounting	24	–	–	–	24
Currency translation differences	-167	–	-4	-27	-198
As of 12/31/2020	**10,703**	**1,006**	**484**	**693**	**12,886**
of which non-current	3,535	–	–	–	3,535

The following cash outflows are expected in connection with the provisions shown on the statement of financial position for 2020:

EXPECTED CASH OUTFLOWS FOR OTHER PROVISIONS

IN € THOUSAND	HR provisions	Restructuring	Trade-related commitments	Miscellaneous provisions	Total
2021	7,168	1,006	484	693	9,351
2022	348	–	–	–	348
2023–2025	829	–	–	–	829
2026–2030	1,341	–	–	–	1,341
2031 and later	1,017	–	–	–	1,017
Total	**10,703**	**1,006**	**484**	**693**	**12,886**

(17.1) HR Provisions

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

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

(17.2) Restructuring

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

(17.3) Trade-related Commitments

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

(17.4) Miscellaneous Provisions

Miscellaneous provisions primarily include provisions for waste disposal and other obligations.

(18) Other Financial Liabilities

	12/31/2020		12/31/2019	
IN € THOUSAND	Total	of which non-current	Total	of which non-current
Lease liabilities	47,065	37,525	48,600	39,648
Liabilities arising from derivatives	75	–	379	–
Miscellaneous financial liabilities	711	153	545	136
Total	**47,851**	**37,678**	**49,524**	**39,784**

Lease liabilities amounting to €10,115 thousand were repaid in the financial year under review (previous year: €8,826 thousand). Interest expense for lease liabilities in financial year 2020 amounted to €1,248 thousand (previous year: €1,287 thousand). Expenses for short-term leases came to €353 thousand in financial year 2020 (previous year: €943 thousand), with expenses of €495 thousand for low-value leases (previous year: €252 thousand).

Further information on leases can be found in Notes (3), (11.2), (31) and (33).

(19) Other Liabilities

IN € THOUSAND	12/31/2020 Total	12/31/2020 of which non-current	12/31/2019 Total	12/31/2019 of which non-current
Tax liabilities	6,244	–	1,724	–
Accruals and deferrals	28,217	25,819	19,598	14,874
Other liabilities	2,303	–	866	–
Total	**36,764**	**25,819**	**22,188**	**14,874**

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

Accruals and deferrals mainly include public and private subsidies for investments in H&R KGaA. A substantial amount of these relate to public subsidies for the construction of a flood protection wall and the construction of a proton exchange membrane (PEM) at the refinery site in Hamburg. The subsidy is financed by dedicated ERDF funds and is subject to requirements and conditions that, among other things, concern the location, and that H&R KGaA has so far fully complied with and will continue to comply with in the future. A further subsidy was granted for an investment in a production facility at the Salzbergen refinery site.

(20) Pension Provisions

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

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

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

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

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

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

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

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

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

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

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

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

IN € THOUSAND	12/31/2020	12/31/2019
Group 1	43,961	46,439
Group 3	11,163	11,572

Another category (Group 2) comprises employees of BP who were not taken on by H&R Ölwerke Schindler. For the people in Group 2, H&R Ölwerke Schindler has agreed to reimburse BP for the relevant pension commitments which remain with BP, in the amount of €9,418 thousand (previous year: €9,911 thousand). Pursuant to IAS 1.32, these commitments were netted against a receivable from BP arising from a reimbursement claim for pension commitments assumed amounting to €11,163 thousand (previous year: €11,572 thousand), which also arose as part of the takeover of the specialty business (see Note (9)). The net receivable of €1,745 thousand (previous year:

€1,661 thousand) is shown in receivables from BP under other non-current assets. The amount of the obligation may vary due to changes in actuarial assumptions.

The change in the liability under defined-benefit plans is shown below:

IN € THOUSAND	2020	2019
As of 1/1	**88,469**	**78,461**
Current service cost	836	752
Interest expense	954	1,536
Payments made	-3,335	-3,298
Reassessments	-2,888	11,018
of which due to changes in financial assumptions	-2,238	11,564
of which due to empirical adjustments	-649	-546
of which due to changes in demographic assumptions	–	–
As of 12/31	**84,036**	**88,469**

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

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

IN € THOUSAND	2020	2019
As of 1/1	**1,785**	**1,741**
Interest income	20	35
Reassessments	20	9
Contributions to plan	–	–
As of 12/31	**1,825**	**1,785**

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

IN € THOUSAND	2020	2019
As of 1/1	**86,684**	**76,720**
Current service cost	836	752
Interest expense	934	1,501
Payments made	-3,335	-3,298
Employer contribution to the plan	–	–
Reassessments	-2,908	11,009
of which return on plan assets	-20	-9
of which due to changes in financial assumptions	-2,239	11,564
of which due to empirical adjustments	-649	-546
of which due to changes in demographic assumptions	–	–
As of 12/31	**82,211**	**86,684**

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

	12/31/2020	12/31/2019
Interest rate	1.1%	1.1%
Salary trend	0.6%–2.8%	0.6%–4.0%
Pension trend	1.0%–2.0%	1.0%–2.0%
Retirement age	60–65	60–65

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

There were no plan changes, curtailments or settlements in financial year 2020.

Payments totaling €3,388 thousand are expected for the next financial year (previous year: €3,428 thousand). The average duration of the benefit obligations is 15.8 years.

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

CHANGE IN BENEFIT OBLIGATION

		12/31/2020		12/31/2019	
	Change in parameter by	Change in obligation if increased in € thousand	Change in obligation if decreased in € thousand	Change in obligation if increased in € thousand	Change in obligation if decreased in € thousand
Change in discount rate	0.50%	-6,227	7,072	-6,726	7,645
Change in expected salary trend	0.50%	935	-892	1,151	-1,092
Change in expected pension trend	0.50%	1,331	-1,201	1,311	-1,202
Change in expected mortality	1 year	-3,837	3,849	-4,016	4,025

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

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

(21) Subscribed Capital

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

Approved Capital

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

(22) Capital Reserve

The capital reserve includes the amounts by which the proceeds from the issuance of preferred and ordinary shares exceed their face value. In the current financial year, the capital reserve amounts to €46,867 thousand as in the previous year.

(23) Retained Earnings

On the reporting date, retained earnings totaled €162,702 thousand (previous year: €170,069 thousand). The reassessed net liability under defined-benefit pension plans recorded under other comprehensive income totaled €-27,586 thousand (previous year: €-29,239 thousand). Other retained earnings totaled €2,293 thousand as of the reporting date (previous year: €2,293 thousand).

Dividends

At the Annual Shareholders' Meeting held on May 29, 2020, a decision was made not to pay a dividend for financial year 2019. The Executive Board and the Supervisory Board will propose to the Annual Shareholders' Meeting on July 9, 2021, that no dividend be distributed for financial year 2020, but to carry forward the distributable profit. This proposal is subject to approval by the shareholders at the Annual Shareholders' Meeting.

(24) Other Reserves

The other reserves amount to €2,858 thousand (previous year: €12,310 thousand) and relate to cumulative other comprehensive income. They comprise the currency translation adjustment of €-3,238 thousand (previous year: €5,776 thousand) and the difference resulting from the fair value measurement of equity instruments of €6,096 thousand (previous year: €6,534 thousand).

(25) Non-controlling Interests

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

IN € THOUSAND	2020	2019
As of 1/1	**39,044**	**37,312**
Currency translation differences	-938	280
Proportionate share of net profit or loss	1,193	1,452
As of 12/31	**39,299**	**39,044**

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

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

IN € THOUSAND	12/31/2020	12/31/2019
Current assets	70,697	76,490
Non-current assets	46,210	53,242
Current liabilities	33,498	46,157
Non-current liabilities	3,109	3,615
Cumulative equity	**80,300**	**79,960**
Non-controlling interests' proportionate share of net assets	**39,347**	**39,180**

IN € THOUSAND	2020	2019
Income	145,473	160,227
Expenses	-143,041	-157,270
Profit/loss	**2,432**	**2,957**
Non-controlling interests' proportionate share in income	1,192	1,449
Other comprehensive income	**-2,092**	**572**
Non-controlling interests' proportionate share of other comprehensive income	-1,025	280
Total comprehensive income	**340**	**3,529**
Non-controlling interests' proportionate share of total comprehensive income	167	1,729
Cash flow from operating activities	**7,632**	**9,091**
Non-controlling interests' proportionate share of cash flow from operating activities	3,740	4,455
Cash flow from investing activities	**-213**	**-727**
Non-controlling interests' proportionate share of cash flow from investing activities	-104	-356
Cash flow from financing activities	**-5,325**	**-5,576**
Non-controlling interests' proportionate share of cash flow from financing activities	-2,609	-2,732

Notes to the Consolidated Income Statement

(26) Research and Development Costs

In financial year 2020, research and development activities in the Chemical-Pharmaceuticals division focused on the continued improvement of product quality in the product areas of formulated oils, paraffins and white oils. Research and development costs were incurred in the Plastics division for testing and experiments on new materials in the plastics area as well as research relating to the possibility of the increased use of plastic parts in various sectors.

In the current financial year, research and development expenses totaled €2,795 thousand (previous year: €2,801 thousand). For further information regarding research and development costs, please consult the pertinent section in the combined management report.

(27) Sales Revenue

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

No contractual costs or contractual performance costs were capitalized.

(28) Other Operating Income

IN € THOUSAND	2020	2019
Exchange rate gains from foreign currency items	6,403	4,968
Income from services	4,843	4,960
Income from cost transfers	5,224	5,611
Income from insurance compensation	5,093	114
Own work capitalized	663	839
Income from the disposal of assets	245	50
Income from the reversal of provisions	683	4,223
Miscellaneous	4,798	4,843
Total	**27,952**	**25,608**

Income from cost transfers results mainly from the reinvoicing of consumption taxes, project-related costs and current costs to the companies in which there is a participating interest, Westfalen Chemie KG and SRS EcoTherm GmbH. Income from services mainly refers to IT services provided. Income from insurance compensation primarily relates to compensation paid out as a result of the fire at our Salzbergen site (see also Note (11.1)).

(29) Cost of Materials

IN € THOUSAND	2020	2019
Raw materials	456,074	634,556
Auxiliary and production materials	13,561	16,043
Products for sale	125,564	151,957
Cost of raw materials, auxiliary and production materials and merchandise purchased	**595,199**	**802,556**
Energy costs	36,883	39,891
Other external services	2,177	2,116
Total expenditures on purchased services	**39,060**	**42,007**
Total	**634,259**	**844,563**

(30) Personnel Expenses

IN € THOUSAND	2020	2019
Wages and salaries	69,899	74,369
Social security payments	11,184	12,108
Defined benefit pension plan expenses	1,002	1,055
Defined contribution pension plan expenses	530	554
Other social security expenses	415	436
Total	**83,030**	**88,522**

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

AVERAGE NUMBER OF EMPLOYEES

	2020	2019
ChemPharm Refining	700	710
ChemPharm Sales	450	439
Plastics	376	465
Other	38	28
Total	**1,564**	**1,642**

(31) Other Operating Expenses

IN € THOUSAND	2020	2019
Freight costs, dispatch systems and other distribution costs	24,075	26,581
Third-party goods and services	16,668	20,408
Third-party repairs and maintenance	15,721	16,949
Exchange rate loss from foreign currency items	6,556	5,570
IT costs	7,685	7,737
Legal and consulting fees, expenses for annual financial statements and Annual Shareholders' Meeting	4,909	5,729
Insurance premiums, fees and contributions	5,362	4,612
Cost transfers	3,566	4,131
Expenses for restructuring measures	1,006	2,935
Other taxes	2,547	2,365
Other personnel expenses	2,355	1,908
Expenses for short-term leases and leases of low-value assets	848	1,195
Travel expenses	621	1,779
Commissions	1,074	1,445
Impairment loss from financial assets	658	1,891
Miscellaneous	9,505	8,561
Total	**103,156**	**113,796**

Further information on leases can be found in Notes (3), (11.2), (18) and (33).

(32) Financing Income

IN € THOUSAND	2020	2019
Interest income from short-term bank deposits	231	227
Income from loans	234	29
Other interest and similar income	35	3
Total interest income	**500**	**258**
Miscellaneous financing income	1	1
Other financing income	**1**	**1**
Financing income	**501**	**259**

(33) Financing Expenses

IN € THOUSAND	2020	2019
Interest expense relating to loan interest	3,990	4,379
Interest expense relating to lease liabilities	1,248	1,287
Interest expense from the compounding of pension provisions	934	1,501
Commitment commission	1,332	311
Other interest and similar expenses	1,302	1,245
Total interest expense	**8,806**	**8,723**
Impairment of holdings valued at equity	1,808	–
Miscellaneous financing expenses	19	168
Total other financing expenses	**1,827**	**168**
Financing expenses	**10,633**	**8,891**

Further information on leases can be found in Notes (3), (11.2), (18) and (31).

(34) Income Taxes

Since January 1, 2009, the net income of German companies has been subject to a uniform corporation tax rate of 15% plus a solidarity surcharge of 5.5%. In conjunction with a trade tax burden of 13.64% (previous year: 13.39%), this amounts to a combined income tax rate for the Group in Germany of 29.45% (previous year: 29.20%). As in the previous year, income tax rates for significant companies abroad are between 17% and 30%. Any interest on tax arrears is reported under interest expense. Deferred income tax expense includes changes in deferred tax assets and liabilities.

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

IN € THOUSAND	2020	2019
Current income tax expenses	-6,506	-5,022
Current income tax refunds	978	2,032
Total current taxes	**-5,528**	**-2,990**
Deferred taxes from temporary differences	3,498	174
Deferred taxes from loss carryforwards	4,633	4,086
Total deferred taxes	**8,131**	**4,260**
Total	**2,603**	**1,270**

In accordance with IAS 12.34, a deferred tax asset is recognized for a tax loss carryforward available as of the reporting date if it is considered probable that there will be sufficient future taxable profit against which the loss carryforward can be utilized. At H&R KGaA, domestic tax loss carryforwards led to the recognition of €14,135 thousand (previous year: €9,455 thousand) in deferred taxes, with €22 thousand (previous year: €70 thousand) being recognized for foreign tax loss carryforwards. Overall, in Group companies that reported a loss in the previous year or the current year, a surplus of deferred tax assets totaling €16,083 thousand was recognized (previous year: €9,803 thousand). Recognition of the deferred tax assets is justified due to the fact that positive tax income is expected in the future due, among other things, to new corporate strategies, which will exceed the impact on earnings caused by the reversal of the temporary differences.

In addition to the deferred tax assets recognized for loss carryforwards, there are also domestic corporation tax losses in the amount of €735 thousand (previous year: €9,333 thousand) and trade tax losses of €689 thousand (previous year: €593 thousand), the realization of which is not sufficiently guaranteed and for which therefore no deferred tax claims have been recognized. Based on current laws, the loss carryforwards cannot expire. As of the reporting date, foreign loss carryforwards for which no deferred tax assets have been recognized totaled €11,053 thousand (previous year: €14,743 thousand) and essentially may be utilized without restriction within one to five years. No deferred tax assets were recognized for deductible temporary differences totaling €3,625 thousand (previous year: €2,022 thousand).

Deferred tax assets of €1,418 thousand were reversed for the remeasurement of defined-benefit pension plans (previous year: €3,024 thousand) and were recognized in other comprehensive income. This includes €522 thousand in reversals of deferred tax assets whose recoverability can no longer be guaranteed. The change in equity instruments measured at fair value through other comprehensive income led to a change in the deferred taxes recognized in other comprehensive income (with no effect on profit or loss) in the amount of €6 thousand (prior year: €-97 thousand).

For €11,527 thousand in temporary differences in the retained earnings of subsidiaries (previous year: €12,386 thousand), no deferred tax liabilities were recognized because of existing control pursuant to IAS 12.39.

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

IN € THOUSAND	2020	2019
Earnings before income tax	**-10,430**	**-1,186**
Theoretical income tax rate: 29.45% (previous year: 29.20%)	**-3,071**	**-346**
Effects from tax rate differences	-918	-1,265
Effects from previous years' taxes	-2,188	-1,643
Non-deductible expenses	1,109	885
Tax-free income	-318	-690
Foreign withholding tax	1,945	74
Effects from changes in tax rates	-67	-19
Unrecognized deferred tax assets for loss carryforwards	301	1,975
Effects from holdings valued at equity	518	–93
Other tax effects	86	-148
Income tax expense as per consolidated income statement	**-2,603**	**-1,270**

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

IN € THOUSAND	12/31/2020 Deferred tax assets	12/31/2020 Deferred tax liabilities	12/31/2019 Deferred tax assets	12/31/2019 Deferred tax liabilities
Intangible assets	25	2,851	37	4,910
Property, plant and equipment	489	28,836	591	28,762
Financial investments	21	514	27	548
Inventories	515	189	404	36
Receivables and other assets	1,698	1,695	71	146
Pension provisions	11,625	8	13,130	–
Other provisions	897	27	754	13
Liabilities	18,622	110	17,009	114
Tax loss carryforwards	14,157	–	9,525	–
Subtotal	**48,049**	**34,230**	**41,548**	**34,529**
Netting	-30,890	-30,890	-30,449	-30,449
Total	**17,159**	**3,340**	**11,099**	**4,080**

(35) Earnings per Share

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

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

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

	2020	2019
Consolidated income attributable to shareholders in € thousand	-9,020	-1,368
Average number of shares in circulation	37,221,746	37,221,746
Earnings per ordinary share (undiluted) in €	-0.24	-0.04
Earnings per ordinary share (diluted) in €	-0.24	-0.04

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

Additional Notes

(36) Segment Reporting

Pursuant to IFRS 8, the business segments for reporting purposes were determined by identifying the individual divisions whose performance is monitored as part of internal reporting as a basis for management decisions.

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

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

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

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

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

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

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

Remarks Concerning Segment Data

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

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

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

	Chemical-Pharmaceutical Raw Materials			
	ChemPharm Refining		ChemPharm Sales	
IN € THOUSAND	2020	2019	2020	2019
External sales	515,968	655,157	316,990	376,933
Consolidated sales	8,681	9,882	58	2
Sales revenues by segment	524,649	665,039	317,048	376,935
Depreciation and amortization	-37,041	-31,912	-15,458	-10,208
of which impairments	–	–	-5,064	–
Interest income	70	3	258	203
Interest expense	-7,075	-7,217	-2,438	-2,972
Earnings before income tax	-8,855	-10,076	8,304	17,760
EBIT	-1,851	-2,694	10,484	20,529
EBITDA	35,190	29,218	25,942	30,737
Capital expenditure*	23,753	120,695	6,224	9,905
Income from holdings valued at equity	118	120	–	–
Shares in holdings valued at equity	882	764	–	–

* Investments in the 2019 financial year also include additions to the right-of-use assets under operating leases as of January 1, 2019, due to the first-time application of IFRS 16.

H&R KGaA generated €394.9 million in sales (previous year: €492.6 million), or more than 10% of consolidated sales, with one customer in the ChemPharm Refining segment. The following table shows how external sales revenue is broken down by region, products and services:

	ChemPharm Refining		ChemPharm Sales		Plastics		Other		Total	
IN € THOUSAND	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Germany	449,969	583,293	6,083	8,811	12,592	17,445	–	–	468,644	609,549
Rest of Europe	57,146	67,326	33,689	39,498	11,858	12,759	–	–	102,693	119,583
Rest of World	8,853	4,538	277,218	328,624	15,625	13,028	–	–	301,696	346,190
Total	**515,968**	**655,157**	**316,990**	**376,933**	**40,075**	**43,232**	**–**	**–**	**873,033**	**1,075,322**
Chemical-Pharmaceutical products – core products	282,719	328,983	316,212	376,045	–	–	–	–	598,931	705,028
Chemical-Pharmaceutical products – by-products	153,067	235,254	106	180	–	–	–	–	153,173	235,434
Precision plastics	–	–	–	–	39,585	43,220	–	–	39,585	43,220
Provision of services	80,182	90,920	672	708	490	12	–	–	81,344	91,640
Total	**515,968**	**655,157**	**316,990**	**376,933**	**40,075**	**43,232**	**–**	**–**	**873,033**	**1,075,322**

	Plastics				Reconciliation			
	Plastics		Other activities		Consolidation/reconciliation		Total	
	2020	2019	2020	2019	2020	2019	2020	2019
	40,075	43,232	–	–	–	–	873,033	1,075,322
	–	–	–	–	-8,739	-9,884	–	–
	40,075	43,232	–	–	-8,739	-9,884	873,033	1,075,322
	-2,917	-2,935	-652	-357	–	–	-56,068	-45,412
	–	–	–	–	–	–	-5,064	–
	8	26	6,420	5,741	-6,255	-5,714	501	259
	-481	-586	-5,039	-3,659	6,225	5,711	-8,808	-8,723
	-3,852	-8,348	-6,035	-575	8	53	-10,430	-1,186
	-3,360	-7,788	-5,609	-2,657	38	56	-298	7,446
	-443	-4,853	-4,957	-2,300	38	56	55,770	52,858
	1,046	7,638	2,947	1,301	–	–	33,970	139,539
	–	–	-70	410	–	–	48	530
	–	–	2,040	3,918	–	–	2,922	4,682

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

NON-CURRENT ASSETS

IN € THOUSAND	2020	2019
Germany	368,719	383,282
Rest of Europe	9,747	10,232
Rest of World	65,421	77,671
of which China	48,251	55,330
Group	**443,887**	**471,185**

RECONCILIATION OF OPERATING INCOME TO CONSOLIDATED INCOME

IN € THOUSAND	2020	2019
Operating income (EBITDA) of H&R KGaA	**55,770**	**52,858**
Depreciation, impairments and amortization of intangible assets and property, plant and equipment	-56,068	-45,412
Financing income	501	259
Financing expenses	-10,633	-8,891
Income taxes	2,603	1,270
Consolidated income	**-7,827**	**84**

(37) Notes to the Consolidated Cash Flow Statement

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

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

Cash and cash equivalents include bank balances, cash in hand, and checks, which are identified on the statement of financial position. As of December 31, 2020, €1.0 million (previous year: €1.0 million) was recognized as cash and cash equivalents, which was deposited in pledged accounts and therefore subject to access restrictions.

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

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

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

For additions to fixed assets in the amount of €4,471 thousand (previous year: €18,655 thousand), no cash outflow took place; trade payables in the same amount therefore exist.

CHANGE IN LIABILITIES FROM FINANCING ACTIVITIES

IN € THOUSAND	Liabilities to banks	Advance payments received	Lease liabilities	Total
1/1/2019	**149,513**	**2,249**	**–**	**151,762**
First-time application of IFRS 16	–	–	42,651	42,651
Changes affecting cash flow				
Repayments	-47,415	–	-8,826	-56,241
Borrowings	77,843	3,403	–	81,246
Non-cash changes				
Leasing costs	–	–	14,576	14,576
Changes due to fluctuations in exchange rates	276	29	199	504
Change in accrued/deferred interest	1,417	–	–	1,417
Netting against trade receivables	–	-2,278	–	-2,278
12/31/2019	**181,634**	**3,403**	**48,600**	**233,637**
Changes affecting cash flow				
Repayments	-123,529	–	-10,115	-133,644
Borrowings	73,776	2,210	–	75,986
Non-cash changes				
Leasing costs	–	–	8,867	8,867
Changes due to fluctuations in exchange rates	-475	-103	-287	-865
Change in accrued/deferred interest	-951	–	–	-951
Netting against trade receivables	–	-3,300	–	-3,300
12/31/2020	**130,455**	**2,210**	**47,065**	**179,730**

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

(38) Financial Instruments

(38.1) General Information

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

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

As an international company, H&R KGaA is exposed to risks relating to prices of commodities and raw materials, currency fluctuations, and changes in interest rates in the course of its ordinary business activities. Details concerning the risk management system used to deal with these risks can be found in Note (46), Risk Management Policy, Capital Management and Hedging Measures.

(38.2) Information Concerning Derivatives

Derivative financial instruments are employed to hedge currency fluctuations from the operating business and risks from changes in interest rates related to financing transactions. The types of instruments employed are primarily currency forward contracts and interest rate hedges (swaps).

As in the previous year, there were no hedge accounting items to report as of December 31, 2020.

The following tables show the reported fair values of the various derivative financial instruments as of December 31, 2020, and December 31, 2019.

NOMINAL AND MARKET VALUES OF DERIVATIVES IN 2020

	Nominal value	Currency	Maturity	Market values 12/31/2020 in € thousand
Currency forward contract	HKD 10,171 thousand	HKD	until 2021	12
Currency forward contract	ZAR 52,109 thousand	ZAR	until 2021	-58
Currency forward contract	US$ 3,865 thousand	US$	until 2021	-17

NOMINAL AND MARKET VALUES OF DERIVATIVES IN 2019

	Nominal value	Currency	Maturity	Market values 12/31/2019 in € thousand
Currency forward contract	HKD 27,494 thousand	HKD	until 2020	25
Currency forward contract	US$ 8,957 thousand	US$	until 2020	89
Currency forward contract	ZAR 52,527 thousand	ZAR	until 2020	-152
Currency forward contract	US$ 12,300 thousand	US$	until 2020	-139

In financial year 2020, the income from financial instruments measured at fair value through profit or loss totaled €114 thousand (previous year: expense of €338 thousand).

(38.3) Maturity Analysis

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

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

2020

IN € THOUSAND	Carrying amount	2021	2022	2023–2025	2026–2030	2031 and later
Trade payables	80,453	80,453	–	–	–	–
Liabilities to banks	130,455	88,579	13,025	24,958	7,048	–
Liabilities arising from derivatives with no hedge accounting items	75	75	–	–	–	–
Lease liabilities	47,065	9,540	5,999	12,377	11,245	8,955
Other financial liabilities	711	558	53	76	24	–

2019

IN € THOUSAND	Carrying amount	2020	2021	2022–2024	2025–2029	2030 and later
Trade payables	108,424	108,424	–	–	–	–
Liabilities to banks	181,634	113,908	13,102	33,858	25,090	–
Liabilities arising from derivatives with no hedge accounting items	291	291	–	–	–	–
Lease liabilities	48,600	8,952	7,519	12,091	11,432	18,003
Other financial liabilities	633	497	27	82	27	–

(38.4) Information on Categories of Financial Instruments

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

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

IN € THOUSAND	Valuation category IFRS 9	12/31/2020 Carrying amount	12/31/2020 Fair value (for information)	12/31/2019 Carrying amount	12/31/2019 Fair value (for information)
Financial assets					
Cash and cash equivalents	Measured at amortized cost	55,029	55,029	94,794	94,794
Trade receivables	Measured at amortized cost	78,902	78,902	85,488	85,488
Trade receivables	Measured at fair value through profit or loss	2,676	2,676	1,393	1,393
Other financial assets					
Investments in equity instruments	Measured at fair value through other comprehensive income	7,237	7,237	7,681	7,681
Derivatives without hedge accounting item	Measured at fair value through profit or loss	12	12	114	114
Other current securities	Measured at fair value through profit or loss	41	41	52	52
Other financial assets	Measured at amortized cost	22,109	22,109	20,426	20,426
Financial liabilities					
Trade payables	Measured at amortized cost	80,453	80,453	108,424	108,424
Liabilities to banks	Measured at amortized cost	130,455	131,125	181,634	182,735
Other financial liabilities					
Lease liabilities	Measured at amortized cost	47,065	47,065	48,600	48,600
Derivatives without hedge accounting item	Measured at fair value through profit or loss	75	75	291	291
Miscellaneous financial liabilities	Measured at amortized cost	711	711	633	633

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

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

2020

IN € THOUSAND	Financial assets measured at amortized cost	Financial liabilities measured at amortized cost	Financial assets at fair value through other comprehensive income	Financial assets measured at fair value through profit or loss	Financial liabilities measured at fair value through profit or loss	Total
Interest income	466	–	–	–	–	466
Interest expense	–	-5,735	–	–	–	-5,735
Impairment/reversal of impairment losses	-390	–	–	–	–	-390
Fees recorded as expenses	–	-1,788	–	–	–	-1,788
Other financial expenses/income	-19	–	-444	-240	216	-487
Net income/loss	**-57**	**-7,523**	**-444**	**-240**	**216**	**-7,934**

2019

IN € THOUSAND	Financial assets measured at amortized cost	Financial liabilities measured at amortized cost	Financial assets at fair value through other comprehensive income	Financial assets measured at fair value through profit or loss	Financial liabilities measured at fair value through profit or loss	Total
Interest income	256	–	–	–	–	256
Interest expense	–	-5,983	–	–	–	-5,983
Impairment/reversal of impairment losses	-1,876	–	–	–	–	-1,876
Fees recorded as expenses	–	-597	–	–	–	-597
Other financial expenses/income	-169	–	6,631	-160	1	6,303
Net income/loss	**-1,789**	**-6,580**	**6,631**	**-160**	**1**	**-1,897**

(38.5) Additional Disclosures on Financial Instruments

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

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

12/31/2020

IN € THOUSAND	Level 1	Level 2	Level 3
ASSETS			
Financial assets at fair value through other comprehensive income	–	–	7,237
Financial assets measured at fair value through profit or loss	2,717	–	–
Derivatives without hedge accounting item	–	12	–
Total	**2,717**	**12**	**7,237**
LIABILITIES AND SHAREHOLDERS' EQUITY	**Level 1**	**Level 2**	**Level 3**
Derivatives without hedge accounting item	–	75	–
Total	**–**	**75**	**–**

12/31/2019

IN € THOUSAND	Level 1	Level 2	Level 3
ASSETS			
Financial assets at fair value through other comprehensive income	–	–	7,681
Financial assets measured at fair value through profit or loss	1,445	–	–
Derivatives without hedge accounting item	–	114	–
Total	**1,445**	**114**	**7,681**
LIABILITIES AND SHAREHOLDERS' EQUITY	**Level 1**	**Level 2**	**Level 3**
Derivatives without hedge accounting item	–	291	–
Total	**–**	**291**	**–**

The Level 2 financial liabilities relate to a foreign currency swap carried on the statement of financial position at its fair value. The fair values are determined using observable market interest rate curves.

The Level 3 financial asset relates to an equity instrument measured at fair value through other comprehensive income. The measurement is completed using the discounted cash flow method on the basis of the best information available on the reporting date, with a weighted average cost of capital of 5.5% (previous year: 5.25%) used as a basis.

There were no reclassifications among the individual levels in financial year 2020.

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

ALLOCATION OF FAIR VALUES OF FINANCIAL INSTRUMENTS

IN € THOUSAND	12/31/2020			12/31/2019		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
LIABILITIES AND SHAREHOLDERS' EQUITY						
Liabilities to banks	–	131,125	–	–	182,735	–

The fair values are determined using observable market interest rate curves. The expected cash flows were discounted accordingly. There were no reclassifications among the individual levels in financial year 2020.

No offsetting between financial assets and financial liabilities took place, since no such offset agreements exist.

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

(39) Other Financial Liabilities

Other financial liabilities comprise order commitments for investments in the amount of €7,952 thousand (previous year: €10,193 thousand) and other financial liabilities in the amount of €784 thousand (previous year: 0).

(40) Contingent Liabilities and Receivables

On the reporting date, H&R KGaA had joint liability for pension commitments totaling €30 thousand (previous year: €34 thousand).

A portion of the production sites is rented. Obligations to clean up and restore the property to its original condition will apply when the rental agreement expires. In the very unlikely event that a lessor gives notice of extraordinary termination or does not renew the long-term rental agreement, this would give rise to claims against the lessor for compensation; as a result, no outflow of resources is assumed and therefore no provision has been set up to cover the obligations to restore the property to its original condition. This situation is regularly monitored by the management.

H&R CPS or its legal predecessors have operated their own industrial power plant to supply the refinery in Salzbergen with power and steam since 1963 and to generate the energy needed to operate the refinery by combusting heavy fuel oil. A more sustainable energy concept was then developed in 2002 together with RWE Power AG which involves coupling a waste incineration plant operated by SRS Eco-Therm GmbH to the industrial power plant. During the cooperation, the industrial power plant's generation capacity was put to use in such a way that both companies used part of the generation capacity to generate the electricity they each needed themselves.

With the amendment to the Renewable Energy Sources Act (EEG) as of January 1, 2017, the lawmakers determined that the electricity sourced from such shared power plants as a rule represented electricity which was subject to the

EEG levy. However, companies which meet the requirements set out in Section 104, paragraph 4 EEG in 2017 may refuse to pay the EEG levy in accordance with legally stipulated requirements (amnesty rule). In practice, however, the regulation has resulted in considerable problems for the legal practitioners due to numerous ambiguous legal terms.

Legal clarification of the amnesty rule in Section 104, paragraph 4 EEG 2017 remained an uncertainty for some time in spite of serious endeavors at various levels. Only following a resolution recommendation from the Committee on Economic Affairs and Energy dated December 15, 2020, was a corresponding addendum to Section 104, paragraph 5 EEG 2021-E introduced to the legislative procedure. With the introduction of the new Section 104, paragraph 5 EEG 2021 on January 1, 2021, which is currently still subject to state aid approval, the company is entitled to reach a settlement agreement with the transmission system operator responsible for the control area. In accordance with the legal provisions stipulated in Section 104, paragraph 5 EEG 2021, this settlement must include the transmission system operator recognizing the right to withhold performance pursuant to Section 104, paragraph 4 EEG 2021 for electricity used up to December 31, 2020, and H&R CPS paying the EEG levy for electricity supplied to SRS EcoTherm GmbH after December 31, 2020. In accordance with the report of the Committee on Economic Affairs and Energy (BT-Drs. 19/25326, p. 36), the provision should explicitly serve to achieve the amicable settlement of disputes.

In spite of this new legal provision, the transmission system operator lodged a claim against SRS Eco-Therm GmbH at Osnabrück Regional Court on January 29, 2021, and gave H&R CPS notice of this. The company considers the claim to be unfounded on the one hand because the prerequisites for grandfathered own generation/the right to withhold performance pursuant to Section 104, paragraph 4 EEG 2021 exist. On the other, subsequent to state aid notification, entitlement exists to the reaching of a settlement agreement pursuant to Section 104, paragraph 5 EEG 2021 even after the lodging of a claim such that the dispute can be settled amicably.

The H&R Group therefore continues to consider the likelihood of occurrence of any utilization on retrospective payment of the EEG levy to be predominantly unlikely. As a result of the complexity of the legal requirements and the outstanding state aid approvals, it is not feasible to make an estimate of any financial impact at this time.

A fire at the Salzbergen site caused damage to technical equipment. As of the reporting date, there are contingent assets of €1,293 thousand due to expected insurance payments in connection with the pending settlement of claims.

(41) Governance Bodies of H&R KGaA

EXECUTIVE BOARD OF H&R KOMPLEMENTÄR GMBH

	Membership of Supervisory and Advisory Boards
Niels H. Hansen Sole member of the Executive Board Hamburg	–

SUPERVISORY BOARD OF H&R GMBH & CO. KGAA

	Membership of Supervisory and Advisory Boards
Dr. Joachim Girg Chairman of the Supervisory Board Managing Director of H&R Beteiligung GmbH, Hamburg	–
Roland Chmiel Deputy Chairman – CPA/Chartered Accountant, Partner in Weiss-Walter-Fischer-Zernin Munich	Member of the Supervisory Board of TW Beteiligung AG, Munich
Sven Hansen General Partner with full personal liability for the H&R Group, Hamburg	–
Dr. Rolf Schwedhelm Tax Lawyer and Partner at Streck Mack Schwedhelm Cologne	Chairman of the Supervisory Board of German Lawyer Academy Society for Education, Training and Services (Deutsche Anwalt Akademie Gesellschaft für Aus- und Fortbildung sowie Serviceleistungen mbH), Berlin
Sabine U. Dietrich Chartered Engineer, Mühlheim an der Ruhr	Member of the Supervisory Board of Commerzbank Aktiengesellschaft, Mühlheim an der Ruhr Member of the Supervisory Board of MVV Energie AG, Mannheim
Dr. Hartmut Schütter Chartered Process Engineer, Independent Consultant, Schwedt/Oder	–

SUPERVISORY BOARD OF H&R GMBH & CO. KGAA (EMPLOYEE REPRESENTATIVES)

	Membership of Supervisory and Advisory Boards
Reinhold Grothus Group Works Council Chairman of H&R GmbH & Co. KGaA, Works Council Chairman of H&R ChemPharm GmbH Salzbergen	–
Holger Hoff Works Council Chairman of H&R Ölwerke Chemie GmbH & Co. KG Hamburg	–
Harald Januszewski Former employee and Works Council Chairman of GAUDLITZ GmbH Coburg	–

(42) Disclosures of Relationships With Related Parties

Related party transactions were carried out at arm's length. There were no transactions of material significance with unconsolidated subsidiaries.

Related party transactions involve the companies of the Hansen family (hereinafter referred to as Hansen & Rosenthal) and with joint ventures.

There is a mutual business relationship with Hansen & Rosenthal. The supply of goods for chemical-pharmaceutical products from the Salzbergen site takes place under a long-term distribution and supply contract, by which the relevant Hansen & Rosenthal company purchases the products and then resells them to its end customers in its own name and for its own account. Furthermore, deliveries are made on the basis of a long-term commission contract for the marketing of certain products from the Hamburg site, for which Hansen & Rosenthal receives a commission. Moreover, H&R KGaA subsidiaries provide production, IT and staffing services to the Hansen & Rosenthal Group and vice versa.

Sales revenue from goods and services to Hansen & Rosenthal totaled €394,932 thousand in financial year 2020 (previous year: €497,905 thousand). Most of this amount was for supplies of chemical-pharmaceutical products (2020: €322,100 thousand; previous year: €409,062 thousand) and for contract manufacturing services (2020: €72,832 thousand; previous year: €83,516 thousand). Goods and services purchased from Hansen & Rosenthal in financial year 2020 amounted to €83,406 thousand (previous year: €100,261 thousand). The bulk of this amount was for purchases of chemical-pharmaceutical products (€75,906 thousand; previous year: €92,277 thousand).

As of December 31, 2020, receivables due from Hansen & Rosenthal amounted to €28,917 thousand (previous year: €51,246 thousand); liabilities owed to Hansen & Rosenthal came to €14,031 thousand (previous year: €22,891 thousand). Receivables are handled in line with normal commercial conditions and customary retention of title.

Goods and services provided to joint ventures generated €840 thousand in sales revenue in financial year 2020 (previous year: €986 thousand). Goods and services purchased from joint ventures in financial year 2020 amounted to €5,116 thousand (previous year: €6,744 thousand). These relate primarily to the purchase of energy and IT services.

As of December 31, 2020, receivables due from joint ventures amounted to €50 thousand (previous year: €3 thousand); liabilities owed to joint ventures came to €247 thousand (previous year: €173 thousand).

Supervisory Board and Executive Board
Key management positions are limited to the Supervisory Board and Executive Board of H&R KGaA. Management of the company is provided by the Executive Board of H&R Komplementär GmbH. For performing their tasks, members of the Executive Board received total remuneration of €712 thousand in the financial year, due at short notice (previous year: €877 thousand). Of this sum, the performance-related components of the remuneration accounted for €212 thousand (previous year: €212 thousand) and non-performance-related components accounted for €500 thousand (previous year: €665 thousand). The performance-related remuneration includes a sustainability component. The member of the Executive Board receives no share-based remuneration and no pension commitments. There were no expenses associated with terminating the employment agreements of managing directors. As of the reporting date, there was a liability of €103 thousand (previous year: €113 thousand) owed to H&R Komplementär GmbH.

Former members of the Executive Board and their survivors received post-employment benefits totaling €299 thousand during the financial year (previous year: €237 thousand). For former members of the Executive Board and their survivors, pension commitments amounted to €3,513 thousand (previous year: €3,725 thousand).

Remuneration for members of the Supervisory Board included basic remuneration plus additional compensation for committee work and fees for attending meetings and totaled €465 thousand (previous year: €465 thousand). This was a short-term remuneration.

In addition to their Supervisory Board remuneration, the employee representatives on the Supervisory Board receive fees not related to their work for the Supervisory Board, due at short notice. These fees resulted from the respective employment contracts and totaled €175 thousand in financial year 2020 (previous year: €253 thousand).

As in the previous year, no members of the Executive Board or members of the Supervisory Board had received loans from the company as of December 31, 2020.

Data on the remuneration of members of the Executive Board and the 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 the section Other Legally Required Disclosures in the combined management report.

H&R KGaA has an Advisory Board that provides advice to the Executive Board. Expenses of €109 thousand were incurred for the activities of the Advisory Board in 2020 (previous year: €126 thousand). In financial year 2020, fees paid to members of the governing bodies of H&R KGaA within the scope of consultancy contracts amounted to €75 thousand (previous year: €93 thousand). As of December 31, 2020, liabilities owed to Board members totaled €465 thousand (previous year: €465 thousand). These were short-term amounts.

(43) Statement of Compliance Pursuant to Section 161 of the German Stock Corporation Act (AktG)

The Statement of Compliance with the German Corporate Governance Code required by Section 161 of the German Stock Corporation Act (AktG) was submitted in December 2020. It is published on the Internet at www.hur.com. An interim update was submitted in March 2021, which can also be viewed on the company's website.

(44) Group Audit Fees

The following fees for the services provided by Warth & Klein Grant Thornton AG Wirtschaftsprüfungsgesellschaft were recognized for the financial year:

IN € THOUSAND	12/31/2020	12/31/2019
Audits	427	408
thereof related to previous year	43	9
Other certification or valuation services	13	18
Tax counseling	–	–
Other services	–	–
Total	**440**	**426**

The 2020 fee for auditing services charged by the auditors covers, in particular, the statutory audit of the annual financial statements and the consolidated financial statements of H&R KGaA, and the statutory and voluntary audits of the annual financial statements. The other certification services primarily refer to audits under the German Renewable Energy Sources Act (EEG) for subsidiaries of H&R KGaA.

(45) Exemption From Disclosure Under Section 264 (3) and Section 264b HGB

For the following fully consolidated subsidiaries, the company has elected to make use of the option to be exempted from the disclosure requirement in accordance with Section 264, paragraph 3 and Section 264b, in conjunction with Section 325 of the German Commercial Code (HGB), and partly made use of concessions regarding the preparation of financial statements:

- H&R Ölwerke Schindler GmbH
- H&R OWS Chemie GmbH & Co. KG
- H&R Chemisch-Pharmazeutische Spezialitäten GmbH
- H&R Lube Blending GmbH
- H&R ChemPharm GmbH
- H&R Lube Trading GmbH
- H&R International GmbH
- H&R InfoTech GmbH
- H&R South Africa GmbH
- H&R Group Finance GmbH

(46) Risk Management Policy, Capital Management and Safeguards

The operating business and the financing of H&R KGaA are exposed to various financial and market price risks, in particular liquidity and refinancing risks, counterparty default risk as well as risks associated with fluctuations in raw material prices, currency exchange rates, and interest rates. A systematic risk management system is in place to limit these risks. Hedging transactions, among other things, are used to counter them.

H&R KGaA has implemented a Group-wide risk management system which identifies, analyzes and measures these risks so that informed decisions can then be made about actions to take to prevent or limit such risks. The key components of the risk management system are the planning and controlling process, internal Group rules and regulations, and the reporting function. The Group companies are subject to strict risk management. Dealing authorizations, responsibilities and supervision procedures are established on a binding basis in internal guidelines.

The company holds regular conferences on business performance at which the results of operations and potential risks and opportunities are highlighted and targets and control measures are agreed. Derivative financial instruments are also utilized in this context. In this respect, derivative financial instruments may not, as a matter of principle, be implemented for speculative purposes, but instead serve to hedge against risks in connection with the operating business.

The Executive Board defines the Group's equity ratio as the basic parameter for capital management, which in turn is aimed at ensuring that the Group will continue to be able to cover its financing needs for capital expenditures and debt service obligations in the future. At the same time, H&R KGaA strives to maintain a capital structure that optimizes the costs of capital provided by our investors and our lenders, while retaining strategic flexibility. Other key control parameters include net debt and net gearing, i.e., the ratio of net debt to operating income (EBITDA).

The syndicated loans and the bilateral loans require the company to meet financial covenants that also relate to its capital base and net gearing. The financial covenants were fully met both at the reporting date and also during the course of the year.

CAPITAL STRUCTURE

	2020	2019	2018	2017	2016
Net debt/EBITDA	2.25	2.42	1.39	0.55	0.41
Equity ratio (in %)	46.5	43.3	48.9	51.7	49.0
Net gearing	35.3	37.4	28.9	16.0	15.1

The trajectory of the Covid-19 pandemic remains dynamic and may lead to increased risks with regard to value added or the recoverability of assets, particularly goodwill and intangible assets. Suppliers, customers and other business partners who have been hard hit by the pandemic may lead to defaults or disruptions to services. H&R KGaA will continue to follow the progress of the pandemic carefully, monitor its effects and prepare countermeasures.

Liquidity Risks. H&R KGaA ensures that it has sufficient liquidity by monitoring its liquidity status daily, by maintaining financing facilities that have not been utilized in full and by refinancing expiring loan agreements in a timely manner. Compliance with financial covenants is a crucial part of the financing agreements. If these covenants were to be breached and could not be renegotiated or if alternative sources of financing could not be found on short notice, this would jeopardize the continued existence of the Group. H&R KGaA counters this risk by maintaining a financing structure that includes sufficient equity as well as through measures designed to ensure the sustainability and stability of earnings, such as switching the Salzbergen site to a contract-processing model.

Default Risks. Our risks from delays in payment and/or defaults on the part of our customers are limited by our broadly diversified customer base and the low level of dependence on individual debtors. Strict receivables management by our sales/distribution partner, Hansen & Rosenthal, reduces these risks even more. Based on the information currently available, existing del credere risks are covered through impairments.

We counter the default risk of banks with which we have arranged credit lines, entered into hedging transactions or invested funds by only entering into larger, long-term financial transactions with banks that have good credit ratings and by spreading larger transactions among several banks.

Raw Materials Price Risks. H&R KGaA is exposed to price fluctuation risks in, among other things, purchases of raw materials, particularly purchases of atmospheric residue and vacuum gas oil. Most supply agreements concluded with customers for specialty products manufactured by the Chemical-Pharmaceutical Raw Materials division's specialty refineries specify fixed prices for a period of three months at most. Moreover, the production process at a specialty refinery can require up to eight weeks from the date on which raw materials arrive to the date when the finished product has been manufactured. This means that rapid increases in raw materials costs cannot be passed on to the markets immediately, but only with a delay. The relevant price trends are constantly monitored and analyzed. Changes in prices of raw materials can result in the recognition of windfall losses and windfall profits, which generally balance out over time. The raw materials price risk mainly affects sales revenues in the ChemPharm Refining and ChemPharm Sales segments (see Note (36)).

Currency Risks. The international orientation of H&R KGaA means that its operating activities give rise, among other things, to currency risks resulting from fluctuations between the company's functional currency and other currencies. In particular, these are encountered in the area of procurement as a result of US dollar transactions. In the trading business, these risks are partially hedged through forward transactions. Hedging is not performed in the production process, as the length of time entailed in the production process means that the intended hedge may be reversed by the time the currency forward contracts are concluded.

For the presentation of market risks, IFRS 7 requires sensitivity analyses showing the impact of hypothetical changes in relevant risk variables on earnings and equity. It is assumed that the portfolio as of the reporting date is representative of holdings for the entire year.

The following table shows the net exposure in the most significant foreign currency as of the reporting date:

NET EXPOSURE

IN € THOUSAND	US$
12/31/2020	6,148
12/31/2019	-7,269

The net exposure consists of statement of financial position items in the respective currency, which is not the functional currency, less derivatives used to hedge the foreign currency effects of the respective item on the statement of financial position.

The following table shows the effects on the income statement and on equity of exchange rate fluctuations in the currencies most significant to the H&R Group. The effects of projected cash flows for the next twelve months are not included.

IN € THOUSAND	Impact on:	12/31/2020 US$	12/31/2019 US$
Exchange rate +10%	Consolidated income statement	-559	661
	Equity	-559	661
Exchange rate –10%	Consolidated income statement	683	-808
	Equity	683	-808

Interest Rate Risks. H&R KGaA employs variable interest rate facilities, among other things, as part of its financing activities. Interest rate swaps are used as interest hedging instruments to limit risks arising from changes in market interest rates. Such transactions may also be entered into on a decentralized basis within the Group, but require the prior approval of the Executive Board.

A sensitivity analysis for interest rate risk is performed on financial liabilities with variable interest rates. As of the December 31, 2020, reporting date, a hypothetical 0.5% (or 50 basis points) increase in the interest rate would have increased interest expense by €107 thousand (previous year: €154 thousand) and would have reduced the amount of equity shown accordingly.

(47) Events After the Reporting Date

During the period between December 31, 2020, and the date of approval of the consolidated financial statements, there were no events with a material impact on the net assets, financial position and results of operations of H&R KGaA.

(48) Approval of the Financial Statements

The financial statements were approved and released for publication by the management of the general partner with full personal liability on March 31, 2021.

Salzbergen, March 31, 2021

The Executive Board

Niels H. Hansen
Sole Managing Director

The independent auditor's report reproduced below also includes a "Report on the Assurance in Accordance with Section 317 Paragraph 3b HGB on the Electronic Reproduction of the Consolidated Financial Statements and the Management Report Prepared for Publication Purpose" ("ESEF Report"). The subject of the audit (ESEF documents to be audited) on which the ESEF statement is based is not attached. The audited ESEF documents can be viewed in or downloaded from the Federal Gazette.

Independent Auditor's Report

To H&R GmbH & Co. KGaA, Salzbergen

Report on the Audit of the Consolidated Financial Statements and of the Group Management Report

Audit Opinions

We have audited the consolidated financial statements of H&R GmbH &.Co. KGaA, Salzbergen, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2020, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from 1 January 2020 to 31 December 2020, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report which is combined with the management report of H&R GmbH & Co. KGaA (referred to subsequently as "group management report"), for the financial year from 1 January 2020 to 31 December 2020. In accordance with the German legal requirements we have not audited the content of Statement on Corporate Governance pursuant to Section 289f and Section 315d HGB [Handelsgesetzbuch: German Commercial Code] which it is referred to in the group management report.

In our opinion, on the basis of the knowledge obtained in the audit

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to section 315e paragraph 1 HGB and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December 2019 and of its financial performance for the financial year from 1 January 2020 to 31 December 2020, and
- the accompanying management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the group management report does not cover the content of the Declaration on Corporate Governance pursuant to Section 289f and Section 315d HGB.

Pursuant to section 322 paragraph 3 sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with section 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from 1 January 2020 to 31 December 2020. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon, we do not provide a separate audit opinion on these matters.

In the following we present the key audit matters in our view. Our presentation of the key audit matters has been structured as follows:

1 Financial statement risk
2 Audit approach
3 Reference to related disclosures

(1) Impairment Test for Goodwill

1 Financial Statement Risk

In the consolidated financial statements of H&R GmbH & Co. KGaA under the balance sheet line item "Goodwill" goodwill is reported with a book value amounting to EUR 17.4 million. Compared to the previous year, the amount decreased by EUR 5 million due to an impairment loss recognized in the financial year on the goodwill of the cash generating unit South Africa based on a lack of recoverability.

The company allocates goodwill to the relevant cash generating units of the respective business segment. Goodwill is subject to an annual impairment test, in which the values in use are compared to the book values of the respective cash generating unit. To determine the values in use of the relevant cash generating unit, the discounted cash flow method is applied. The future cash flows to be discounted are derived from the current planning of the H&R group. The discount rate is determined by using the weighted average cost of capital of the respective cash generating unit.

The values in use are accounting estimates which are mainly influenced by the estimation of future cash flows and the discount rate applied and are subject to considerable uncertainty about estimates. Against this background and due to the complexity of the application of the valuation method, in our view, this matter was of particular significance in our audit.

2 Audit Approach
As part of our audit, among other things, we analysed the methodical approach for the execution of the impairment test and the determination of the weighted average cost of capital. We also evaluated the derivation of the forecasted cash flows from the planning of the H&R group. We analysed the planning assumptions of the planning for consistency and reasonableness and assessed the feasibility of significant planned measures against the background of actual and expected circumstances of the relevant markets and our understanding of the relevant economic environment of the cash generating units. Due to the sensitivity of the determined values in use in regard to changes of the discount rate, we under involvement of our internal valuation experts analysed the parameters used and evaluated the calculation model to determine the discount rate. Additionally, we performed own sensitivity analyses for selected cash generating units; the selection was based on the amount of deviations of book values and respective values in use as well as on qualitative aspects.

3 Reference to related Disclosures
The disclosures made by the H&R group concerning goodwill and goodwill impairment are presented in section 3 and 12 of the notes to the consolidated financial statements.

Other Information

The legal representatives are responsible for the other information. The other information comprises

- the Declaration on Corporate Governance pursuant to Section 289f and Section 315d HGB
- the Responsibility Statement pursuant to Section 297 para. 2 sentence 4 HGB and pursuant to Section 315 para. 1 sentence 5 HGB regarding the group management report,

which we obtained prior to the date of this auditor's report, and the non-financial report pursuant to section 315b HGB which is expected to be made available to us after that date and the remaining parts of the annual report including report of the Supervisory Board and the company brochure which are also expected to be made available to us after that date, with the exception of the audited consolidated financial statements, the group management report and our auditor's report.

The declaration on corporate governance is the responsibility of the legal representatives and the Supervisory Board. The Supervisory Board is responsible for the report of the Supervisory Board. Otherwise, the legal representatives are responsible for the other information.

Our audit opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the management report information audited for content or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Legal Representatives and the Supervisory Board for the Consolidated Financial Statements and the Management Report

The legal representatives are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to section 315e paragraph 1 HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, the legal representatives s are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the legal representatives are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the legal representatives are responsible for the preparation of the management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the legal representatives are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the management report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with section 317 HGB and the EU

Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) [and supplementary compliance with the ISAs] will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.

- Evaluate the appropriateness of accounting policies used by the legal representatives and the reasonableness of estimates made by the legal representatives and related disclosures.
- Conclude on the appropriateness of the legal representatives' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to section 315e paragraph 1 HGB.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial state-ments and on the management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.

- Evaluate the consistency of the management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.

- Perform audit procedures on the prospective information presented by the legal representatives in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the legal representatives as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safe-guards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other Legal and Regulatory Requirements

Report on the Assurance in Accordance with Section 317 Paragraph 3b HGB on the Electronic Reproduction of the Consolidated Financial Statements and the Management Report Prepared for Publication Purposes

Reasonable Assurance Opinion

We have performed assurance work in accordance with section 317 paragraph 3b HGB to obtain reasonable assurance about whether the reproduction of the consolidated financial statements and the group management report (hereinafter the "ESEF documents") contained in the attached electronic file HuR_Konzernabschluss_2020-12-31.zip, with the Hash-value BA915EEF7FB81D7EE790386EA7737A883549E742FBF50514419ABA5F533C7097and prepared for publication purposes complies in all material respects with the requirements of section 328 paragraph 1 HGB for the electronic reporting format ("ESEF format"). In accordance with German legal requirements, this assurance only extends to the conversion of the information contained in the consolidated financial statements and the group management report into the ESEF format and therefore relates neither to the information contained in this reproduction nor to any other information contained in the above-mentioned electronic file.

In our opinion, the reproduction of the consolidated financial statements and the group management report contained in the above-mentioned attached electronic file and prepared for publication purposes complies in all material respects with the requirements of section 328 paragraph 1 HGB for the electronic reporting format. We do not express any opinion on the information contained in this reproduction nor on any other information contained in the above-mentioned file beyond this reasonable assurance opinion and our audit opinion on the accompanying consolidated financial statements and the accompanying group management report for the financial year from Datum to Datum contained in the “Report on the Audit of the Consolidated Financial Statements and of the Group Management Report” above.

Basis for the Reasonable Assurance Opinion
We conducted our assurance work on the reproduction of the consolidated financial statements and the group management report contained in the above-mentioned attached electronic file in accordance with section 317 paragraph 3b HGB and the Exposure Draft of IDW Assurance Standard “Assurance in Accordance with Section 317 Paragraph 3b HGB on the Electronic Reproduction of Financial Statements and Management Reports Prepared for Publication Purposes” (ED IDW AsS 410). Accordingly, our responsibilities are further described below in the “Auditor’s Responsibilities for the Assurance Work on the ESEF Documents” section. Our audit firm has applied the IDW Standard on Quality Management 1 “Requirements for Quality Management in the Audit Firm” (IDW QS 1).

Responsibilities of the Legal Representatives and the Supervisory Board for the ESEF Documents
The legal representatives of the company are responsible for the preparation of the ESEF documents including the electronic reproduction of the consolidated financial statements and the group management report in accordance with section 328 paragraph 1 sentence 4 no. 1 HGB and for the tagging of the consolidated financial statements in accordance with section 328 paragraph 1 sentence 4 no. 2 HGB.

In addition, the legal representatives of the company are responsible for such internal control as they have considered necessary to enable the preparation of ESEF documents that are free from material intentional or unintentional non-compliance with the requirements of section 328 paragraph 1 HGB for the electronic reporting format. The legal representatives of the company are also responsible for the submission of the ESEF documents together with the auditor’s report and the attached audited consolidated financial statements and audited group management report as well as other documents to be published to the operator of the Federal Gazette.

The supervisory board is responsible for overseeing the preparation of the ESEF documents as part of the financial reporting process.

Auditor’s Responsibilities for the Assurance Work on the ESEF Documents
Our objective is to obtain reasonable assurance about whether the ESEF documents are free from material intentional or unintentional non-compliance with the requirements of section 328 paragraph 1 HGB. We exercise professional judgment and maintain professional skepticism throughout the assurance work. We also:

- Identify and assess the risks of material intentional or unintentional non-compliance with the requirements of section 328 paragraph 1 HGB, design and perform assurance procedures responsive to those risks, and obtain assurance evidence that is sufficient and appropriate to provide a basis for our assurance opinion.

- Obtain an understanding of internal control relevant to the assurance on the ESEF documents in order to design assurance procedures that are appropriate in the circumstances, but not for the purpose of expressing an assurance opinion on the effectiveness of these controls

- Evaluate the technical validity of the ESEF documents, i.e., whether the electronic file containing the ESEF documents meets the requirements of the Delegated Regulation (EU) 2019/815 on the technical specification for this electronic file.

- Evaluate whether the ESEF documents enables a XHTML reproduction with content equivalent to the audited consolidated financial statements and to the audited group management report.

- Evaluate whether the tagging of the ESEF documents with Inline XBRL technology (iXBRL) enables an appropriate and complete machine-readable XBRL copy of the XHTML reproduction.

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the annual general meeting on 29 May 2020. We were engaged by the supervisory board on 26 August 2020. We have been the group auditor of the Gesellschaft, Sitz, without interruption since the financial year 2015.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

German Public Auditor Responsible for the Engagement

Hamburg, 21 March , 2021

Warth & Klein Grant Thornton AG
Wirtschaftsprüfungsgesellschaft

Clemens	***von Oertzen***
Wirtschaftsprüfer	*Wirtschaftsprüfer*
[German Public Auditor]	*[German Public Auditor]*

Attestation by the Legal Representatives

We hereby affirm that, to the best of our knowledge and according to the applicable accounting standards, the consolidated financial statements convey a true picture of the net assets, financial position and results of operations of the Group and that the combined management report presents the course of business, including the Group's business income and situation, in a way that presents a true and fair view while describing the material opportunities for and risks to the Group's expected development.

Salzbergen, March 31, 2021

The Executive Board

Niels H. Hansen
Sole Managing Director

FURTHER **INFORMATION**

List of Graphics and Tables*

* The tables in the consolidated financial statements are not listed.

Six-Year Overview H&R Group Key Figures (IFRS)

T. 29

		2020	2019	2018	2017	2016	2015
Sales volume (main products)[1]	KT	805	815	836	832	849	762
Sales revenue	€ MILLION	873.03	1,075.3	1,114.2	1,025.1	942.7	982.9
Operating income (EBITDA)	€ MILLION	55.8	52.9	74.7	97.9	101.4	85.4
EBIT	€ MILLION	-0.3	7.4	40.6	54.3	64.2	48.7
Earnings before income tax	€ MILLION	-10.4	-1.2	33.7	46.2	54.2	34.2
Consolidated net income	€ MILLION	-7.8	0.1	22.3	29.5	39.3	26.8
Consolidated income attibutable to shareholders	€ MILLION	-9.0	-1.4	21.6	32.1	38.4	26.9
Consolidated income per share (undiluted) in €	€	-0.24	-0.04	0.59	0.88	1.50	0.75
Dividend per share	€	0	0.00	0.00	0.40	0.00	0.00
Market capitalisation as of 12/31	€ MILLION	203.6	194.3	226.7	553.4	535.5	330.9
Balance sheet total	€ MILLION	745.7	838.6	730.4	662.6	648.2	628.8
Net working capital	€ MILLION	106.9	105.9	174.5	153.3	153.4	139.5
Equity	€ MILLION	346.9	363.4	357.4	342.7	317.4	285.4
Equity ratio	%	46.5	43.3	48.9	51.7	49.0	45.4
Net debt	€ MILLION	75.4	86.8	103.0	53.7	42.1	86.7
Net gearing	%	35.3	37.4	28.9	16.0	15.1	31.4
Operating cash flow	€ MILLION	60.1	95.9	23.3	46.2	75.5	56.4
Free cash flow	€ MILLION	22.0	20.8	-46.4	-11.9	36.7	28.4

[1] Chemical-Pharmaceutical Raw Materials Division.

Financial Calendar

Our financial calendar is updated on an ongoing basis. Please visit our website www.hur.com in the Investor Relations section for the latest events.

April 21, 2021	Publication of Annual Report 2020
May 14, 2021	Publication of Q1 2021
July 9, 2021	Annual Shareholders' Meeting, Hamburg
August 13, 2021	Publication of Q2 2021
November 12, 2021	Publication of Q3 2021

Contact

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

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Disclaimer

Forward-looking statements

This document contains forward-looking statements that reflect management's current views with respect to future events. Such statements are subject to risks and uncertainties that are beyond H&R's ability to control or estimate precisely, such as future market and economic conditions, the behavior of other market participants, the ability to successfully integrate acquired businesses and achieve anticipated synergies and the actions of government regulators. If any of these or other risks and uncertainties occur, or if the assumptions underlying any of these statements prove incorrect, 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 2020

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