FINANCIAL STATEMENTS 2014

KHD Humboldt Wedag
International AG

Management Report and
Annual Financial Statements
as of December 31, 2014

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WKN 657800
ISiN DE00065780

List of Abbreviations

AVIC Beijing	AVIC International Beijing Company Limited, Beijing, China
AVIC Engineering	AVIC International Engineering Holdings Pte. Ltd., Singapore, Singapore
AVIC HK	AVIC International Holdings (HK) Limited, Hong Kong
CSC	Customer Service Center
CSC Risks	Risks affecting the operating units
Group Risks	Risks that affect the entire Group
HW	Humboldt Wedag GmbH, Cologne, Germany
HWAUS	Humboldt Wedag Australia Pty Ltd., Braeside, Australia
HW Do Brasil	Humboldt Wedag Do Brasil Servicos Technicos Ltda, Belo Horizonte, Brazil
HWIN	Humboldt Wedag India Private Ltd., New Delhi, India
HW Malaysia	Humboldt Wedag Malaysia Sdn. Bhd., Kuala Lumpur, Malaysia
HWUS	Humboldt Wedag Inc., Norcross (Georgia), USA
KHD	KHD Humboldt Wedag International AG, Cologne, Germany
KHD Beijing	KHD Humboldt Wedag Machinery Equipment (Beijing) Co. Ltd., Beijing, China
KHD HW	KHD Humboldt Wedag GmbH, Cologne, Germany
KHD OOO	KHD Humboldt Engineering OOO, Moscow, Russia
ZAB	ZAB Zementanlagenbau GmbH Dessau, Dessau, Germany

Management Report and Annual Financial Statements of KHD Humboldt Wedag International AG for the Financial Year 2014

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1 Management Report of KHD Humboldt Wedag International AG for the Financial Year 2014

1.1 The Company

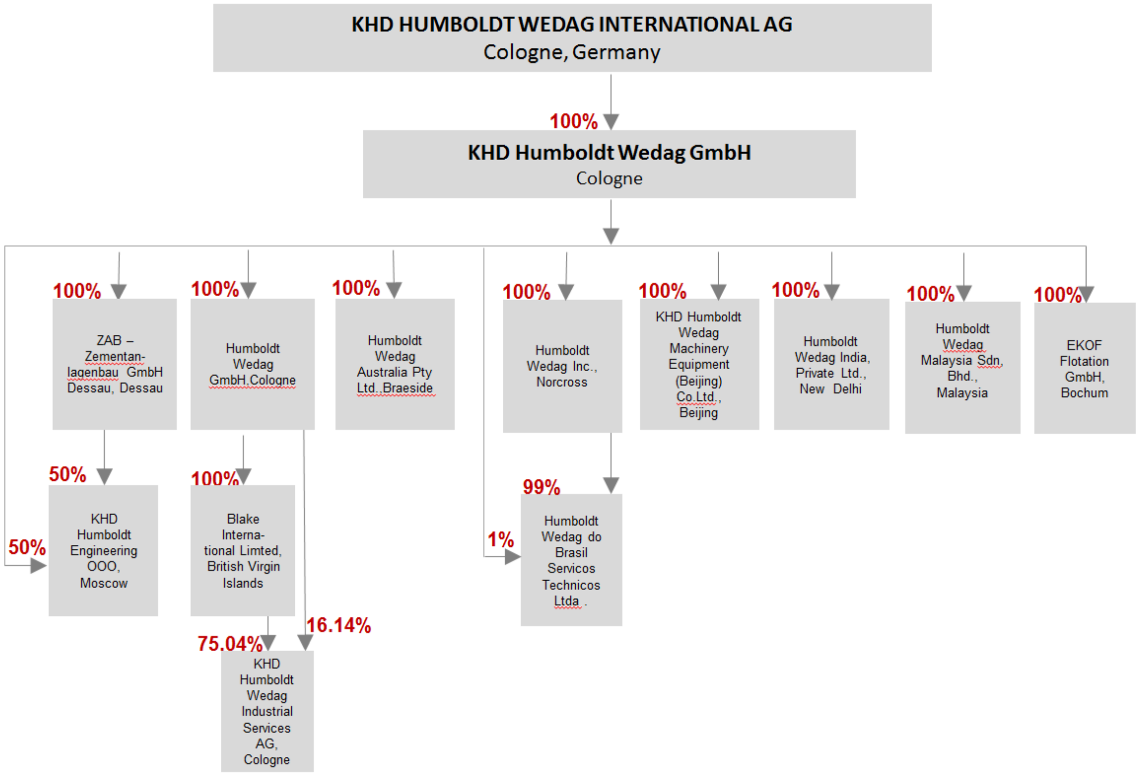
KHD Humboldt Wedag International AG (hereafter also referred to as “KHD,” the “Company” or “we”) based in Cologne, Germany, is the holding company of KHD Group, which ranks as one of the world’s top equipment suppliers and service providers for the cement industry. The scope of services encompasses process technology design, engineering, project management, the supply of technology and equipment, as well as supervising the erection and commissioning of cement plants and related equipment. Customer services such as supplying spare parts, optimization of cement plants, and training plant personnel round out KHD’s service portfolio. Our focus here is primarily on knowledge-intensive areas, in particular the design and engineering of the core components of a cement plant (grinding, kiln line, system automation), process engineering, customer service, and training. The manufacturing of plant equipment is almost entirely outsourced to quality-certified, external manufacturers who work in accordance with KHD’s specifications.

Group Structure and Shareholdings

In its capacity as the ultimate holding company of the Group, KHD holds a 100% investment in KHD Humboldt Wedag GmbH (KHD HW), Cologne, Germany, which functions as a strategic management holding company. Via the Service & Cost Allocation Agreement it provides central Group management services, as well as legal and consulting services for the other Group companies. Within the scope of a bond arrangement agreement, KHD also provides bank guarantee credit facilities agreed bilaterally with several banks to the operating KHD Group companies.

The 13 KHD Group companies focus on the business segment of industrial plant engineering as well as related services.

As of December 31, 2014, the KHD Group's organizational structure is as following:



There has been a strategic partnership between KHD and Beijing-based AVIC International Beijing Company Limited, Beijing, China, since the end of 2010, underpinned by the capital interests of AVIC International Engineering Holdings Pte. Ltd. (AVIC Engineering), Singapore, Singapore, and Max Glory Industries Limited (Max Glory), Hong Kong, Hong Kong, in KHD. The 20% capital interest of Max Glory exists since February 2011. As a result of the majority acquisition of KHD in January 2014 by a group of bidders, AVIC Beijing's indirect participation has now reached almost 90%. The strategic collaboration of the companies has been further strengthened as a result of the takeover. KHD and AVIC work together especially on project tendering.

Major Events During the Year Under Review

Conclusion of the Takeover Offer

On October 11, 2013, the bidders

- AVIC International Engineering Holdings Pte. Ltd., Singapore,
- Europe Project Management Pte. Ltd., Singapore,
- Europe Technology Investment Pte. Ltd., Singapore,
- Europe Engineering Holdings Pte. Ltd., Singapore,

announced – pursuant to Section 10 of the German Securities Acquisition and Takeover Act (WpÜG) – their decision to submit a joint voluntary public takeover offer to all of the shareholders of KHD Humboldt Wedag International AG, to acquire their ordinary bearer shares against payment of € 6.45 per share.

Following expiry of the acceptance period and fulfillment of the antitrust approval, the majority of the KHD shares were transferred in January 2014 from the former shareholders to the group of bidders. The group of bidders has therefore held the majority of the KHD shares since January 2014. After the transfer of the shares during the year from Europe Project Management Pte. Ltd., Europe Technology Investment Pte. Ltd. and Europe Engineering Holdings Pte. Ltd. to AVIC International Engineering Holdings Pte. Ltd, AVIC International Holding Corporation now indirectly holds 89.02% of the KHD shares.

Intercompany Loan to AVIC International (HK) Group Ltd., Hong Kong

During the financial year, KHD extended two loans totaling € 100 million to AVIC International (HK) Group Ltd. (AVIC HK), Hong Kong. The first loan of € 50 million was paid to AVIC HK in July 2014 and bears interest of 6% per annum. It has a term of three years, but KHD is entitled to call for repayment of the loan at any time prior to its maturity by giving 30 days' notice. The second loan of € 50 million was transferred to AVIC HK in November 2014, with the same interest rate of 6% per annum. The second loan has a fixed term of three years. Both loans are secured by group guarantees provided by AVIC.

Agreement of several new Bank Guarantee Credit Facilities

As a result of the takeover by AVIC, KHD canceled the bank guarantee credit facility with a bank consortium in August of the financial year and replaced it with several bilateral bank guarantee credit facilities with selected banks. The Company makes the bank guarantee credit facilities available to the operating companies. The basis for this is the Bond Arrangement Agreement within KHD Group, which was also redrafted as of October 1, 2014.

1.2 Business Development for Plant Engineering

1.2.1 Economic Environment

The global economy grew less strongly in 2014 than expected. In January 2015, the International Monetary Fund (IMF) assumed growth at the previous year's level (3.3%). For the developing and emerging economies, the IMF now expects a decline in growth to 4.4% (previous year: 4.7%). The geopolitical situation in particular in the Middle East and Ukraine, as well as growing anxiety once again surrounding the stability of the financial markets in the Eurozone and in some emerging economies, created uncertainty. KHD's key sales markets were affected differently:

- In India, due to the new government's reforms first successes have become apparent. Investments have increased significantly and inflation is falling. Growth increased to 5.8% from last year's 5.0%.
- Russia's economy is suffering as a result of the Ukraine crisis and the associated sanctions, as well as from low oil prices and the significantly weakened ruble. For 2014, the IMF only reports growth of 0.6% (previous year: 1.3%).
- Low growth of 3.0% is also predicted for Turkey (previous year: 4.0%). In addition to the sluggish momentum in the Eurozone and internal political problems, the conflicts in Iraq and in Syria also had a negative effect on developments in Turkey.
- Latin America also showed lower growth than anticipated with a growth rate of 1.2% (previous year: 2.8%), Brazil being among the worst performers with 0.1%. Falling competitiveness in the Brazilian economy and difficult financing conditions were responsible for a significant drop in enthusiasm for investment.
- The South-East Asian emerging economies showed varied development; while Malaysia's economy grew significantly, those of Indonesia and Thailand showed weaker growth comparing to the previous year.

1.2.2 Industry Environment

According to currently available market information, which is in line with KHD's findings from projects and discussions with customers, growth in the global cement market slowed in the year under review. According to estimates from market research institute CW Group, global cement consumption grew by only around 4.0%, following 6.6% in the previous year, although this was primarily the result of the large drop in China's growth. Global capacity utilization rose to almost 80%.

- India, the world's second largest cement market, benefited from the economic recovery and increased by between 6% and 9%. The cement manufacturers were still hesitant for investments due to existing overcapacities.
- Despite the geopolitical tensions and sanctions imposed by the West, the Russian cement market recorded solid growth of between 3% and 6%.
- The markets in Latin America showed a very slow growth dynamic, with the economic uncertainties in Argentina and Brazil in particular having a negative effect. In North America, the US market above all grew significantly more strongly than expected with a plus of between 6% and 9%.
- In Turkey, one of the KHD Group's most important markets alongside India and Russia, the cement market experienced solid growth of between 3% and 6% after weaker development in the previous year, with large infrastructure projects making the main contribution.

Capital procurement for investment projects remains difficult in many emerging nations. The central banks in markets relevant to KHD like India, Brazil, Turkey, and Russia countered rising inflation rates with high interest rates. The yields on long-term government bonds (10-year term), which are considered a guide to the market interest rate, fluctuated at a high level in all markets mentioned, although trending slightly downward at the end of the 2014 financial year in India and Turkey.

The declining growth rates of the global cement industry and the increasing expansion of Chinese manufacturers in regions outside of China continued to cause much competition and price pressure in cement plant construction. In addition, the decision to merge the cement production of Holcim and Lafarge led to a reorganization of the industry, and competitors are now considering purchasing the cement plants that are being sold off as part of the merger of Holcim and Lafarge. This had a negative effect on the willingness to make new investments in the reporting year.

Over the long term, investment in infrastructure by developing and emerging economies remains the most important driver for growth in the cement industry. With a share of over 50%, China remains the largest market, even if its growth has recently slowed. Due to the existing surplus capacities, the Chinese government put a moratorium on new cement plants for the reporting year. This accelerated the expansion of Chinese producers abroad. However, there are opportunities in particular for foreign providers in the increasing demand for environmentally friendly technologies.

Willingness to invest in new cement plants worldwide will in the future be determined by the price level of cement, the capacity utilization of existing plants, the level of interest rates, and the availability of capital.

1.3 Company's Position

Net Assets:

The Company's total assets increased in the financial year by € 41,738 thousand from € 137,599 thousand to € 179,337 thousand. This increase is primarily due to the extension of two loans totaling € 100 million to AVIC HK. To finance these loans, KHD itself has taken out loans in a total amount of € 50 million from two operating subsidiaries. As a result of granting these loans, long-term loans increased, whereas cash and cash equivalents decreased sharply.

Long-term financial investments include two loans totaling € 100 million granted to AVIC HK as well as the shares in KHD HW in an amount of € 26 million.

The increase in receivables due from affiliated companies is mainly attributable to the increase of a loan by € 13,498 thousand that KHD has extended to an affiliated company. In contrast, other assets have decreased by € 1,072 thousand, from € 3,556 thousand in the previous year to € 2,484 thousand. Other assets mainly include VAT tax credit of € 2,333 thousand (previous year: € 2,350 thousand).

The reduction in credit balances at banks of € 70,398 thousand to € 28,476 thousand (previous year: € 98,874 thousand) is principally the result of disbursements of loans to AVIC HK totaling € 100,000 thousand and to a KHD Group company totaling € 12,520 thousand, as well as the repayment of cash in an amount of € 16,072 thousand. This amount had been provided in the previous year as collateral for the utilization of the bank guarantee credit facility by companies of the KHD Group. These disbursements are partially balanced by payments from Group companies resulting from loans extended in a total amount of € 50,000 thousand, payments from the sale of treasury shares of € 1,478 thousand, as well as the reimbursement of a tax claim totaling € 1,055 thousand.

The Company's equity increased by € 3,084 thousand from € 117,660 thousand to € 120,744 thousand. The change within equity comprises the net profit for the year (€ 1,606 thousand) and the effect related to the sale of treasury shares of € 1,478 thousand. With an increased balance sheet total, the equity ratio amounts to 67.3% (previous year: 85.5%).

The increase in provisions and accruals is primarily the result of the rise in provisions for taxes to € 785 thousand and the creation of a provision of € 492 thousand for contingent losses.

The € 37,210 thousand increase in liabilities from € 18,649 thousand to € 55,859 thousand was caused principally by Group companies' payments for loans granted to KHD in an amount of € 50,000 thousand. The cash collateral for bank guarantees of € 16,072 thousand that was deposited by the KHD Group companies in the 2013 financial year was repaid in the financial year by KHD.

The Company recognized deferred tax liabilities of € 158 thousand in the financial year based on temporary differences between the carrying amounts recognized in the balance sheet and the respective tax base.

Results of Operations:

In the financial year under review, KHD's result from ordinary activities came to € 2,374 thousand (previous year: € 4,326 thousand). While the result from ordinary activities in the previous year was characterized by other operating income in the amount of € 6,135 thousand as well as by investment income of € 4,000 thousand, the result in the current year primarily resulted from other operating income in the amount of € 7,114 thousand and the increase in interest income.

Without consideration of income from investments, the Management Board had predicted a slightly positive result for the financial year. In fact, a significant positive result without income from investments was generated in the financial year. This was mainly caused by the interest income from the loans extended to AVIC HK.

Other operating income of € 7,114 thousand (previous year: € 6,135 thousand) largely relates to charges for services provided to operating KHD Group companies as part of the Service & Cost Allocation Agreement in the amount of € 2,599 thousand (previous year: € 2,811 thousand) and income from the Bond Arrangement Agreement of € 2,663 thousand (previous year: € 3,092 thousand). Bank guarantee fees that are reported under interest and similar expenses are charged to KHD Group companies based on the Bond Arrangement Agreement. Other operating income also includes realized and unrealized exchange rate gains of € 1,400 thousand and the release of other provisions in the amount of € 62 thousand (previous year: € 130 thousand).

Personnel expenses mainly relate to compensation for the members of the Management Board.

Other operating expenses consist of legal and consulting costs, costs of preparing and auditing the annual financial statements, Supervisory Board compensation, Group charges, costs related to the Annual General Meeting, investor relations costs, and other administrative costs.

The higher interest income is mainly the result of the loan extended to AVIC HK and an affiliated KHD Group company.

Net profit for the year of € 1,606 thousand (previous year: € 4,326 thousand) arises after considering income taxes of € 768 thousand (previous year: € 0 thousand). After taking into account the profit carried forward from the previous year of € 4,635 thousand, the net retained profit amounts to € 6,241 thousand.

Financial Position:

The Company's financing is secured due to the liquidity available at the end of 2014, but also as a result of the retrievable resources and dividend payment potential of the KHD Group companies.

Cash and cash equivalents as of the balance sheet date decreased from € 98,874 thousand to € 28,476 thousand in particular as a result of granting loans to AVIC HK and to a Group company. The consequence of these outflows was that the Company's available liquidity as at the end of the financial year fell significantly below the forecast given in the previous year, although at € 28 million it remained at a good level. As of December 31, 2014, the Company no longer had restricted cash (previous year € 27,650 thousand).

As a holding company KHD AG has no operating business. However, the Company coordinates the financial and liquidity positions in the KHD Group through granting/receiving loans to/from affiliated companies. In addition to cash and cash equivalents as short-term liquidity, the Company, in case of additional need for liquidity, can call the loan amounting to € 50 million that has been granted to AVIC HK in July 2014 for repayment by giving 30 days' notice..

As of December 31, 2014, the equity ratio stood at 67.3% that was below the previous year's ratio of 85.5%. The decrease in equity ratio is principally caused by the increase of the total asset. The loans borrowed from affiliated companies were used to finance the loan granted to AVIC HK. The equity rose in financial year 2014 by € 3,084 thousand to € 120,744 thousand and remains at a high level.

Financial and Non-Financial Performance Indicators:

KHD is a management holding company with no operating business activities, which is therefore not directly controlled on the basis of financial or non-financial performance indicators. Relevant performance indicators for assessing the course of business are liquidity and the result before consideration of income from investments.

The Company's subsidiaries and the KHD Group are controlled using financial and non-financial performance indicators. Financial performance indicators include:

- Order intake and order backlog;
- Group revenue;
- Group earnings before taxes and interest (EBIT) as well as the ratio to revenue (EBIT margin);
- Operating cash flow.

Non-financial performance indicators also include employee development, customer satisfaction, the impact of KHD's products on the environment, speed of project execution, product quality, and individual employee-related performance indicators.

Overall Assessment of the Course of Business and Economic Situation

The Management Board assesses the Company's overall net assets, financial position, and result of operations in the previous financial year as satisfactory. The planned budgetary targets were for the most part achieved. Due to the interest income accrued for the whole of 2015, the Company expects the business result to be slightly above the level of the financial year 2014.

1.4 Report on Events after the Reporting Period

With effect from January 1, 2015, Daniel Uttelbach was appointed to the Management Board of KHD. As Executive Vice President Sales & Technology, he is responsible for Sales and Technology.

On February 13, 2015 the Chief Executive Officer, Mr. Salo, signed a termination agreement with KHD according to which he resigns from his function as CEO and from his office on KHD's Management Board effective as of April 30, 2015. On the same day, the Supervisory Board of KHD appointed Mr. Johan Cnossen to the Company's Management Board and as Chief Executive Officer, effective May 1, 2015.

1.5 Compensation Report

The compensation report presents the principles, structure, and amount of both Management Board and Supervisory Board remuneration at KHD. The compensation report incorporates the recommendations made by the German Corporate Governance Code (GCGC). It also contains information required by Section 285 Number 9a Sentences 5–8 of the German Commercial Code (HGB); this information is therefore not provided additionally in the notes to the consolidated financial statements, in line with Section 289 Paragraph 2 Number 5 Sentence 2.

Compensation System for Members of the Management Board

Providing a transparent and understandable overview of Management Board compensation is a key element of good corporate governance at KHD.

The Supervisory Board has extensively studied the legal requirements laid down by the German Act on the Appropriateness of Management Board Compensation (VorstAG) and the recommendations made by the GCGC. Total compensation of individual Management Board members is set by the Supervisory Board. The compensation system for the Management Board has been decided by the Supervisory Board and, together with the level of the compensation, is subject to regular evaluation.

Management Board compensation at KHD is set in such a way that makes it internationally competitive and oriented towards sustainable corporate growth and sustainable enhancement of corporate value within a dynamic environment. Criteria drawn on to evaluate the appropriateness of compensation include the international activity of the KHD Group, the tasks of the individual Management Board member, personal performance, the economic situation and financial position, the performance and future prospects of the KHD Group, as well as the extent to which this compensation is customary in comparable companies, and the compensation structure that otherwise prevails within the Group.

Management Board compensation generally consists of fixed (non-performance-based) and variable (earnings- and performance-related) components. Fixed compensation is paid out as a basic remuneration every month as a non-performance-based salary. In addition, Management Board members receive ancillary payments in the form of non-cash benefits. These consist of the value of the use of a company car in accordance with tax regulations, insurance contributions, and other non-cash benefits. A pension allowance is also provided for Mr. Quellmalz. This amount is shown, along with the non-cash benefits, in the compensation report under “fringe benefits”.

The variable compensation (bonus) – capped for each Management Board member – generally depends on the business performance of the KHD Group and on the personal performance of individual Management Board members, determined on the basis of defined performance targets. When assessing personal performance, the Supervisory Board takes special account of the individual’s contribution to the medium and long-term development of the Group.

The Supervisory Board revised the system for variable compensation from the 2015 financial year onward by amending the manager service contracts. The Supervisory Board agreed with the Management Board member on clearly defined and demanding targets. The target agreements are oriented towards sustainable growth of the Company. According to the target agreements, individual targets account for 30% of the maximum bonus, while financial (quantitative, based on key performance indicators) targets account for 70% of the maximum bonus. The financial targets are based on a multi-year assessment period.

The variable compensation components for the financial targets are determined using four defined levels (0% / 20% / 50% / 100%). When measuring the variable compensation, each quantitative target is considered separately, i.e. exceeding a target value (target achievement > 100%) cannot be used to compensate for other target values (target achievement < 100%). A lower threshold is set for every quantitative target. If the respective lower threshold is achieved, the bonus amounts to 20% of the corresponding bonus portion. If the targets are not achieved (failure to reach the lower target threshold – cumulative for the multi-year assessment period), the Management Board member’s entitlement to the corresponding portion of variable compensation is forfeited.

In order to gear the variable compensation components towards sustainable corporate growth and to create a long-term incentive effect, the financial targets are based on a two-year assessment period. Only once the two-year assessment period has expired a final assessment on the target achievement is made. The achievement for the individual target is determined based on the average target achievement target across the entire assessment period.

The appointment of Mr. Salo to the Management Board was due to expire on December 10, 2014, Mr. Salo informed the Supervisory Board about his wish to leave at the end of his contractual term due to family reasons. In order to ensure a smooth transition to a new CEO, Mr. Salo eventually agreed to extend the contract by one year. The new manager service contract provided an option for both parties to terminate the contract prior to the one year term in case the Supervisory Board found a new CEO earlier. Therefore the variable compensation to be made to Mr. Salo for the 2015 financial year was agreed in the revised manager service contract as a one-off pro rata fixed bonus.

In October 2013, a group of bidders led by the Chinese AVIC Group published, in line with Section 10 of the German Securities Acquisition and Takeover Act (WpÜG), their intention to submit a takeover offer for the acquisition of all shares in KHD. In January 2014, the Supervisory Board agreed on specific targets with each Management Board member to determine the variable compensation for the 2014 financial year. The target agreements are oriented towards sustainable growth, but due to the exceptional situation of the KHD Group following the takeover, the variable compensation is determined for the 2014 financial year using a one-year assessment period.

To maintain a uniform compensation structure in the Management Board of KHD in the 2013 financial year, the Supervisory Board made an agreement with the Management Board members that the variable compensation for the 2013 financial year owed according to the existing service contracts as a fixed bonus. The variable compensation components were therefore already substantiated before the end of the 2013 financial year and the amount of bonus was contractually fixed.

Commitments to Management Board Members in the Event of Termination of their Appointment

In the event that the appointment to the Management Board is revoked with good cause that entitles KHD to terminate the service contract with good cause, the service contract ends without notice. In case of revoking the appointment to the Management Board with other good cause, the Company has the right to terminate the manager service contract with notice. The service contract will then end on expiry of the period of notice or rather at the end of the contractually agreed end date of the management service contract, if this is sooner. In Mr. Salo's case, this period of notice is three months, in Mr. Quellmalz six months, in Mr. Zhu and Mr. Uttlelbach twelve months.

For Mr. Salo, a severance payment of one year's fixed compensation (€ 375,000) is payable by the Company if his service contract expires at the end of the contractual period or if it is terminated earlier by any party by three weeks written notice upon the appointment of a new CEO and his effective beginning in the company. A severance payment claim does not exist if the appointment of the Management Board member is revoked with good cause that entitles the Company to extraordinary termination of the service contract with good cause without notice, or where the Management Board member submits his notice.

The rules applying to the severance payment to be paid to Mr. Salo in the event of a termination of his service do not limit the payments to the compensation for the residual term of the service contract. Conversely, according to the manager service contract, the Company does not owe compensation payments to Mr. Salo for his compliance with the non-competition clause. There are no severance payment arrangements in the service contracts with Mr. Quellmalz, Mr. Zhu and Mr. Uttelbach.

KHD has set up an accrual for the above mentioned severance payment to be made, allocating € 223,876 in the 2014 financial year. This amount is shown in the compensation report under "allocation to termination payment." The accrual for Mr. Salo amounted to € 375,000 as of December 31, 2014.

1.6 Total Compensation Paid to Management Board Members

Overview of key data concerning the Management Board (in the 2014 financial year):

Name	**Management Board member since**	**Appointment to the Management Board until**	**Manager service contract with KHD since**
Jouni Olavi Salo*	December 11, 2008	April 30, 2015	April 1, 2010
Yizhen Zhu**	April 1, 2011	December 31, 2015	April 2, 2011
Ralph Quellmalz	April 30, 2013	April 30, 2016	May 1, 2013

* Subsequent to the 2014 financial year, Mr. Salo signed a termination agreement and resigned from his office as member of the Management Board effective April 30, 2015.

** Subsequent to the 2014 financial year, Mr. Yizhen Zhu was appointed a member of the KHD Humboldt Wedag International AG Management Board for another nine month period until December 31, 2015, by resolution of the Supervisory Board.

The total remuneration for members of the KHD Management Board amounted to € 1,340 thousand in the 2014 financial year (previous year: € 1,149 thousand). The total compensation for each member of the Management Board is detailed in the following tables, broken down according to the person and their fixed and variable remuneration components. In the 2013 financial year, the fixed bonuses of the Management Board members – which substantiated the variable compensation components before the end of the 2013 financial year – have been added to the non-performance-related components and are disclosed together with the fixed compensation in accordance with the provisions of Section 289 Paragraph 1 Number 5 of the German Commercial Code (HGB) in connection with Section 285 Number 9 HGB. In accordance with the aforementioned provisions, a performance-related remuneration was therefore not shown in the 2013 financial year.

The benefits awarded in the 2014 and 2013 financial years can be seen in the following overview:

Benefits awarded (in €)	Jouni Olavi Salo Chief Executive Officer Management Board member since December 11, 2008				Yizhen Zhu Executive Vice President Management Board member since April 1, 2011			
	FY 2013	FY 2014	FY 2014 (min)	FY 2014 (max)	FY 2013	FY 2014	FY 2014 (min)	FY 2014 (max)
Fixed compensation	375,000	375,000	375,000	375,000	180,000	210,000	210,000	210,000
Severance claim contribution upon termination	55,368	223,876	223,876	223,876	0	0	0	0
Ancillary compensation	53,718	44,899	44,899	44,899	23,919	16,796	16,796	16,796
Total	**484,086**	**643,775**	**643,775**	**643,775**	**203,919**	**226,796**	**226,796**	**226,796**
Variable compensation one year	0	0	0	0	0	0	0	0
Variable compensation several years								
Fixed bonus (until December 31, 2013)*	187,500	0	0	0	45,000	0	0	0
(until December 31, 2014)**	0	56,250	0	187,500	0	22,500	0	75,000
(until December 31, 2014)**	0	56,250	0	187,500	0	37,500	0	75,000
Total	**187,500**	**112,500**	**0**	**375,000**	**45,000**	**60,000**	**0**	**150,000**
Care expenses	0	0	0	0	0	0	0	0
Total compensation	**671,586**	**756,275**	**643,775**	**1,018,775**	**248,919**	**286,796**	**226,796**	**376,796**

Benefits awarded (in €)	Ralph Quellmalz*** Chief Financial Officer Management Board member since April 30, 2013			
	FY 2013	FY 2014	FY 2014 (min)	FY 2014 (max)
Fixed compensation	146,667	220,000	220,000	220,000
Severance claim contribution upon termination	0	0	0	0
Ancillary compensation	7,227	24,393	24,393	24,393
Total	**153,894**	**244,393**	**244,393**	**244,393**
Variable compensation one year	0	0	0	0
Variable compensation several years Fixed bonus (until December 31, 2013)*	75,000	0	0	0
(until December 31, 2014)**	0	22,500	0	75,000
(until December 31, 2014)**	0	30,000	0	75,000
Total	**75,000**	**52,500**	**0**	**150,000**
Care expenses	0	0	0	0
Total compensation	**228,894**	**296,893**	**244,393**	**394,393**

* The fixed bonus granted for the 2013 financial year was paid out in the 2014 financial year. The fixed bonus was reported as a non-performance-related component in the notes to the consolidated financial statements.

** The financial targets bonus as well as the individual targets bonus for the 2014 financial year is assessed on a one-year basis but will only be paid out in the 2015 financial year (deferral).

*** For the 2013 financial year, the Management Board remuneration for Mr. Quellmalz is based on a time period of eight months.

The indicated variable compensation (benefits granted) corresponds to the amount recorded as an expense in the 2014 financial year.

In contrast to the benefits granted, the following table shows the actual inflow of Management Board compensation in the 2014 and 2013 financial years:

Inflow (in €)	Jouni Olavi Salo Chief Executive Officer		Yizhen Zhu Executive Vice President		Ralph Quellmalz*** Chief Financial Officer	
	FY 2014	FY 2013	FY 2014	FY 2013	FY 2014	FY 2013
Fixed compensation	375,000	375,000	210,000	180,000	220,000	146,667
Ancillary compensation	44,899	53,718	16,796	23,919	24,393	7,227
Total	**419,899**	**428,718**	**226,796**	**203,919**	**244,393**	**153,894**
Variable compensation one year	0	0	0	0	0	0
Variable compensation several years						
Financial targets bonus (April 1, 2010 through December 31, 2012)*	0	401,362	0	43,117	0	0
Individual targets bonus (April 1, 2010 through December 31, 2012)*	0	164,063	0	0	0	0
Fixed bonus (until December 31, 2013)**	187,500	0	45,000	0	75,000	0
Total	**187,500**	**565,425**	**45,000**	**43,117**	**75,000**	**0**
Care expenses	0	0	0	0	0	0
Total compensation	**607,399**	**994,143**	**271,796**	**247,036**	**319,393**	**153,894**

* The variable compensation paid out during the 2013 financial year for the assessment period 2010 through 2012 had already been set aside in full in the 2012 financial year.

** The fixed bonus granted for the 2013 financial year was paid in the 2014 financial year. The fixed bonus was reported as a non-performance-related component in the notes to the consolidated financial statements.

*** For the 2013 financial year, the Management Board remuneration for Mr. Quellmalz is based on a time period of eight months.

The variable compensation of the Management Board members for the 2010 – 2012 financial years was only due after final assessment of target achievement and approval of the financial statements for the 2012 financial year. Accruals were established in financial years 2010, 2011, and 2012 for the theoretical entitlement to variable compensation calculated on the basis of a provisional assessment of target achievement (cumulative for the multi-year assessment period). In the financial year 2013, Mr. Salo received – after deduction of the advance payments paid in the previous years – a payout for the variable compensation amounting to € 565,425. The amount was calculated according to the final assessment of cumulative target achievement in the period from April 1, 2010, to December 31, 2012. Mr. Zhu received – after deduction of the advance payment in the previous year – a payment of € 43,117 in the 2013 financial year for the period from April 1, 2011, to December 31, 2012.

The fixed bonuses granted for the 2013 financial year were paid to the members of the Management Board in the 2014 financial year.

1.7 Compensation paid to Supervisory Board Members

The aggregate compensation for all members of the Supervisory Board is laid down in Section 13 of the articles of association. The Supervisory Board members receive fixed compensation only. The Supervisory Board decides by resolution on the distribution of the overall compensation among the individual members of the Supervisory Board.

In addition to the roles of Chairperson and Deputy Chairperson on the Supervisory Board, the role of Chairperson on the Audit Committee is / was also taken into account when distributing the Supervisory Board compensation.

The total compensation of each member of the Supervisory Board by name for the 2014 financial year is shown in the following table:

in €	**Fixed compensation**
Hubert Keusch (Chairman)[1]	74,027
Eliza Suk Ching Yuen (Deputy Chairwoman)[2]	45,973
Kangning Zou[3]	17,918
Luc Antoine Baehni[4]	23,560
Michael Busch[5]	16,110
Seppo Kivimäki[6]	16,110
Helmut Meyer[7]	23,560
Total	**217,258**

[1]Chairman of the Supervisory Board,
Chairman of the Personnel and Nomination Committee until May 27, 2014,
Member of the Audit Committee until May 27, 2014.

[2] Deputy Chairwoman of the Supervisory Board since May 27, 2014,
Member of the Audit Committee until May 27, 2014.

[3] Member of the Supervisory Board since May 27, 2014.

[4] Member of the Supervisory Board (Deputy Chairman) until May 27, 2014,
Member of the Personnel and Nomination Committee until May 27, 2014.
[5] Member of the Supervisory Board until May 27, 2014.
Member of the Personnel and Nomination Committee until May 27, 2014.
[6] Member of the Supervisory Board until May 27, 2014.
[7] Member of the Supervisory Board until May 27, 2014.
Chairman of the Audit Committee until May 27, 2014.

In the 2013 financial year, KHD concluded a consultancy contract with NASENDA, Douglas, Isle of Man, a company whose shares are held by Seppo Kivimäki (Supervisory Board member until May 27, 2014). In accordance with the contractual agreement, € 75 thousand (previous year: € 60 thousand) was recorded by KHD as an expense for consulting services in the 2014 financial year. Including the liability accrued to December 31, 2013 (€ 15 thousand), in the 2014 financial year € 90 thousand (previous year: € 45 thousand) has been paid to NASENDA. As of December 31, 2014, liabilities to NASENDA amount to € 0 thousand (previous year: € 0 thousand).

The total compensation of each member of the Supervisory Board for the 2013 financial year is shown in the following table:

in €	**Fixed compensation**
Hubert Keusch (Chairman)[1]	63,356
Luc Antoine Baehni (Deputy Chairman)[2]	52,164
Eliza Suk Ching Yuen[3]	64,246
Michael Busch[4]	42,534
Seppo Kivimäki[5]	42,534
Helmut Meyer[6]	52,164
Total	**316,998**

[1] Chairman of the Supervisory Board since June 25, 2013,
Chairman of the Personnel and Nomination Committee since June 25, 2013,
Member of the Audit Committee.
[2] Deputy Chairman of the Supervisory Board,
Member of the Personnel Committee until June 25, 2013.
Member of the Personnel and Nomination Committee since June 25, 2013.
[3] Chairwoman of the Supervisory Board until June 25, 2013,

Chairwoman of the Personnel Committee until June 25, 2013,
Member of the Audit Committee,
Member of the Nomination Committee until June 25, 2013.

[4] Member of the Personnel Committee until January 24, 2013,
Chairman of the Nomination Committee until June 25, 2013,
Member of the Personnel and Nomination Committee since June 25, 2013.

[5] Member of the Nomination Committee until June 25, 2013.

[6] Chairman of the Audit Committee,
Member of the Personnel Committee from January 27 to March 18, 2013.

1.8 Risks and Opportunities Report

The following representation of the key risks and opportunities expressly relates to the entire KHD Group, not just KHD as the holding company.

Risk Management

As a globally operating cement plant equipment supplier and service company, the KHD Group is subject to a number of different risks in the course of its business activities. By being prepared to take calculated commercial risks, KHD is able to utilize opportunities to increase the Group's value over the long term.

KHD's Management Board has implemented a comprehensive, systematic, and effective risk management system, which is based on a formal risk policy. Risk management in the KHD Group is based on the COSO-ERM concept. In addition to the systematic approach towards identifying, recording, and assessing risks, the essential components of our risk management system include steps to mitigate risk, which means defining and implementing measures in response to risks that have been identified. Risk management is a task performed on an ongoing basis across the Group and forms an integral part of decision-making and business processes throughout the KHD Group.

Identification and evaluation of opportunities is not carried out as a separate category of the risk management system. Nevertheless, risk management in the KHD Group also takes into account the best possible use of opportunities as positive deviation from targets due to successful implementation of the respective measures in addition to reducing impact and probability of negative events. With effective and efficient risk management, KHD is able to identify and capitalize on business opportunities to the benefit of its shareholders, customers, and employees.

The systematic recording and assessment of risks and opportunities is an essential component in controlling the Group; the corporate strategy forms the foundation for systematically identifying risks at an early stage. Since the corporate objectives and the corresponding success factors are set as part of the planning process, direct relationships exist between risk management, on the one hand, and strategic planning and medium-term planning on the other. Transactions and measures that could potentially damage business viability are avoided in principle. For the KHD Group, this means in particular that for projects liability for consequential damages is contractually excluded.

The risk management system in the KHD Group is incorporated into our internal control system. Our risk management is not limited to the early risk recognition system set out in Section 91 Paragraph 2 of the German Stock Corporation Act (AktG), as it not only covers business viability risks, but encompasses all substantial risks for the KHD Group (operational, strategic, financial, and compliance risks). Improving our risk management includes regularly evaluating and enhancing the relevant internal controls in order to ensure that the process functions properly and efficiently. Process improvements or amendments are identified and implemented on a continual basis.

Risk Management Organization, Responsibilities, Instruments, and Reporting

The KHD Group makes a distinction between risks that affect the entire Group or that can only be managed at the Group level (Group risks), and risks that arise from the activities of operating business units (CSC risks). Group risks are identified by members of the Management Board and Global Functional Heads and then controlled by so-called Risk Owners, who are appointed accordingly. CSC risks are managed by the persons responsible for operations in the Customer Service Centers (CSCs) and their subsidiaries. The respective Risk Owners in the operating business units are responsible for handling CSC risks in a systematic way.

KHD has appointed employees responsible for risk management at both the Group level as well as at the level of the operating business units in order to help ensure that risks are identified and assessed in the same way across the Group and to coordinate these activities. The risk managers are also in charge of monitoring and tracking how specific measures to mitigate risks are being implemented. The central risk management department provides the operating units with standardized methods used across the Group, together with instruments to document these risks (risk identification, risk assessment, and risk response).

All material risks are recorded in risk registers. They also document assessments of the probability of a risk occurring and the extent of potential damage that would be caused by each risk, as well as record the risk response measures planned or in place, in a clear and compact format. The risk registers are updated quarterly, thereby providing decision-makers with an overview of the entire risk situation.

The employees responsible for risk management conduct risk workshops together with both the Global Functional Heads and the management teams of the operational units to identify and assess risks as well as to define measures to mitigate risks.

The particular requirements of the project business are accounted for via risk management measures integrated into the operational processes. As part of this, commercial or contract stipulations are reviewed by the experts in our specialist departments before signing the respective contracts in order to avoid taking on unexpected or unmanageable risk. Project-related risk management continues in the project execution phase, where project management considers risks relating to exceeding budgeted cost or time, technical difficulties, and financial aspects. If project risks are assessed as exceeding the materiality threshold of the operating unit, these risks are to be additionally entered into the local risk register.

Reporting plays a particularly important role in ensuring effective risk management. It ensures that all significant risks are depicted according to a uniform set of criteria and that managers are aware of these during the decision-making process. In addition to the quarterly updated risk registers, risks that arise suddenly are communicated ad hoc to the competent authority in the Group directly and independently of the usual reporting channels. A Risk Committee has also been set up at KHD as a cross-divisional team that also includes the Management Board. As part of the risk management system, the Risk Committee monitors a range of risk-related factors, including completeness, assessment of the potential impact and of the probability of occurrence, the risk response status, and any changes to significant risks.

The Group Risk Manager maintains regular contact with the Management Board, keeping it informed of the risk situation and the effectiveness of the risk management system. The Group Risk Manager provides a detailed report on the risk situation every six months to the Supervisory Board, using the risk registers as a basis. The Group Risk Manager concludes on the effectiveness of the risk management system based on a qualified self-assessment statement presented to the Supervisory Board and Management Board of KHD. The independent auditors also assess the effectiveness of the risk early warning and internal monitoring system in accordance with Section 317 Paragraph 4 of the German Commercial Code (HGB) and report on the result of their audit to the Management Board and Supervisory Board.

Risk Assessment

The potential impact is classified for each operating business unit on the basis of the local materiality calculated. In order to highlight the risk potential and to raise risk awareness, an assessment of the probability of a risk occurring and its potential impact must be given in the risk register, both with (net risks) and without (gross risks) considering the measures and controls for risk mitigation. Moreover, business viability risks must be identified and correspondingly recorded in the risk register for both the Group and the operating business units.

The scale for measurement of the probability of occurrence is presented in the following table:

Class	Probability of Occurrence	Description
1	1 – 10%	Very low / very unlikely
2	11 – 25%	Low / unlikely
3	26 – 50%	Moderate
4	51 – 75%	High / likely
5	76 – 99%	Very high / very likely

The scaling of the probability of occurrence is consistent with the accounting methods applied, i.e. the probability of occurrence of Class 4 corresponds to the accounting terminology “more likely than not.”

The scale for measurement of potential amount of damage is presented in the following table:

Class	Impact	Description
1	Low	Insignificant negative impact
2	Moderate	Limited negative impact below the materiality threshold
3	Material	Significant negative impact that exceeds the materiality threshold
4	Very material	Negative impact that exceeds the level of the materiality threshold by two times
5	Catastrophic	Negative impact potentially threatening to business viability

The summarized risk assessment arises on the basis of the following risk assessment:

Probability of Occurrence Impact	1	2	3	4	5
1	low	low	low	low	low
2	low	low	low	medium	medium
3	low	low	medium	medium	high
4	low	medium	medium	high	high
5	medium	medium	high	high	high

Risk Management for Financial Instruments

In its position as a globally operating Group, KHD is exposed to various financial risks (currency, interest rate, default, credit, and liquidity risks) which may have a significant impact on the Group's net assets, financial position, and result of operations. The aim of financial risk management in the KHD Group is to cover or reduce financial risks by making appropriate use of hedging instruments, including derivative financial instruments.

In the case of exchange-rate risks, a differentiation should be made on the one hand between currency risks related to the execution of projects in different currency areas and from the extension of loans in a currency different from the functional currency, and risks arising from the translation of individual Group companies' financial statements denominated in a foreign currency at various reporting dates on the other. As part of the execution of projects and extension of loans, exchange-rate risks are generally determined on the basis of planned cash flows and minimized by using derivative financial instruments. The derivative financial instruments utilized exclusively comprise foreign exchange forward contracts. Since the derivative financial instruments used by the KHD Group do not meet the strict requirements of hedge accounting, the economic hedge relationship is not reflected by using hedge accounting in the consolidated financial statements.

Interest rate risks arise through market-related fluctuations in interest rates. Though the KHD Group did not report any significant interest-bearing liabilities as of the balance sheet date, it does report a high level of cash and cash equivalents and large loans to the AVIC group. Consequently, interest rate risk is largely limited to fluctuations in interest rates for short-term and overnight deposits. The interest rate for the loans to the AVIC group has been firmly agreed for the applicable term.

The risk of credit concentration with regard to receivables is generally diminished as receivables are spread out worldwide, reflecting the Group's customer structure. Credit risk is also mitigated through the payment terms the Group agrees with its customers, notably progress billings and advance payments, to avoid excessively high levels of outstanding receivables. Internal guidelines ensure that products are generally only sold to customers with appropriate credit ratings. The risk of counterparty default is managed through regular analyses of the trade receivables and the structure of receivables. At the KHD Group, receivables from export contracts are to a large extent secured against default risks by confirmed and unconfirmed letters of credit, as well as through letters of comfort, guarantees, and cover notes, which also include export credit agencies (e.g. Hermes).

The KHD Group has been pursuing a conservative, forward-looking policy of liquidity hedging for many years and has a high level of cash and cash equivalents. By means of financial and liquidity planning, cash and cash equivalents are available in such a way that the KHD Group is at all times able to fully meet its payment obligations. In order to ensure future growth, bank guarantee credit facilities were arranged with banks, which allow individual KHD Group companies to provide bank guarantees for its customers worldwide.

Accounting-related Internal Control System

Along with the risk management system, the KHD Group's internal control system (ICS) in particular also comprises extensive control activities to secure proper and reliable accounting and financial reporting, as well as the internal audit function as a process-independent control function. The ICS is oriented towards ensuring compliance with relevant laws and standards, as well as the commercial efficiency of operating processes. Both KHD Group's internal control system and risk management are based on the COSO-ERM concept.

The Management Board is responsible for the establishment, monitoring, and further development of the ICS, as well as for ensuring its effectiveness. All consolidated subsidiaries are included in KHD's ICS.

The control activities to ensure proper and reliable accounting primarily comprise both automated control processes, such as system access controls based on a user authorization concept, or programmed plausibility checks for financial figures, and manual control processes such as deviation and trend analyses on the basis of defined key performance indicators and comparisons with budget figures.

The entire accounting-related ICS is documented both at KHD and in all significant subsidiaries by means of process descriptions (narratives). In this context, key controls are identified for each process and summarized in a risk control matrix (RCM). The responsible process owners monitor the operating effectiveness of key control activities on an ongoing basis, and ensure that appropriate documentation is prepared.

KHD and its subsidiaries are responsible for recording accounting transactions. The ICS measures focusing on proper and reliable Group accounting practices ensure that business transactions are recorded completely and on a timely basis in compliance with legal and other regulatory requirements. Furthermore, care is taken to ensure that assets and liabilities are recognized, measured, and presented appropriately. Other core principles of the ICS in the KHD Group are the dual control principle and the segregation of duties; in this way, the possibility of fraudulent behavior is also reduced.

The locally prepared monthly financial reporting is combined with supplementary information in order to produce a Group reporting package, which is then submitted to the central consolidation department using a Group-wide standardized reporting system. The process for preparing the Group financial statements is performed and monitored centrally. Uniform Group guidelines for accounting, measurement, and reporting ensure compliance with legal regulations.

The effectiveness of the ICS is systematically reviewed on a regular basis by the internal audit function. The review results are regularly reported by the internal audit directly to the Management Board. This allows identified deficiencies to be eliminated immediately and improvement potentials to be implemented as part of the continual improvement of the ICS.

Summary of KHD Group's Risk Position

To the extent required, balance sheet provisions have been established in the 2014 financial year for the risks described in this report. In summary, it may be concluded that the risks identified do not pose a threat to the KHD Group as a going concern, either individually or in combination. From an organizational standpoint, the foundations have been laid to ensure that changes in the risk position are recognized in good time.

Risk Areas

The following section describes the key risk areas, the strategy for risk mitigation and the summarized risk assessment ("high," "medium," and "low") taking into account the measures and controls for risk mitigation (net risks). The risk areas bundle a large number of individual risks. The risk mitigation strategy presented below comprises a large number of specific individual measures and activities. The risk areas principally cover the segments Capex as well as the Parts & Services segment, although the procurement, innovation, and project risks are of much higher significance for the Capex business unit.

Risks from Underlying Economic Conditions

In its position as a globally active group, KHD is affected by changes in the economic cycle. As a supplier of technical equipment for cement plants, the Group is particularly dependent on cyclical trends in the demand for cement. Moreover, there is also a risk of losing market share and of falling margins as a result of tough competition.

The KHD Group operates as a plant engineering company in many countries and regions, meaning that risk is lessened to a certain extent due to geographic diversification. Risks are additionally mitigated by concentrating on expanding our service business (including spare parts) as well as systematically developing our position in growth markets and in markets where we have had a low presence up until now. We counter the risk posed by the competition by analyzing our market environment and the situation of our competitors on an ongoing basis. Maintaining constant customer contact together with enhancing our account management and the resulting proximity to the market provides us with important information about the needs of our customers. The information gathered here enables us to develop and offer suitable products as well as to strengthen our competitive position. The remaining risk is classified as “medium.”

Country Risks

As a globally operating group, the KHD Group is exposed to country risks. These include legal risks, capital transaction prohibitions, other regulatory restrictions, defaults on trade receivables, war, and other social unrest. Country risks affect the KHD Group mainly due to increased political risks. An escalation of the situation between Russia and the West in particular could trigger an ever increasing spiral of sanctions and counter sanctions.

From as early as the tendering phase, individual projects are assessed, taking such country risks into consideration. Risks of defaults on export business are assessed and if necessary limited by covenants provided by cover notes provided from export credit agencies (e.g. Hermes guarantees). Remaining country risks are principally classified as “low.” With regard to Russia, the KHD Group remains in close contact with its customers and supports them in project financing. In view of the KHD Group’s minimal ability to influence future developments and given the significance of the Russian market for the KHD Group’s order intake, the remaining risk for Russia is classified as “high” since the 2014 financial year.

Procurement Risks

The reliable availability of products and services in an appropriate quality, quantity, and at competitive prices is a decisive factor for success. Disruptions in the procurement process therefore represent a significant risk to the KHD Group.

In order to minimize this risk, purchasing follows a global strategy based on the systematic analysis of the quality, delivery performance, and pricing structure of existing and potential new suppliers. The purchasing organizations of the operating business units are integrated into global supply chain management in order to utilize available knowledge about local markets when developing the purchasing strategy. This is supported by strategic procurement elements that are applied across the Group. The remaining risk is classified as “medium.”

Innovation Risks

Excellence in innovation is a crucial factor of success for a technology-focused group such as the KHD Group. Besides customer requirements, it is important in this context to also take into account growing environmental protection requirements in the development of our products. Furthermore, our research and development activities focus particularly on standardizing the components that can be used for customer-specific solutions and on improving and reducing the costs of existing products.

Research and development activities are as closely linked to the market as possible by maintaining constant communication with the sales department and by setting up cross-departmental teams. A development process with defined milestones and a given budget for individual research and development projects identifies potential deviations from targets as early as possible and triggers corresponding corrective measures. The remaining risk is classified as “medium.”

Equity Holding Risks

In its function as parent company of the KHD Group, KHD holds stakes in Group companies. The carrying amounts of the participations are subject to the risk of impairment if the economic conditions, and ultimately the profitability, of these Group companies change for the worse. This can lead to negative effects on KHD’s net assets and result of operations.

KHD continuously monitors the Group companies’ economic development through active controlling of holdings. If there is unsatisfactory development or if there are significant deviations from budget and medium-term planning targets, local management introduces countermeasures in close cooperation with Group management. The participation carrying amounts of the Group companies are also tested annually for impairment. The remaining risk is classified as “medium.”

Project Risks

Complex, large-scale cement plant construction projects present particular challenges for our risk management. Our projects regularly entail contractual periods significantly longer than twelve months. The contract value of individual orders can be significant for the subsidiaries concerned, but may also be significant from the perspective of the KHD Group. Such large-scale projects typically comprise all activities relating to the planning, engineering, and delivery of the important components of cement plant equipment. Potential project risks arise here with regard to the uncertainties entailed in project cost estimates, unexpected technical problems, supply bottlenecks or quality problems at suppliers of important components, delays in project execution, delays of budgeted cash flows, and unforeseeable developments during the erection and commissioning phase on site. There are also warranty risks after the commissioning of the plant.

From as early as the tendering phase, we employ proven methods to manage such project risks, in order to thereby prevent entering into uncalculated or unmanageable risks. During the project execution phase, the methods that our project management and project controlling functions deploy allow them to not only estimate the impact of potential deviations from cost, but also to counteract them at an early stage. Balance sheet provisions are set up to cover any defects that might arise during the warranty phase. The tools employed in project management and project controlling undergo continuous improvement and are adjusted to the increasing requirements. The growing complexity of contractual obligations combined with an expansion of service requirements and growing customer demands led to rise in the risk score in the 2014 financial year. The remaining risk after risk mitigation is classified as “high.”

Personnel Risks

KHD is distinguished by a corporate culture based on trust. At the forefront of this culture is the responsible and entrepreneurial way of thinking and acting demonstrated by our employees. The success of the KHD Group is directly dependent on the dedication, motivation, and capabilities of its employees, as well as on efficient and effective leadership. In particular, risks exist if management positions cannot be filled promptly and with qualified candidates.

We mitigate personnel risks through identification and promotion, especially of high-performing individuals. KHD aims to ensure that its managers and employees remain committed and loyal to the Group over the long term. We derive individual personal development measures on the basis of a systematic competency assessment. In addition to this, a long-term succession plan is also being developed. The growing complexity of contractual obligations combined with an expansion of service requirements and growing customer demands result in ever-increasing demands on our employees. Therefore, the risk score for personnel risks was increased in the 2014 financial year. The remaining risk after risk mitigation is classified as “high.”

Legal Risks

As an internationally active company, the KHD Group is exposed to a large number of legal risks. These may include risks concerning warranties, breach of contractual terms, competition and patent law, and tax law. The outcome of currently pending or future legal proceedings in most cases cannot be predicted with a reasonable degree of security.

Existing and pending litigation is identified and analyzed continuously, and the potential juridical and financial consequences are qualitatively and/or quantitatively assessed. Based on this assessment, management implements appropriate measures in good time and establishes balance sheet provisions for such risks if necessary. The remaining risk is classified as “medium.”

Tax Risks

The companies in the KHD Group are required to take a large number of international and country-specific laws and tax regulations into consideration. Fiscal risks may arise if tax authorities are of the opinion that tax laws and other regulations have not been complied with, or have not been fully complied with. In particular, tax audits may result in charges due to retrospective tax payments, interest payments, and penalties.

The KHD Group mitigates tax risks by permanently monitoring the current and evolving tax legislation as well as by consulting with external tax advisors. Balance sheet provisions are formed for such tax risks to the extent that these can be measured reliably. The remaining risk is classified as “medium.”

IT Risks

All key business processes (accounting and controlling, project management, purchasing, engineering, sales, etc.) within the KHD Group depend on the functionality and availability of the IT systems used. Thus, disruptions of system operations entail disruptions to the workflow as well as to business and operational processes.

In order to safeguard uninterrupted and trouble-free operations, particular attention is paid to the availability of IT resources and IT systems. Furthermore, we are continually mindful of ensuring the integrity and confidentiality of significant information (data protection). In addition, we continuously monitor the effectiveness and efficiency of the software solutions deployed within the KHD Group with respect to our business processes. Measures to update and replace software solutions and hardware are determined as part of our IT strategy. The remaining risk is classified as “low.”

Default Risks on Loans Extended

In the 2014 financial year, the KHD Group concluded two loan agreements totaling € 100 million, each with a term of three years, with AVIC International (HK) Group Ltd. as borrower. The first loan of € 50 million can be called shortly within 30 days.

Possible default risks are effectively minimized by continuous monitoring of the credit worthiness of the borrower and by a Group guarantee issued to the KHD Group by AVIC. The remaining risk after effective risk mitigation is classified as “low.”

Opportunities

Generally speaking, the risks indicated here represent opportunities for the future growth of the KHD Group if the appropriate measures are implemented successfully. These opportunities arise from an improvement in the market and competitive position owing to the development of more cost-effective products, the optimization of procurement activities or our project execution for instance. By the same token, the expansion of our service business (including the spare parts business) as well as systematically developing our position in growth markets and in markets where we have had a low presence up to now represent key opportunities. In the section below, we will examine the significant opportunities and potential for future development.

With the typical time delay, an expected recovery of the global economy is now also increasingly exerting an impact on the markets for long-term capital goods. There is a growing demand for cement especially in emerging economies due to advancing urbanization and efforts to promote infrastructure development. Production capacities are being augmented and cement plants modernized and/or expanded. Thanks to its strong market position in emerging economies, the KHD Group sees opportunities for additional growth particularly in Russia, India, and Sub-Saharan Africa. We also expect positive effects for our future growth from the expansion of our CSC in Beijing responsible for the Asia Pacific region as well as from the expansion of our market activities in Brazil and other South American countries.

Furthermore, we regard rising regulatory requirements to reduce cement plants' environmental impact, such as the Environmental Protection Agency (EPA) regulations in the USA or the focus on environmental aspects in China's current five-year plan, as opportunities. The KHD Group offers its customers environmentally friendly solutions by accounting for the environmental impact of the cement production process as early as in the tendering phase. We also constantly develop our products further with regard to environmental aspects; in this context, we concentrate on achieving lower emission levels as well as the efficient use of resources, materials, and energy.

The KHD Group entered into a strategic partnership with AVIC as early as December 2010. Following the successful conclusion of the takeover by AVIC there is now also a stable shareholder structure with a very significant majority. Together with the KHD Group's activities in global supply chain management, we aim to utilize our partnership with AVIC to gain easier and more extensive access to the Chinese supply market. AVIC makes it significantly easier to gain access to more cost-effective, high-quality production capacities in China. Another opportunity presented by the KHD Group's strategic partnership is the future possibility of offering our customers turnkey cement plants, which should open up new business opportunities.

The closer ties to AVIC mean better opportunities for acquisitions of, or cooperation with, manufacturing facilities in China. Over and above the cost advantages of manufacturing of existing products further opportunities result from adapting KHD Group products to local manufacturing materials and standards.

The KHD Group constantly endeavors to strengthen its technological leadership, develop additional market potential, and expand its portfolio of products and services through targeted acquisitions and cooperations. We monitor our current and future markets in order to identify opportunities for strategic acquisitions or cooperations which may be able to complement our organic growth.

The KHD Group continually invests in the development of new and the improvement of existing technologies, products, and services which, in our view, meet the current and future needs of our customers to the fullest extent possible. By taking into account the factors of efficiency, reliability and availability of equipment, environment and climate protection, standardization, and user-friendliness, the KHD Group generates significant opportunities as early as in the development phase.

1.9 Disclosures pursuant to Section 289 Paragraph 4 of the German Commercial Code (HGB)

Composition of subscribed capital

The Company's subscribed capital (share capital) amounted to € 49,703,573 as of December 31, 2014, and is divided into 49,703,573 no-par-value ordinary shares. All shares are ordinary bearer shares and grant the same rights. The rights and obligations arising from the shares are derived from statutory regulations.

Restrictions affecting voting rights or the transfer of shares

There are no restrictions affecting voting rights or the transfer of shares.

Direct or indirect interests in the share capital exceeding 10% of voting rights

Direct and indirect interests in the share capital exceeding 10% of voting rights are held by (allocation of voting rights pursuant to the regulations of Section 22 of the German Securities Trading Act (WpHG)):

- AVIC International Engineering Holdings Pte. Ltd., Singapore, Singapore;
- Goldimax Group Limited, Road Town, British Virgin Islands;
- Golden Prosperity Group Limited, Road Town, British Virgin Islands;
- Max Glory Industries Limited, Hong Kong, Hong Kong;
- Kaihang Industrial Limited, Road Town, British Virgin Islands;
- AVIC International Kairong Limited, Hong Kong, Hong Kong;
- AVIC International Beijing Co. Limited, Beijing, People's Republic of China;
- AVIC International Holdings Limited, Shenzhen, People's Republic of China;
- AVIC International Shenzhen Company Limited, Shenzhen, People's Republic of China;
- AVIC International Holding Corporation, Beijing, People's Republic of China;
- Aviation Industry Corporation of China, Beijing, People's Republic of China;
- People's Republic of China, Beijing, People's Republic of China.

AVIC International Engineering Holdings Pte. holds a 69.02% direct interest in share capital and Max Glory Industries Limited 20.00%.

The Management Board was not informed of any other shareholders whose voting rights directly or indirectly exceeded 10% of the total voting rights as of the reporting date December 31, 2014, or at the time of the preparation of the financial statements.

Shares with special rights granting control authorizations

There are no shares with special rights that grant control authorizations.

Method of voting right control if employees hold shares and do not directly exercise their controlling rights

There are no shares owned by employees as defined by Section 289 Paragraph 4 No. 5 of the German Commercial Code (HGB).

Regulations governing the appointment and recall from office of Management Board members, as well as regulations governing changes to the articles of association

The Management Board consists of one or more persons whom the Supervisory Board appoints for a maximum of five years pursuant to Section 84 AktG. Reappointment or an extension of the term of office is permitted. The Supervisory Board may appoint one of the Management Board members to be the Chief Executive Officer. A court may appoint a Management Board member in exceptional cases pursuant to Section 85 AktG. The Supervisory Board may revoke a Management Board appointment or the appointment as Chief Executive Officer pursuant to Section 84 Paragraph 3 AktG for good cause.

The articles of association may be changed only by a resolution passed by the Annual General Meeting pursuant to Section 119 Paragraph 1 No. 5 and Section 179 AktG. Unless determined otherwise by mandatory statutory provisions, resolutions by the Annual General Meeting are passed with a simple majority of votes submitted and, if required, by a simple majority of the issued share capital represented, pursuant to Section 133 AktG and Section 18 Paragraph 2 of the articles of association. The Supervisory Board may pass resolutions to amend the articles of association which relate solely to their wording pursuant to Section 20 of the articles of association. Amendments to the articles of association take effect once they have been entered into the Commercial Register in accordance with Section 181 Paragraph 3 AktG.

Management Board authorizations, notably with regards to the possibility of issuing or repurchasing shares

The Management Board is authorized, with the approval of the Supervisory Board, to increase the Company's share capital in the period between March 23, 2010, and March 22, 2015, on one or more occasions by up to a total of € 10,255 against cash and/or non-cash contributions through the issue of up to 10,255 new ordinary bearer shares.

The Company is authorized to acquire treasury shares in the overall amount of up to 10% of its share capital at the time of the resolution to do so. Together with other shares which the Company has already acquired and still holds, the shares purchased by virtue of this authorization may not at any time exceed 10% of the Company's share capital. This authorization became effective at the end of the Annual General Meeting on October 5, 2012, and remains valid until October 4, 2017.

Significant agreements subject to a change of control following a takeover offer

Agreements with regard to a change of control have been made in the bilateral bank guarantee credit facilities with Deutsche Bank AG and Austrian Raiffeisen Bank International AG. In the event of a change of control under the agreement, the Company will immediately inform the banks of the change in control and enter into negotiations with the banks concerning the continuation of the bank guarantee credit facilities.

Compensation agreements that the Company has entered into with Management Board members or employees in the event of a takeover offer

The Company has not entered into any compensation agreements with Management Board members or employees in the event of a takeover offer.

1.10 Corporate Governance

The Company is managed and controlled in accordance with the standards set out in the German Corporate Governance Code ("GCGC"). Main aspects of corporate governance at KHD are listed in the corporate governance declaration, including the declaration of compliance pursuant to Section 161 of the German Stock Corporation Act (AktG).

The corporate governance report (reference is made to item 3.10 of the GCGC) provides further details concerning corporate governance. The declaration of compliance and the corporate governance report (including the declaration on corporate governance in accordance with Section 289a of the German Commercial Code (HGB)) are available on KHD's website (www.khd.com).

1.11 Relations with Affiliated Companies

The KHD Management Board has prepared a report on relations with affiliated companies – a dependent company report – in accordance with Section 312 of the German Stock Corporation Act (AktG) for the 2014 financial year.

The KHD Management Board concluded the Company's dependent company report with the following closing statement:

"With respect to the legal transactions listed and in view of the facts known to us at the time at which the legal transactions were made, our Company received appropriate consideration for each legal transaction. There are no other transactions or activities on behalf of or in the interests of a controlling or an affiliated company.

1.12 Outlook

Outlook

According to current planning, the Company anticipates that the net annual profit for the 2015 financial year will be above the previous year's level, excluding the effect of income from investments. This forecast is based on the assumption that the € 100 million loan to AVIC HK generates ongoing interest income over the whole year. At the same time, the forecast also assumes that the operating subsidiaries receive services from the Bond Arrangement Agreement via KHD in the planned scope.

The Company's financing for the financial year 2015 is secured due to the continued solid level of liquidity, and particularly to the dividend payment potential of the KHD Group companies. The conditions of the loan to AVIC HK also provide liquidity security; the loan granted to AVIC HK in July 2014 can be called at any time with a period of 30 days. For these reasons, the Management Board expects liquidity to be sufficient for the 2015 financial year.

Opportunities and Risks Relating to the Forecast for the 2015 Financial Year

A risk relating to the forecast is AVIC HK's ability to pay the contractual interest and amortization payments for the loans extended. A default on the loan would have a significant effect both on the Company's results and its liquidity position. The Management Board therefore continuously monitors the creditworthiness of the borrower and the guarantor.

The change in the interest rate level for short-term investments also represents opportunities and risks for the Company's forecast in 2015. The Company has available a high level of cash and cash equivalents, which essentially can be invested on the money market at short notice. A change in the interest rate level for short-term money market investments would therefore have a corresponding effect on net annual profit before consideration of KHD's investment income.

The Company's future liquidity is also dependent on the operating result of KHD's subsidiaries and therefore also on their ability to generate distributable net profit. KHD's future liquidity can therefore rise or fall depending on the economic success of its subsidiaries.

Cologne, Germany, March 17, 2015

The Management Board

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

2 Balance Sheet as of December 31, 2014

Assets	Dec. 31, 2014 in € thousand	Dec. 31, 2013 in € thousand
A. Fixed assets		
I. Property, plant, and equipment		
Other plant, operating and office equipment	17	21
	17	21
II. Long-term financial investments		
1. Shares in affiliated companies	26,410	26,410
2. Long-term loans to affiliated companies	100,000	0
	126,410	26,410
	126,427	26,431
B. Current assets		
I. Receivables and other assets		
1. Receivables due from affiliated companies	21,670	8,234
2. Other assets	2,484	3,556
	24,154	11,790
II. Bank balances	28,476	98,874
	52,630	110,664
C. Prepayments and deferred expenses	280	504
	179,337	137,599

Equity and liabilities		Dec. 31, 2014 in € thousand	Dec. 31, 2013 in € thousand
A.	**Equity**		
I.	**Subscribed capital**	49,704	49,704
	./. Treasury shares	0	-229
	Issued capital	49,704	49,475
II.	**Capital reserves**	61,493	60,236
III.	**Revenue reserves**		
1.	Legal reserve	1,538	1,538
2.	Other revenue reserves	1,768	1,776
		3,306	3,314
IV.	**Net retained profit**	6,241	4,635
		120,744	117,660
B.	**Provisions and accruals**		
1.	Tax provisions	785	0
2.	Other provisions and accruals	1,791	1,290
		2,576	1,290
C.	**Liabilities**		
1.	Trade payables	45	408
2.	Liabilities due to affiliated companies	55,784	18,207
3.	Other liabilities	30	34
	of which tax liabilities € 30 thousand (previous year: € 34 thousand)		
		55,859	18,649
D.	**Deferred tax liabilities**	158	0
		179,337	137,599

3 Income Statement 2014

		2014 in € thousand	2013 in € thousand
1.	Other operating income of which from exchange rate gains € 1,400 thousand (previous year: € 7 thousand)	7,114	6,135
2.	Personnel expenses		
a)	Wages and salaries	1,790	1,419
b)	Social security expenses	33	32
		1,823	1,451
3.	Depreciation on other plant, operating, and office equipment	11	7
4.	Other operating expenses of which from exchange losses € 580 thousand (previous year: € 64 thousand)	3,452	3,195
5.	Income from investments of which from affiliated companies € 0 thousand (previous year: € 4,000 thousand)	0	4,000
6.	Income from long-term loans in financial assets of which from affiliated companies € 1,750 thousand (previous year: € 0 thousand)	1,750	0
7.	Other interest and similar income of which from affiliated companies € 1,050 thousand (previous year: € 691 thousand)	1,168	947
8.	Interest and similar expenses of which to affiliated companies € 436 thousand (previous year: € 34 thousand)	2,372	2,103
9.	Result from ordinary activities	2,374	4,326
10.	Income taxes of which from deferred tax liabilities €158 thousand (previous year: € 0 thousand)	768	0
11.	Net profit for the year	1,606	4,326
12.	Profit carried forward from previous year	4,635	309
13.	Net retained profit	6,241	4,635

4 Notes to the Financial Statements 2014

4.1 General Remarks

Accounting

The annual financial statements of KHD Humboldt Wedag International AG (KHD), Cologne, Germany, for the 2014 financial year have been prepared in accordance with the German Commercial Code (HGB) as applicable for large corporations and those of the German Stock Corporation Act (AktG). These financial statements have been prepared in euros. All amounts, including figures used for comparison, are generally stated in thousands of euros (€ thousand), unless otherwise indicated. All amounts have been rounded according to normal commercial practice. The nature of expense method has been applied to the income statement. KHD is a large corporation in the meaning of Sections 267 Paragraph 3 and 264d of the German Commercial Code (HGB).

4.2 Accounting and Valuation Principles

Fixed Assets

Property, plant, and equipment are reported at cost and, if depreciable, are depreciated over time. Movable items of property, plant, and equipment are depreciated according to the straight-line method based on the average useful life (between three and ten years) of the respective items. Movable assets with a net cost of acquisition of not more than € 150 are written off completely in the year of acquisition and are notionally removed from the fixed assets register in the year of acquisition. Movable assets with a net cost of acquisition of between € 150 and € 1,000 are entered as a collective item in the manner described in Section 6 Paragraph 2a of the German Income Tax Act (EStG) and depreciated straight-line over a period of five years.

Shares in affiliated companies and loans to affiliated companies are recognized at cost.

Current Assets

Receivables, other assets, and cash and cash equivalents are reported at the lower of nominal value or fair value.

Equity

Subscribed capital corresponds to the articles of association and the entry in the commercial register.

Other Provisions and Accruals

All identifiable risks and measurable uncertainties as of the balance sheet date were covered by setting up commercially appropriate provisions and accruals.

Liabilities

Liabilities are carried at the amount at which they will be repaid.

Currency Translation

Liabilities denominated in foreign currencies whose residual terms are one year or less are generally measured at the spot exchange rate prevailing as of the balance sheet date. All other foreign currency liabilities are generally measured using the higher of the exchange rate prevailing on the transaction date or the spot exchange rate as of the balance sheet date.

Receivables denominated in foreign currencies whose residual terms are one year or less are generally measured at the spot exchange rate prevailing as of the balance sheet date. All other foreign currency receivables are generally measured using the lower of the exchange rate prevailing on the transaction date or the spot exchange rate as of the balance sheet date.

Derivative Financial Instruments

In accordance with Section 254 of the German Commercial Code (HGB), derivative financial instruments are combined with underlying transactions as a single valuation unit, to the extent that there is a direct hedge relationship between the financial instrument and the underlying transaction. The changes in fair value of the hedging instrument and the underlying transaction are offset (net hedge presentation method). The ineffective amount resulting after offsetting is expensed and charged as an accrual in line with the imparity principle. Where the prerequisites for the creation of valuation units between the derivative and the respective underlying transaction are not met, the derivative financial instrument is recognized and measured according to general valuation principles. As pending transactions, derivative financial instruments are in general not recognized in the balance sheet. They are recognized only if the measurement of the financial instrument as of the reporting date results in a contingent loss.

4.3 Notes to the Balance Sheet and Income Statement

1. Fixed Assets

Please refer to the statement of movements in fixed assets between January 1 and December 31, 2014, which is attached as an appendix to the notes to the financial statements.

2. Receivables and Other Assets

Receivables due from affiliated companies mainly comprise a loan receivable in the amount of € 20,989 thousand (previous year: € 7,491 thousand) due from an affiliated company. The receivables due from companies of the KHD Group also relate to services invoiced as of December 31, 2014, based on the Service & Cost Allocation Agreement as well as the bond arrangement agreement amounting in total to € 283 thousand (previous year: € 542 thousand).

Other assets include a VAT credit in the amount of € 2,333 thousand (previous year: € 2,350 thousand). Within the tax unity for VAT, € 2,271 thousand (previous year: € 2,235 thousand) are amounts payable to Humboldt Wedag GmbH (HW), Cologne, and ZAB Zementanlagenbau GmbH Dessau (ZAB), Dessau. Consequently, an identical amount is reported under liabilities due to affiliated companies.

As in the previous year, all amounts have a residual term of up to one year.

3. Bank Balances

The reduction in credit balances at banks by € 70,398 thousand to € 28,476 thousand (previous year: € 98,874 thousand) is principally the result of disbursements of loans of € 112,520 thousand and the repayment of cash in an amount of € 16,072 thousand to Group companies. This amount had been provided in the previous year as collateral for the utilization of the bank guarantee credit facility. These disbursements are partially balanced by payments from Group companies resulting from loans extended in a total amount of € 50,000 thousand. As of December 31, 2014, bank balances do not comprise restricted cash as collateral for any existing bank guarantee credit facility (previous year: € 27,650 thousand).

4. Equity

As in the previous year, the Company's share capital amounts to € 49,703,573 and is divided into 49,703,573 no-par-value bearer shares.

In the 2011 financial year, the articles of association were changed following the capital increase carried out in line with the resolution of the Annual General Meeting of March 23, 2010. The amendment to the articles of association was entered in the commercial registry of the Company on February 16, 2011.

Pursuant to Section 5 Paragraph 1 of the articles of association, the Management Board is authorized to increase the Company's share capital, with the approval of the Supervisory Board, on one or more occasions by up to a total of € 10,255 against cash through the issue of up to 10,255 new no-par-value bearer shares, each representing € 1.00 of the share capital ("authorized capital") until March 22, 2015. The shareholders generally have statutory subscription rights. Furthermore, the Management Board is authorized to determine the details of capital increases and their execution with the approval of the Supervisory Board.

The Company is authorized to acquire treasury shares in the overall amount of up to 10% of its share capital at the time of the resolution to do so. Together with other shares which the Company has already acquired and still holds, the shares purchased by virtue of this authorization may not at any time exceed 10% of the Company's share capital. This authorization became effective at the end of the Annual General Meeting on October 5, 2012, and remains valid until October 4, 2017.

In the previous year, the Company held 229,136 treasury shares, which were all sold, after the Management Board accepted the takeover offer of a group of bidders on December 10, 2013. The group of bidders consisted of AVIC International Engineering Holdings Pte. Ltd., Europe Project Management Pte. Ltd., Europe Technology Investment Pte. Ltd. and Europe Engineering Holdings Pte. Ltd. The economic transfer of ownership of the treasury shares to the bidders took place on January 7, 2014. The payment inflows were used to strengthen working capital.

Changes in Equity in 2014

in € thousand	Subscribed capital	Treasury shares	Capital reserves	Legal reserve	Other revenue reserves	Net retained profit	Total
Dec. 31, 2013	49,704	-229	60,236	1,538	1,776	4,635	117,660
Sale of treasury shares	0	229	1,257	0	-8	0	1,478
Net profit for the year 2014	0	0	0	0	0	1,606	1,606
Dec. 31, 2014	49,704	0	61,493	1,538	1,768	6,241	120,744

Following the resolution of the Annual General Meeting of May 27, 2014, the net retained profit reported as of December 31, 2013, was carried forward to new account. Net retained profit as of December 31, 2014, includes profit carried forward from the previous year of € 4,635 thousand (previous year: € 309 thousand).

5. Provisions and Accruals

	Dec. 31, 2014 in € thousand	Previous year in € thousand	Change in € thousand
Provisions and Accruals			
Tax provisions	785	0	785
Other provisions and accruals	1,791	1,290	501
	2,576	1,290	1,286

Other provisions and accruals include provisions for personnel-related costs (€ 738 thousand), costs for the preparation and audit of annual financial statements (€ 100 thousand), outstanding invoices (€ 433 thousand), and for contingent losses (€ 492 thousand).

6. Liabilities

	Dec. 31, 2014 in € thousand	Dec. 31, 2013 in € thousand	Change in € thousand
Trade payables for supplies and services	45	408	-363
Liabilities due to affiliated companies	55,784	18,207	37,577
Other liabilities	30	34	-4
(of which tax liabilities)	(30)	(34)	(-4)
	55,859	18,649	37,210

As in the previous year, all liabilities recognized as of December 31, 2014, have a residual term of up to one year.

The increase in liabilities due to affiliated companies is mainly the result of loans extended by ZAB and HW amounting to a total of € 50,000 thousand.

Comparable with the previous year, liabilities due to affiliated companies also relate to liabilities due to HW and ZAB arising from the tax unity for VAT.

7. Contingent Liabilities

KHD has provided € 178.7 million (previous year: € 159.7 million) to affiliated companies in the form of Group guarantees, letters of comfort, and securities. Thereof contingent liabilities arising from sureties as well as draft and check guarantees amounted to € 0.3 million (previous year: € 1.5 million), and contingent liabilities arising from warranty guarantees amounted to € 178.4 million (previous year: € 158.2 million).

Furthermore, as of December 31, 2014, € 54,084 thousand (previous year: € 93,537 thousand) relate to contingent liabilities to banks resulting from bank guarantees that the Company has provided to KHD Group companies under existing bank guarantee credit facilities. The contingent liabilities to banks comprise of sureties as well as draft and check guarantees amounting to € 857 thousand (previous year: € 953 thousand), and contingent liabilities arising from warranty guarantees amounting to € 53,227 (previous year: € 92,854 thousand).

Based on the corporate planning for the respective KHD Group companies, it is not expected that these guarantees will be drawn upon.

DEUTZ AG, Cologne, Germany, has provided a deed of release of € 232 thousand (previous year: € 252 thousand) to cover KHD's subsidiary liability due to Unterstützungsgesellschaft mbH of Maschinenfabrik Fahr AG. Arising from this matter, HypoVereinsbank AG, Munich, Germany, a company of the UniCredit Group, has provided a letter of comfort that secures the settlement by DEUTZ AG.

8. Other Financial Obligations

Other financial obligations amounting to € 1,099 thousand (previous year: € 1,109 thousand) relate to obligations arising from consulting contracts (€ 1,080 thousand) and leases (€ 19 thousand) with a remaining term of up to three years.

9. Derivative Financial Instruments and Valuation Units (Section 254 of the German Commercial Code (HGB))

Hedged risks	Hedging instrument	Dec. 31, 2014 Hedged volume USD thousand	Positive fair value € thousand	Negative fair value € thousand
Exchange rate risk of receivables	Foreign exchange forward contracts	27,000	1,204	-1,287

The derivative financial instruments only include foreign exchange forward contracts. They serve to hedge the currency risks arising from loans in the amount of USD 27,000 thousand (previous year: USD 10,000 thousand), which were granted to an affiliated company. As of December 31, 2014, these loans are reported in the amount of € 20,989 thousand (previous year: € 7,491 thousand) as receivables due from affiliated companies. The concluded foreign exchange forward contracts hedge the full nominal value of the underlying transactions (USD 27,000 thousand, previous year: USD 10,000 thousand). The foreign exchange forward contracts are combined with underlying transactions as single valuation units. As of December 31, 2014, negative changes in fair value of the underlying transactions amounting to € 1,287 thousand (previous year: € 228 thousand) are offset by positive changes in fair value of the foreign exchange forward contracts amounting to € 1,204 thousand (previous year: € 186 thousand). The fair values of the foreign exchange forward contracts as of December 31, 2014 are derived from bank confirmations.

An assessment of the effectiveness of single valuation units is carried out both at the beginning of the hedge relationships as well as on every following balance sheet date on which this hedge relationship continues to exist. The prospective effectiveness test was performed on the basis of the critical terms match method. As the nominal amount and term (maturity) of the underlying and hedge transactions correspond with each other, the changes in fair value are expected to offset each other in the future. The valuation for documentation of effectiveness is performed by means of the dollar-offset method. Recognition is based on the so-called "net hedge presentation method". The difference of € 83 thousand between the positive and negative fair values (previous year: € 42 thousand) has been recognized through profit and loss by setting up an accrual. The existing hedges have essentially a term of less than 12 months.

In addition, KHD has also concluded a derivative financial instrument as of the reporting date in USD with a value of € 2,882 thousand. This financial instrument is not part of a valuation unit as of the reporting date as the underlying loan receivable was already paid back in December of the financial year. As of the reporting date, the derivative is therefore measured according to the general valuation regulations. This resulted in an accrual for contingent losses corresponding to the negative fair value of € 409 thousand.

10. Other operating income

Other operating income mainly comprises income from charges to affiliated companies pursuant to the Service & Cost Allocation Agreement in the amount of € 2,599 thousand (previous year: € 2,811 thousand) and the Bond Arrangement Agreement of € 2,663 thousand (previous year: € 3,092 thousand) as well as off-period income from the release of provisions amounting to € 62 thousand (previous year: € 130 thousand).

11. Personnel Expenses

Personnel expenses relate primarily to the remuneration for members of the Company's Management Board.

12. Other Operating Expenses

Other operating expenses comprise the following:

	2014 in € thousand	2013 in € thousand	Change in € thousand
Exchange rate losses	580	64	516
Legal and consulting costs - of which costs related to the takeover by AVIC: € 0 thousand (previous year: € 457 thousand)	645	990	-345
Group charges	410	407	3
Supervisory Board compensation	217	317	-100
Audit fees / tax advisory costs	478	253	225
Investor relations	157	157	0
Other	965	1,007	-42
	3,452	3,195	257

In summer 2014, on behalf of AVIC International Holdings Limited, Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft generated an 'Accountant's Report' relating to

KHD's consolidated financial statements in accordance with the regulations of the Hong Kong stock exchange. KHD commissioned Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft for financial statement audit services amounting to € 259 thousand, which were fully reimbursed and paid by AVIC International Holdings Limited.

13. Income from Investments

Income from investments amount to € 0 thousand (previous year: € 4,000 thousand) and originated from the profit distribution of KHD Humboldt Wedag GmbH, Cologne, Germany.

14. Interest income

	2014 in € thousand	2013 in € thousand
Income from long-term loans in financial assets	1.750	0
Other interest and similar income	1.168	947
Interest and similar expenses	-2.372	-2.103
	546	**-1.156**

Income from long-term loans in financial assets in the amount of € 1,750 thousand is the interest income from the two loans granted to AVIC HK in July and November 2014 in an amount of € 50 million, each. Both loans have a term of three year, whereas the first loan disbursed in July 2014 can be called for repayment at any time by giving 30 days' notice.

Other interest and similar income include interest on term deposits in the amount of € 116 thousand (previous year: € 249 thousand) and interest on a loan granted to a KHD Group company in in the amount of € 1,050 (previous year: €691 thousand).

Interest and similar expenses mainly comprise bank guarantee fees in the amount of € 1,936 thousand (previous year: €2,069 thousand).

15. Litigation

<u>Arbitration claim of a customer in South America against Humboldt Wedag Inc. (HWUS), Norcross (Georgia), USA, and KHD</u>

On December 20, 2013, HWUS received an arbitration claim that a customer in South America has submitted to the International Chamber of Commerce (ICC). The arbitration claim aims to determine that the cancellation of the contract with HWUS by the customer is effective and that HWUS and KHD jointly pay USD 9.4 million as a reduction of the contractually agreed price and USD 5.2 million as compensation for maintenance costs and reputation loss suffered. The arbitration claim also aims either to win indemnity as if the contract had not been concluded (negative interest) or to win indemnity as if the contract had been fulfilled as agreed (positive interest).

Considering that the contract between HWUS (vendor) and the customer includes clauses excluding compensation for consequential damages and setting a value for the upper limit of total liability for the vendor – these clauses being effective in the view of HWUS's and KHD's legal representatives in the arbitration proceedings – HWUS and KHD assume that they will prevail on the issue of indemnity.

The negotiation before the court of arbitration continues. Evidence has been taken in a hearing with witnesses from both parties in Lisbon in January 2015. A decision from the court of arbitration is expected during the course of 2015.

16. Other Information

Employees
The Company employed two salaried staff members on average during the year (previous year: two). The Company does not have any blue-collar employees.

Deferred taxes
Pursuant to Section 274 Paragraph 1 of the German Commercial Code (HGB), the Company has to recognize deferred tax liabilities to the extent these exceed deferred tax assets. Deferred tax assets result from temporary differences between the carrying amounts (contingent loss) of unrealized foreign exchange forward contracts recognized in the balance sheet and the respective tax base. Deferred tax liabilities resulted from the measurement of a foreign currency loan with the spot exchange rate. Deferred tax liabilities are calculated applying a tax rate of 32.45%. Deferred tax liabilities amounted to € 158 thousand.

17. Shareholdings

Company		Capital share in %	Currency	Equity	Net result for the year
Subsidiaries					
KHD Humboldt Wedag GmbH, Cologne	direct	100.00	€ thousand	33,374	-154
Humboldt Wedag GmbH, Cologne	indirect	100.00	€ thousand	54,886	-3,549
ZAB Zementanlagenbau GmbH Dessau, Dessau	indirect	100.00	€ thousand	34,648	1,857
EKOF Flotation GmbH, Bochum	indirect	100.00	€ thousand	182	-213
Blake International Ltd., Road Town, British Virgin Islands	indirect	100.00	€ thousand	3,667	0
KHD Humboldt Wedag Industrial Services AG, Cologne	indirect	91.18	€ thousand	12,307	4,007
Humboldt Wedag Australia Pty Ltd., Braeside, Australia	indirect	100.00	€ thousand	232	142
Humboldt Wedag Inc., Norcross, USA	indirect	100.00	€ thousand	1,487	-1,026
Humboldt Wedag India Private Ltd., New Delhi, India	indirect	100.00	€ thousand	22,280	3,863
KHD Humboldt Wedag Machinery Equipment (Beijing) Co. Ltd., Beijing, China	indirect	100.00	€ thousand	27	-585
KHD Humboldt Engineering OOO, Moscow, Russia	indirect	100.00	€ thousand	125	-401
Humboldt Wedag Malaysia Sdn. Bhd., Kuala Lumpur, Malaysia	indirect	100.00	€ thousand	-158	-196
Humboldt Wedag Do Brasil Servicos Technicos Ltda., Belo Horizonte, Brazil	indirect	100.00	€ thousand	37	-69

The equity and net result for the year presented in foreign currencies – Blake (USD), HWAUS (AUD), HWUS (USD), HWIN (INR), HW Beijing (CNY), KHD OOO (RUB), HW Malaysia (MYR), and HW Do Brasil (BRL) – were translated using the spot exchange rate as of the balance sheet date.

Spot exchange rate as of December 31, 2014
1 euro corresponds to:

AUD	1.4841
INR	77.4729
USD	1.2166
RUB	67.5895
CNY	7.5550
MYR	4.2622
BRL	3.2410

4.4 Members of the Supervisory Board and Management Board

<u>Supervisory Board</u>

Hubert Keusch

<u>Chairman of the Supervisory Board</u>

Managing Director of ContiLink Services Limited

Eliza Suk Ching Yuen

<u>Deputy Chairperson of the Supervisory Board (since May 27, 2014)</u>

Director of HLM CPA Limited

Kangning Zou

(Member of the Supervisory Board since May 27, 2014)

President AVIC International Beijing Co. Limited

Former members of the Supervisory Board, end of term May 27, 2014:

Luc Antoine Baehni

<u>Deputy Chairman of the Supervisory Board (until May 27, 2014)</u>

CEO of CGN-Compagnie Générale de Navigation sur le Lac Léman SA

Membership of supervisory boards and other governing bodies:

- Fondation de Prévoyance PROFELIA, Member of the Foundation Board
- Versicherungsverband Schweizerischer Schifffahrtsunternehmen Genossenschaft, Member of the Board of Directors

Michael Busch

Independent Management Consultant

Membership of supervisory boards and other governing bodies:

- WashTec AG, chairman of the supervisory board

Seppo Kivimäki

Director Business Development of MainExc International OY and Director Business Development of MainExc Marine OY

Helmut Meyer
Independent Management Consultant

Management Board

Jouni Salo, Engineer, (Chairman of the Management Board)
Chief Executive Officer of KHD

Ralph Quellmalz, Economics Graduate
Chief Financial Officer of KHD

Yizhen Zhu, Engineer
Executive Vice President of KHD

Daniel Uttelbach, Engineer
Executive Vice President Sales & Technology of KHD (since January 1, 2015)

4.5 Total Remuneration of Current and Former Members of the Management Board and of Members of the Supervisory Board

Total remuneration for members of the KHD Management Board expensed by KHD Group companies was € 1,340 thousand in the 2014 financial year (previous year: € 1,149 thousand). The total remuneration granted to members of the Supervisory Board for performing their duties amounted to € 217 thousand in the 2014 financial year (previous year: € 317 thousand). The compensation report contains further details about Management Board and Supervisory Board remuneration. The compensation report forms part of the management report and also describes the main aspects of the compensation system.

No compensation was paid to former Management Board or Supervisory Board members or their remaining dependents for their activities in the parent company and subsidiaries. There are no pension commitments with respect to this group of individuals.

4.6 Parent Company and Consolidated Financial Statements

As the parent company, the Company prepares the consolidated financial statements for the smallest scope of the companies requiring consolidation. KHD's consolidated financial statements will be published on its website (www.khd.com) as well as in the Federal Gazette. Aviation Industry Corporation of China prepares the consolidated financial statements for the largest scope of the companies requiring consolidation. The consolidated financial statements for the largest group is available at the registered office of this company in Beijing.

4.7 Reported Shareholdings

According to the written notifications in line with Section 21 WpHG (German Securities Trading Act) received by the Management Board, there are the following investments as defined by Section 160 Paragraph 1 Number 8 AktG (German Stock Corporation Act) in KHD Humboldt Wedag International AG, Colonia-Allee 3, 51067 Cologne, Germany:

The People's Republic of China[1], Beijing, China notified us that on January 7, 2014, its voting rights had exceeded the thresholds of 50% and 75% and that its voting rights amounted to 76.47% (equivalent to 38,004,767 voting rights). The voting rights of the following companies are allocable to the People’s Republic of China:

– Aviation Industry Corporation of China[1], Beijing, People’s Republic of China,
– AVIC International Holding Corporation[1], Beijing, People’s Republic of China,
– AVIC International Shenzhen Company Limited[1], Shenzhen, People’s Republic of China,
– AVIC International Holdings Limited[1], Shenzhen, People’s Republic of China,
– AVIC International Beijing Co. Limited[1], Beijing, People’s Republic of China,
– AVIC International Kairong Limited[1], Hong Kong, Hong Kong,
– Kaihang Industrial Limited[1], Road Town, British Virgin Islands,
– Golden Prosperity Group Limited[1], Road Town, British Virgin Islands,
– Goldimax Group Limited[1], Road Town, British Virgin Islands,
– AVIC International Engineering Holdings Pte. Ltd.[1], Singapore, Singapore,
– Max Glory Industries Limited[1], Hong Kong, Hong Kong.

[1] The notification of January 16, 2014, pursuant to Section 23 Paragraph 1 Sentence 1 Number 3 of the German Securities Acquisition and Takeover Act (WpÜG) communicated that the voting rights share totaled 89.02% (equivalent to 44,244,113 voting rights).
The Management Board was informed that Max Glory Industries Limited holds 20.00% (equivalent to 9,940,715 voting rights) and AVIC International Engineering Holdings Pte. Ltd. holds 69.02% (equivalent to 34,303,398 voting rights) pursuant to Section 21 Paragraph 1 of the German Securities Trading Act (WpHG). The voting rights not directly held are allocated to those subject to disclosure pursuant to Section 22 Paragraph 1 WpHG.

Mr. Peter Kellogg notified us that his voting rights share had exceeded the 3% and 5% thresholds of voting rights, and that as of June 16, 2010, 5.70% of the voting rights (equivalent to 1,888,314 voting rights) were attributable to him via IAT Reinsurance Company Ltd., Hamilton, Bermuda.

Mr. Yap Lian Seng, Singapore, Singapore, notified us that his voting rights had on April 30, 2014, fallen below the thresholds of 75%, 50%, 30%, 25%, 20%, 15%, 10%, 5% and 3% and his voting rights amount to 0.00% (equivalent to 0 voting rights).

The following companies notified us that their voting rights had on November 19, 2014, fallen below the thresholds of 75%, 50%, 30%, 25%, 20%, 15%, 10%, 5% and 3% and their voting rights amount to 0.00% (equivalent to 0 voting rights):

- Bright Horizon Global Limited, Road Town, British Virgin Islands,
- Westley Global Group Limited, Road Town, British Virgin Islands,
- Maystar Capital Limited, Road Town, British Virgin Islands,
- Europe Project Management Pte. Ltd., Singapore, Singapore,
- Europe Engineering Holdings Pte. Ltd., Singapore, Singapore,
- Europe Technology Investment Pte. Ltd., Singapore, Singapore.

4.8 Auditor’s Fee

The total auditor’s fees for the financial year under review are disclosed in the consolidated financial statements.

4.9 Corporate Governance

The Management Board and Supervisory Board of KHD issued the statement required pursuant to Section 161 of the German Stock Corporation Act (AktG) on February 27, 2015 and also made it – as well as statements from previous years – permanently publicly available to shareholders on the Company’s website (www.khd.com).

4.10 Appropriation of Net Retained Profit

The Management Board and the Supervisory Board will propose to the Annual General Meeting to be held on May 28, 2015, to carry forward the net retained profit (determined in accordance with the German Commercial Code – HGB) of KHD Humboldt Wedag International AG in the amount of € 6.2 million to the new account.

Cologne, Germany, March 17, 2015

The Management Board

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

5. Appendix to the Notes
Movements in Fixed Assets
in the Financial Year 2014

		Gross carrying amounts				**Accumulated amortization, depreciation, and write-downs**				**Net book value**	
		Balance as Jan. 1, 2014 € thousand	Additions € thousand	Disposals € thousand	Balance as Dec. 31, 2014 € thousand	Balance as Jan. 1, 2014 € thousand	Additions € thousand	Disposals € thousand	Balance as Dec. 31, 2014 € thousand	Balance as Dec. 31, 2014 € thousand	Dec. 31, 2013 € thousand
I.	**Property, plant, and equipment**										
	Other plant, operating, and office equipment	29	8	2	35	8	11	1	18	17	21
		29	8	2	35	8	11	1	18	17	21
II.	**Financial investments**										
1.	Shares in affiliated companies	26,410	0	0	26,410	0	0	0	0	26,410	26,410
2.	Long-term loans to affiliated companies	0	100,000	0	100,000	0	0	0	0	100,000	0
		26,410	100,000	0	126,410	0	0	0	0	126,410	26,410
		26,439	100,000	2	126,445	8	11	1	18	126,427	26,431

6 Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the annual financial statements give a true and fair view of the net assets, financial position, and result of operations of the Company, and the management report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal opportunities and risks associated with the expected development of the Company.

Cologne, Germany, March 17, 2015

The Management Board

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

7 [Independent] Auditors' Report

We have audited the annual financial statements - comprising the balance sheet, the income statement and the notes to the financial statements - together with the bookkeeping system, and the management report of KHD Humboldt Wedag International AG, Cologne/Germany, for the business year from 1 January to 31 December 2014. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Company's Management Board. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and on the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with § 317 HGB ("German Commercial Code") and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer. Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with German principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the Management Board, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the annual financial statements of KHD Humboldt Wedag International AG, Cologne/Germany, comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with German principles of proper accounting. The management report is consistent with the annual financial statements and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.

Düsseldorf/Germany, 17 March 2015

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

Signed: Tissen	Signed: Neu
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

8 Report of the Supervisory Board

Dear Shareholders,

In the 2014 financial year, the Supervisory Board of KHD Humboldt Wedag International AG comprehensively performed supervisory and advisory functions as required by law, the articles of association, and the rules of procedure. It monitored and advised the Management Board on a continual basis and consulted with the Management Board in the course of numerous meetings, as well as through discussions outside of these meetings. The Supervisory Board requested the Management Board to report regularly, in due time, and comprehensively, both in writing and verbally, about the intended business policy, fundamental issues concerning financial, investment, and personnel planning, the course of business and the profitability of the Group and of the material Group companies. The Management Board also reported on the strategic alignment of the Group and the status of strategy implementation.

The Supervisory Board was involved in all decisions of fundamental importance to the KHD Group.

Cooperation between the Management Board and the Supervisory Board has been constructive. The Chairman of the Supervisory Board was in regular contact with the Chief Executive Officer over and above the regular meetings and discussed the Group's strategy, risk situation, and risk management. The Chief Executive Officer notified the Chairman of the Supervisory Board of any important events which were essential for assessing the situation and development of the KHD Group.

PERSONNEL CHANGES IN THE MANAGEMENT BOARD AND SUPERVISORY BOARD

With effect from January 1, 2015, Daniel Uttelbach was appointed member of the Management Board by the Supervisory Board. As Executive Vice President Sales & Technology, he will be responsible for the Sales and Technology division. Sales and Technology are extremely important to the KHD Group. The Supervisory Board is certain that Mr. Uttelbach will successfully manage the activities of the KHD Group toward improving both functional areas.

The Supervisory Board appointed Mr. Johan Cnossen as member of the Company's Management Board, effective May 1, 2015. Mr. Cnossen will serve as Chief Executive Officer (CEO). As an experienced leader with a proven track record in the Global

Engineering and EPC Industry, Mr. Cnossen will lead the KHD Group through this challenging market environment and towards sustainable growth.

The current CEO, Mr. Jouni Salo, has decided to step down for personal reasons as he has moved back to his home in the United States. He signed a termination agreement with KHD and resigned from his function as CEO and from his office as member of KHD’s Management Board effective as of April 30, 2015. The Supervisory Board would like to thank Mr. Salo for his dedicated work in the past seven years and wishes him all the best for his personal and professional future.

On May 27, 2014, the Annual General Meeting passed a resolution to decrease the number of Supervisory Board members from six to three persons and to amend the articles of association accordingly. At the end of the Annual General Meeting on May 27, 2014, Mr. Luc Antoine Baehni, Mr. Michael Busch, Mr. Helmut Meyer, and Mr. Seppo Kivimäki left the Supervisory Board. Mr. Hubert Keusch and Ms. Eliza Suk Ching Yuen were reelected by the Annual General Meeting, and Mr. Kangning Zou was newly elected to the Supervisory Board. In the constituent meeting of the Supervisory Board on May 27, 2014, Mr. Hubert Keusch was elected Chairman of the Supervisory Board and Ms. Eliza Suk Ching Yuen was elected Deputy Chairperson of the Supervisory Board.

MEETINGS AND RESOLUTIONS OF THE SUPERVISORY BOARD

In the 2014 financial year, the Supervisory Board held a total of seven meetings that took place in person, in which all matters of fundamental importance for the KHD Group were comprehensively discussed. In addition, three meetings were held by telephone conference. Furthermore, seven resolutions were passed by circulation procedure.

At the meeting convened to approve the financial statements on March 18, 2014, the Supervisory Board dealt comprehensively, among other things, with the annual financial statements and the consolidated financial statements of KHD Humboldt Wedag International AG for the financial year ended December 31, 2013. The Supervisory Board approved these as well as the proposal for the appropriation of net retained profit.

The agendas of the Supervisory Board meetings that took place in person in March, May (two meetings), August, September, November, and December covered reports on business development, deviations of the actual business development from the budget and forecasts, the 2015 budget and the medium-term planning 2016-19, discussions of the half-year report prior to publication, discussion of proposed resolutions for the Annual General Meeting of shareholders, the internal control system, the risk management system, the internal audit system, discussions related to Corporate Governance, organizational matters of the Supervisory Board and discussions and resolutions related to the appointment of Mr. Uttelbach to the Management Board. A strong focus in the 2014 financial year was on the discussion of the strategic development of the Group, intensifying the strategic partnership with AVIC following the majority takeover, improving competitiveness and development perspectives, organizational changes, and further operational issues. Furthermore, the Supervisory Board focused intensely on matters related to the Management Board, including essential changes to the system of remuneration.

In addition to passing resolutions relating to transactions requiring approval, the meetings via telephone conference in March, July, and November focused in particular on discussions and resolutions in connection with the granting of loans to AVIC International (HK) Group Ltd.

Resolutions made by circulation procedure concerned transactions requiring approval by the Supervisory Board, the extension of Management Board membership for Mr. Yizhen Zhu and Mr. Jouni Salo, as well as the approval of the Declaration of Compliance with the German Corporate Governance Code.

COMMITTEES AND ASSOCIATED MEETINGS

Until the Annual General Meeting in the 2014 financial year the Supervisory Board had formed a Personnel and Nomination Committee, and an Audit Committee. The Annual General Meeting passed a resolution to reduce the number of Supervisory Board members from six persons to three; responsibilities that would otherwise be passed on to committees have therefore been dealt with by the full Supervisory Board since May 27, 2014.

The Personnel and Nomination Committee held one meeting in the year under review. The primary responsibility of the committee during the reporting year was to propose suitable candidates to the Supervisory Board for their nominations to the Annual General Meeting for election of members to the Supervisory Board.

The Audit Committee held three meetings in the 2014 financial year. The Audit Committee focused on monitoring the accounting process and the 2013 annual financial statements and consolidated financial statements in the presence of the auditors and the Management Board. During the 2014 financial year it also discussed the Interim Report as of May 15, 2014, prior to its publication on the basis of the reporting submitted by the Management

Board. In addition, the Audit Committee dealt with the proposal on the appointment of the auditor by the Annual General Meeting of shareholders.

RESPONSIBILITIES AS DEFINED BY SECTION 107 PARAGRAPH 3 OF THE GERMAN STOCK CORPORATION ACT (AKTG)

Responsibilities that would otherwise be passed on to an Audit Committee have been dealt with by the full Supervisory Board since May 27, 2014. The Supervisory Board issued the audit mandate and discussed and agreed the focal points of the audit, and the audit fees with the auditors. Furthermore, the Supervisory Board monitored the independence, qualification, rotation, and efficiency of the auditors as well as the services provided by the auditors in addition to the audits of financial statements. The Supervisory Board also dealt with issues of corporate governance including the preparation of the Declaration of Compliance with the German Corporate Governance Code. On the basis of reports from the Management Board, the Head of Risk Management, and the Head of Internal Audit, the Supervisory Board dealt with the internal control system and was informed about the effectiveness and further development of the Group-wide risk management system. Significant opportunities and risks, including the risk situation, risk identification, and risk monitoring as well as the compliance structure and compliance issues within the KHD Group have been discussed. The Head of Internal Audit reported on the tasks, responsibilities, and auditing activities of the Internal Audit department and submitted the audit plan for 2014/15 to the Supervisory Board. The Supervisory Board has assessed the effectiveness of the internal control system, the risk management, and the internal audit system.

CORPORATE GOVERNANCE AND DECLARATION OF COMPLIANCE

There were no conflicts of interest among the members of the Supervisory Board or Management Board during the reporting year. According to its own assessment, the Supervisory Board included an appropriate number of independent members as defined by the German Corporate Governance Code at all times during the reporting year.

The Supervisory Board monitors the ongoing development of corporate governance standards on a continual basis, as well as the implementation of the recommendations of the German Corporate Governance Code at KHD Humboldt Wedag International AG. After the changes to the articles of association (reduction in the number of Supervisory Board members from six to three persons) made by resolution of the Annual General Meeting were entered in the commercial register, a revised declaration of compliance was submitted on June 17, 2014. The Management Board and Supervisory Board issued the updated, annual declaration of compliance pursuant to Section 161 of the German Stock Corporation Act

(AktG) in February 2015. This has since been published and made permanently available to shareholders on the Company's website at www.khd.com. Further information on corporate governance can be found in the Corporate Governance Report that is also available on the website.

ANNUAL FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

The Management Board prepared in due time the annual financial statements of KHD Humboldt Wedag International AG including the management report as of December 31, 2014, in accordance with principles set out in the German Commercial Code (HGB), and the consolidated financial statements including the Group management report as of December 31, 2014, in accordance with IFRS as adopted by the European Union. The annual financial statements including the management report and the consolidated financial statements including the Group management report were audited by Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft, Düsseldorf, who were appointed by the Annual General Meeting of shareholders on May 27, 2014. The auditors have issued an unqualified audit opinion on both sets of financial statements. Furthermore, the auditors confirmed that the early risk recognition system complies with the legal requirements set out in Section 91 Paragraph 2 of the German Stock Corporation Act (AktG); no risks that might affect the viability of the Company as a going concern were identified. The auditors did not report any significant weakness in the internal control system.

The documents relating to the financial statements and the audit reports were issued to all members of the Supervisory Board in due time. They were subject to extensive deliberations in the Supervisory Board meeting convened to approve the financial statements on March 17, 2015. Both the auditors and the Management Board participated in these Supervisory Board meetings that dealt with the approval of the financial statements. The auditors presented the focal points of their audit as well as the audit results and they were available to provide further information and to answer questions.

The Supervisory Board conducted its own examination of the annual financial statements including the management report for the 2014 financial year and of the consolidated financial statements including the Group management report for the 2014 financial year, as well as of the Management Board's proposal on the appropriation of net retained profit for the 2014 financial year, taking into account the auditors' reports.

The Supervisory Board examined all relevant documents together with the audit reports and discussed them in detail. After considering the final results of the Supervisory Board's review of the documents submitted by the Management Board and the auditors, the Supervisory Board has no objections to raise and concurs with the result of the audit carried out by Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft. The Supervisory Board approves the annual financial statements and the consolidated financial statements as of December 31, 2014, as prepared by the Management Board. The annual financial statements of KHD Humboldt Wedag International AG are therefore adopted. The Supervisory Board consents to the appropriation of net retained profit proposed by the Management Board.

The Management Board's report on affiliated companies (Dependency Report) was audited by the independent auditor and issued with the following unqualified audit opinion:

"Based on the results of our statutory audit and evaluation, we confirm that the actual information included in the report is correct."

The Management Board presented the Dependency Report to the Supervisory Board. The Supervisory Board also reviewed the Dependency Report. After considering the final results of its own review, the Supervisory Board has no objections to raise against the Management Board's final declaration in the Dependency Report or against the result of the audit by the independent auditors.

EXPRESSION OF THANKS

The Supervisory Board would like to thank all staff members and the Management Board for their work in a challenging business environment.

Cologne, Germany, March 17, 2015

(s) Hubert Keusch
(Chairman of the Supervisory Board)

9 Declaration of compliance by the Management Board and Supervisory Board of KHD Humboldt Wedag International AG in accordance with Section 161 of the German Stock Corporation Act ("AktG") on the recommendations of the "Government Commission on the German Corporate Governance Code"

The Management Board and the Supervisory Board of KHD Humboldt Wedag International AG hereby declare that since the last declaration of compliance on February 28, 2014 (updated on June 17, 2014) the recommendations of the German Corporate Governance Code (the "Code") as amended on June 24, 2014 have been complied with and will be complied with in future with the following exceptions:

- The Company has concluded directors' and officers' (D&O) insurance for the members of the Supervisory Board but no deductible has been agreed upon (Code item 3.8 para. 3).

The Company and the Supervisory Board are fully aware and fully accept the due care and diligence required from a prudent and conscientious Supervisory Board member, but they do not see the agreement of a deductible as a suitable measure for enhancing the motivation and sense of responsibility with which the Supervisory Board members perform their duties and functions.

- The payments to be made to a Management Board member on premature termination of the employment contract are not limited to two years' compensation and the remaining term of the employment contract (Code item 4.2.3 para. 4).

Three of the four Management Board service contracts do not include an explicit regulation on severance. The other contract limits the severance payment at the normal end of the term of the service contract and in case of premature termination by the Company without serious cause entitling the Company to terminate the contract without notice, to one year's fixed annual salary.

In case of premature termination of a Management Board service contract without serious cause more than two years prior to the normal end of the term of the service contract the service contracts do not limit the payments to the value of two years' compensation. In this case compensation for the remaining term of the service contract, but no additional severance, has to be paid. The Management Board service contracts do not provide for such a limitation as the Supervisory Board had deemed this as not advisable. Amicable rescission of a Management Board service contract having a remaining term of more than two years is hindered significantly in case of a severance cap as in such cases acceptance of the limitation would be disadvantageous to the Management Board member compared with adherence to the service contract and claiming the ongoing compensation.

- The Supervisory Board has not established any committees as recommended by the Code (Code item 5.3.1).

As since May 27, 2014 the Supervisory Board consists of only three members, the Supervisory Board has not established any committees. The issues normally delegated to committees are jointly handled by all three Supervisory Board members whereby each member of the Supervisory Board reports to the Supervisory Board as a whole on those topics that were primarily allocated to his/her responsibility based on specific expertise.

- The Supervisory Board has not established an Audit Committee as recommended by the Code (Code item 5.3.2).

Reference is made to the explanation given in connection with item 5.3.1 of the Code. The objective of Code item 5.3.2 is still met as the majority of the Supervisory Board members is independent and no member of the Supervisory Board is a former member of the Management Board of the Company. One independent member of the Supervisory Board has specialist knowledge and experience in the application of accounting principles and internal control processes.

- The Supervisory Board has not established a nomination committee as recommended by the Code (Code item 5.3.3).

Reference is made to the explanation given in connection with item 5.3.1 of the Code. The objective of Code item 5.3.3 is still met, because all members of the Supervisory Board are shareholder representatives.

- The Supervisory Board has not defined an age limit for its members as recommended by the Code (Code item 5.4.1 para. 2 first sentence).

The Supervisory Board considers extensive business experience from a long business career as beneficial for the competence of the Supervisory Board and the interests of the Company. Therefore, the Supervisory Board decided not to define a specific age limit for its members.

- The half-year financial report shall be publicly accessible within 45 days of the end of the reporting period (Code item 7.1.2 fourth sentence).

AVIC International Holdings Limited, the indirect majority shareholder of KHD Humboldt Wedag International AG, is listed on the Hong Kong Stock Exchange. According to the Hong Kong Stock Exchange listing rules, AVIC International Holdings Limited was required to publish an Accountants' Report of the KHD Group that also summarized financial information for the two six-month periods ending June 30, 2014. As the Accountants' Report of the KHD Group was published on August 28, 2014, the Management Board decided to publish KHD Group's half-year financial report on the same date in order to ensure consistency of the financial information in both reports.

Cologne, February 27, 2015

For the Management Board For the Supervisory Board

(s)Jouni Salo (s) Ralph Quellmalz (s) Hubert Keusch

(s) Yizhen Zhu (s) Daniel Uttelbach

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