# KHD Humboldt Wedag International AG, Cologne, Germany

## Interim Report Pursuant to Section 37x of the German Securities Trading Act (WpHG)

## as of May 15, 2014

**ISIN: DE0006578008**

**German Securities Identification Number (WKN): 657800**

**Stock Exchange Symbol: KWG**

**www.khd.com**

**Summary of First Quarter of 2014**

- Continued restraint among customers in awarding orders
- Revenues increase of 31.6% over first quarter of the previous year to € 59.9 million
- EBIT of € -1.7 million due to decreasing gross profit margin and higher personnel expenses
- Positive operating cash flow of € 21.4 million
- Confirmation of expectations for the financial year 2014

**Key Figures at a Glance**

| **in € million** | **Jan. 1 - Mar. 31, 2014** | **Jan. 1 - Mar. 31, 2013** | ***Variance in %*** |
|---|---|---|---|
| Order Intake | 25.3 | 21.6 | *15.7%* |
| Revenue | 59.9 | 45.5 | *31.6%* |
| Gross Profit | 7.0 | 6.3 | *11.1%* |
| Gross Profit margin (in %) | *11.6* | *14.0* | |
| EBIT | -1.7 | -1.5 | *-13.3%* |
| EBIT margin (in %) | *-2.8* | *-3.3* | |
| EBT | -1.3 | -1.0 | *-30.0%* |
| Group net profit for the period | -1.2 | -0.7 | *-71.4%* |
| EPS in € | -0.02 | -0.01 | |
| | | | |
| Cash flow from operating activities | 21.4 | -14.1 | |
| Cash flow from investing activities | -0.3 | -0.3 | |
| Cash flow from financing activities | -0.7 | 0.7 | |

| **in € million** | **Mar. 31, 2014** | **Dec. 31, 2013** | ***Variance in %*** |
|---|---|---|---|
| Equity | 223.0 | 222.5 | *0.2%* |
| Equity ratio (in %) | *53.5* | *53.2* | |
| Cash and cash equivalents | 251.9 | 228.2 | *10.4%* |
| Order Backlog* | 304.8 | 339.3 | *-10.2%* |
| | | | |
| Employees | 771 | 775 | *1.8%* |

*Previous year's figure adjusted for canceled order in Russia

**Market Environment**

According to currently available data, the global economy picked up speed during the first three months of this year, above all due to the good development in the USA. The economic recovery in the eurozone appears to have stabilized at a low level. However, at the same time, economic risks have significantly increased in some emerging economies. The tension on the financial markets is the main cause for concern following some significant capital outflows resulting from US monetary policy. The political crisis in Ukraine is also a cause of additional risks for global economic growth.

In April, the International Monetary Fund (IMF) forecast global economic growth of 3.6% for 2014 as a whole (previous year: 3.0%); a rise of 4.9% (previous year: 4.7%) is forecast for the developing and emerging economies.

Changes in the key sales markets of KHD Humboldt Wedag International AG (hereinafter referred to as "KHD" or "Group") are detailed below:

- In India, the expected increase in economic growth to 5.4% (previous year: 3.2%) was hardly noticeable during the first quarter, nor was there any sign of an upswing in the cement industry. Familiar problems such as surplus capacities and pricing pressure in the cement industry remain. In January, Exane BNP Paribas significantly lowered its growth forecast for the cement market.
- There was increased uncertainty in Russia as a consequence of the political developments. The IMF revised its growth forecast for 2014 to 1.3%. Growth in the first quarter decreased compared with the first quarter of the previous year.
- The growth of Turkey's national economy slowed due to a decrease in private consumption, but the IMF expects continued high levels of government investment. According to the current forecast from Exane BNP Paribas, cement consumption is growing more strongly than expected.
- The unusually bad weather during the first quarter somewhat slowed the good economic development in the USA; however, the IMF still expects strong growth of 2.8%. The positive economic environment and especially the recovery in the real estate sector will also benefit the cement industry.
- In Latin America, US monetary policy muted the already weak growth. While Mexico is benefiting from the upswing in the USA, the IMF has lowered its growth forecast for South America overall to 2.5% – in particular due to the weak development in Brazil.
- In China, weak economic figures caused uncertainty among companies and on the financial markets during the first quarter. However, demand for cement continued to rise due to extensive government investment programs.

**Business Development**

Controlling, monitoring, and reporting within the Group have been carried out in the two separate segments Capex (project business) and Parts & Services since January 1, 2014. Comparability with the figures for the 2013 financial year is, however, only provided for the aggregated values.

During the first quarter of 2014, order intake was at € 25.0 million, above the previous year's level (€ 21.6 million), with the Parts & Services segment contributing € 12.0 million, or 48.0%. Larger new orders in project business (Capex segment) were awarded in the second quarter (see report on events after March 31, 2014, p. 6).

Due to the cancellation of a project (see details on developments after March 31, 2014), the order backlog was adjusted by € 74.5 million as of December 31, 2013. Despite the adjustment, the order backlog was still at the satisfactory level of € 304.8 million (end of 2013: € 339.3 million) as of March 31, 2014.

**Group's Results of Operations**

Revenue rose by 31.6% on the previous year (€ 45.5 million) to € 59.9 million. The projects in Malaysia, India, and North America continued to make significant contributions to revenue. The Capex segment contributed € 46.9 million to revenue during the first quarter of 2014, while Parts & Services contributed € 13.0 million.

The gross profit was € 7.0 million in the first quarter 2014 (previous year: € 6.3 million). While gross profit of € 3.1 million in the Capex segment (gross profit margin: 6.6%) was not satisfactory, the Parts & Services segment was able to generate gross profit of € 3.9 million (gross profit margin: 29.8%). At Group level, the gross profit margin declined from 14.0% to 11.6%. The decline in the margin reflects the execution of projects won in previous years against strong competition and under high margin pressure. As in the previous quarters, the further execution of a large project in Malaysia also had a negative effect on the margin. A significant portion of this order is for structural steel and general erection works. This scope has been passed through to KHD's strategic partner AVIC with no additional gross profit for KHD.

Sales activities remain focused on strategically important projects in KHD's core markets. At € 2.6 million, expenses remain unchanged compared to the previous year. The rise in administrative expenses to € 4.6 million (previous year: € 3.8 million) is primarily the result of higher personnel expenses. Other operating expenses decreased slightly to € 1.6 million (previous year: € 1.7 million). At € 1.0 million, significantly more than half of the amount was attributable to research and development. Other operating expenses also include expenses arising from changes in exchange rates.

At € -1.7 million, earnings before interest and tax (EBIT) were below the previous year's level (€ -1.5 million); the EBIT margin was -2.8% (previous year: -3.3%). While EBIT in the Capex segment was at a weak € -4.5 million as expected, the Parts & Services segment generated EBIT of € 2.8 million (EBIT margin: 21.4%). At € 0.3 million, the net finance income fell slightly below that of the previous year (€ 0.4 million) due to the low interest rate. The earnings before tax (EBT) thus amount to € -1.3 million (previous year: € -1.0 million).

The net result for the period came to € -1.2 million (previous year: € -0.7 million) and translates into diluted and basic earnings per share of € -0.02 (previous year: € -0.01).

## Financial Position and Net Assets

Cash and cash equivalents at KHD increased by € 23.7 million to € 251.9 million in the first quarter of 2014. This increase was mainly attributable to the cash flow from operating activities, which at € 21.4 million represented a significant improvement on the previous year (€ -14.1 million). Progress payments from customers upon reaching defined milestones in project business mainly contributed to this. At € -0.3 million, cash flow from investing activities remained unchanged compared with the first quarter of 2013. Cash flow from financing activities (€ -0.7 million) includes inflows from the acceptance of the takeover offer for the treasury shares as well as interest income, offset however by outflows due to the change in restricted cash.

The balance sheet total of € 417.2 million changed only slightly from the figure at the end of 2013 (€ 418.1 million). The decline in trade receivables (€ -22.2 million) and gross amounts due from customers for contract work (€ -2.7 million) is offset by the increase in cash and cash equivalents (€ +23.8 million). Other current and non-current assets changed only slightly.

On the liabilities side, trade and other payables decreased (€ -4.8 million), while commitments under construction contracts rose (€ +5.4 million).

Equity was at € 223.0 million, hardly changing from the figure at the end of 2013 (€ 222.5 million).

## Risks and Opportunities

KHD's approach to risk management ensures that changes in the risk position are promptly identified. To the extent required, provisions are set up for specific risks. The risks identified do not pose a threat to the KHD Group as a going concern, either individually or in combination.

By comparison with the balance sheet date in 2013, there has been no significant change as of the date of this Interim Report in the assessment of risks and opportunities. Please refer to the relevant section in the KHD Group management report as of December 31, 2013 (page 39 ff. of the Group Annual Report).

## Developments after March 31, 2014

On April 9, KHD received orders with a total value of over € 90 million for the supply of equipment and services for a new cement plant in the Kaluga region (Russia). The plant encompasses two production lines each with a capacity of 3,000 tons of cement clinker per day. The customer, Pervaja Cementnaja Kompanija (PZK), is part of the same group of companies as the large Russian construction group SU-155. The project will be recorded in order intake as soon as the advance payments have been received.

On April 1, KHD was informed by Stavropolsky Zavod Stroitelnih Materialov, a member of the EUROCEMENT Group, of the cancellation of its project. The order backlog as of December 31, 2013 was therefore adjusted accordingly by € 74.5 million.

**Outlook**

The economy in the KHD core markets is expected to continue developing at a muted pace during the 2014 financial year. The economic risks have increased significantly in particular in Latin America and Eastern Europe.

Nevertheless, according to a survey by Exane BNP Paribas among the leading cement producers, cement consumption should increase by between 2.9% and 6.5% in 2014. In particular in the USA, the good economic development is likely to continue having a positive effect. Drivers for growth also include countries in Sub-Saharan Africa, the Middle East, and Asia. In India, cement producers expect a volume growth of 3.7% with a continued low margin during the course of the year, while growth of 5.1% is expected in China. Demand in Russia is forecast to rise by 4.9% and by 5.0% in Turkey.

In the long term, continuing growth in cement consumption is likely in all core markets. Surplus capacities in some markets continue to limit the opportunities for capacity expansions; however, modernization programs and upgrades to improve efficiency and to meet increased environmental requirements are important growth drivers. KHD is well positioned in these areas not least thanks to its efficient and environmentally friendly solutions.

Closing the first quarter of 2014, KHD can basically confirm the outlook provided in its 2013 Annual Report regarding the market environment and economic development of the Group. The Group continues to expect a significantly higher volume of new orders for 2014. On the one hand opportunities relating to the forecast for the 2014 financial year remain largely unchanged; on the other hand KHD noted increasing uncertainties with regard to its business in the important Russian market due to the political crisis in the Ukraine. Awarding and execution of orders in Russia might slow down. In addition, increasing risks relating to the forecast for the 2014 financial year are triggered by the intended merger of Holcim and Lafarge. Several cement producers may wait for opportunities resulting from the Holcim -Lafarge divestment program rather than investing in new cement production capacity.

We continue to expect revenue to reach the level of the previous year. As was the case in 2013, orders won against strong competition and under high margin pressure will be the main contributors to revenue in the current year. The gross profit margin is therefore likely to remain at an unsatisfactory level. Considering the increasing risks described in the paragraph above the EBIT margin for the 2014 financial year is now forecasted as slightly negative.

KHD also anticipates a stable financial and net assets position for the rest of the year.

Cologne, Germany, May 15, 2014

The Management Board

(s) Jouni Salo (s) Ralph Quellmalz (s) Yizhen Zhu