KHD HUMBOLDT WEDAG

# ANNUAL REPORT 2014

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Please note that differences may occur for amounts and ratios rounded as all amounts have been rounded according to normal commercial practice.

# Service First

The KHD Group is one of the leading experts on efficient and environmentally friendly cement plant technology. This includes not only engineering and supplying technical equipment for cement works worldwide, but also a growing parts and services business.

Our continuously improving green technology solutions offer high availability and efficiency as well as low energy consumption and reduced emissions within our plant engineering business (Capex segment). We implement these solutions to help plant operators meet tomorrow's environmental standards today, while also reducing their costs.

Around the world, over 190 employees serve our customers directly in our Parts & Services segment. They monitor the erection and commissioning of cement plants, offer plant services such as roller press refurbishment or technical audits, and supply high-quality spare parts. In doing so, they create the best possible production conditions throughout the entire life of the cement plant.

We are selectively expanding our strengths in environmental technologies and in the service business, and market these strengths worldwide. Together with AVIC as a strategic partner, we intend to capitalize on additional market potential in growth markets and make our customers even more competitive.

# Key Figures

| in € million | 2014 | 2013 | Variance in % |
|---|---|---|---|
| Order Intake | 101.3 | 172.4 | −41.2 |
| Revenue | 240.2 | 249.6 | −3.8 |
| Gross Profit | 32.3 | 29.4 | 9.9 |
| Gross Profit margin (in %) | 13.4 | 11.8 | 18.6 |
| EBIT | 1.1 | 1.2 | −8.3 |
| EBIT margin (in %) | 0.5 | 0.5 | 120.0 |
| EBT | 4.0 | 2.4 | 66.7 |
| Group net profit for the year | 1.6 | 0.7 | 128.6 |
| EPS (in €) | 0.02 | 0.01 | 100.0 |
| | | | |
| Operating cash flow | −11.0 | −47.1 | |
| Cash flow from investing activities** | −102.7 | −1.0 | |
| Cash flow from financing activities | 33.8 | −29.7 | |

| in € million | Dec. 31, 2014 | Dec. 31, 2013 | Variance in % |
|---|---|---|---|
| Equity | 225.9 | 222.5 | 1.5 |
| Equity ratio (in %) | 57.3 | 53.2 | 7.7 |
| Cash and intercompany loans*** | 173.6 | 228.2 | −23.9 |
| Net working capital | 18.1 | 14.3 | 26.6 |
| Order Backlog* | 195.4 | 339.3 | −42.4 |
| Employees | 777 | 757 | 2.6 |

* previous year's figures adjusted for canceled order in Russia
** thereof intercompany loans € 100 million
*** including an intercompany loan of € 50 million with the option for early repayment within 30 days

# Facts & Figures

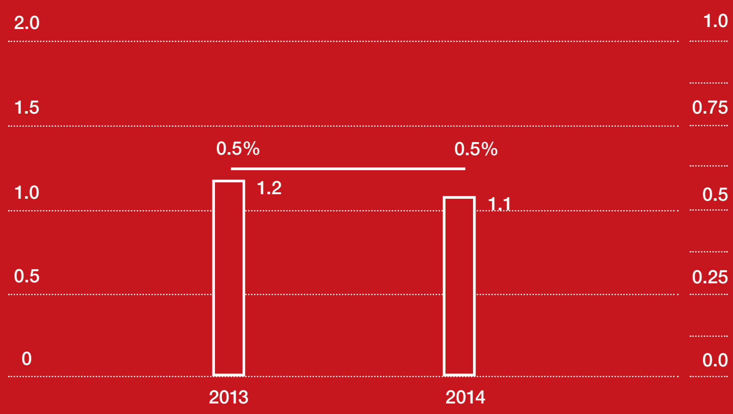
Overall, business development was unsatisfactory in 2014. Nevertheless, KHD is well positioned for its future development.

## € 101 million

**order intake (–41.2%)**

## € 195 million

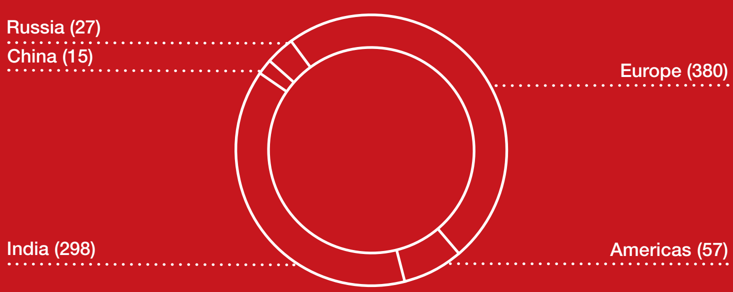
**order backlog (–42.4%)**




**EBIT and EBIT margin (%)**

## 777

**Employees worldwide**




**Employees by region (End of year 2014)**

# Foreword of the Management Board

**Dear shareholders, customers, business partners, and friends of the Group,**

The 2014 financial year was a difficult year for the KHD Group – with decreasing order intake and the anticipated unsatisfactory margin in our existing plant engineering business. At the same time we have used our strong financial position to consistently invest in expanding our business model and technology position: We increased our expenditure for research and development by approx. 50% and hired additional employees for our service business. Despite the continued challenges foreseen in 2015, we expect growth and improvement of our profitability in the medium term.

The difficult market conditions continued in 2014 in the Capex segment. The cement market is no longer achieving the high growth rates seen several years ago, and especially in China momentum has tangibly slowed. Consequently, major cement producers again awarded fewer new orders. The price pressure also remained pronounced, especially as Chinese competitors are increasingly looking for orders outside their home country. The market uncertainties in Russia also had an adverse impact. An order already awarded to us was canceled, and another order could not yet be recorded in order intake. Order intake in the Capex segment was therefore disappointing.

Our investment in the expansion of the service business on the other hand is beginning to pay off: the order intake volume reached more than € 53 million. Our mobile roller press service is a promising service product that is already in high demand. However, the growing service business was not able to fully compensate for the decreasing order intake and revenue volume in plant engineering.

Due to the slight reduction in revenue of 3.8%, we have suffered a decrease of our EBIT by € 0.1 million to € 1.1 million. This is primarily the result of our improved gross profit margin. The good margins in the growing service business have contributed to this improvement, along with a positive effect in the Capex segment arising from back-charging contract costs to a subcontractor. Nevertheless, it has to be considered that gross profit remained negatively affected by the execution of projects awarded to the KHD Group in previous years under high margin pressure. The rise in earnings before tax (EBT) was even higher at € 1.6 million, the result of a significantly better net finance income caused by the loans extended to AVIC HK at a favorable interest rate of 6% per annum. This positive effect in interest income will be seen in full during the current year 2015.

Despite the persistent uncertainties we expect a high order intake for the 2015 financial year, as the KHD Group is well positioned with regard to several tenders. In addition, the marketing of our newly developed mobile grinding unit (GrindX®) should create positive momentum in the Capex segment. The pleasing growth in the Parts & Services segment is likely to continue.

Due to the low order backlog at the beginning of the financial year, however, we expect a significant drop in revenue. Revenue in the current year will again be largely affected by the further execution of projects with weak margins from previous years. In terms of costs we are responding with the reorganization of our purchasing in the KHD Procurement Center. However, we expect negative EBIT in the year 2015. The interest income on the loans extended to AVIC HK will have a positive effect, so that the KHD Group should again generate positive earnings before tax.

With our continued strong liquidity and equity position, as well as our bank guarantee facilities renegotiated during the reporting year, we remain well positioned to weather difficult market phases and to make important investments in the development of our technology position. We are convinced that the cement market will continue to offer good opportunities over the medium and long term. These opportunities arise from the advancing urbanization and accelerated expansion of infrastructure in emerging markets such as Russia, India, and sub-Saharan Africa, as well as from the increasing demand for emissions-reducing solutions, both for new as well as for the upgrading of old cement plants.

The KHD Group has all the prerequisites to benefit from these opportunities: a strong presence in the important emerging markets, cost advantages resulting from access to the Chinese procurement market, and leading clean technology solutions that are being continuously developed.

We would like to thank our customers, business partners, shareholders, the Supervisory Board, and our motivated employees for their confidence and their commitment over the past financial year and look forward to working with you continously in 2015.

Best regards,

Jouni Salo | Ralph Quellmalz | Yizhen "Mario" Zhu | Daniel Uttelbach

## JOUNI SALO, CEO

Born November 9, 1959, in Finland, Jouni Salo has more than 25 years of international business experience in the industrial equipment market. He joined KHD in 2008 and prior to that worked in a variety of senior positions with Metso Minerals Inc. and related operations. Before joining KHD, he was President of the Construction Materials Division at Metso Minerals Inc. He holds a Bachelor of Science degree in Mechanical Engineering from the Polytechnic College in Hameenlinna, Finland.

## RALPH QUELLMALZ, CFO

Ralph Quellmalz was born in Germany on September 21, 1969. After graduating from the University of Cologne with a degree in economics, he worked for one of the big four auditing firms. Carrying out audits of large international companies during this period provided him with a wide range of experience, with a strong focus on the construction business. Ralph Quellmalz joined KHD in 2006. Before his appointment as CFO, Ralph Quellmalz worked several years as Global Head of Finance of the KHD Group, as a member of the Management Board of KHD Humboldt Wedag Industrial Services AG and as Managing Director of Humboldt Wedag GmbH.

## YIZHEN ZHU, EXECUTIVE VICE PRESIDENT

Yizhen “Mario” Zhu was born in China on December 27, 1971. He had held a variety of senior management positions at AVIC and had been a strong driver in developing AVIC’s cement plant construction business. Yizhen Zhu has been in charge of developing the global cooperation with our strategic partner AVIC since 2011 and is also responsible for the Customer Service Center for the Asia Pacific region. He holds both a MBA as well as an engineering degree and has longstanding experience working abroad.

## DANIEL UTTELBACH, EXECUTIVE VICE PRESIDENT SALES & TECHNOLOGY

Daniel Uttelbach was born in Germany on September 22, 1970. Since January 1, 2015 Daniel Uttelbach is in charge of Sales & Technology as member of the Management Board. Before his appointment to the Management Board, Daniel Uttelbach worked for KHD as Vice President Account Management. In this function he has been leading KHD’s global sales activities for the last several years. Since November 2013 he has also been leading Research & Development, Product Management, Process Technology and Engineering as Vice President Sales & Technology. Daniel Uttelbach holds a Master’s Degree (Dipl.-Ing.) from the Technical University of Dortmund.

## 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 is 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 2016–2019, 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

Hubert Keusch
(Chairman of the Supervisory Board)

## MEMBERS OF THE SUPERVISORY BOARD

| Members | Mandates |
|---|---|
| **Hubert Keusch**<br>Chairman of the Supervisory Board<br>Managing Director of ContiLink Services Limited | |
| **Eliza Suk Ching Yuen**<br>Deputy Chairperson of the Supervisory Board<br>Director of HLM CPA Limited | |
| **Kangning Zou**<br>(Member of the Supervisory Board since May 27, 2014)<br>President AVIC International Beijing Co. Limited | |

## FORMER MEMBERS OF THE SUPERVISORY BOARD, END OF TERM MAY 27, 2014

| Members | Mandates |
|---|---|
| **Luc Antoine Baehni**<br>Deputy Chairman of the Supervisory Board<br>(until May 27, 2014)<br>CEO of CGN-Compagnie Générale de Navigation sur le Lac Léman SA | – Fondation de Prévoyance PROFELIA, Member of the Foundation Board<br>– Versicherungsverband Schweizerischer Schifffahrtsunternehmen Genossenschaft, Member of the Board of Directors |
| **Michael Busch**<br>Independent Management Consultant | – WashTec AG, chairman of the supervisory board |
| **Seppo Kivimäki**<br>Director Business Development of MainExc International OY and Director Business Development of MainExc Marine OY | |
| **Helmut Meyer**<br>Independent Management Consultant | |

## SUPERVISORY BOARD COMMITTEES

**Personnel and Nomination Committee (until May 27, 2014)**
Hubert Keusch (Chairman)
Luc Antoine Baehni
Michael Busch

**Audit Committee (until May 27, 2014)**
Helmut Meyer (Chairman)
Eliza Suk Ching Yuen
Hubert Keusch

# Group Management Report

# Group Management Report

## FUNDAMENTAL PRINCIPLES OF KHD GROUP

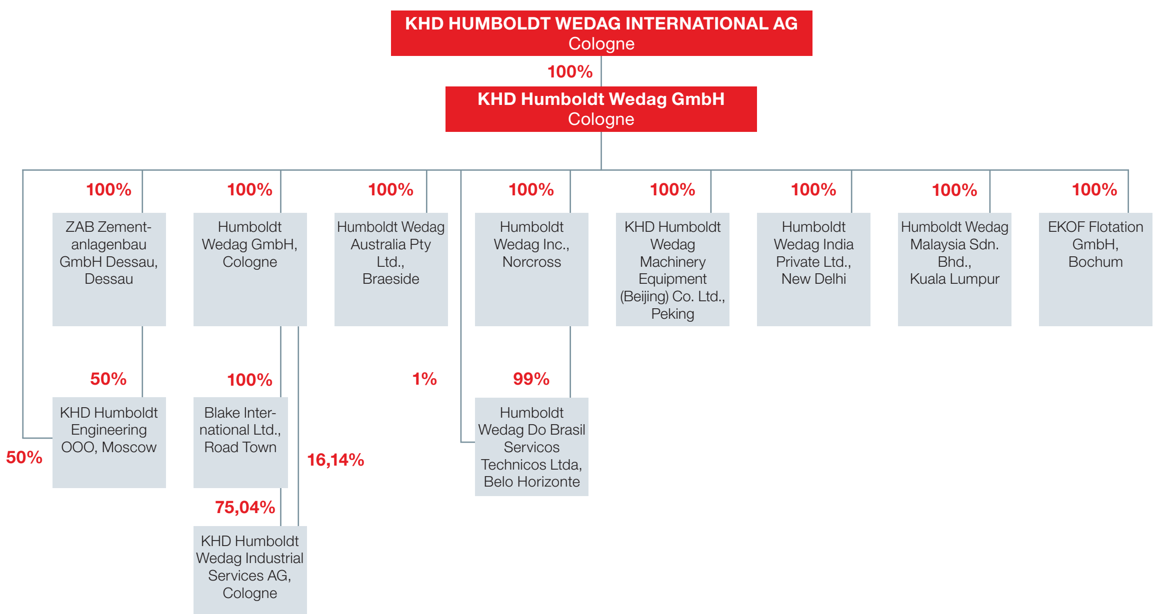
### BUSINESS MODEL

**Organizational Structure and Locations**
With its subsidiaries in Europe, the Americas, Asia, and Australia, KHD Humboldt Wedag International AG (hereafter also referred to as "KHD" or "Group") based in Cologne, Germany, ranks as one of the world's top equipment suppliers and service companies for the cement industry. The scope of services encompasses process know-how and design, engineering, project management, the supply of technology and equipment as well as supervising the erection and commissioning of cement plants and related equipment. It also includes customer services such as supplying spare parts, optimizing cement plants, and training plant personnel. KHD focuses mainly on knowledge-intensive areas. The manufacturing of plant equipment is almost entirely outsourced to quality-certified, external manufacturers who work in accordance with KHD's specifications.

In its capacity as the ultimate holding company of the Group, KHD Humboldt Wedag International AG holds a 100% investment in KHD Humboldt Wedag GmbH, Cologne, Germany (KHD HW), which functions as a strategic management holding company. The 13 KHD Group companies focus on the business segment of industrial plant engineering as well as related services.

Since January 2014, KHD is a group company of the Beijing-based AVIC International Beijing Co. Limited (AVIC Beijing). AVIC Beijing is part of the Aviation Industry Corporation of China, a corporate group owned by the People's Republic of China. AVIC International Engineering Holdings Pte. Ltd., (AVIC Engineering), and Max Glory Industries Limited (Max Glory), directly hold a 69.02% stake and a 20.00% stake in KHD, respectively. 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.

**Corporate Structure**

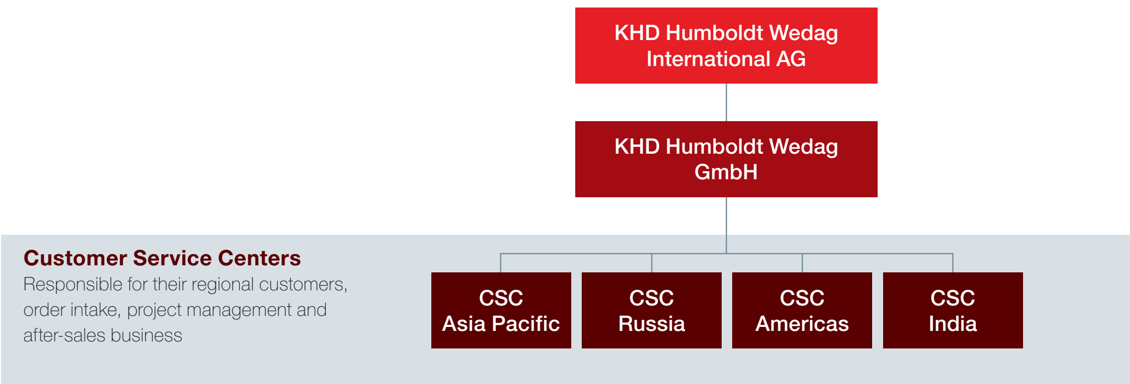


KHD's customer base is primarily made up of cement producers from around the world. Maintaining close contact with this target group is one of the keys to the success of the Group's business activities. Through our targeted account management, we ensure that our customers are served in accordance with their individual needs. We ensure direct customer care through our Customer Service Centers (CSC) in the respective sales territories.

The advantage of our structure lies in the global coordination by the Group Support Center in Cologne combined with the proximity of the regional Customer Service Centers to the respective customers and their knowledge of the local market environment. In order to tap into markets in which the Group is not represented by its own sales force, the KHD Group employs sales agents.

Within the KHD Group, the Group Support Center in Cologne, Germany, assumes the central strategic functions and serves as contact for all specialist and organizational matters. The markets in Europe, the Middle East, and North Africa are managed directly from Cologne. The remaining regions – Asia Pacific (APA), Russia/CIS, the Americas, and India/Sub-Saharan Africa – are each managed by a Customer Service Center (CSC).

**Customer Service Centers (CSC)**




The **CSC Asia** Pacific in Beijing is in charge of accelerating our market development in China and Southeast Asia. The focus here is on cement markets in Indonesia and Malaysia, among others. Projects from CSC Asia Pacific are currently still mainly executed by the Group Support Center in Cologne.

With a company in Dessau, Germany, and a subsidiary in Moscow, the **CSC Russia** covers the 15 states of the former Soviet Union plus Mongolia. In addition to new plants, the focus is on taking advantage of the huge potential in the region for modernization and expansion investments. The orders are executed through collaboration between personnel at the Group Support Center and CSC Russia.

The **CSC Americas**, responsible for both the American continents, and which also includes a subsidiary in Brazil, is located in the USA in Norcross near Atlanta, Georgia. The CSC Americas is capable of executing orders in full, requiring only limited support from the Group Support Center in Cologne.

The **CSC India** in New Delhi is responsible for the important Indian market, the neighboring countries of Nepal, Bhutan, and Sri Lanka, as well as the management of markets in Sub-Saharan Africa. With over 150 engineers, the CSC India not only executes its own orders, but it also increasingly supports the other Customer Service Centers. The CSC India has its own facilities for producing some key components and for refurbishment of roller presses.

### Range of Products and Services

#### Capex (Project Business)

The scope in the Capex business unit encompasses the process technology, design, engineering, project management, and the supply of technology and equipment (grinding, pyro process, system automation). Supervising of the erection and commissioning of cement plants and related equipment is connected with the project business, but is organizationally allocated to the Parts & Services segment.

The core product range supplied by the KHD Group includes equipment for grinding and pyro processing, which represent essential elements of every cement plant. Our grinding technology is utilized in raw material, clinker and clinker substitute grinding, and comprises crushing, grinding, and separation equipment. KHD Group's pyro processing equipment covers all of the key components of the kiln line, such as preheaters, calciner systems, burners, rotary kilns, and clinker coolers. Moreover, the KHD Group has developed a number of system automation products, which are used together with process control systems to optimize plant performance.

Our products stand out from those of our competitors thanks to their low energy consumption, low maintenance costs, reduced vibrations and noise emissions, as well as minimal wear.

#### Parts & Services

KHD's services include on the one hand the supply of spare and wear parts and supervision of the erection and commissioning of cement plants and related equipment, while on the other hand, the KHD Group offers various plant services such as roller refurbishment, technical inspections and audits, as well as consulting and assistance services. In this respect consulting on energy efficiency, emissions reduction, and alternative fuels for plant modernizations is a key topic.

The KHD Group also organizes training for cement plant personnel. For this purpose, KHD draws on its own e-learning program SIMULEX®, with which all processes in a cement plant can be simulated and controlled by the course participants.

### Management and Supervision

KHD is governed by the provisions of the German Stock Corporation Act (AktG), capital market regulations, and the rules set out in its articles of association. Pursuant to the dual board system, the Management Board is responsible for managing the Company, while the Supervisory Board carries out advisory and monitoring functions. Both boards cooperate closely for the benefit of the Company. Their common goal is to ensure sustainable value, while taking the interests of the shareholders, employees, and other stakeholders into account.

The Management Board of KHD consisted of three members in the 2014 financial year: Jouni Salo (Chief Executive Officer), Ralph Quellmalz (Chief Financial Officer), and Yizhen Zhu (Executive Vice President). Additionally, Daniel Uttelbach (Executive Vice President Sales & Technology) has been appointed as new member of the Management Board, effective January 1, 2015. The rules of procedure implemented for the Management Board by the Supervisory Board govern the fundamental principles of the Management Board's work. The assignment of functional responsibilities for individual Management Board members is laid out in the schedule of responsibilities.

The Supervisory Board was reduced to three members in accordance with the resolution of the Annual General Meeting dated May 27, 2014. The previous members Ms. Eliza Suk Ching Yuen and Mr. Hubert Keusch were re-elected. Mr. Kangning Zou was newly elected to the Supervisory Board. During the constituent Supervisory Board meeting held after the Annual General Meeting, Mr. Keusch was elected Chairman, and Ms. Eliza Suk Ching Yuen, Deputy Chairperson of the Supervisory Board.

### 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 (see Section 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).

## OBJECTIVES AND STRATEGY

KHD's strategy focuses primarily on offering customers from the cement industry around the world an attractive portfolio of technology and services at competitive prices, thereby increasing its market share step by step. In doing so, we are able to build on a comfortable position with regard to our technology, which is used in over 500 installed plants worldwide. High energy efficiency and low maintenance costs are two of the product characteristics that have made KHD a preferred supplier worldwide. Through the further development of our business model and strengthening of the service business, we intend to grow with a focus on profits and with limited risks, while at the same time reducing our susceptibility to cyclical or seasonal fluctuations.

The cornerstones of the Group strategy are:

- to create customer-oriented growth through consistent account management and the expansion of service activities under the umbrella of the segment Parts & Services;
- to extend our technological leadership by means of intensive research and development activities;
- to expand our market position in markets on which we previously placed less focus and to secure long-term competitiveness through strategic partnerships, and by strengthening resources and capacities in low-cost regions;
- to promote a shared culture of excellence and commitment (operational excellence) across the entire Group.

The manufacturing of plant equipment has been almost completely outsourced to certified suppliers. This means that we can concentrate on knowledge-intensive and correspondingly high-margin core competencies and implement a flexible cost management system. This helps us to react faster to different market situations. Moreover, we will continue to focus our attention on the technology-intensive core components of cement plants, which represent almost one-third of the total value of the equipment of a cement plant. In this way, it becomes possible to purchase the remaining components from the respective best provider, thus enabling us to offer the customer a convincing and comprehensive package.

**Customer-oriented Growth**

Against a backdrop of market consolidation among cement producers, KHD has shifted its customer care toward global account management. Global and local account managers have access to a comprehensive range of up-to-date information covering products and processes as well as marketing materials. Building on experience gained in on-site project management, they are responsible for developing and expanding the service business in their respective markets as well as generating new project business.

In response to our customers' requirements, we are gradually expanding the portfolio of services we offer in the Parts & Services segment. This will enable us to ensure the most comprehensive service possible for our customers, even after a cement plant has been commissioned. In intensifying our service activities, we hold true to our technological core competencies and concentrate on regions with a sufficient number of installed plant components. KHD has, for instance, developed a mobile welding system for re-welding roller press surfaces in a time-saving way at the customer's plant site. Furthermore, technical audits can provide an early indication of the needs of individual customers for high-quality services and spare parts, thereby helping us to serve them better.

We also pursue customer-oriented growth through our customer relationship management system (CRM), which enables us to streamline the evaluation and prioritization of all customer activities, especially during the critical tendering phase.

**Expansion of our Technological Leadership / Research and Development**

Technical leadership continues to be important for KHD as a premium brand. The world's first suspension preheater and the first two-pier rotary kiln are KHD developments. The KHD Group was also instrumental in developing high-pressure grinding and as a result was among the first to successfully commission a roller press.

KHD's recently developed COMFLEX® (COMpact and FLEXible) grinding system combines KHD roller presses and separators for one of the most energy-efficient grinding circuits. In times of increasing energy costs, the COMFLEX® system is gaining in popularity in comparison to tradition ball mills or vertical roller mills. KHD's pyro processing equipment like our rotary kilns, burners, and coolers undergo continuous improvement to make the entire process more efficient and use less energy, while at the same time providing our customers with a high level of availability.

Research and development efforts focus on the major trends in the cement industry. Environmental protection is playing an increasingly important role. As one of the world's leading providers of environmentally friendly technologies for the cement industry, KHD continually focuses on solutions involving the use of alternative fuels and on continuous improvement of grinding and burning processes (increasing the efficiency of individual plant components and reducing emissions). We thus help our customers to comply with ever stricter requirements and to cut costs. As part of our standardization efforts, we continue to aim to be able to offer customized plants to our customers through the use of modular products and designs. This saves time and money for everyone involved. KHD is also working on automation solutions for the service business.

The important emphases for research and development are oriented along the long-term industry trends, shown in the following table.

| Industry Trend | KHD Technology Focus Area |
|---|---|
| Consolidation of global cement producers | – Standardization of products and processes to be able to serve our customers better, faster and with more cost efficiency |
| Energy-efficient plants needed for lowering operating costs | – Increased use of KHD roller presses and COMFLEX® grinding applications<br>– Increased use of waste heat<br>– Improved kiln fuel efficiency and use of alternative fuels<br>– Replacement or retrofitting of old plants<br>– Improved maintenance management<br>– Improved productivity through better automation and process control |
| Use of alternative fuels – driven by cost and legislationg | – Further development of KHD's already leading technologies for the use of alternative fuels |
| More requirements for emission controls | – Increased use of COMFLEX® technology to grind clinker as well as substitutes like fly ash, slag, etc.<br>– Development and use of KHD low-emission technologies |

KHD spent € 4.8 million on research and development in 2014 (previous year: € 3.2 million). This corresponds to 2.0% (previous year: 1.3%) of revenue, a high value in industry comparisons maintained by KHD. A total of 35 patents, including 1 registered design, (previous year: 24 patents including 1 registered design) were applied for in the reporting year. At the end of the year, the KHD Group owned the rights to a total of 1,069 items of intellectual property, of which 500 (previous year: 461) were patents, 552 (previous year: 518) were brands and 17 (previous year: 17) were registered designs. The following products and areas were at the center of research and development at KHD in the 2014 financial year.

| Product/Area | R&D Areas of Focus in 2014 |
|---|---|
| Kiln | – Cost reduction<br>– Design optimization<br>– Adjustments toward integration of local manufacturers and Chinese suppliers |
| Burners | – Testing of other alternative fuels<br>– Reduction of nitrogen emissions |
| Environment | – Development of SNCR technology for reducing polluting emissions |
| Grinding plants | – Development of a mobile and semi-mobile grinding plant for clinker (GrindX®) |
| Roller presses | – Development of a mobile welding system for refurbishing roller press surfaces that significantly reduces maintenance time with its flexible use on site |

By using our online innovations management system we collect and analyze new ideas from our employees, who provide important inspiration for KHD's research and development regardless of their position or location.

### Strategic Partnerships

Combining their services KHD and AVIC look forward to becoming one of the market leaders in global cement plant construction industry. Furthermore, the partnership presents KHD with the opportunity to win new equipment supply orders in attractive niches of the Chinese market. The emphasis here is on implementing energy-efficient and environmentally friendly technologies, which are being spearheaded by the Chinese government.

The minerals industry equipment manufacturer Weir Minerals is a licensing partner of KHD for the sale of roller presses in the minerals industry. The business strategy and sales activities are controlled by a joint steering committee.

**Group-wide Culture of Excellence and Commitment (Operational Excellence)**
In order to remain competitive, we are continuously working on optimizing our processes and making our cost structure flexible. In 2014, KHD reorganized its strategic purchasing, centralized it in a Procurement Center in Beijing and integrated it into a Global Supply Chain Management. The Global Supply Chain Management coordinates the procurement departments of the Customer Service Centers, coordinates shared purchasing with AVIC as needed, and is in charge of supplier qualification as well as quality assurance and expediting.

The international collaboration in teams across locations is accompanied in terms of HR with targeted measures to develop teams and management. The Group-wide standardization of processes using SAP and the CRM (Customer Relationship Management) system also contributes to the efficient division of work.

The management structure represents the market-oriented focus and lays the foundations for strengthening the Group-wide culture of excellence. The performance-based remuneration of managers is based on financial as well as customer and service related targets.

## MANAGEMENT AND CONTROL SYSTEM

The strategy of KHD also manifests itself in the way the Group is managed. By using a uniform system of key financial targets across the Group, we ensure a common understanding of how to measure success.

The primary financial indicators KHD uses to determine target achievement are calculated monthly on the basis of key figures. These 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.

## ECONOMIC REPORT

### MACROECONOMIC AND SECTOR-RELATED CONDITIONS

**Economic Environment**

The world 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%). The growth rate for both the developing and emerging economies declined to 4.4% (previous year: 4.7%). The geopolitical situation in particular in the Middle East and Ukraine, as well as again growing concerns 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 accelerated to 5.8%, following 5.0% in the previous year.
- Russia's economy is suffering as a result of the Ukraine crisis and the associated sanctions, as well as from low crude oil prices and the significantly weakened ruble. The IMF reports growth of only 0.6% for the year 2014 (previous year: 1.3%).
- Lower growth of only 3.0% is also reported for Turkey (previous year: 4.0%). In addition to a less dynamic Eurozone and domestic political problems, the conflicts in Iraq and in Syria also had an adverse effect.
- 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 of the Brazilian economy and difficult financing conditions were responsible for a significant drop in investment propensity.
- The Southeast Asian emerging countries varied in their development: While Malaysia's economy grew significantly, those of Indonesia and Thailand showed weaker growth compared to the previous year.

**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 the 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. However, 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 significantly differing growth dynamics, 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 an increase 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 weak development in the previous year, large infrastructure projects making the main contribution.

Capital procurement for investment projects remains difficult in many emerging countries. The central banks in markets relevant for 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 in India and Turkey at the end of the 2014 financial year.

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 engineering. In addition, the announced merger of Holcim and Lafarge led to reorganization in the industry. Competitors consider purchasing cement plants, which have to be sold by Holcim and Lafarge to fulfill the requirements of the merger. This had a negative impact on the willingness for investments into new plants 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 cement plant construction companies abroad. However, there are opportunities in particular for foreign equipment suppliers due to the increasing demand for environmentally friendly technologies.

Invest propensity in new cement plants worldwide continues to be determined by the price level of cement, the capacity utilization of existing plants, the level of interest rates, and the availability of investment capital.

### Financial Market Environment

Because of KHD's global presence, its business performance is subject to currency effects and other factors. Particularly relevant is the development of the Indian rupee and the US dollar as well as, to a lesser degree, the development of the Russian ruble.

The Indian rupee closing rate gained significantly against the euro (+9.1%) during the year under review. However, at 80.78 rupees to the euro, the average rate was somewhat above that of the previous year (78.53 rupees to the euro). The US dollar closing rate also gained significantly (+12.0%). The average rate at 1.32 US dollar to the euro fluctuating at around the previous year's level. The Russian ruble closing rate fell against the euro by 49.3%. The average rate changed to 51.50 rubles to the euro (previous year: 42.59 rubles to the euro). Exchange rate changes over the reporting year have had an overall negative impact on the KHD Group due to the translation of local financial statements in euros.

## IMPORTANT EVENTS OF THE FINANCIAL YEAR

### 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 old shareholders to the bidding consortium. The bidding consortium has therefore held the majority of the KHD shares since January 2014. As a result of the transfer during the year of the bidding companies Europe Project Management Pte. Ltd., Singapore, Europe Technology Investment Pte. Ltd., Singapore, and Europe Engineering Holdings Pte. Ltd., Singapore to Kaihang Industrial Limited, Road Town, British Virgin Islands, AVIC International Holding Corporation, Beijing, China, now indirectly holds 89.02% of the KHD shares.

**Service Business Expansion**

The parts and services business for cement plants became even more crucial in delivering sales and earnings for the year 2014. KHD has appointed more staff to the business unit and invested in new service products. Among other things, the service team has developed a mobile welding system for roller press surfaces, which was recently deployed in Turkey.

**Intercompany Loan to AVIC HK**

KHD concluded two loan agreements in July and November each worth € 50 million with AVIC International (HK) Group Ltd., Hong Kong, as borrower. The loans bear interest of 6% per annum and have a term of three years. The first loan is due for repayment on July 21, 2017. 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 is due on November 12, 2017. The option to demand repayment prior to its maturity is not arranged. Both loans are secured by group guarantees provided by AVIC.

**New Bank Guarantee Credit Facility**

During the reporting year, KHD put its financing on a new, long-term basis. As a result of the AVIC takeover KHD canceled the formerly existing bank guarantee credit facility agreement with a bank consortium with effect from August 25, 2014. KHD replaced this bank guarantee credit facility agreement with two bilateral bank guarantee credit facilities with Deutsche Bank AG (€ 40 million) and the Austrian Raiffeisen Bank International AG (€ 38 million). Furthermore, KHD agreed bank guarantee credit facilities with Bank of China, Frankfurt branch, and the Industrial and Commercial Bank of China, Frankfurt branch, with a total volume of approximately € 70 million. Overall, much more favorable terms and conditions could be achieved.

**Order from PZK**

In April 2014, KHD received orders from Pervaja Cementnaja Kompanija (PZK) with a total value of over € 90 million for the supply of equipment and services for a new cement plant. The plant will encompass two production lines each with a capacity of 3,000 tons of cement clinker per day. However, this project could not yet be recorded in order intake due to the customer's financing difficulties following the ongoing uncertainties in connection with the crisis in Ukraine.

## OVERALL ASSESSMENT OF THE RESULTS OF OPERATIONS AND ECONOMIC POSITION

Based on order intake and revenue development, business development in 2014 was not satisfactory. Significant budget targets could not be met in the 2014 financial year.

In the outlook for the 2014 financial year it was assumed that growth of the global cement markets will accelerate which will lead to the cement producers' increased tendency to invest. Contrary to this assumption, however, the uncertainties surrounding the future development of cement consumption resulted in further delays in the awarding of orders by our customers. Also, the markets being most important for KHD were notably influenced by political and economic – especially the Ukraine crisis – uncertainties. Despite the pleasing development in the Parts & Services segment, order intake (€ 101.3 million) was significantly below the outlook's figure (about € 250 million) and also falls below the updated forecast disclosed in the interim report as of November 14 (about € 130 million). Compared over many years the order backlog at € 195.4 million at the end of the fiscal year 2014 is on a low level, which will challenge our capacity utilization in the medium and long term.

The revenue at € 240.2 million nearly reached the outlook's figure (about € 250 million). In the forecast updated in August revenue reduction of up to 10% had been expected. However, due to the good development in the fourth quarter the drop in revenue was lower.

Overall, the KHD Group achieved earnings before interest and taxes (EBIT) of € 1.1 million and thus a slightly positive EBIT margin of 0.5%. Despite downward adjustments of the forecasted results during the year 2014, the figure originally forecasted in the budget was still reached. Earnings before tax (EBT) amounted to € 4.0 million. The interest income from loans granted to AVIC International (HK) Group Ltd. thereby had a positive effect.

For the operating cash flow (€ –11.0 million) a slightly positive figure had been budgeted. The expected net cash inflows, however, could not be realized due to the low order intake. KHD's financial and net assets position still remains stable due to adequate liquidity and the high equity ratio.

The assessment of business developments and economic situation of both segments shows obvious differences.

The Capex business unit achieved an order intake of € 48.2 million, which accounts for less than a quarter of the originally budgeted new business. The revenue of € 181.0 million was about 10% below budget and the EBIT in the Capex segment of € –11.1 million was clearly below the budget figure, despite positive special effects (see earnings position of the Group).

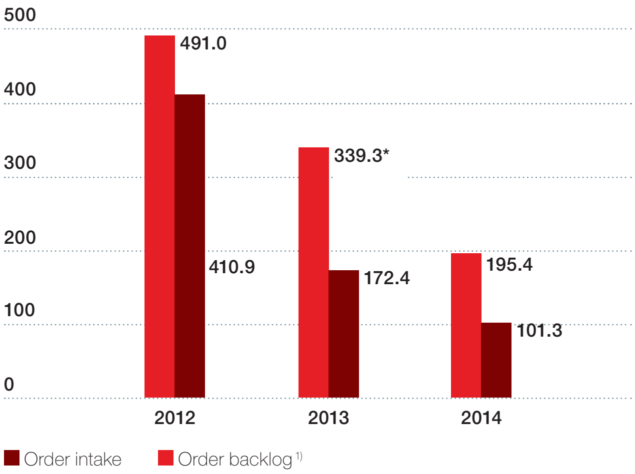
In the Parts & Services business unit the order intake of € 53.2 million and revenue of € 59.2 million were more than 30% and 50%, respectively, above budget. EBIT in the Parts & Services segment at € 12.2 million was significantly better than planned (budget amount: € 4–6 million).

## BUSINESS AND EARNINGS POSITION

### Order Intake and Order Backlog

During the 2014 financial year, order intake was € 101.3 million, following € 172.4 million in the previous year. Due to the customer's financing difficulties following ongoing uncertainties connected to the crisis in Ukraine, the new order won in April 2014 in Russia (Pervaja Cementnaja Kompanija), with a total volume of over € 90 million, could not be recorded in order intake by the end of the year. In the case of other planned projects there were also delays in the awarding of orders.

**Order intake and order backlog**
in € million




1) at the end of year
* previous year's figures adjusted for canceled order in Russia

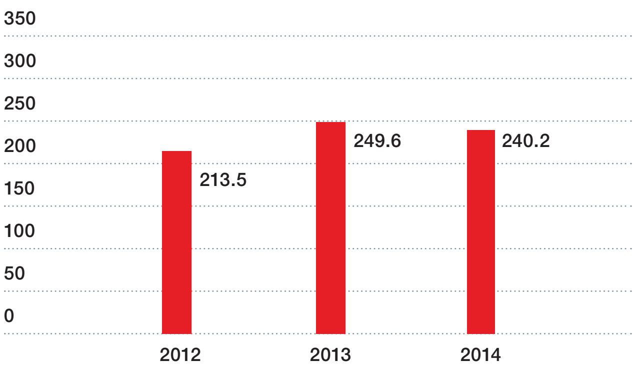
Only smaller orders with a total volume of € 48.2 million could be booked as order intake in the Capex segment. With € 53.2 million, the parts and services business contributed more than 50% to the total order intake: the majority of these orders originated from Russia and India.

As a result of the low level of order intake and the ongoing execution of existing orders, order backlog as of December 31, 2014 was € 195.4 million (previous year: € 339.3 million). The previous year's figure was adjusted for a canceled order from Russia amounting to approximately € 75 million.

### Group Revenue

The KHD Group generated revenue of € 240.2 million in the 2014 financial year. The slight decrease of 3.8% compared with the previous year's figure (€ 249.6 million) is mainly the result of the low order intake in the Capex segment. Projects in India, North America, Russia, and Malaysia mostly contributed to revenue.

**Group revenue**
in € million




### Earnings Position of the Group

Despite the fall in revenue, gross profit increased to € 32.3 million (previous year: € 29.4 million). On the one hand this is a result of contract costs back charged to subcontractors in an amount of € 5.0 million as this led to a reduction of cost of sales. On the other hand in the high revenue portion from the Parts & Services business unit had a positive impact as the margins are significantly higher compared to Capex. The total gross profit margin improved from 11.8% to 13.4%.

Other operating income increased to € 5.6 million (previous year: € 3.5 million). In the 2014 financial year this position in particular includes income from exchange rate fluctuations (€ 4.0 million). From an economic perspective it has to be considered that due to the foreign currency hedging performed the income from exchange rate fluctuations should be offset against expenses from foreign exchange forward contracts (€ 2.1 million) that are presented under other expenses. Other operating income in the previous year mainly included income of € 2.1 million relating to a contingent purchase consideration agreed in 2009 as part of the sale of the workshop in Cologne.

In 2014 sales and tendering activities again were focused on strategically important projects in the KHD Group's core markets. Sales expenses increased by 4.2% to € 10.0 million (previous year: € 9.6 million).

The increase in general and administrative expenses of 10.6% to € 17.7 million (previous year: € 16.0 million) is mainly due to the expansion of the Parts & Services segment. In addition to the costs of general administration this includes in particular legal and consulting costs, costs for preparing and auditing financial statements, Management Board remuneration, Supervisory Board remuneration, and costs related to the KHD Group's stock exchange listing.

Other expenses of € 9.1 million (previous year: € 6.0 million) especially include expenses for research and development of € 4.8 million (previous year: € 3.2 million) as well as expenses due to fair value adjustments of foreign exchange forward contracts and currency effects (€ 2.6 million). The expenses from foreign exchange forward contracts and currency effects mainly result from currency hedging transactions and therefore, from an economic perspective should be offset against the income from exchange rate fluctuations. The significant increase of research and development costs against the previous year is due to the intensification of development projects that should secure the KHD Group's technological lead and improve its service offering. The focus during the reporting year was particularly on the mobile grinding units (GrindX®).

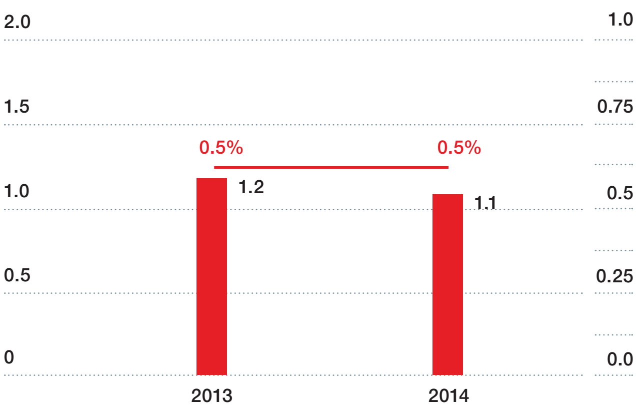
Both the expansion of the Parts & Services business unit as well as the increased expenses for research and development reflect the persistent investment in the KHD Group's strategic growth despite difficult economic conditions.

After deduction of the expenses, earnings before interest and taxes (EBIT) amounts to € 1.1 million (previous year: € 1.2 million). The EBIT margin reached 0.5% (previous year: 0.5%).

The Group's net finance income has improved significantly over the previous year (€ 1.2 million) to € 2.9 million. It includes interest income of € 1.8 million from both loans, each amounting to € 50 million, granted to AVIC International (HK) Group Ltd. (AVIC HK) in July and November 2014. As in 2013, the largest single item under finance expenses, which totaled € 1.6 million (previous year: € 1.4 million), was the interest expense related to pension benefit obligations, provisions, and other non-current liabilities.

At € 4.0 million, earnings before tax (EBT) increased significantly (previous year: € 2.4 million). After income tax expenses of € 2.4 million (previous year: € 1.7 million), the group net profit for the year amounted to € 1.6 million (previous year: € 0.7 million). Basic and diluted earnings per share increased to € 0.02 (previous year: € 0.01).

**EBIT and EBIT-Marge (in %)**
in € million




### Segment Earnings Situation

Controlling, monitoring, and reporting have been carried out within the KHD Group in two separate segments, Capex (project business) and Parts & Services, since January 1, 2014. However, comparative figures for both segments for the 2013 financial year are not available.

At € 181.0 million, revenue for the **Capex** segment fell short of expectations. Despite back charging contract costs to subcontractors in the amount of € 5.0 million, gross profit in the Capex business unit at € 15.1 million (gross profit margin: 8.5%) was unsatisfactory due to the execution of orders with weak margins and gross profit deterioration in current projects.

Other operating income of € 5.6 million was attributed to the Capex business unit. The segment's sales expenses amounted to € 7.9 million; general and administrative expenses were € 14.8 million. Other expenses of € 9.0 million mainly include expenses for research and development of € 4.8 million, which are fully attributed to the Capex segment. Due to major challenges in the markets and regarding the projects currently in execution as well as due to relatively high administration and sales costs, the EBIT for the business unit amounted to € – 11.1 million.

Revenue in the **Parts & Services** segment totaled € 59.2 million, and was therefore significantly higher than planned. The gross profit of € 17.2 million (gross profit margin: € 29.1%) made a decisive contribution to the increase in the Group's gross profit.

Sales expenses, general and administrative expenses and other costs for the segment amounted to € 5.0 million. EBIT for the business unit (€ 12.2 million) clearly exceeded expectations due to good revenue development and a very favorable development of margins.

### Appropriation of Net Retained Profit

The Management Board and the Supervisory Board will propose to the shareholders at the Annual General Meeting to be held on May 28, 2015, that the net retained profit of KHD Humboldt Wedag International AG amounting to € 6.2 million (reported pursuant to the German Commercial Code (HGB)), should be carried forward.

## FINANCIAL POSITION AND NET ASSETS

### Fundamentals of the Financing Strategy

The KHD Group's finance strategy is characterized by a robust liquidity position at Group level and a strong equity base. Both of these are prerequisites for the course of our internal and external growth over the coming years, which includes investing in new technologies and expanding the business model.

KHD Humboldt Wedag International AG controls the Group's financial management and makes sufficient cash available to Group companies where required so that payment obligations can be met in full at all times. The major part of the excess liquidity which is not necessary for daily operations has been granted to

AVIC (HK) as loans (€ 100 million in total) with an attractive interest rate of 6% per annum. Internal financing is the fundamental principle followed within the Group. Correspondingly, Group companies are in the first instance themselves responsible for accumulating liquidity surpluses to cover their financing requirements. KHD, however, provides its subsidiaries with additionally required liquidity as needed. Project business means that the KHD Group has to cope with a very cyclical market environment that is characterized by individual high-volume orders and varying financing structures. In order to have sufficient cash and cash equivalents to meet Group companies' operating financing requirements available at all times, a high liquidity position is necessary. Financial security is controlled via the operating cash flow and is largely measured by determining freely available liquidity and by using the equity ratio.

All operating companies in the KHD Group have access to bank guarantee credit facilities for various hedging instruments such as guarantees, letters of credit, and letters of comfort via bank guarantee credit facilities with Deutsche Bank AG (€ 40 million) and Austrian Raiffeisen Bank International AG (€ 38 million). Furthermore, the KHD Group has bank guarantee credit facilities with Bank of China, Frankfurt branch, and Industrial and Commercial Bank of China, Frankfurt branch, with a total volume of around € 70 million. As of December 31, 2014 the bank guarantee credit facilities have been utilized in a total of € 54.1 million.

Contracts with both, customers and suppliers, are generally concluded in the local currency of the respective KHD company. In principle, foreign exchange rate risks are hedged using foreign exchange forward contracts.

**Financial Position**

Total cash and cash equivalents declined by € 228.2 to € 123.6 million during the reporting year. The significant decrease is primarily due to the extension of two intercompany loans totaling € 100 million to AVIC HK.

Besides the short-term liquidity in the form of cash and cash equivalents the KHD Group can call the € 50 million loan for repayment that has been granted to AVIC HK in July 2014 by giving 30 days' notice in case of additional need for liquidity.

**Cash Flow**

Cash flow from operating activities of € – 11.0 million (previous year: € – 47.1 million) was negatively influenced especially by the low volume of advance payments resulting from subdued volume of new business, as well as a high stage of completion of significant projects in the order backlog. Additionally, the repayment of advance payments following the cancellation of a significant order in Russia had a negative impact.

Further details of the operating cash flow are presented in the following table:

| in € thousand | Jan. 1 – Dec. 31, 2014 |
|---|---|
| Cash flow from construction contracts in progress (including progress billings) | 11,568 |
| Cash flow from current liabilities/invoices from subcontractors | (5,854) |
| Cash flow from changes in receivables | (10,524) |
| Cash flow from utilization of provisions and long term liabilities | (7,572) |
| Cash inflow from result (EBITDA) | 2,983 |
| Cash flow from tax payments made/received | (1,400) |
| Other cash inflows and outflows | (164) |
| **Cash flow from operating activities** | **(10,963)** |

Cash flow from investing activities of € –102.7 million mainly results from granting intercompany loans totaling € 100 million to AVIC HK. Moreover, investments in the expansion of the service business, especially the purchase of a mobile welding system for re-welding roller press surfaces, led to cash outflow.

Cash flow from financing activities of € 33.8 million (previous year: € –29.7 million) mainly resulted from the repayment of the cash deposits (collateral for bank guarantees / restricted cash) of € 28.0 million made by KHD Group. For the bank guarantee credit facilities concluded in the 2014 financial year cash collaterals are not required. Excluding this effect – which had no impact on total cash and cash equivalents – the cash flow from financing activities amounted to € 5.8 million (previous year: € –2.0 million). Interest income as well as proceeds resulting from the sale of own shares are included in this cash inflow.

### Total Assets

The balance sheet total decreased from the figure at the end of 2013 (€ 418.1 million) by € 23.8 million to € 394.3 million. Cash and cash equivalents made up 31.3% of total assets (previous year: 54.6%).

The non-current assets increased within the financial year from € 15.3 million to € 117.8 million, accounting for 29.9% (previous year: 3.7%) of the balance sheet total. This was the effect of the loans (€ 100.0 million) granted to AVIC HK, which are reported under other financial assets and have fixed terms of three years, each. Moreover, the increase of non-current assets results from the increase of deferred tax assets (+ € 1.4 million) and property, plant and equipment (+ € 1.3 million). The low volume of property, plant and equipment reflects KHD's business model, in which production is almost completely outsourced to external manufacturers.

In addition to cash and cash equivalents, current assets include the gross amount due from customers for contract work of € 50.9 million (previous year: € 59.1 million). As of the end of 2014, costs incurred for these contracts plus proportionate profits recognized exceeded progress billings. At € 83.7 million (previous year: € 84.8 million) the high level of trade and other receivables is the result of a high invoicing volume close to year-end. Payments made in advance declined to € 12.1 million (previous year: € 19.5 million) due to the low volume of projects currently in execution.

### Financing

Net assets saw an increase from € 222.5 million by € 3.4 million to € 225.9 million. Apart from the positive result of the year, the increase is also caused by the rise in capital reserves due to the acceptance of the takeover offer for the Group's own shares and by the reduction of currency translation differences which are presented within equity. The equity ratio as of December 31, 2014 amounted to 57.3% and further increased compared to the figure as of December 31, 2013 (53.2%).

The decrease in non-current liabilities to € 33.7 million (previous year: € 35.3 million) mainly reflects a lower level of deferred tax liabilities and the reduction of other non-current liabilities.

On the liabilities side of the balance sheet, current liabilities decreased by € 25.6 million to € 134.7 million (previous year: € 160.3 million). Due to the decreasing order volume the commitments under construction contracts decreased from € 51.2 million to € 34.8 million. Trade payables (especially contract costs) and other liabilities saw a decrease to € 80.5 million (previous year: € 84.9 million) due to a lower volume of incoming invoices close to year-end. Current provisions decreased by € 6.1 million from € 23.8 million to € 17.7 million due to utilization for warranty work and releases of provisions.

Net working capital – the difference between current assets (less cash and cash equivalents) and current liabilities – increased to € 18.1 million (end of 2013: € 14.3 million).

## NON-FINANCIAL PERFORMANCE INDICATORS

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

Targets achievement in relation to non-financial performance indicators is measured with the help of various instruments, such as annual employee appraisal, the CRM system for recording customer satisfaction or the systematic measuring of emissions values and energy consumption of individual products. Value-oriented management in the KHD Group means that, for example, customer satisfaction or the minimization of our products' impact on the environment are more important than short-term profit maximization.

### Employees

#### Personnel Development

As of the end of 2014, KHD employed 777 people across the Group. By comparison with the previous year (757), the number rose slightly, essentially, due to new hires in the service area. As of the end of 2014, approximately 49% of employees in the Group were working in Germany and 38% in India.

Personnel expenses rose, also due to the higher headcount, by € 3.9 million to € 47.4 million (previous year: € 43.5 million).

#### Development of Team and Leadership Skills

Our employees undergo a variety of internal and external training programs. This is intended to ensure that the knowledge, skills, and working practices are adapted to the continuously changing conditions and to customers' growing expectations. For example, external qualifications include the accreditation of project managers by the Project Management Institute or the participation of employees of the Parts & Services segment in a Service Manager Certification Course. Managers' training focuses on leadership and communication.

#### Collaboration with AVIC

In order to foster international communication and raise employees' awareness of the other company's culture, AVIC and the KHD Group have formed a cultural committee, which met several times during the course of the 2014 financial year. In the future, teams specialized in communications and culture will continue to strongly foster collaboration between AVIC and KHD Group. Our employees' ability to effectively and efficiently collaborate despite the existing cultural differences is an increasingly significant performance factor.

## DISCLOSURES PURSUANT TO SECTION 315 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. Ltd. and Max Glory Industries Limited directly hold a 69.02% and a 20.00% stake in the share capital, respectively.

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 315 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, 2013, and remains valid until October 4, 2017.

## SIGNIFICANT AGREEMENTS SUBJECT TO A CHANGE OF CONTROL FOLLOWING A TAKEOVER BID

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.

## 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 314 Number 6a 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 315 Paragraph 2 Number 4 Sentence 2 of the HGB.

### 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 compensation 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 individual Management Board member on clearly defined and demanding targets. The target agreements are oriented toward 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 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 was determined 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's six months, and in Mr. Zhu's and Mr. Uttelbach's 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 terminate 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.

## 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 315 Paragraph 2 Number 4 of the German Commercial Code (HGB) in connection with Section 314 Number 6 HGB. In accordance with the aforementioned provisions, a performance-related remuneration was therefore not shown in the 2013 financial year.

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

| Benefits granted (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 |
| Allocation to termination payment | 55,368 | 223,876 | 223,876 | 223,876 | 0 | 0 | 0 | 0 |
| Fringe benefits | 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** |
| One-year variable compensation | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Multi-year variable compensation | | | | | | | | |
| Fixed bonus (until December 31, 2013)* | 187,500 | 0 | 0 | 0 | 45,000 | 0 | 0 | 0 |
| Bonus for financial targets (until December 31, 2014)** | 0 | 56,250 | 0 | 187,500 | 0 | 22,500 | 0 | 75,000 |
| Bonus for individual targets (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** |
| Service cost | 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 granted (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 |
| Allocation to termination payment | 0 | 0 | 0 | 0 |
| Fringe benefits | 7,227 | 24,393 | 24,393 | 24,393 |
| **Total** | **153,894** | **244,393** | **244,393** | **244,393** |
| One-year variable compensation | 0 | 0 | 0 | 0 |
| Multi-year variable compensation | | | | |
| Fixed bonus (until December 31, 2013)* | 75,000 | 0 | 0 | 0 |
| Bonus for financial targets (until December 31, 2014)** | 0 | 22,500 | 0 | 75,000 |
| Bonus for individual targets (until December 31, 2014)** | 0 | 30,000 | 0 | 75,000 |
| **Total** | **75,000** | **52,500** | **0** | **150,000** |
| Service cost | 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 disclosed as non-performance-related component in the notes to the consolidated financial statements.

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

*** For the 2013 financial year the management board compensation granted to Mr. Quellmalz reflects a time period of eight months.

The variable compensation (benefits granted) disclosed 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 allocation (payment) of Management Board compensation in the 2014 and 2013 financial years:

| | Jouni Olavi Salo Chief Executive Officer | | Yizhen Zhu Executive Vice President | | Ralph Quellmalz*** Chief Financial Officer | |
|---|---|---|---|---|---|---|
| **Allocation (in €)** | **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 |
| Fringe benefits | 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** |
| One-year variable compensation | 0 | 0 | 0 | 0 | 0 | 0 |
| Multi-year variable compensation | | | | | | |
| Bonus for financial targets (April 1, 2010 – December 31, 2012)* | 0 | 401,362 | 0 | 43,117 | 0 | 0 |
| Bonus for individual targets (April 1, 2010 – 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** |
| Service cost | 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 in the 2013 financial year for the assessment period 2010 – 2012 was already fully accrued in the 2012 financial year.

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

*** For the 2013 financial year the management board compensation granted to Mr. Quellmalz reflects 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.

### 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 for the 2014 financial year, together with the advance payments made during the financial year, are listed in the following table together with the recipients:

| in € | Fixed compensation |
|---|---:|
| Hubert Keusch (Chairman)[1] | 74,027 |
| Eliza Suk Ching Yuen (Deputy Chairperson)[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 Chairperson 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 Chairperson)[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] Chairperson of the Supervisory Board until June 25, 2013,
Chairperson 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.

## 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 within the Group for Sales and Technology.

On February 13, 2015 the Chief Executive Officer, Mr. Salo, signed a termination agreement with KHD according to which he resigned 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.

## RISK AND OPPORTUNITIES REPORT

### 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, the KHD Group 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, the KHD Group 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 the internal control system. 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 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.

The KHD Group 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. These 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 the 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 explained to managers 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 the KHD Group 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 also 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 Occurence | 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 twice the materiality threshold |
| 5 | catastrophic | Negative impact potentially threatening business viability |

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

| Probability of Occurrence | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| **Impact** | | | | | |
| **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, 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 toward 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 is 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 in a timely manner 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, the KHD Group 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 decreasing margins as a result of tough competition.

The KHD Group operates as a plant engineering company in many countries and regions, meaning that risks are 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 a 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.”

**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 following 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 the 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**
The KHD Group 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. The KHD Group 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 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 “medium”.

### 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 their 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 “high.”

### 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.”

There are significant corporation tax loss carryforwards and trade tax loss carryforwards for several German companies of the KHD Group as of the end of the 2014 financial year arising from the financial years before the takeover by AVIC. There are also significant tax loss carryforwards relating to Humboldt Wedag Inc., USA. Following the takeover, the risk arises that full utilization of the tax loss carryforwards not balanced or deducted may no longer be possible.

In its 2013 consolidated financial statements, the KHD Group has already taken account of the effects relating to a possible limitation on the utilization of tax loss carryforwards. Deferred tax assets on tax loss carryforwards have only been recognized in as far as the tax loss deduction is still also possible in the case of a detrimental investment acquisition. The assessment of the utilization of existing tax loss carryforwards is also a component of the ongoing planning and risk management process. The remaining risk is classified as “medium” overall.

### 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 loan agreements totaling € 100 million, each with a term of three years, with AVIC International (HK) Group Ltd. as borrower.

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, the global economic recovery should exert 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 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.

In addition, better opportunities for acquisitions of, or cooperation with, manufacturing facilities in China arise. 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.

## OUTLOOK

### PROJECTED MARKET ENVIRONMENT

Global economic growth is expected to accelerate slightly in 2015. The International Monetary Fund (IMF) expects a growth rate of 3.8%, as long as the expansive fiscal policy is continued and the geopolitical tensions in Ukraine and the Middle East ease.

Despite the weak economy in China, Russia, and Brazil, the emerging economies should grow by 5.0%. In India, in particular, there are signs of significant recovery. Growth of 2.3% is forecast for the industrial nations.

The market research institute CW Group expects average annual growth in the cement markets of around 4% between now and 2018, although cement consumption in North America and Africa looks set to increase at an above-average rate. By contrast, China is expected to experience a significant slowing down of growth. For India, Russia, and Turkey, the CW Group expects cement consumption to increase between 3% and 6% over the coming year, while the Brazilian market is likely to continue to stagnate. North America could even increase by almost 9% in 2015.

The largest growth in cement consumption is still expected in the Asian emerging economies, followed by Africa and the Middle East. Slight improvement is expected in capacity utilization in nearly all relevant markets except China.

After approval of the merger of the cement producers Holcim and Lafarge by the European Commission, sales of cement plants to fulfill the merger's requirements and the completion of the merger during the first half of 2015 are expected. After the industry's reorganization the willingness for investments into new plants should increase in the second half of 2015 with both Holcim-Lafarge and other cement producers.

The margins in cement plant engineering are expected to remain under heavy pressure as Chinese cement plant equipment suppliers and construction companies make strong inroads into the global market as demand in their domestic markets decreases.

In the medium-to-long term, factors such as ongoing urbanization, demographic trends, and infrastructural needs in developing and emerging economies will drive construction activities and thus boost cement consumption. Increasingly demanding environmental regulations and energy prices that are expected to rise again in medium-to-long term will create more opportunities modernization projects. Half of the world's cement plants are between 25 and 50 years old and often no longer meet the growing requirements for emissions control and energy efficiency.

## EXPECTED BUSINESS DEVELOPMENT

Despite the unsatisfactory course of business in 2014 the KHD Group has better chances in current tenders thanks to its international market presence and commitment to its growth-oriented strategy. In addition, the successful takeover by AVIC will improve our prospects of winning new projects in the medium and long term. Major potential growth drivers are:

- focused market activity in Russia, India, Latin America, Africa, and other growth regions important for the global cement market with the aim of winning promising tenders for the KHD Group for modernization and expansion projects as well as greenfield projects;
- easing of the political situation between Russia and the West and thus executng delayed investments;
- the expansion of the Parts & Services business activities in all regions;
- the strategic partnership with AVIC, which – following the takeover – is to be intensified and coordinated globally along the entire value chain;
- gaining a foothold in attractive and high-growth niches of the Chinese market, primarily due to stricter environmental requirements.

For the 2015 financial year and beyond, material risks arise – in particular for the Capex segment – from general uncertainty, the sensitivity of the cement markets and restraint among cement producers when it comes to larger investments. This may lead to further delays in project awards and project execution and may even result in the cancellation of projects. In addition to continued pressure on margins due to tough competition, technical and economic risks from project execution demand our attention.

The KHD Group utilizes its resources to target business opportunities arising in its traditionally strong markets. We are expecting a significantly higher order intake for the 2015 financial year. Consequently, we aim to achieve at least a doubling of the order intake. However, due to the overall economic difficulties this target is facing a high level of uncertainty. The order backlog as of the end of 2015 should therefore again be at a level that ensures full capacity utilization.

On the basis of the low order backlog at the start of the financial year, the KHD Group is budgeting revenue for the 2015 financial year that is significantly below the previous year's level.

Since revenue in the 2015 financial year will also be generated through projects won in a highly competitive environment with strong margin pressure, we once again expect an unsatisfactory gross profit margin at a level comparable with the previous year.

Despite the measures introduced in previous years toward cost optimization, our planning shows significantly negative EBIT, in particular due to the significantly lower revenue forecast for the current year. This results in a significant EBIT deterioration in comparison to financial year 2014. Therefore, the EBIT margin will most likely also be significantly negative. We aim to counter the continued margin pressure caused by ever tougher competition in cement plant engineering by exploiting cost advantages available through the KHD procurement center in Beijing that is embedded in our Global Supply Chain Management, by means of improvements introduced into project execution, and by practicing strict cost discipline. In conjunction with focusing on projects with better margins as early as in the tendering phase and expansion of service activities, these measures are intended to guarantee an improvement in future profitability.

Due to a significant improvement in the financial result the KHD Group expects to achieve slightly positive earnings before tax (EBT) in the 2015 financial year, despite very difficult overall conditions.

Following the significant cash outflows of previous years, we are expecting no further material cash outflows from the operating cash flow in the 2015 financial year. This is due to increasing order intake and planned cash inflows from progress billings.

Overall, the KHD Group expects unsatisfactory business development for the 2015 financial year due in particular to continued difficult market conditions and the low order backlog at the start of the year. However, we forecast that the KHD Group's financial and net assets position will remain stable and will probably not change significantly in the 2015 financial year in comparison with the previous year. Our liquidity situation continues to be comfortable and combined with our high equity ratio, we have the flexibility that we need to successfully master difficult market phases. This enables us to continuously develop our portfolio of products and services, and to make the most of opportunities for internal and external growth.

### EXPECTED ECONOMIC DEVELOPMENT OF THE CAPEX SEGMENT

Following the unsatisfactory development in the financial year 2014, we are expecting significantly higher order intake for the Capex segment in the 2015 financial year. The order intake will significantly exceed the level of the 2014 financial year. The order backlog as of the end of 2015 should therefore again ensure capacity utilization also for the Capex segment.

The low order backlog at the start of the financial year leads the KHD Group to expect revenue in the Capex segment for the 2015 financial year that will be significantly below the 2014 financial year's value of € 181 million.

Despite the measures introduced in previous years towards cost optimization, our planning shows a significantly negative EBIT in the Capex segment. This is in particular due to the low gross profit margin and a significantly lower revenue volume for the current year. Therefore, the EBIT margin will most likely also be significantly negative.

### EXPECTED ECONOMIC DEVELOPMENT OF THE PARTS & SERVICES SEGMENT

As we are focusing our activities in the Parts & Services segment, the expansion of our market position in this business unit is an important goal for the 2015 financial year. According to our planning for the 2015 financial year nearly a quarter of the expected order intake will be attributable to this segment. We are expecting a material increase compared to the 2014 figure (€ 53 million).

On the revenue side, we plan that the Parts & Services will contribute over 25% of the total revenue in the 2015 financial year. Hence, KHD expects sales to be slightly below the previous year's amount of € 59 million. EBIT of over € 5 million is expected to be generated in the Parts & Services segment.

## OPPORTUNITIES AND RISKS RELATING TO THE OUTLOOK FOR THE 2015 FINANCIAL YEAR

While the risk management system in principle is oriented toward the medium and long term, special consideration is given in the budget preparation process to the opportunities and risks that can have an effect within the outlook period. Due to the special characteristics of long-term plant engineering, risks and opportunities can also lead to significant deviations from planned figures in the short-term outlook.

Significant risks and opportunities regarding the budget values exist for order intake, particularly in the Capex segment. The awarding of individual large contracts to the KHD Group can significantly affect the order intake in the 2015 financial year. Despite close collaboration with customers during the tendering process, customers' investment decision and the awarding of individual projects to the KHD Group can only be forecast with substantial uncertainty, possibly leading to either a significantly higher or significantly lower order intake.

The revenue outlook is mainly based on the order backlog in the Capex segment and on the planning of the relatively stable business in the Parts & Services segment. The risks and opportunities relating to the planned revenue figures are nevertheless significant, since delays or accelerations in project execution as well as delays or accelerations in planned order intake can affect these figures.

In addition to sales volume effects, the forecasted result (EBIT) is materially affected by project-related risks. These arise from unexpected technical problems, supply bottlenecks or quality problems at suppliers of important components, delays in project execution, legal disputes and unforeseeable developments during the erection and commissioning phase on site. There are also warranty risks after the commissioning of the plant. On the other hand, there is the opportunity of a significant improvement in the planned EBIT as a result of improved project execution.

Cologne, Germany, March 17, 2015

The Management Board

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

# Group Financial Statements

**GROUP FINANCIAL STATEMENTS**

# Group Financial Statements

## GROUP INCOME STATEMENT

for the Financial Year 2014

| in € thousand | Note | 2014 | 2013 |
|---|---|---|---|
| Revenue | 4 | 240,190 | 249,624 |
| Cost of sales | | (207,921) | (220,249) |
| **Gross profit** | | **32,269** | **29,375** |
| | | | |
| Other operating income | 20 | 5,635 | 3,456 |
| Sales expenses | 21 | (9,955) | (9,647) |
| General and administrative expenses | 22 | (17,732) | (16,045) |
| Other expenses | 23 | (9,132) | (5,961) |
| **Profit before interest and taxes (EBIT)** | | **1,085** | **1,178** |
| | | | |
| Finance income | 24 | 4,514 | 2,692 |
| Finance expenses | 24 | (1,628) | (1,445) |
| **Net finance income** | | **2,886** | **1,247** |
| **Profit before tax (EBT)** | | **3,971** | **2,425** |
| | | | |
| Income tax expense | 25 | (2,391) | (1,689) |
| **Group net profit for the year** | | **1,580** | **736** |
| | | | |
| Of which are attributable to: | | | |
| Parent company shareholders | | 1,141 | 733 |
| Non-controlling interests | | 439 | 3 |
| | | **1,580** | **736** |

## EARNINGS PER SHARE

| | | 2014 | 2013 |
|---|---|---|---|
| Basic (undiluted) and diluted earnings per share (in €) | 26 | 0.02 | 0.01 |

# GROUP STATEMENT OF COMPREHENSIVE INCOME

for the Financial Year 2014

| in € thousand | 2014 | 2013 |
|---|---|---|
| **Group net profit for the year** | **1,580** | **736** |
| | | |
| **Items that will be reclassified subsequently to profit or loss when specific conditions are met** | | |
| Currency translation differences | 1,455 | (3,369) |
| | | |
| **Items that will not be reclassified subsequently to profit or loss** | | |
| Actuarial gains and losses related to defined benefit obligations less deferred taxes related thereto | (961) | 299 |
| | | |
| **Other comprehensive income** | **494** | **(3,070)** |
| | | |
| **Group comprehensive income** | **2,074** | **(2,334)** |
| | | |
| Of which attributable to: | | |
| Parent company shareholders | 1,635 | (2,337) |
| Non-controlling interests | 439 | 3 |
| | **2,074** | **(2,334)** |

As in the previous year, no income taxes on currency translation differences were applicable. Deferred income taxes related to actuarial gains and losses amount to € 465 thousand (previous year: € – 146 thousand).

# GROUP BALANCE SHEET

as of December 31, 2014

## ASSETS

| in € thousand | Note | Dec. 31, 2014 | Dec. 31, 2013 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 5 | 3,937 | 2,576 |
| Goodwill | 6 | 5,162 | 5,162 |
| Other intangible assets | 6 | 2,167 | 2,680 |
| Other financial assets | 11 | 100,000 | – |
| Deferred tax assets | 8 | 6,548 | 4,908 |
| **Total non-current assets** | | **117,814** | **15,326** |
| | | | |
| **Current assets** | | | |
| Inventories | 9 | 2,378 | 5,318 |
| Gross amount due from customers for contract work | 10 | 50,934 | 59,050 |
| Trade and other receivables | 7 | 83,742 | 84,802 |
| Payments made in advance | | 12,110 | 19,480 |
| Other financial assets | 11 | 569 | 1,253 |
| Income tax assets | | 3,150 | 4,687 |
| Cash and cash equivalents | 12 | 123,627 | 228,169 |
| **Total current assets** | | **276,510** | **402,759** |
| | | | |
| **Total assets** | | **394,324** | **418,085** |

## EQUITY AND LIABILITIES

| in € thousand | Note | Dec. 31, 2014 | Dec. 31, 2013 |
|---|---|---|---|
| **Equity** | | | |
| Subscribed capital | | 49,704 | 49,704 |
| Capital reserves | | 61,097 | 59,841 |
| Treasury shares | | – | (221) |
| Currency translation differences recognized in equity | | (5,124) | (6,579) |
| Retained earnings | | 118,976 | 118,797 |
| | | | |
| Shares of equity attributable to shareholders of the parent company | | 224,653 | 221,542 |
| | | | |
| Non-controlling interests | | 1,229 | 908 |
| **Total equity** | 13 | **225,882** | **222,450** |
| | | | |
| **Non-current liabilities** | | | |
| Other liabilities | 16 | 5,077 | 6,183 |
| Pension benefit obligations | 14 | 25,284 | 24,690 |
| Deferred tax liabilities | 8 | 1,318 | 2,079 |
| Provisions | 15 | 2,020 | 2,358 |
| **Total non-current liabilities** | | **33,699** | **35,310** |
| | | | |
| **Current liabilities** | | | |
| Trade and other payables | 16 | 80,546 | 84,916 |
| Commitments under construction contracts | 17 | 34,792 | 51,210 |
| Income tax liabilities | | 1,741 | 417 |
| Provisions | 15 | 17,664 | 23,782 |
| **Total current liabilities** | | **134,743** | **160,325** |
| | | | |
| **Total equity and liabilities** | | **394,324** | **418,085** |

# GROUP STATEMENT OF CASH FLOWS

for the Financial Year 2014

| in € thousand | 2014 | 2013 |
|---|---|---|
| **Cash flow from operating activities** | | |
| Group net profit for the year | 1,580 | 736 |
| Income tax expense recognized in the income statement | 2,391 | 1,689 |
| Net finance income recognized in the income statement | (2,886) | (1,247) |
| **Earnings before interest and taxes (EBIT)** | **1,085** | **1,178** |
| | | |
| Amortization and depreciation of non-current assets | 1,898 | 2,194 |
| Book gain (–)/loss on disposal of fixed assets | 25 | (5) |
| Increase (–)/decrease in trade receivables and financial assets | 1,060 | (19,802) |
| Increase (–)/decrease in inventories and gross amount due from customers for contract work | 11,056 | (32,842) |
| Increase (–)/decrease in payments made in advance and other financial assets | 8,054 | 9,540 |
| Increase (+)/decrease in trade and other payables and in commitments under construction contracts | (20,788) | (355) |
| Increase (+)/decrease in pension benefit obligations | 594 | (1,213) |
| Increase (+)/decrease in provisions and non-current liabilities | (7,562) | (7,701) |
| Other non-cash-transactions | (5,032) | 499 |
| Dividends received | 47 | 54 |
| Income tax received | 2,454 | 3,396 |
| Income tax paid | (3,854) | (2,086) |
| **Cash flow from operating activities** | **(10,963)** | **(47,143)** |
| | | |
| **Cash flow from investing activities** | | |
| Cash outflow for intangible assets | (524) | (294) |
| Cash outflow for property, plant and equipment | (2,212) | (744) |
| Cash inflow from the disposal of property, plant and equipment | 40 | 80 |
| Extension of loans to affiliated companies | (100,000) | – |
| **Cash flow from investing activities** | **(102,696)** | **(958)** |

| in € thousand | 2014 | 2013 |
|---|---|---|
| **Cash flows from financing activities** | | |
| Interest received | 4,467 | 2,476 |
| Payment for purchase of shares from non-controlling interests | (118) | (39) |
| Dividends paid to parent company shareholders | – | (4,453) |
| Proceeds from the sale of treasury shares | 1,477 | – |
| Change in restricted cash (collateral for bank guarantees) | 28,017 | (27,650) |
| **Cash flow from financing activities** | **33,843** | **(29,666)** |
| | | |
| **Change in unrestricted cash and cash equivalents** | **(79,816)** | **(77,767)** |
| | | |
| Opening balance of unrestricted cash and cash equivalents | 200,066 | 282,182 |
| Exchange rate effects | 3,291 | (4,349) |
| **Closing balance of unrestricted cash and cash equivalents** | **123,541** | **200,066** |

| in € thousand | Dec. 31, 2014 | Dec. 31, 2013 |
|---|---|---|
| **Composition of unrestricted cash and cash equivalents** | | |
| Current bank accounts and cash | 85,177 | 77,222 |
| Short-term bank deposits and restricted cash | 38,450 | 150,947 |
| **Total cash and cash equivalents** | **123,627** | **228,169** |
| | | |
| Restricted cash (collateral for bank guarantees) | (86) | (28,103) |
| **Closing balance of unrestricted cash and cash equivalents** | **123,541** | **200,066** |

Cash and cash equivalents decreased in the financial year by € 104,542 thousand to € 123,627 thousand (previous year: € 228,169 thousand). In addition to cash outflows from operating activities of € 10,963 thousand (previous year: € 47,143 thousand), the decrease is mainly due to loans totaling € 100,000 thousand extended to AVIC HK during the 2014 financial year. Due to the payment of the loans, the cash flow from investing activities is clearly negative at € 102,696 thousand. Contrary to this the cash flow from financing activities increased to € 33,843 thousand (previous year: € –29,666 thousand) particularly as a result of the repayment of cash deposited at banks. Restricted cash of € 28,017 thousand was released during the financial year, while in the previous year an additional € 27,650 thousand had to be deposited as collateral. At the end of the financial year, unrestricted cash and cash equivalents amounted to € 123,541 thousand (previous year: € 200,066 thousand).

# GROUP STATEMENT OF CHANGES IN EQUITY

for the Financial Year 2014

| in T€ | Subscribed capital | Capital reserves | Treasury shares |
|---|---|---|---|
| **Dec. 31, 2012** | **49,704** | **59,841** | **(221)** |
| Group net profit for the year | – | – | – |
| Actuarial gains and losses | – | – | – |
| Currency translation differences | – | – | – |
| **Group comprehensive income** | **–** | **–** | **–** |
| | | | |
| Other changes | – | – | – |
| Payment of dividends | – | – | – |
| Purchase of non-controlling interests | – | – | – |
| **Dec. 31, 2013** | **49,704** | **59,841** | **(221)** |
| Group net profit for the year | – | – | – |
| Actuarial gains and losses | – | – | – |
| Currency translation differences | – | – | – |
| **Group comprehensive income** | **–** | **–** | **–** |
| | | | |
| Other changes | – | – | – |
| Sale of treasury shares | – | 1,256 | 221 |
| Purchase of non-controlling interests | – | – | – |
| **Dec. 31, 2014** | **49,704** | **61,097** | **–** |

| Currency translation differences recognized in equity | Retained earnings | Equity attributable to shareholders of the parent company | Non-controlling interests | Total |
|---|---|---|---|---|
| **(3,210)** | **122,232** | **228,346** | **944** | 229,290 |
| – | 733 | 733 | 3 | **736** |
| – | 299 | 299 | – | **299** |
| (3,369) | – | (3,369) | – | **(3,369)** |
| **(3,369)** | **1,032** | **(2,337)** | **3** | (2,334) |
| | | | | |
| – | (14) | (14) | – | **(14)** |
| – | (4,453) | (4,453) | – | **(4,453)** |
| – | – | – | (39) | **(39)** |
| **(6,579)** | **118,797** | **221,542** | **908** | 222,450 |
| – | 1,141 | 1,141 | 439 | **1,580** |
| – | (961) | (961) | – | **(961)** |
| 1,455 | – | 1,455 | – | **1,455** |
| **1,455** | **180** | **1,635** | **439** | 2,074 |
| | | | | |
| – | (1) | (1) | – | **(1)** |
| – | – | 1,477 | – | **1,477** |
| – | – | – | (118) | **(118)** |
| **(5,124)** | **118,976** | **224,653** | **1,229** | 225,882 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the Financial Year 2014

## 1 SUMMARY OF MAJOR ACCOUNTING AND MEASUREMENT PRINCIPLES

### BASIS OF PREPARATION AND OTHER NOTES

KHD Humboldt Wedag International AG with registered offices in Colonia-Allee 3, 51067 Cologne, Germany, entered in the Cologne Commercial Register, Department B, with the number 36688. The company's shares are traded on the regulated market (general standard) at Frankfurt Stock Exchange.

KHD and its subsidiaries are hereinafter referred to as the "Group" or the "KHD Group". The directly controlling parent company of KHD is AVIC International Engineering Holdings Pte. Ltd. (AVIC Engineering), Singapore, Singapore, which owns 69.02% of KHD's shares. To the knowledge of the Management Board, AVIC Engineering itself does not publish consolidated financial statements. The controlling entity further up the hierarchy, which publishes consolidated financial statements, is AVIC International Holdings Limited (AVIC International), Hong Kong, a company listed at the Hong Kong Stock Exchange. The consolidated financial statements are available at the registered office of the Company and on the Company's website (www.avic161.com). Since January 2014 the ultimate parent company of the KHD Group is Aviation Industry Corporation of China, Beijing, which itself is owned by the People's Republic of China.

KHD's consolidated financial statements have been prepared according to uniform accounting and measurement principles. The consolidated financial statements have been prepared in accordance with prevailing International Financial Reporting Standards (IFRS) and their related interpretations as applicable in the EU, and are in line with the statutory obligations that are applicable to companies which are required to submit mandatory reports to the capital markets pursuant to Section 315a Paragraph 1 of the German Commercial Code (HGB) together with Article 4 of the Regulation (EC) No. 1606/2002 of the European Parliament and Council of July 19, 2002, relating to the application of current international accounting standards in their current version (IAS-Regulation). These consolidated financial statements have been prepared in euros. All amounts, including figures used for comparison from the previous year, are generally stated in thousands of euros (€ thousand). All amounts have been rounded according to normal commercial practice. The Group income statement has been prepared using the nature of expense method. The financial year of KHD and of its subsidiaries and joint ventures included in the consolidated financial statements corresponds to the calendar year.

### CONSOLIDATION

Subsidiaries are investees over which KHD has the power to control, is exposed to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. This is regularly the case if KHD holds, directly or indirectly, more than 50% of the voting rights, or controls the business activities in another manner. These companies are, as a general rule, consolidated. Subsidiaries are consolidated from the date when actual control is transferred to KHD and are deconsolidated from the date when control no longer exists. All intercompany transactions, balances, and unrealized profits or losses on intra-Group transactions are eliminated. The accounting and measurement principles applicable to subsidiaries pursuant to statutory law are adjusted in order to ensure consistency with the accounting and valuation principles of KHD. Non-controlling interests are presented and commented on separately.

The Group's subsidiaries are listed under Note 2 in the notes to the consolidated financial statements.

## CURRENCY TRANSLATION

Monetary items denominated in foreign currencies are translated in the individual financial statements at the rate effective as of the transaction date and adjusted to the relevant rate prevailing on each reporting date. Resultant currency translation differences are recognized in the income statement.

The individual financial statements prepared by the foreign subsidiaries are translated into euros in line with the functional currency principle. Equity is translated at historical rates, assets and liabilities at the rate in effect on the balance sheet date, and income and expenses at the average rates. The Group's functional currency is the euro.

The applicable exchange rates are set out in the table below:

| | currency | Closing rate as of Dec. 31, 2014 | Average rate Jan. 1 to Dec. 31, 2014 |
|---|---|---|---|
| | 1 euro = | | |
| Australia | AUD | 1.4841 | 1.4708 |
| India | INR | 77.4729 | 80.7777 |
| USA | USD | 1.2166 | 1.3219 |
| Malaysia | MYR | 4.2622 | 4.3329 |
| Brazil | BRL | 3.2410 | 3.1163 |
| Russia | RUB | 67.5895 | 51.5000 |

Exchange rates used in the preceding financial year:

| | currency | Closing rate as of Dec. 31, 2013 | Average rate Jan. 1 to Dec. 31, 2013 |
|---|---|---|---|
| | 1 euro = | | |
| Australia | AUD | 1.5396 | 1.3938 |
| India | INR | 85.2246 | 78.5281 |
| USA | USD | 1.3767 | 1.3299 |
| Malaysia | MYR | 4.5204 | 4.2174 |
| Brazil | BRL | 3.2519 | 2.9000 |
| Russia | RUB | 45.2582 | 42.5931 |

## INTANGIBLE ASSETS

### Goodwill

In line with IFRS 1 exemptions, goodwill was included in the first IFRS consolidated financial statements at the carrying amounts which were determined according to the previously applicable accounting principles (Section 301 of the German Commercial Code [HGB]).

For all acquisitions subsequent to this date, goodwill corresponds to the positive difference between the acquisition costs for a business combination and the acquired remeasured assets, liabilities, and contingent liabilities which remains after performing a purchase price allocation, in particular the identification of intangible assets. Goodwill is presented as a separate item under non-current assets. It is subject to impairment tests, which are performed annually and/or following triggering events, and is measured at the lower of cost and recoverable amount (cost less impairment losses).

**Other intangible assets**

Other intangible assets are recognized at cost less scheduled amortization. Software licenses are amortized using the straight line method over a useful life of three years.

Development costs are capitalized in the KHD Group to the extent that they meet the requirements for capitalization. As in the previous year, development costs that require capitalization were not incurred. Research costs are recognized as an expense through the income statement in the period in which they are incurred.

## PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment is measured at cost less scheduled, straight-line depreciation. In addition to the purchase price, acquisition costs also include costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. The useful life of operating and office equipment and of other plants is generally between three and ten years. Leasehold improvements are depreciated over the term of the lease. Gains and losses on the disposal of property, plant, and equipment are measured by reference to their carrying amount and are recognized in the income statement.

Costs for the repair of property, plant, and equipment are generally expensed in the period when incurred. Major expenses for renewals and improvements are capitalized if it is likely that the Group will derive future economic benefit in addition to the originally recorded performance standard of the existing item of property, plant, or equipment.

Under the leases concluded, the major risks and benefits from the leased asset remain with the lessor. As a result, all leases are classed as operating leases. Therefore, all payments for operating leases are expensed in the income statement using the accrual basis of accounting.

## BORROWING COSTS

Borrowing costs are capitalized in the KHD Group to the extent that they are attributable to the purchase or production of qualifying assets. Borrowing costs are otherwise expensed through the income statement under net finance income. As in the previous year, no borrowing costs were capitalized in the 2014 financial year.

## IMPAIRMENT TEST ON NON-CURRENT ASSETS

Non-current assets, including intangible assets with a limited useful life, are tested for impairment as soon as events or changes in circumstances give rise to assume that the carrying amount of such assets is no longer recoverable. If the carrying amount is higher than the calculated recoverable amount, the asset is written down to its recoverable amount.

## FINANCIAL INVESTMENTS, OTHER FINANCIAL ASSETS, AND FINANCIAL LIABILITIES

Financial assets as defined by IAS 39 in the KHD Group currently relate either to

- financial assets that are measured at fair value through profit or loss, or
- loans and receivables

and are classified accordingly. Financial assets are measured at fair value on initial recognition. Transaction costs that are directly attributable to the acquisition of an asset are also considered at initial recognition of financial assets except for those financial assets that are not measured at fair value through profit or loss. Financial assets are designated to a measurement category at the time of initial recognition. With the exception of derivatives held for trading, all arm's length purchases and sales of financial assets are recognized at the settlement date, i.e. the date at which an asset is delivered to or by the Group. Derivatives are recognized at the trade date, i.e. the date at which the Group entered into the commitment to purchase or sell an asset. Arm's length acquisitions or disposals are acquisitions or disposals of financial assets that require delivery of an asset within a period defined by market rules or standards.

### Financial Assets Measured at Fair Value through Profit or Loss

In the KHD Group, the group of financial assets measured at fair value through profit or loss comprises financial assets held for trading. To date, the KHD Group has not utilized the option to designate financial assets as financial assets measured at fair value through profit or loss at the date of initial recognition. Financial assets are classified as held for trading if they are acquired for the purpose of disposal in the near term. Derivatives are always classified as held for trading.

### Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments and which are not quoted in an active market. This category includes receivables from loans, trade and other receivables as well as other assets. They arise if the KHD Group provides money, goods, or services directly to a debtor. They are classified as current assets, except for those that are not due within twelve months of the balance sheet date, or which are classified as non-current on the basis of their economic structure. The latter are presented as non-current assets. After initial recognition, loans and receivables are measured at amortized cost by applying the effective interest rate method less any impairment. Gains and losses are recognized in the net profit for the year when loans and receivables are derecognized or impaired, and through the amortization process.

### Impairment of Financial Assets

Except for financial assets measured at fair value through profit or loss, financial assets are examined at each balance sheet date for objective indications of impairment (such as considerable financial difficulties of a debtor, a high probability of insolvency proceedings against a debtor, the disappearance of an active market for a financial asset, a major change in the technological, economic, or legal environment as well as in the market environment of an issuer, or a persisting decline in the fair value of a financial asset below the amortized cost).

If there is objective evidence that a financial asset accounted for at amortized cost has been impaired, the amount of the impairment loss is calculated as the difference between the carrying amount of the asset concerned and the present value of the estimated future cash flows (excluding future credit losses that have not yet been incurred), discounted at the financial asset's original effective interest rate, i.e. the effective interest rate computed at initial recognition. The impairment loss is recognized through profit and loss.

If, in subsequent reporting periods, the amount of impairment loss decreases and this decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. However, the new carrying amount of the asset concerned must not exceed the amortized cost at the time of the reversal. The amount of the reversal is recognized through profit and loss.

If there is objective evidence with respect to trade receivables and other receivables that not all amounts due will be received in accordance with the originally agreed terms stated in the invoice (such as doubtful solvency of a debtor, disagreement on the existence or amount of a receivable, lack of enforceability of a receivable for legal reasons, etc.), a valuation allowance is made by using an allowance account. Receivables are derecognized if they are considered to be irrecoverable.

Impairments of other financial assets are taken into account by directly writing down the respective carrying amount.

**Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand as well as bank balances immediately available, call deposits at banks, and money market investments, excluding overdraft facilities with an original term to maturity of up to three months that are accounted for at nominal value. Restricted cash is stated separately. Cash on hand and bank balances are measured at amortized cost.

**Financial Liabilities**

Financial liabilities as defined by IAS 39 relate to financial liabilities that are measured at amortized cost.

Financial liabilities in the KHD Group largely consist of:

- Financial liabilities
- Trade and other payables

Financial liabilities are classified as current if the KHD Group is not entitled to settle the financial liability after more than twelve months following the balance sheet date.

Financial liabilities are measured at fair value, including transaction costs, at the time of initial recognition. In the following periods, they are measured at amortized cost using the effective interest rate method.

## DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGES

The Group regularly utilizes derivative financial instruments to mitigate the foreign currency risk of recognized assets and liabilities or of planned transactions denominated in foreign currencies. All derivative contracts are exclusively foreign exchange forward contracts.

These are initially recognized at fair value at the date the contract is concluded and measured at fair value in subsequent periods. The fair value of derivatives is calculated on the basis of quoted market prices or on the basis of discounted cash flow analyses, using corresponding yield curves for the term to maturity of the instruments concerned.

Given that the derivative financial instruments concluded by KHD do not meet the strict hedge accounting requirements, changes in value of the derivative financial instruments are recognized directly in the income statement.

## INVENTORIES

Inventories are carried at cost. In general, raw materials, consumables and supplies are measured at moving average cost. The amount of any write-down to net realizable value is recognized. The to net realizable value is composed of the estimated selling price in the ordinary course of business less the estimated cost of completion and costs necessary to make the sale. In case of an increase in net realizable value of inventories that have been written-down the compulsory reversal of write-down is recognized as a reduction in the amount of inventories recognized as an expense.

## CONSTRUCTION CONTRACTS

Revenue and profits from construction contracts are recognized according to the stage of completion in accordance with IAS 11. The stage of completion is calculated as the ratio of contract costs incurred as of the end of the financial year to the estimated total contract cost upon completion of the contract. Expected losses from construction contracts are fully recognized as an expense in the financial year in which the losses become identifiable, irrespective of the stage of completion. Long-term construction contracts which are measured according to the percentage-of-completion method are presented under gross amount due from customers for contract work or commitments under construction contracts, depending on the amount of progress billings. They are measured at cost incurred plus a proportionate profit depending on the stage of completion. To the extent that contract revenue (contract costs incurred plus recognized contract profits) exceeds the progress billings, construction contracts are presented as an asset under gross amount due from customers for contract work. If there is a negative balance after deducting progress billings, this balance is presented as a liability under commitments under construction contracts. Expected contract losses are recognized through valuation allowance or loss order provisions. All identifiable risks are taken into account when determining such expected contract losses.

## PENSION BENEFIT OBLIGATIONS AND RETIREMENT BENEFIT PLANS

The pension benefit obligations recognized in the balance sheet are based on the present value of the obligations from defined benefit plans as of the balance sheet date. The present value of the defined benefit obligations is determined annually by independent actuaries using the projected unit credit method. Revaluations, consisting of actuarial gains and losses, are directly recognized in other comprehensive income and thus directly included in the balance sheet. The revaluations recognized in other comprehensive income are part of retained earnings and will not be reclassified to profit or loss.

Personnel expenses of some subsidiaries include contributions for defined contribution plans. Payments are made to pension insurance funds on a contractual basis. The Group companies enter into no obligations beyond the rendering of contribution payments.

In addition, there is a defined contribution plan for all employees of the Group companies in Germany within the scope of the German statutory pension scheme, with an employer contribution rate of currently 9.35% (previous year: 9.45%).

## PROVISIONS

Provisions are recognized if the Group has a present legal or constructive obligation towards third parties as a result of past events and the amount of the obligation can be reliably estimated.

The expected outflow of resources embodying economic benefits for all products covered by warranty terms is estimated by the Group as of the balance sheet date. The amount of provision is estimated on the basis of expenses incurred in previous months and current estimates of the warranty risk. In addition, individual warranty obligations with a probability of occurrence that is more likely than not are recognized.

### DEFERRED INCOME TAXES

Deferred taxes are recognized and measured in accordance with IAS 12. Deferred tax assets and deferred tax liabilities are shown as separate balance sheet items in order to account for the future tax effect of deductible temporary differences between the carrying amount of the assets and liabilities recognized in the balance sheet and the tax base of the respective assets and liabilities.

Deferred tax assets for tax loss carry-forwards are only recognized if they are likely to be realized in the near future. Deferred tax assets and liabilities are measured at the amount of the expected tax expense or benefit of subsequent financial years, taking into account the tax rates applicable at the time of realization.

### RECOGNITION OF INCOME AND EXPENSES

Revenue and other operating income are, as a general rule, only realized if the service has been provided or the goods or products have been delivered, and the risk has therefore passed to the customer. Revenue from rendering of services is recognized by reference to the stage of completion of the transaction and revenue from licenses is recognized straight-line over the period of the relevant agreement. Operating expenses are recognized as an expense upon receipt of the service or at the time they are incurred.

Interest is recognized as expense or income on an accrual basis.

Income and expenses arising in connection with construction contracts for industrial plants are recognized by reference to the stage of completion of the contract activity at the balance sheet date using the percentage of completion (PoC) method. An expected loss on a construction contract is recognized as an expense immediately.

Cost of sales primarily includes costs of purchased materials and services, transportation costs, wages and salaries, overheads, commission, and customs duties as well as expected warranty expenses.

### ESTIMATES AND ASSUMPTIONS

The assumptions made and estimates used in preparing the consolidated financial statements have an influence on the recognition and the measurement of the assets, liabilities, income and expenses disclosed, as well as on contingent liabilities and contingent assets. These assumptions and estimates largely relate to the uniform determination of economic useful lives, the determination of the stage of completion for construction contracts, the determination of contract costs, the assumptions used while determining the recoverability of goodwill, the measurement of provisions, and the extent to which tax loss carry-forwards can be utilized. In isolated cases, actual values may deviate from the underlying assumptions and estimates. Effects from such changes are generally recognized in the income statement at the time when more recent knowledge becomes available. The carrying amounts of the affected items can be found in the statements made in the notes to the consolidated financial statements.

### APPLYING NEW OR REVISED “INTERNATIONAL FINANCIAL REPORTING STANDARDS”

In the reporting period, the Group applied all International Accounting Standards Board (IASB) standards and International Financial Reporting Interpretations Committee (IFRIC) interpretations required to be applied, providing that the standards and interpretations have already been adopted by the European Union (EU).

During the 2014 financial year, KHD retrospectively applied IFRS 10 “Consolidated Financial Statements,” IFRS 11 “Joint Arrangements,” IFRS 12 “Disclosure of Interests in Other Entities” as well as the amendments to IFRS 10, IFRS 11 and IFRS 12, for the first time.

IFRS 10 replaces the consolidation rules of IAS 27 (2008) “Consolidated and Separate Financial Statements” and of SIC-12 “Consolidation – Special Purpose Entities.” The new regulations of IFRS 10 impact the determination of entities to be included in consolidation. The definition of control as defined by IFRS 10, for example, differs from that of IAS 27 (2008). According to IFRS 10, the criterion of control is satisfied where a company is exposed on the one hand to variable return flows due to its participation in another company, or on the other has the right to receive variable return flows, and is able to influence these return flows by controlling the activities of the other company. KHD’s application of IFRS 10 has not led to a change in the scope of consolidation.

IFRS 11 “Joint Arrangements” replaces IAS 31 “Interests in Joint Ventures” and SIC-13 “Jointly Controlled Entities.” In contrast to IAS 31, IFRS 11 does not link reporting of joint arrangements in the balance sheet to the legal form of the arrangement, but rather to the type of rights and obligations arising from the arrangement. IFRS 11 differentiates between joint operations and joint ventures. The regulations of IFRS 11 now make it mandatory to present interests in joint ventures according to the equity method. The alternative presentation previously permitted, using proportional consolidation, is no longer valid. The application of IFRS 11 has not led to any changes at KHD as KHD does not have any joint ventures.

IFRS 12 “Disclosure of Interests in Other Entities” reorganizes the duties of disclosure for all types of participations in other companies, including joint arrangements, associated companies, ‘structured entities,’ and nonconsolidated structures entities. These consolidated financial statements meet the requirements of IFRS 12 to the extent required.

The remaining IFRS pronouncements applicable in the financial year had no material impact on the group’s consolidated statements:

- Amendments to IAS 32 “Financial Instruments: Presentation”: Offsetting Financial Assets and Financial Liabilities;
- Amendments to IAS 39 “Financial Instruments: Recognition and Measurement”: Novation of Derivatives and Continuation of Hedge Accounting;
- Amendments to IFRS 10 “Consolidated Financial Statements”, IFRS 11 “Joint Arrangements”, and IFRS 12 “Disclosure of Interests in Other Entities”: Transition Guidance.

In addition, other new accounting pronouncements were issued by the IASB, which did not have to be applied in financial year 2014 and in some cases have not yet been endorsed by the EU:

The IASB published IFRS 15 “Revenue from Contracts with Customers” in May 2014. The new standard summarizes the previous regulations on revenue recognition and transfers these to a uniform model of revenue recognition. IFRS 15 applies to the reporting of contracts with customers for the provision of services and the sale of goods and therefore also encompasses the reporting of construction contracts previously regulated in IAS 11.

The new uniform model for revenue recognition introduces a five-step model, on the basis of which the amount of revenue and the time, or period, of the recognition of the revenue are determined:

- Identify the contract(s) with a customer;
- Identify the separate performance obligations;
- Determine the transaction price;
- Allocate the transaction price to the separate performance obligations in the contract;
- Recognize revenue when (or as) the entity satisfies a performance obligation.

The application of IFRS 15 – provided it is endorsed into EU law – is mandatory for financial years beginning on or after January 1, 2017. Earlier application of the regulation is permitted. The first application will be done retrospectively, although various reliefs are permitted under IFRS 15.

In July 2014 the IASB published the final version of IFRS 9, after publishing the three phases of the new standard over the last few years. The new standard notably introduces major changes relating to the classification and measurement of financial assets, with classification to be based on the type of business model and on contractual cash flows. In the same connection, impairment assessment is extended from an incurred loss model to an expected loss model. A new hedge accounting model is also introduced that aims to bring hedge accounting more closely into line with the risk management activities of the entity. The complete overhaul of IAS 39 with the publication of IFRS 9 results in additional disclosures. The standard is applicable for annual periods beginning on or after January 1, 2018. Initial application is retrospective, although transitional provisions apply. Earlier application is permitted. EU endorsement is still pending.

The remaining IFRS pronouncements issued by the IASB have no major relevance to the KHD Group and are therefore not expected to have a material impact on the Consolidated Financial Statements. These include, in particular:

- Amendments to IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures”
- Amendments to IFRS 11 “Joint Arrangements”
- Annual Improvements Cycles 2010–2012 and 2011–2013 and Annual Improvements Cycle 2012–2014
- Amendments to IAS 19 “Employee Benefits”: Defined Benefit Plans: Employee Contributions
- Amendments to IAS 16 “Property, Plant and Equipment” and IAS 38 “Intangible Assets”: Clarification of Acceptable Methods of Depreciation and Amortization
- Amendments to IAS 1 “Presentation of Financial Statements”: Disclosure Initiative

KHD is currently analyzing the extent to which the application of the new standards and interpretations will affect the Group’s net assets, financial position, and result of operations. The Group cannot yet evaluate finally what effects the first application of the standards will have.

## 02 SUBSIDIARIES AS OF DECEMBER 31, 2014

| Name of company | Registered office | Main business | Voting rights and capital share in % Dec. 31, 2014 | Voting rights and capital share in % Dec. 31, 2013 | | Currency | Subscribed capital Dec. 31, 2014 | Subscribed capital Dec. 31, 2013 |
|---|---|---|---|---|---|---|---|---|
| KHD Humboldt Wedag GmbH | Cologne, Germany | Holding function | 100.00 | 100.00 | D | € | 15,339,300 | 15,339,300 |
| Humboldt Wedag GmbH | Cologne, Germany | Plant engineering | 100.00 | 100.00 | I | € | 7,000,000 | 7,000,000 |
| ZAB Zementanlagenbau GmbH Dessau | Dessau, Germany | Plant engineering | 100.00 | 100.00 | I | € | 2,000,000 | 2,000,000 |
| Blake International Ltd. | Road Town, British Virgin Islands | Holding function | 100.00 | 100.00 | I | USD | 1,000 | 1,000 |
| KHD Humboldt Wedag Industrial Services AG | Cologne, Germany | Services | 91.18 | 89.98 | I | € | 3,600,000 | 3,600,000 |
| EKOF Flotation GmbH | Bochum, Germany | Flotation technology | 100.00 | 100.00 | I | € | 51,129 | 51,129 |
| Humboldt Wedag Australia Pty Ltd. | Braeside, Australia | Sales entity | 100.00 | 100.00 | I | AUD | 200,002 | 200,002 |
| Humboldt Wedag Inc. | Norcross, USA | Plant engineering | 100.00 | 100.00 | I | USD | 1,000 | 1,000 |
| Humboldt Wedag India Private Ltd. | New Delhi, India | Plant engineering | 100.00 | 100.00 | I | INR | 19,200,000 | 19,200,000 |
| KHD Humboldt Wedag Machinery Equipment (Beijing) Co. Ltd. | Beijing, China | Sales entity | 100.00 | 100.00 | I | USD | 1,050,000 | 1,050,000 |
| KHD Humboldt Engineering OOO | Moscow, Russia | Plant engineering | 100.00 | 100.00 | I | RUB | 3,350,000 | 3,350,000 |
| Humboldt Wedag Malaysia Sdn. Bhd. | Kuala Lumpur, Malaysia | Plant engineering | 100.00 | 100.00 | I | MYR | 500,000 | 500,000 |
| Humboldt Wedag Do Brasil Servicos Technicos Ltda. | Belo Horizonte, Brazil | Sales entity | 100.00 | 100.00 | I | BRL | 801,847 | 200,000 |

D = directly owned
I = indirectly owned

As of December 31, 2014, the scope of consolidation included five domestic (December 31, 2013: five) and eight foreign (December 31, 2013: eight) subsidiaries in addition to KHD.

The only Group company in which there are significant non-controlling interests is KHD Humboldt Wedag Industrial Services AG:

| | | Interest and voting rights share of non-controlling interests | | Gain or loss attributable to non-controlling interests * | | Accumulated non-controlling interests * | |
|---|---|---|---|---|---|---|---|
| Name of company | Registered office | Dec. 31, 2014 in % | Dec. 31, 2013 in % | Dec. 31, 2014 in € thousand | Dec. 31, 2013 in € thousand | Dec. 31, 2014 in € thousand | Dec. 31, 2013 in € thousand |
| KHD Humboldt Wedag Industrial Services AG | Cologne, Germany | 8.82 | 10.02 | 439 | 3 | 1,229 | 908 |

* Intragroup transactions were not eliminated in the amounts specified

The Group acquired another 1.2% of the shares in KHD Humboldt Wedag Industrial Services AG during the 2014 financial year for an amount of € 118 thousand. Therefore, the Group's share increased to 91.18%. Changes in 2014 to KHD Humboldt Wedag Industrial Services AG's equity attributable to KHD are as follows:

| | in € thousand |
|---|---|
| **Parent company shareholders' equity as of January 1, 2014** | **8,157** |
| Increase in equity through acquisition of additional capital or voting rights shares for the parent company shareholders in 2014 | 118 |
| Change in pro-rata comprehensive income for parent company shareholders in 2014 | 4,425 |
| **Parent company shareholders' equity as of December 31, 2014** | **12,700** |

The summary financial information of KHD Humboldt Wedag Industrial Services AG is given below. The summary financial information corresponds to the amounts before intragroup eliminations:

| **KHD Humboldt Wedag Industrial Services AG in € thousand** | **Dec. 31, 2014** | **Dec. 31, 2013** |
|---|---|---|
| Current assets | 13,077 | 9,186 |
| Non-current assets | 2,560 | 1,065 |
| Current liabilities | (1,634) | (1,120) |
| Non-current liabilities | (74) | (67) |
| Share of equity attributable to shareholders of the parent company | 12,700 | 8,157 |
| Share of equity attributable to non-controlling shareholders | 1,229 | 908 |

| in € thousand | Dec. 31, 2014 | Dec. 31, 2013 |
|---|---|---|
| Revenue | 15,726 | 7,726 |
| Expenses | (10,859) | (7,699) |
| **Net profit for the year** | **4,867** | **27** |
| | | |
| Net profit for the year attributable to shareholders of the parent company | 4,428 | 24 |
| Net profit for the year attributable to the non-controlling shareholders | 439 | 3 |
| **Total net profit for the year** | **4,867** | **27** |
| | | |
| Other comprehensive income attributable to shareholders of the parent company | (3) | – |
| Other comprehensive income attributable to non-controlling shareholders | – | – |
| **Total other comprehensive income** | **(3)** | – |
| | | |
| Comprehensive income attributable to shareholders of the parent company | 4,425 | 24 |
| Comprehensive income attributable to non-controlling shareholders | 439 | 3 |
| **Comprehensive income** | **4,864** | **27** |
| | | |
| Dividends paid to non-controlling shareholders | – | – |
| | | |
| Net cash flow from operating activities | 1,612 | (379) |
| Net cash flow from investment activities | (738) | (197) |
| Net cash flow from financing activities | – | – |
| Total net cash flow | 874 | (576) |

## 03 CHANGES TO THE SCOPE OF CONSOLIDATION

The Group's scope of consolidation has not changed since the previous year. The first-time application of IFRS 10 had no effect on the determination of the scope of consolidation.

For reasons of materiality one subsidiary and one joint venture were not included in the consolidated financial statements in the previous year. While the subsidiary has in the meantime been merged into a consolidated Group company, the joint venture was liquidated in 2014.

## 04 SEGMENT REPORTING

External reporting at KHD takes place the two separated segments Capex (project business) and Parts & Services since January 1, 2014. Segment-based reporting is carried out following the way of management control within the Group, i.e. the segments are determined according to type of products and services. However, only the aggregated values can be compared against the figures for the 2013 financial year.

Reporting is done in line with the management approach, i.e. it is following the way of management control within the Group and the internal financial reporting. While in the past the Group was managed as a single-reportable segment, from the 2014 financial year onwards the management is done in two business segments, Capex (project business) and Parts & Services. Adapting the internal management control by creating an independent Parts & Service segment is part of the Management Board's strategy of expanding the high-margin service business.

The business activities of the two operating segments include the following activities and services:

- **Capex (Project Business)**
  In the segment Capex KHD reports all revenues and expenses resulting primarily from supplying equipment for cement plants. This encompasses process technology, design, engineering, project management and the supply of technology and equipment. General and administrative expenses, sales expenses and other expenses (in particular research and development costs) are allocated to this segment, accordingly.

- **Parts & Services**
  The segment Parts & Services comprises all revenues and expenses resulting from supplying spare parts and providing services to cement plants. Services include supervising the erection and commissioning of cement plants and related equipment, optimization of cement plants, carrying out plant audits, and training plant personnel. General and administrative expenses, sales expenses and other expenses are allocated to the segment accordingly.

Management and controlling of the Group is based in particular on key balance sheet and income statement key figures. However, for the operating segments key figures are determined only for the income statement and order intake, but not for the balance sheet. In its function as the chief operating decision maker, the Management Board assesses the profitability of the segments based on the operating result (earnings before interest and taxes – EBIT).

The following table provides an overview of the business for the 2014 and 2013 financial years:

| | Capex | Parts & Services | Total Group | Total Group |
|---|---|---|---|---|
| **in € million** | **Jan. 1- Dec. 31, 2014** | **Jan. 1- Dec. 31, 2014** | **Jan. 1- Dec. 31, 2014** | **Jan. 1- Dec. 31, 2013** |
| Order intake | 48 | 53 | 101 | 172 |
| Revenue | 181 | 59 | 240 | 250 |
| Cost of sales | (166) | (42) | (208) | (221) |
| Gross profit | 15 | 17 | 32 | 29 |
| Other Expenses/other income (net) | (26) | (5) | (31) | (28) |
| Earnings before interest and taxes (EBIT) | (11) | 12 | 1 | 1 |
| Net finance income | – | – | 3 | 1 |
| Profit before tax | – | – | 4 | 2 |
| for information: depreciation and amortization | (2) | – | (2) | (2) |

The recognition and measurement principles used for the reportable segments are in line with the IFRS principles described above that are used for the consolidated financial statements. Revenue and segment-related expenses are directly allocated to the respective segment. Expenses and income which cannot be allocated directly to the segments (e.g. general and administrative expenses) are allocated to the segments using appropriate allocation keys.

KHD only reports revenue from external customers in its segment reports, i.e. revenue between the two segments is already eliminated. Internal revenue of the Parts & Services segment with the segment Capex amounted to € 14 million in the financial year. The segment Capex did not record any revenue with the Parts & Services segment. Transactions between the segments are in line with market conditions.

The following project data was allocated to the different geographical areas according to the place of performance or delivery of the products and services.

| | Revenue | | Non-current assets | |
|---|---|---|---|---|
| **in € thousand** | **2014** | **2013** | **2014** | **2013** |
| Germany | 6,708 | 3,825 | 7,110 | 6,451 |
| Russia | 47,242 | 12,923 | 3,038 | 3,049 |
| Rest of Europe | 10,978 | 36,411 | – | – |
| North America | 59,056 | 25,975 | 87 | 85 |
| South America | 11,073 | 19,214 | 55 | 25 |
| Middle East | 22,342 | 14,345 | – | – |
| India | 50,408 | 47,189 | 920 | 770 |
| China | 1,333 | 4,914 | 37 | 23 |
| Rest of Asia | 22,857 | 69,363 | 19 | 15 |
| Africa | 5,535 | 13,649 | – | – |
| Other | 2,658 | 1,816 | – | – |
| | **240,190** | **249,624** | **11,266** | **10,418** |

| | Order Intake | | Order Backlog | |
|---|---|---|---|---|
| **in € thousand** | **2014** | **2013** | **2014** | **2013** |
| Germany | 9,624 | 4,959 | 5,816 | 2,900 |
| Russia | 17,270 | 83,128 | 51,991 | 156,462 |
| Rest of Europe | 10,269 | 7,775 | 7,364 | 8,073 |
| North America | 15,732 | 31,047 | 44,046 | 87,370 |
| South America | 10,199 | 10,813 | 10,205 | 11,079 |
| Middle East | 17,323 | 22,678 | 23,258 | 28,276 |
| India | 9,489 | 5,194 | 36,781 | 77,699 |
| China | 716 | (833) | 453 | 1,069 |
| Rest of Asia | 4,124 | 3,381 | 14,578 | 38,312 |
| Africa | 4,021 | 4,203 | 966 | 2,479 |
| Other | 2,549 | 75 | – | 112 |
| | **101,316** | **172,420** | **195,458** | **413,831** |

The order backlog includes an order of which around 60% was passed on to the strategic partner AVIC Beijing. The part of the order passed on amounts to approximately € 60 million. Correspondingly, the Group generates no additional gross profit for the remaining order backlog of € 11.4 million (previous year: € 22.9 million) that has not yet been recognized as revenue.

### Information about Key Customers

In the financial year, revenue of € 72.5 million and € 36.5 million (previous year: € 50.5 million and € 28.0 million) was attributable to two individual customers, with which at least 10% of the Group's revenue was achieved. Revenue with the key customers was generated in both segments.

## 05 PROPERTY, PLANT, AND EQUIPMENT

| in € thousand | Leasehold improvements | Property, plant and equipment | Total |
|---|---|---|---|
| **Cost** | | | |
| **Dec. 31, 2012** | **492** | **8,621** | **9,113** |
| Additions | 10 | 734 | 744 |
| Disposals | (30) | (304) | (334) |
| Foreign currency translation | (6) | (118) | (124) |
| **Dec. 31, 2013** | **466** | **8,933** | **9,399** |
| Additions | 8 | 2,204 | 2,212 |
| Disposals | – | (1,665) | (1,665) |
| Foreign currency translation | 6 | 69 | 75 |
| **Dec. 31, 2014** | **480** | **9,541** | **10,021** |
| | | | |
| **Accumulated depreciation** | | | |
| **Dec. 31, 2012** | **143** | **5,973** | **6,116** |
| Additions | 57 | 909 | 966 |
| Disposals | (30) | (229) | (259) |
| **Dec. 31, 2013** | **170** | **6,653** | **6,823** |
| Additions | 58 | 803 | 861 |
| Disposals | – | (1,600) | (1,600) |
| **Dec. 31, 2014** | **228** | **5,856** | **6,084** |
| | | | |
| **Carrying amount** | | | |
| **Dec. 31, 2013** | **296** | **2,280** | **2,576** |
| **Dec. 31, 2014** | **252** | **3,685** | **3,937** |

The additions to property, plant, and equipment in the financial year primarily result from investments in IT hardware and two mobile welding systems for maintenance of roller presses (€ 1,360 thousand).

## 06 GOODWILL AND OTHER INTANGIBLE ASSETS

| in € thousand | Goodwill | Licenses and other intangible assets | Total |
|---|---|---|---|
| **Cost** | | | |
| **Dec. 31, 2012** | **5,162** | **8,099** | **13,261** |
| Additions | – | 294 | 294 |
| Disposals | – | – | – |
| **Dec. 31, 2013** | **5,162** | **8,393** | **13,555** |
| Additions | – | 524 | 524 |
| Disposals | – | (45) | (45) |
| **Dec. 31, 2014** | **5,162** | **8,872** | **14,034** |
| | | | |
| **Accumulated amortization** | | | |
| **Dec. 31, 2012** | **–** | **4,485** | **4,485** |
| Additions | – | 1,228 | 1,228 |
| Disposals | – | – | – |
| **Dec. 31, 2013** | **–** | **5,713** | **5,713** |
| Additions | – | 1,037 | 1,037 |
| Disposals | – | (45) | (45) |
| **Dec. 31, 2014** | **–** | **6,705** | **6,705** |
| | | | |
| **Carrying amount** | | | |
| **Dec. 31, 2013** | **5,162** | **2,680** | **7,842** |
| **Dec. 31, 2014** | **5,162** | **2,167** | **7,329** |

As was the case in the previous year, the additions to licenses and other intangible assets are largely investments in software.

## GOODWILL

The goodwill reported as of December 31, 2014, arises from acquisitions and was allocated to the corresponding cash generating units. Overall, the carrying amount of goodwill of € 5,162 thousand remained unchanged compared with the previous year. As of December 31, 2013, the goodwill is attributable to the following cash generating units:

- Parts & Services Humboldt Wedag GmbH, Cologne (€ 2,126 thousand);
- Parts & Services KHD Humboldt Engineering OOO, Moscow ("KHD OOO") (€ 1,606 thousand);
- Capex KHD OOO (€ 1,430 thousand).

Towards the end of the financial year, goodwill is subjected to an annual impairment test as part of the preparation of the financial statements by comparing the carrying amount of the respective cash generating unit (including goodwill) with its recoverable amount. Here, the recoverable amount is calculated as the value in use based on the discounted cash flow method.

The (pre-tax) cash flows accounted for are based on the management-approved medium-term planning. In the past, the Group planning term was four years. In the 2014 financial year, a medium-term plan for the next five financial years was applied across the Group for the first time.

Planning is based on the assumption of steadily growing sales markets in the Parts & Services segment. Sustainable growth for the cash generating unit Capex KHD OOO on the Russian market was planned. The assumptions are based on the one hand on the increased demand from customers and the expansion of activities in the Parts & Services segment and, on the other, the increasing cement consumption forecast in Russia has been taken into account for Capex KHD OOO. In order to calculate the value contribution arising from the perpetual return (value contribution after expiry of the detailed planning period), the long-term operating cash flows were calculated as the arithmetic average of the 2018 to 2019 planning years. A 1.0% (previous year: 1.0%) growth rate was assumed for the perpetuity. This growth rate reflects the management's long-term expectations.

The capitalization rates were derived from market data, taking into account the risk situation of the respective cash generating unit, and amount to 12.54% before tax (previous year: 13.71%) and 14.49% (previous year: 14.71%), while taking various risk premiums for country risks into consideration. There was no need to recognize an impairment loss pursuant to IAS 36.

A change to the key measurement parameters would have the following effects: in the case of a 10% reduction in the estimated cash flows this would result in an impairment loss of € 305 thousand (previous year: € 221 thousand); a 20% increase in the capitalization rate would lead to an impairment loss of € 467 thousand (previous year: € 432 thousand).

## 07 RECEIVABLES AND FINANCIAL ASSETS

| in € thousand | Dec. 31, 2014 | Dec. 31, 2013 |
|---|---|---|
| **Current financial assets** | | |
| Trade receivables | 73,533 | 80,469 |
| Less valuation allowances for impairment of receivables | (4,253) | (5,894) |
| Trade receivables – net | 69,280 | 74,575 |
| Receivables due from affiliated companies | 5,087 | – |
| Other financial assets | 569 | 1,253 |
| Financial receivables | 6,507 | 7,309 |
| **Current financial assets** | **81,443** | **83,137** |
| Other receivables | 2,868 | 2,918 |
| **Current financial assets and other receivables** | **84,311** | **86,055** |

Trade receivables fell by € 6,936 thousand from € 80,469 thousand to € 73,533 thousand (gross). This is mainly due to the movement in receivables (progress billings) payable at short notice from projects under execution. The trade receivables from projects under execution that are due for payment fell by € 12,373 thousand from € 27,920 thousand to € 15,547 thousand. The receivables resulting from completed projects increased from the previous year by € 12,168 thousand from € 46,652 thousand to € 58,820 thousand. As in the previous financial year, valuation allowances primarily relate to receivables from customers located in North Africa, the Middle East, and India. For trade receivables that are not due and for which no valuation allowance has been provided the Group does not foresee any impairment due to the credit rating of the debtors.

Receivables due from affiliated companies result from delivery of goods and services to AVIC Group companies.

Financial receivables decreased from the previous year (€ 7,309 thousand) by € 802 thousand to € 6,507 thousand. Financial receivables as of December 31, 2014, mainly comprise reclaims related to unfair calling of bank guarantees (€ 2,600 thousand) and costs back charged to subcontractors (€ 1,419 thousand).

Other receivables in the amount of € 2,868 thousand (previous year: € 2,918 thousand) arise from reimbursement claims for value-added tax.

For trade receivables in the amount of € 15,186 thousand (previous year: € 3,931 thousand), which were overdue more than 61 days, no valuation allowances were made, because no material change in the credit standing of these debtors was identified and the outstanding amounts are expected to be recoverable.

### Age structure of overdue receivables for which no valuation allowance was recognized

| in € thousand | Dec. 31, 2014 | Dec. 31, 2013 |
|---|---|---|
| 61 to 90 days | 3,000 | 452 |
| 91 to 180 days | 5,990 | 1,430 |
| 181 to 365 days | 1,223 | 1,288 |
| Over 365 days | 4,973 | 761 |
| **Total** | **15,186** | **3,931** |

In the 2014 financial year receivables that are overdue more than 365 days for which no valuation allowance was recognized include a receivable due from a customer in South America (€ 4,123 thousand). This receivable results from a terminated project for which the KHD Group has adequately provided for risks by setting up provisions. Further explanations regarding the ongoing arbitration claim are given under the chapter ‘Litigation’.

Overdue receivables are reviewed at monthly intervals. Specific bad debt reserves (valuation allowances) are recognized if there is objective evidence of impairment.

### Movement in valuation allowances on trade receivables

| in € thousand | 2014 | 2013 |
|---|---|---|
| Valuation allowances as of Jan. 1 | 5,894 | 7,043 |
| Addition | 2,356 | 1,096 |
| Utilization | (2,921) | (468) |
| Currency translation differences | 271 | (391) |
| Reversal | (1,347) | (1,386) |
| **Valuation allowances as of Dec. 31** | **4,253** | **5,894** |

Valuation allowances correspond to the net value (excluding VAT) of the impaired receivables.

## 08 DEFERRED TAX ASSETS AND LIABILITIES

The Group has recognized deferred taxes arising from temporary differences of assets and liabilities between the IFRS amount and the tax base. Deferred tax assets and liabilities are calculated on the basis of local tax rates.

Deferred tax assets are recognized for tax loss carry-forwards only to the extent that a future tax benefit is probable.

As of December 31, 2014, total Group tax loss carry-forwards amounted to € 57.8 million (previous year: € 64.8 million) for corporate income tax and comparable foreign income taxes. Loss carry-forwards for trade tax amounted to € 66.5 million (previous year: € 75.0 million).

In line with the provisions of IAS 12.34 et seq., income tax loss carry-forwards that can very probably be utilized to offset future profits within the five-year Group planning period, were included in the calculation of deferred taxes. In doing so, loss carry-forwards in the amount of € 24.2 million (previous year: € 18.4 million) for corporate income tax and comparable foreign income taxes and € 19.5 million (previous year: € 16.0 million) for trade tax were recognized.

On November 21, 2013, a consortium group of bidders consisting of AVIC International Engineering Holdings Pte. Ltd., Singapore, Europe Project Management Pte. Ltd., Singapore, Europe Technology Investment Pte. Ltd., Singapore, and Europe Engineering Holdings Pte. Ltd., Singapore, submitted to the shareholders of the Group parent company, KHD Humboldt Wedag International AG, a voluntary public takeover offer for the acquisition of their shares. Within the scope of this takeover offer, which ended on January 13, 2014, with the expiry of the extended acceptance period, more than 50% of the shares in KHD Humboldt Wedag International AG were transferred to the bidders. Several countries in which subsidiaries of the Group are active in general limit the future utilization of tax loss carry-forwards as a consequence of a direct or indirect shareholder change of over 50%. The extent to which the utilization of tax loss carry-forwards on which no deferred tax assets have been recognized is permanently limited, currently cannot be assessed conclusively.

Unutilized loss carry-forwards for foreign income taxes of € 0 thousand (previous year: € 1,732 thousand) will expire during the time period from 2029 through 2031.

Deferred taxes of € 465 thousand (previous year: € – 146 thousand) were recorded in other comprehensive income in the financial year. These relate exclusively to actuarial gains and losses from the valuation of pension benefit obligations not recognized in profit and loss. The total amount of deferred taxes not recognized through profit and loss amounts to € 2,395 thousand (previous year: € 1,930 thousand).

For temporary differences amounting to € 134.5 million (previous year: € 135.7 million) which are linked to shares in subsidiaries and which will not reverse in the foreseeable future, no deferred tax assets or liabilities were recognized.

Deferred tax assets and liabilities arise from the following items:

| in € thousand | Dec. 31, 2014 | Dec. 31, 2013 |
|---|---|---|
| **Deferred tax assets** | | |
| Provisions | 5,143 | 6,217 |
| Resulting from tax loss carry-forwards | 8,012 | 6,138 |
| Offset with deferred tax liabilities | (6,607) | (7,447) |
| | **6,548** | **4,908** |
| **Deferred tax liabilities** | | |
| Construction contracts/PoC method | (7,925) | (9,526) |
| Offset with deferred tax assets | 6,607 | 7,447 |
| | **(1,318)** | **(2,079)** |

## 09 INVENTORIES

| in € thousand | Dec. 31, 2014 | Dec. 31, 2013 |
|---|---|---|
| Raw materials, consumables, and supplies | 3,421 | 6,563 |
| Work in progress | 579 | 59 |
| Write-downs to net realizable value | (1,622) | (1,304) |
| | **2,378** | **5,318** |

In the financial year, inventories in the amount of € 7,710 thousand (previous year: € 6,250 thousand) were expensed as part of cost of sales. Write-downs to net realizable value amounted to € 1,622 thousand (previous year: € 1,304 thousand) as of December 31, 2014. These write-downs relate to raw materials, consumables, and supplies, the carrying amount of which is € 2,115 thousand (previous year: € 1,974 thousand).

## 10 CONSTRUCTION CONTRACTS

| in € thousand | Dec. 31, 2014 | Dec. 31, 2013 |
|---|---|---|
| Cost incurred to date for construction contracts | 414,715 | 341,449 |
| Proportionate results under these contracts recognized to date | 36,994 | 43,008 |
| Total costs incurred and results recognized | 451,709 | 384,457 |
| Less recognized contract losses | (1,638) | (2,007) |
| Less progress billings | (430,346) | (368,991) |
| **Balance of construction contracts account** | **19,725** | **13,459** |
| | | |
| This amount is comprised as follows: | | |
| Gross amount due from customers for contract work | 50,934 | 59,050 |
| Gross amount due to customers for contract work | (31,209) | (45,591) |
| | **19,725** | **13,459** |
| | | |
| Gross amount due to customers for contract work | (31,209) | (45,591) |
| Advances received under construction contracts (before related work is performed) | (3,583) | (5,619) |
| **Commitments under construction contracts** | **(34,792)** | **(51,210)** |

Of the revenue recognized in the 2014 financial year in the amount of € 240,190 thousand (previous year: € 249,624 thousand), € 215,135 thousand (previous year: € 225,258 thousand) is attributable to construction contracts for which revenue was recognized on the basis of stage of completion.

## 11 OTHER FINANCIAL ASSETS

Other non-current financial assets comprise two loans to AVIC HK totaling € 100,000 thousand. One of the loans amounting to € 50,000 thousand has a term of three years, but KHD is entitled to call for repayment at any time prior to its maturity by giving 30 days' notice. KHD does not intend to call the loan for repayment within the next 12 months. The other loan also amounts to € 50,000 thousand and has a term of three years. This loan cannot be called for repayment prior to its maturity. The loans bear interest of 6% and are secured by group guarantees from AVIC.

## 12 CASH AND CASH EQUIVALENTS

The Group reports cash and cash equivalents in the amount of € 123,627 thousand (previous year: € 228,169 thousand). Of this amount, € 28,103 thousand was pledged as collateral at banks in the previous year. Effective August 25, 2014, the previous bank guarantee credit facility agreement was canceled and replaced with two bilateral bank guarantee credit facilities. There is no contractual obligation to pledge any cash for the new bank guarantee credit facilities.

| in € thousand | Dec. 31, 2014 | Dec. 31, 2013 |
|---|---|---|
| Bank balances and cash on hand | 85,177 | 77,222 |
| Short-term bank deposits | 38,364 | 122,844 |
| Restricted cash (collateral for guarantees) | 86 | 28,103 |
| | **123,627** | **228,169** |

## 13 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.

Capital reserves comprise the additional paid-in capital resulting from the issuing of shares by KHD Humboldt Wedag International AG.

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 effective transfer of ownership of these shares took place on January 7, 2014.

Treasury shares were sold to the group of bidders for € 1,477 thousand. The difference between the sale proceeds and the carrying amount of the treasury shares was recognized as an increase in capital reserves of € 1,256 thousand.

Retained earnings amounting to € 120,604 thousand comprise revenue reserves, profits carried forward from previous years as well as items of other comprehensive income from remeasuring defined benefit plans that will not be reclassified subsequently to profit or loss. Other items of other comprehensive income relate to currency translation differences from the translation of foreign currency financial statements. This is presented as separate item within equity.

The non-controlling interests of 8.82% (previous year: 10.02%) relate solely to the minority shareholders of KHD Humboldt Wedag Industrial Service AG.

## 14 PENSION BENEFIT OBLIGATIONS

The pension scheme granted to employees in the Group relates exclusively to three Group companies in Germany. The pension scheme is granted under defined benefit plans, which are covered by setting up pension benefit obligations. After the pension plans were frozen in 1996, it is no longer possible for employees to acquire additional vested rights to future pensions. The claims to payment of committed, non-forfeitable pension benefit obligations under the pension plans arise upon application by the beneficiaries, and through the provision of supporting evidence that the statutory pension may be drawn. The pension plans of the three Group companies are identical. They are designed as benefits for old-age pension, early retirement pension, and pension benefits to widows and orphans. Benefits to respective employees are dependent on date of entry, length of service, and income.

As of December 31, 2014, the Group's pension benefit obligations amounted to € 25,284 thousand (previous year: € 24,690 thousand).

The pension plans typically expose the Group to the following actuarial risks:

| | |
|---|---|
| Interest rate change risk: | A decrease in the loan rate will lead to an increase in the plan obligation. |
| Longevity risk: | The present value of the defined benefit obligations arising from the plan is determined on the basis of the best possible estimate of the expected mortality of the employees participating in the plan, both during the term of the employment contract as well as after the end of the employment. An increase in the life expectancy of the employees participating in the plan will lead to an increase in the plan obligation. |

The pension benefit obligations are not funded by a separate fund or in the form of plan assets, but are financed exclusively internally.

The most important actuarial assumptions made are as follows:

| in % | Dec. 31, 2014 | 31.12.2013 |
|---|---|---|
| Discount rate | 1.90 | 3.10 |
| Pension trend | 1.50 | 2.00 |
| Employee turnover rate | 0 | 0 |

The mortality tables 2005 G from Dr. Klaus Heubeck form the biometric basis for calculating these obligations.

The assumptions shown above reflect realistic expectations at the respective reporting date. A change in the parameters named above can lead to changes in the measurement. The effects of changes to the material actuarial assumptions in the scope of obligation at the reporting date can be clarified using the following sensitivity analyses:

- If the discount rate increases by 0.5%, the pension benefit obligations fall by € 1,264 thousand. If the discount rate instead falls by 0.5%, the pension benefit obligations increase by € 1,382 thousand.
- If the pension trend increases by 0.25%, the pension benefit obligations rise by € 652 thousand. If the pension trend decreases by 0.25%, the pension benefit obligations fall by € 627 thousand.
- If life expectancy increases by one year for both men and women, the defined benefit obligation would increase by € 1,703 thousand.

The above sensitivity analyses cannot be taken as representative of the actual change in the defined benefit obligation since it is unlikely that deviations from the assumptions made will arise independently of one another; this is because the assumptions are partly connected to each other.

The present value of the defined benefit obligations in the above sensitivity analyses was determined as of the reporting date using the projected unit credit method, the same method used to calculate the benefit-related obligation in the Group balance sheet.

The change in the present value of the defined benefit obligation is as follows:

| **in € thousand** | **Dec. 31, 2014** | **Dec. 31, 2013** |
|---|---|---|
| Defined benefit obligation on Jan. 1 | 24,690 | 25,903 |
| Interest cost | 740 | 758 |
| Benefits actually paid (total) | (1,545) | (1,525) |
| Actuarial gains due to experience adjustments | (369) | (229) |
| Actuarial (gains)/losses due to change in actuarial assumptions | 1,768 | (217) |
| **Defined benefit obligation on Dec. 31** | **25,284** | **24,690** |

Since there are no plan assets, the present value of the defined benefit obligations corresponds to net debt as of the reporting date.

As of December 31, 2014, of the total obligations of € 25,284 thousand, € 963 thousand falls to active employees, € 2,991 thousand to former employees, and € 21,330 thousand to pensioners and surviving dependents.

As of December 31, 2014, the average term of the defined benefit obligation was 10.6 years (previous year: 10.5 years).

Cumulative remeasurement recorded in comprehensive income:

| in € thousand | Dec. 31, 2014 | Dec. 31, 2013 |
|---|---|---|
| Opening balance – cumulative remeasurement gains (–)/losses | 5,984 | 6,429 |
| Actuarial gains (–)/losses | 1,399 | (445) |
| **Closing balance – cumulative remeasurement gains (–)/losses** | **7,383** | **5,984** |

| in € thousand | Dec. 31, 2014 | Dec. 31, 2013 |
|---|---|---|
| **Components of defined benefit costs** | | |
| Current service cost | – | – |
| **Net interest expense** | **740** | **758** |
| Actuarial (gains)/losses due to experience adjustments | (369) | (229) |
| Actuarial (gains)/losses due to change in actuarial assumptions | 1,768 | (216) |
| **Actuarial (gains)/losses recognized in other comprehensive income** | **1,399** | **(445)** |
| **Defined benefit costs** | **2,139** | **313** |

In the financial year under review, interest expenses on pensions of € 740 thousand (previous year: € 758 thousand) were recognized under finance expenses.

### Expected benefit payments

Prospective pension payments

| in € thousand | |
|---|---|
| in 2015 | 1,635 |
| in 2016 | 1,614 |
| in 2017 | 1,594 |
| in 2018 | 1,573 |
| in 2019 | 1,550 |
| 2020 to 2024 | 7,255 |

The defined benefit plans are financed out of current cash flow.

## 15 PROVISIONS

| in € thousand | Warranty | Tax and litigation risks | Impending losses | Total |
|---|---|---|---|---|
| Provisions as of Jan. 1, 2014 | 24,742 | 521 | 877 | 26,140 |
| Additions | 3,527 | 1 | 14 | 3,542 |
| Release | (6,113) | (42) | – | (6,155) |
| Interest accrual | 89 | – | – | 89 |
| Currency translation effects | 1,237 | 46 | 102 | 1,385 |
| Utilization/reclassification | (5,249) | – | (68) | (5,317) |
| **Provisions as of Dec. 31, 2014** | **18,233** | **526** | **925** | **19,684** |

| in € thousand | Dec. 31, 2014 | Dec. 31, 2013 |
|---|---|---|
| Non-current (warranty) | 2,020 | 2,358 |
| Current | 17,664 | 23,782 |
| | **19,684** | **26,140** |

The provisions for warranties cover all the risks identifiable which relate to guarantee or warranty commitments. The provisions are measured on a contract-by-contract basis according to the best estimate. The amounts reported as non-current incorporate warranty commitments for a term of more than one year. The anticipated maturities range between one and four years.

The effects from the currency translation of € 1,385 thousand (previous year: € –1,957 thousand) are mainly attributable to the translation of HWIN's local currency.

## 16 LIABILITIES

| in € thousand | Dec. 31, 2014 | Dec. 31, 2013 |
|---|---|---|
| **Current financial liabilities** | | |
| Trade payables | 71,683 | 77,868 |
| Other current liabilities | 8,292 | 6,457 |
| **Current financial liabilities** | **79,975** | **84,325** |
| | | |
| **Other liabilities** | | |
| Tax and social security | 571 | 591 |
| Income tax liabilities | 1,741 | 417 |
| **Other liabilities** | **2,312** | **1,008** |
| **Current liabilities** | **82,287** | **85,333** |
| **Other non-current liabilities** | **5,077** | **6,183** |

Other non-current liabilities include commitments due to warranty recognized in the amount of € 5,077 thousand (previous year: € 6,183 thousand).

Trade payables recognized as of the balance sheet date are subject to the usual retentions of title.

The carrying amounts disclosed as of the balance sheet date essentially correspond to their fair values.

## 17 COMMITMENTS UNDER CONSTRUCTION CONTRACTS

This item contains commitments under construction contracts which are presented in accordance with IAS 11. These commitments represent the net liability of the amounts explained in Note 10. Furthermore, this item includes advances recognized in accordance with IAS 11, i.e. advance payments made by customers upon acceptance of the contract in advance of the related work performed by the KHD Group.

## 18 PERSONNEL EXPENSES

| in € thousand | 2014 | 2013 |
|---|---|---|
| Wages and salaries | 40,650 | 37,951 |
| Social security contributions and costs, including pension costs | 6,733 | 5,520 |
| | **47,383** | **43,471** |

| | As of Mar. 31, 2014 | As of Jun. 30, 2014 | As of Sept. 30, 2014 | As of Dec. 31, 2014 |
|---|---|---|---|---|
| Salaried employees | 715 | 719 | 729 | 722 |
| Industrial employees | 56 | 56 | 56 | 55 |
| **Total** | **771** | **775** | **785** | **777** |

As of December 31, 2014, the number of employees was 777 (previous year: 757). In the year under review, the average number of employees was 777, of whom 56 were industrial employees (previous year: 768 employees, of whom 65 industrial).

Personnel expenses include employer contributions to statutory pension insurance in Germany in the amount of € 2,005 thousand (previous year: € 1,997 thousand) and expenses for contractually defined contribution plans of € 694 thousand (previous year: € 372 thousand).

## 19 TOTAL REMUNERATION OF CURRENT AND FORMER MEMBERS OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD (KEY MANAGEMENT PERSONNEL IN ACCORDANCE WITH IAS 24)

The total remuneration for key management personnel amounted to € 1,557 thousand in the 2014 financial year (previous year: € 1,466 thousand). The total remuneration for members of the KHD Management Board amounted to € 1,340 thousand (previous year: € 1,149 thousand) in the financial year 2013. The total remuneration for the Management Board is attributable to current benefits.

The total remuneration of the Management Board consists of € 1,115 thousand (previous year: € 1,149 thousand) for non-performance-related compensation and € 225 thousand (previous year: € 0 thousand) for performance-related compensation. In the previous year the fixed bonuses of the Management Board members for the 2013 financial year, which substantiated the variable compensation components owed according to employment contracts before the end of the 2013 financial year, were added to the non-performance-related components, together with the fixed compensation.

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 Group management report and also describes the main aspects of the remuneration 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.

## 20 OTHER OPERATING INCOME

| in € thousand | 2014 | 2013 |
|---|---|---|
| Exchange gains | 3,970 | 635 |
| Other income | 1,665 | 2,821 |
| | **5,635** | **3,456** |

Other income includes exchange gains in the amount of € 3,970 thousand (previous year: € 635 thousand). The increase in exchange gains is mainly the result of exchange rate fluctuations between the US dollar and the euro. Exchange gains include both realized and unrealized exchange rate effects. From an economic perspective it has to be considered that due to the foreign currency hedging performed the income from exchange rate fluctuations should be offset against expenses from foreign exchange forward contracts that are presented under other expenses.

In the preceding financial year, other income included an amount of € 2,130 thousand from a contingent purchase price related to the sale of the workshop in Cologne in 2009.

## 21 SALES EXPENSES

Sales expenses increased slightly year-on-year by € 308 thousand, from € 9,647 thousand to € 9,955 thousand. They included costs for tendering amounting to € 4,823 thousand in the financial year (previous year: € 4,571 thousand). In addition, sales expenses also include expenses for account management and marketing activities.

## 22 GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses amounted to € 17,732 thousand in the financial year (previous year: € 16,045 thousand). General and administrative expenses have increased by € 1,687 thousand compared to the previous year. Aside from the costs of general administration, general and administrative expenses include in particular costs for Management Board compensation, legal and consulting costs, costs of preparing and auditing financial statements, Supervisory Board remuneration and investor relations costs.

## 23 OTHER EXPENSES

| in € thousand | 2014 | 2013 |
|---|---|---|
| Research and development | 4,819 | 3,160 |
| Exchange rate losses and expenses from foreign exchange forward contracts | 2,582 | 845 |
| Amortization of intangible assets | – | 224 |
| Miscellaneous expenses | 1,731 | 1,732 |
| | **9,132** | **5,961** |

Other expenses increased year-on-year by € 3,171 thousand, from € 5,961 thousand to € 9,132 thousand. Research and development costs amounting to € 4,819 thousand (previous year: € 3,160 thousand), as well as realized and unrealized expenses from foreign exchange forward contracts of € 2,139 thousand, accounted for a significant portion of other expenses. Exchange rate forwards contracts are exclusively used to hedge foreign currency receivables. Therefore, expenses arising from exchange rate forwards contracts have to be partially viewed against income from exchange rate effects. 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.

Miscellaneous expenses comprise expenses for consultancy services, fees, and insurance premiums.

## 24 NET FINANCE INCOME

Net finance income is composed as follows:

| in € thousand | 2014 | 2013 |
|---|---:|---:|
| Interest income | 4,467 | 2,476 |
| **Total interest income** | **4,467** | **2,476** |
| Other financial income | – | 26 |
| Dividend income | 47 | 54 |
| Interest related to non current assets | – | 136 |
| **Finance income** | **4,514** | **2,692** |
| | | |
| Other finance expenses | (93) | – |
| Interest related to pension benefit obligations, provisions and other non-current liabilities | (1,020) | (1,179) |
| Losses on securities | (515) | (147) |
| Losses from foreign exchange forward contracts | – | (119) |
| **Finance expenses** | **(1,628)** | **(1,445)** |
| **Net finance income** | **2,886** | **1,247** |

Interest income mainly includes interest income from bank deposits and cash equivalents of € 2,693 thousand (previous year: € 2,443 thousand) and interest income from loans to an affiliated company of € 1,750 thousand (previous year: € 0 thousand). Interest income increased by € 1,991 thousand from € 2,476 thousand to € 4,467 thousand. Interest income results from financial assets that are measured at amortized cost. Due to the reduced price at the stock exchange, the fair value measurement of shares held resulted in a loss of € 515 thousand (previous year: € 147 thousand) in the financial year under review.

Finance expenses include interest on pension benefit obligations in the amount of € 740 thousand (previous year: € 758 thousand). In the financial year under review, interest expenses of € 280 thousand (previous year: € 421 thousand) were incurred due to interest on provisions and other non-current liabilities.

## 25 INCOME TAX EXPENSE

The income tax expense of € 2,391 thousand incurred in the 2014 financial year (previous year: € 1,689 thousand) is composed as follows:

| in € thousand | 2014 | 2013 |
|---|---:|---:|
| Current tax expense | (4,143) | (2,337) |
| Deferred tax income | 1,752 | 648 |
| **Tax expense for the year** | **(2,391)** | **(1,689)** |

The product of accounting profit multiplied by the applicable tax rate is reconciled to actual tax expense as follows:

| in € thousand | 2014 | 2013 |
|---|---|---|
| Earnings before income tax | 3,971 | 2,425 |
| | | |
| Expected tax expense while applying an average tax rate of 32.45 % (Previous year: 32.45 %) | (1,289) | (787) |
| Effects of tax-free income | 39 | 117 |
| Effects of non-tax-deductible expenses | (748) | (72) |
| Effects of unutilized tax losses not recognized as deferred tax assets and offset possibilities | (1,801) | (439) |
| Effects of originally unrecognized unutilized tax losses and offset possibilities, which are now reported as deferred tax assets and effects arising from changes to tax loss carry-forwards | 1,661 | (244) |
| Effects of subsidiaries' divergent tax rates | (16) | (81) |
| Adjustments for previous years' taxes recognized in the current period | (175) | (77) |
| Other non-tax-effective additions and deductions | (62) | (106) |
| **Tax expense for the year** | **(2,391)** | **(1,689)** |

Tax rates that differ from the average Group tax rate primarily relate to the USA and Russia.

The effective Group taxation rate is 60.2% (previous year: 69.6%).

## 26 EARNINGS AND DIVIDEND PER SHARE

### EARNINGS PER SHARE

Until January 6, 2014, the number of ordinary shares issued amounted to 49,474,437. As a result of the sale of treasury shares, the number of ordinary shares issued amounts to 49,703,573 since January 7, 2014.

| | 2014 | 2013 |
|---|---|---|
| Net profit attributable to shareholders (in € thousand) | 1,141 | 733 |
| Weighted average number of shares outstanding | 49,703,573 | 49,474,437 |
| Basic (undiluted) and diluted earnings per share (in €) | 0.02 | 0.01 |

### DIVIDEND PER SHARE

According to the articles of association, KHD's Annual General Meeting of shareholders passes a resolution concerning the appropriation of net retained profit.

## 27 TOTAL FEES CHARGED BY THE AUDITORS FOR THE FINANCIAL YEAR

The total fees charged by the auditors Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft for the financial year under review are comprised as follows:

| in T€ | 2014 | 2013 |
|---|---|---|
| Financial statement audit services | 545 | 348 |
| Tax advisory services | 14 | 23 |
| Other services | 11 | 6 |
| | **570** | **377** |

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.

## 28 COMMITMENTS AND CONTINGENT LIABILITIES AND ASSETS

### COMMITMENTS FOR OPERATING LEASES

Future minimum payments for non-cancelable operating leases and rent contracts primarily result from lease contracts for buildings:

| in € thousand | Dec. 31, 2014 | Dec. 31, 2013 |
|---|---|---|
| Within one year | 2,154 | 2,007 |
| Between two and five years | 3,747 | 4,060 |
| After five years | 764 | 657 |
| **Total lease and rental commitments** | **6,665** | **6,724** |

Other contingent liabilities from current contracts amount to € 1,080 thousand (previous year: € 1,080 thousand).

Expenses for leased and rented office space and office equipment recognized in the Group income statement amount to € 3,158 thousand in the year under review (previous year: € 3,417 thousand).

### CONTINGENT LIABILITIES

Contingent liabilities arising from guarantees as part of normal business transactions are explained in more detail in the additional notes on financial instruments.

The KHD Group's total purchase commitments amount to € 36.8 million (previous year: € 93.5 million).

## 29 ADDITIONAL NOTES ON FINANCIAL INSTRUMENTS

### FINANCIAL RISK FACTORS

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.

### CAPITAL MANAGEMENT

The primary objective of capital management at the KHD Group is to ensure that the Group's ability to service debts is maintained in the future and that its financial standing is preserved.

Financial security is largely measured using the equity ratio. The components of this key performance indicator are equity and total assets as reported in the consolidated financial statements. The equity ratio is used as a key performance indicator to communicate with investors, analysts, banks, and rating agencies.

KHD can generally manage its capital structure through distributing dividends, reducing capital and/or issuing new shares, as well as through issuing financial instruments qualified as equity in accordance with IFRS. The aim is to achieve a capital structure that is appropriate to the business risk.

KHD is subject to the minimum capital requirements applicable to German stock corporations. Compliance with these requirements is monitored continuously. KHD was in compliance with these requirements in 2014.

| in € thousand | Dec. 31, 2014 | Dec. 31, 2013 |
|---|---|---|
| Equity | 225,882 | 222,450 |
| Total assets | 394,324 | 418,085 |
| Equity ratio (in %) | 57.28 | 53.21 |

The equity ratio increased by 4.1 percentage points compared with the previous year from 53.2% to 57.3%.

### MARKET RISK

#### Currency Risk

In the case of foreign exchange risks, a differentiation should be made between currency risks related to the execution of projects in different currency areas and risks arising from translation of individual Group companies' financial statements denominated in a foreign currency at various reporting dates. As part of the execution of projects, exchange-rate risks are determined on the basis of budgeted cash flows and minimized by using derivative financial instruments. The derivative financial instruments utilized exclusively comprise foreign exchange forward contracts. The Group recognized assets and liabilities denominated in foreign currencies translated to a carrying amount of € 10,410 thousand (previous year: € 1,461 thousand). In this context, foreign currency denotes that a KHD Group company holds assets and liabilities in a currency that is not the local currency of the subsidiary. Without taking any exchange rate forward contracts into account that may be in place, a 10% variance in exchange rates would change Group earnings by € 703 thousand (previous year: € 99 thousand).

The individual financial statements prepared by the foreign subsidiaries are translated into euros in line with the functional currency principle. The Group's functional currency is the euro. Assets and liabilities are translated at the balance sheet closing rate. Currency translation differences resulting from translating the assets and liabilities of foreign subsidiaries denominated in local currencies into the Group's functional currency may have an impact on Group equity. Due to annual net profits and equity denominated in foreign currencies, an impact on Group equity may arise from: the US dollar (USD) in the amount of € 1,487 thousand (previous year: € 2,778 thousand), the Russian ruble (RUB) in the amount of € 374 thousand (previous year: € 1,036 thousand), the Indian rupee (INR) in the amount of € 22,518 thousand (previous year: € 16,987 thousand), and other currencies in the amount of € 111 thousand (previous year: € 42 thousand). A 10% change in foreign currency exchange rates would change Group equity by € 2,449 thousand (previous year: € 2,084 thousand).

**Price Risk**

The Group reports securities in its balance sheet and is exposed to standard market price risk with respect to securities. In view of the fact that price and performance are set out in individual contracts, the Group is not exposed to commodity price risk.

## CREDIT AND DEFAULT RISK

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 billing and advance payments that avoid excessively high levels of outstanding receivables. Internal guidelines ensure that products are generally sold to customers with appropriate credit ratings. The risk of counterparty default is managed through regular monitoring and reviews 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 letters of credit, as well as through letters of comfort, guarantees, and cover notes, which also include export credit agencies (e.g. Hermes).

Securities for receivables amounted to € 11,795 thousand in the financial year under review (previous year: € 12,381 thousand).

In the 2014 financial year, the KHD Group concluded loan agreements totaling € 100 million, each with a term of three years, with AVIC HK as borrower. 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. The KHD Group is also entitled to call the first loan of € 50 million for repayment at any time prior to its maturity by giving 30 days' notice.

The default risk arising from financial assets relates to the risk of counterparty default and is therefore limited to the positive carrying amounts of the respective financial assets.

Credit and default risks are addressed through valuation allowances made for outstanding receivables that have become doubtful.

### LIQUIDITY RISK

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.

In order to avoid financial risks from the plant engineering business, construction contracts are executed through progress billings and customer payments made in advance, which largely financed projects in progress as of the balance sheet date. 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. The majority of current liabilities reported as of the balance sheet date are payable within 60 days.

Within the scope of its normal business transactions, the Group has commitments due to advance guarantees, performance bonds, and guarantees for warranty obligations. The Group does not anticipate any material cash outflows due to these commitments. Bank guarantee facilities, which allow individual KHD Group companies to provide bank guarantees for their customers worldwide, are in place with banks. As part of these guarantee facilities, the Group has provided bank guarantees within the scope of its normal business activities in the amount of € 54.1 million (previous year: € 93.5 million).

### INTEREST RATE RISK

The Group holds assets that are affected by changes in market interest rates over the course of time. In the event that market interest rates had risen or fallen by 50 basis points, Group earnings as of December 31, 2014, would have been € 418 thousand (previous year: € 771 thousand) higher or lower, respectively. A fixed interest rate has been agreed for each of the three-year loans extended to AVIC HK, so there is no risk from interest rate changes with regards to these loans.

## NET EARNINGS PER CATEGORY

The net earnings per category of financial assets and liabilities are as follows:

| 2014 | Financial assets | | | Financial liabilities | | Total |
|---|---|---|---|---|---|---|
| in € thousand | Available for sale | Held for trading | Loans and receivables | Held for trading | Amortized cost | |
| Expenses due to valuation allowances on financial assets | – | – | (2,356) | – | – | (2,356) |
| Interest Income/expense | – | – | 4,467 | – | – | 4,467 |
| Other net earnings | – | (2,607) | 4,849 | – | – | 2,242 |
| **Net earnings** | **–** | **(2,607)** | **6,960** | **–** | **–** | **4,353** |

| 2013 | Financial assets | | | Financial liabilities | | Total |
|---|---|---|---|---|---|---|
| in € thousand | Available for sale | Held for trading | Loans and receivables | Held for trading | Amortized cost | |
| Expenses due to valuation allowances on financial assets | – | – | (1,096) | – | – | (1,096) |
| Interest income/expense | – | – | 2,476 | – | – | 2,476 |
| Other net earnings | – | (212) | 1,181 | – | – | 969 |
| **Net earnings** | **–** | **(212)** | **2,561** | **–** | **–** | **2,349** |

Net earnings include in particular interest income and expense, income and expenses from translating monetary items denominated in foreign currency, market value changes of securities, and expenses for valuation allowances on financial assets.

## LIST OF FINANCIAL ASSETS AND LIABILITIES BY CATEGORY

| Dec. 31, 2014 | | Financial assets | | |
|---|---|---|---|---|
| in € thousand | Available for sale | Held for trading | Loans and receivables | Not in IFRS7 application area |
| Non-current financial assets | – | – | 100,000 | – |
| Trade receivables | – | – | 69,280 | – |
| Other financial assets | – | 569 | – | – |
| Other receivables | – | – | 6,507 | 2,868 |
| Cash and cash equivalents | – | – | 123,627 | – |
| **Total financial assets** | **–** | **569** | **299,414** | **2,868** |
| Other liabilities | – | – | – | – |
| Derivatives | – | – | – | – |
| Trade payables | – | – | – | – |
| **Total financial liabilities** | **–** | **–** | **–** | **–** |

| Dec. 31, 2013 | | Financial assets | | |
|---|---|---|---|---|
| in € thousand | Available for sale | Held for trading | Loans and receivables | Not in IFRS7 application area |
| Trade receivables | – | – | 74,575 | – |
| Other financial assets | 90 | 1,163 | – | – |
| Derivatives | – | 191 | – | – |
| Other receivables | – | – | 7,118 | 2,918 |
| Cash and cash equivalents | – | – | 228,169 | – |
| **Total financial assets** | **90** | **1,354** | **309,862** | **2,918** |
| Other liabilities | – | – | – | – |
| Derivatives | – | – | – | – |
| Trade payables | – | – | – | – |
| **Total financial liabilities** | **–** | **–** | **–** | **–** |

| Financial liabilities | | | | |
|---|---|---|---|---|
| **Held for trading** | **Amortized cost** | **Not in IFRS7 application area** | **Carrying amount Dec. 31, 2014** | **Fair value Dec. 31, 2014** |
| – | – | – | 100,000 | 100,000 |
| – | – | – | 69,280 | 69,280 |
| – | – | – | 569 | 569 |
| – | – | – | 9,375 | 9,375 |
| – | – | – | 123,627 | 123,627 |
| **–** | **–** | **–** | **302,851** | **302,851** |
| – | 6,586 | 5,077 | 11,663 | 11,663 |
| 1,706 | – | – | 1,706 | 1,706 |
| – | 71,683 | – | 71,683 | 71,683 |
| **1,706** | **78,269** | **5,077** | **85,052** | **85,052** |

| Financial liabilities | | | | |
|---|---|---|---|---|
| **Held for trading** | **Amortized cost** | **Not in IFRS7 application area** | **Carrying amount Dec. 31, 2013** | **Fair value Dec. 31, 2013** |
| – | – | – | 74,575 | 74,575 |
| – | – | – | 1,253 | 1,253 |
| – | – | – | 191 | 191 |
| – | – | – | 10,036 | 10,036 |
| – | – | – | 228,169 | 228,169 |
| **–** | **–** | **–** | **314,224** | **314,134** |
| – | 6,457 | 6,183 | 12,640 | 12,640 |
| 144 | – | – | 144 | 144 |
| – | 77,868 | – | 77,868 | 77,868 |
| **144** | **84,325** | **6,183** | **90,652** | **90,652** |

The carrying amounts reported as of the reporting date in general correspond to the fair values.

The fair values of financial assets and financial liabilities held for trading were determined according to the following hierarchy:

- The fair values of the listed securities that are held for trading are determined by reference to quoted market prices.
- The fair values of derivatives are calculated using quoted market prices or based on discounted cash flow analyses, using corresponding yield curves for the term to maturity of the instruments concerned.

Non-current financial assets accrue interest at standard market conditions.

| Financial assets and financial liabilities | Fair value | | Level | Measurement method | Significant unobservable input(s) | Relationship of significant unobservable inputs to fair value |
|---|---|---|---|---|---|---|
| | Dec. 31, 2014 | Dec. 31, 2013 | | | | |
| Derivatives | Financial assets: € 0 thousand<br>Financial liabilities: € 1,706 thousand | Financial assets: € 191 thousand<br>Financial liabilities: € 144 thousand | level 2 | Discounted cash flow | N/A | N/A |
| Securities | Financial assets: € 569 thousand | Financial liabilities: € 1,163 thousand | level 1 | Listed price on active market | N/A | N/A |

## SECURITIES HELD FOR TRADING

Securities held for trading amounted to € 569 thousand (previous year: € 1,163 thousand). A 10% variance in the market price would change Group earnings by € 57 thousand (previous year: € 110 thousand).

## RECEIVABLES

Overdue Group receivables, including receivables for which valuation allowances were made, amounted to € 19,440 thousand (previous year: € 17,393 thousand). After deducting securities (letters of credit and Hermes coverage), the Group values the resulting risk at € 7,560 thousand (previous year: € 4,978 thousand). The receivables for which valuation allowances have been made are generally more than 90 days overdue.

## DERIVATIVES

The derivative financial instruments utilized exclusively comprise foreign exchange forward contracts. These are measured at fair value according to IAS 39.

The net balance of the derivatives carry a fair value of € 1,706 thousand (previous year: € 46 thousand). A 10% change in the exchange rate hedged by the derivative would affect earnings by € 1,517 thousand (previous year: € 732 thousand). The total amount of underlying transactions allocated to foreign exchange forward contracts amounts to € 22.4 million (previous year: € 10.8 million).

In general, derivative financial instruments are due within one year.

## 30 LITIGATION

### ARBITRATION CLAIM AGAINST A CUSTOMER IN SOUTH AMERICA

On December 20, 2013, Humboldt Wedag Inc., Norcross (Georgia) (HWUS) brought an arbitration claim against a customer at the International Chamber of Commerce (ICC). The arbitration proceedings will take place in Lisbon, Portugal. The arbitration claim aims to make the customer pay outstanding receivables of USD 5.0 million and reimburse the bank guarantee of USD 3.2 million unfairly called in. The arbitration claim also aims to make the customer pay compensation of USD 2.7 million to HWUS, in case the contract is canceled, or to compensate HWUS for consequential damage resulting from the cancellation.

### ARBITRATION CLAIM OF A CUSTOMER IN SOUTH AMERICA AGAINST HWUS AND KHD

On December 20, 2013, HWUS received an arbitration claim that a customer in South America has submitted to the 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 should be ordered to 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 a set 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 two arbitration claims above were combined in a single arbitration proceeding. The negotiation before the court of arbitration continues. Evidence was 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.

### ARBITRATION PROCEEDINGS AGAINST A CUSTOMER IN MALAYSIA

Humboldt Wedag GmbH (HW GmbH), Cologne, and Humboldt Wedag Malaysia Sdn Bhd. (HW Malaysia), Kuala Lumpur, Malaysia, opened arbitration proceedings against a customer at the KLRCA Arbitration Center in Malaysia on September 18, 2014. The aim of the proceedings is to order the customer to pay damages as well as outstanding receivables of € 6.6 million.

### COURT PROCEEDINGS AGAINST A CUSTOMER IN MALAYSIA

On August 15, 2014, a customer in Malaysia called a bank guarantee, issued by HW GmbH and HW Malaysia amounting to € 2.2 million. The two KHD companies have obtained an injunction against the calling of this bank guarantee from the High Court of Malaysia. The court agreed to this injunction until a decision is made in the arbitration proceedings currently in progress at the KLRCA Arbitration Center in Malaysia. The customer has lodged an appeal against this ruling.

## 31 RELATED PARTY DISCLOSURES

There has been a cooperation agreement with AVIC Beijing since 2010, underpinned by the capital interests in KHD amounting to 20% that is held by Max Glory Industries Limited (Max Glory), an AVIC Beijing group company. As a consequence of a public takeover offer, AVIC Beijing further increased its indirect share in KHD in the 2014 financial year. As of December 31, 2014, AVIC Beijing now indirectly holds the majority of KHD shares with 89.02%.

Among other things the operating cooperation with AVIC Group yielded joint projects in Malaysia, Venezuela, and Turkey.

In March 2012, the KHD Group received an order worth approximately € 100 million from Straits Cement (external customer) to construct a fully integrated cement production facility in Malaysia, with a daily production capacity of 5,000 tons. As the KHD Group's partners, AVIC Beijing together with AVIC Cement Sdn. Bhd. (AVIC Malaysia), Kuala Lumpur, Malaysia, supply and erect the entire steel structure and provide various electrical and mechanical packages, which represent approximately 60% of the above order value. This 60% will be channeled through AVIC. KHD will not realize any additional gross profit from passing through this business. In the 2014 financial year this project was still in the execution phase.

Also in the 2012 financial year, the AVIC-KHD partnership was awarded its first turnkey (EPC) contract in Venezuela. Invecem Cement has chosen AVIC as the general contractor for a new line with a capacity of 2,400 tons per day at the San Sebastian cement plant. As AVIC Beijing's subcontractor, KHD will supply process technology expertise, key equipment components, as well as engineering and supervision services. The order is worth around € 19 million. In the 2014 financial year this project was still in the execution phase.

In December 2012, the KHD Group obtained an order with a volume of approximately € 7 million in Turkey as a subcontractor of AVIC Beijing. The order with AVIC Beijing involves supplying equipment for the construction of a 5,000-ton cement plant for SÖNMEZ Cimento. KHD's scope of supply includes engineering services and certain equipment for cement production, training for the on-site team, and supervision of erection and commissioning. In the 2014 financial year this project was still in the execution phase.

Within the scope of the order for the delivery and installation of two roller presses in Malaysia, AVIC Beijing was commissioned as KHD Group's subcontractor for € 2.4 million in the 2012 financial year. In the 2014 financial year this project was completed.

In July 2014, the KHD Group obtained an additional order in Venezuela as subcontractor of AVIC Beijing with a volume of approximately USD 7.7 million. The order with AVIC Beijing involves supplying equipment and providing services for the construction of a 3,500-ton cement plant for the customer Cemento Andino, S.A. KHD's scope of supply includes engineering services and certain equipment for the pyro line, consisting of preheater, kiln, and clinker cooler as well as supervision of erection and commissioning and training for the operation team on site.

## OTHER TRANSACTIONS WITH RELATED PARTIES

During the financial year the continuing intensification in the cooperation between the KHD Group and the AVIC Group was not least reflected in the conclusion of two loan agreements with AVIC HK as borrower. The loans amount to € 50,000 thousand, each. The loans bear interest of 6% p.a. Both loans have a term of three years. For the loan extended in June 2014, KHD reserves the right to demand repayment of the loan at any time prior to its maturity by giving 30 days' notice. The loans extended to AVIC HK are secured with a corporate guarantee from AVIC.

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 reimbursed and fully paid by AVIC International Holdings Limited.

## INCOME

Income from related companies amounted to € 4,278 thousand (previous year: € 18,052 thousand). Income in the current year largely refers to income generated together with our cooperation partner AVIC Beijing, resulting from the projects in Turkey and Venezuela described above. Interest income of € 1,750 thousand was generated by the loans extended to AVIC HK. In addition, income from related parties comprises the reimbursement of audit fees from AVIC International Holdings Limited in an amount of € 259 thousand.

| in € thousand | 2014 | 2013 |
|---|---|---|
| Indirect parent entities | 2,628 | 18,052 |
| Other related entities | 1,750 | – |
| | **4,378** | **18,052** |

## EXPENSES

Expenses arising from transactions with related companies are composed as follows:

| in € thousand | 2014 | 2013 |
|---|---|---|
| Indirect parent entities | 20,588 | 33,899 |
| Other related entities | 6,139 | 1,493 |
| | **26,727** | **35,392** |

The expenses from transactions with AVIC Group reflect contract costs arising from the aforementioned contracts.

### CURRENT ASSETS

In the financial year under review, there were current assets due from companies of the AVIC Group in the amount of € 8,534 thousand (previous year: € 7,217 thousand). This amount of € 8,534 thousand is attributable to advance payments and customer receivables, which relates to the projects above.

| in € thousand | 2014 | 2013 |
|---|---|---|
| Indirect parent entities | 6,964 | 3,321 |
| Other related entities | 1,570 | 3,896 |
| | **8,534** | **7,217** |

### NON-CURRENT ASSETS

As of the balance sheet date, loans amounting to € 100,000 thousand are recognized under non-current assets.

### LIABILITIES

As of December 31, 2014, liabilities due to AVIC Beijing were reported in the amount of € 9,546 thousand (previous year: € 1,671 thousand). The liabilities also relate to the aforementioned projects.

| in € thousand | 2014 | 2013 |
|---|---|---|
| Indirect parent entities | 4,037 | 1,671 |
| Other related entities | 5,509 | – |
| | **9,546** | **1,671** |

### RELATIONSHIPS WITH ASSOCIATED PERSONS

In the 2013 financial year, KHD concluded a consultancy contract with NASENDA, Douglas, Isle of Man, a company whose shares are held by the Supervisory Board member 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 as of December 31, 2013 (€ 15 thousand), € 90 thousand has been paid to NASENDA in the 2014 financial year. As of December 31, 2014, liabilities to NASENDA amount to € 0 thousand (previous year: € 0 thousand).

With regards to remuneration of members of the Management Board and Supervisory Board reference is made to note 19.

## 32 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 permanently publicly available to shareholders on the Company's website at (www.khd.com).

Furthermore, the Management Board and Supervisory Board of publicly listed Group company KIS issued the statement required pursuant to Section 161 of the German Stock Corporation Act (AktG) on March 12, 2015, and also made it permanently publicly available to shareholders on the Company's website (www.khdis.de).

## 33 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 the Sales and Technology division.

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

## 34 RELEASE FOR PUBLICATION BY THE MANAGEMENT BOARD

These consolidated financial statements were released for publication by the Management Board resolution of March 17, 2015. Supervisory Board approval is due to be issued at the Supervisory Board meeting on March 17, 2015.

Cologne, Germany, March 17, 2015

The Management Board

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

## RESPONSIBILITY STATEMENT

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

Cologne, Germany, March 17, 2015

The Management Board

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

## INDEPENDENT AUDITOR'S REPORT

We have audited the consolidated financial statements prepared by KHD Humboldt Wedag International AG, Cologne, Germany, comprising the income statement as well as the statement of comprehensive income, the balance sheet, the cash flow statement, statement of changes in equity, and the notes to the consolidated financial statements as well as the Group management report, for the financial year from January 1 through December 31, 2014. The preparation of the consolidated financial statements and the Group management report in accordance with the International Financial Reporting Standards (IFRS), as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315a Para. 1 of the German Commercial Code (HGB) are the responsibility of the Company's Management Board. Our responsibility is to express an opinion on the consolidated financial statements and the Group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Section 317 HGB ("German Commercial Code") and the German generally accepted standards for the audit of financial statements set by the Institut der Wirtschaftsprüfer ("Institute of Public Auditors") in Germany. Those standards require that we plan and perform the audit such that misstatements and breaches materially affecting the presentation of the net assets, financial position, and results of operations in the consolidated financial statements, in accordance with the applicable accounting regulations, and in the Group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and Group management report are examined predominantly on the basis of spot checks within the framework of the audit. The audit includes the assessment of the annual financial statements of those entities included in the consolidation, the determination of entities to be included in the consolidation, the accounting and consolidation principles applied and the material estimates of the Management Board, as well as an evaluation of the overall presentation of the consolidated financial statements and the Group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements of KHD Humboldt Wedag International AG, Cologne, Germany, comply with IFRS, as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315a Para. 1 HGB, and give a true and fair view of the net assets, financial position, and results of operations of the Group in accordance with these requirements. The Group management report is consistent with the consolidated financial statements and, as a whole, provides a suitable view of the Group's position and accurately presents the opportunities and risks of future development.

Düsseldorf, Germany, March 17, 2015

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

| | |
|---|---|
| (Tissen) | (Neu) |
| German Public Auditor | German Public Auditor |

## LIST OF ABBREVIATIONS

| | |
|---|---|
| AVIC Beijing | AVIC International Beijing Company Limited, Beijing, China |
| AVIC Engineering | AVIC International Engineering Holding Pte. Ltd, Singapore, Singapore |
| AVIC HK | AVIC International (HK) Group Limited, Hong Kong, Hong Kong |
| AVIC International | AVIC International Holdings Limited, Hong Kong, Hong Kong |
| AVIC Malaysia | AVIC Cement Sdn. Bhd., Kuala Lumpur, Malaysia |
| CSC | Customer Service Center |
| CSC Risks | Risks affecting the operating units |
| Group Risks | Risks that affect the entire Group |
| HWIN | Humboldt Wedag India Private Ltd., New Delhi, India |
| HWUS | Humboldt Wedag Inc., Norcross (Georgia), USA |
| KHD | KHD Humboldt Wedag International AG, Cologne, Germany |
| KHD Engineering | KHD Engineering Holding GmbH, Vienna, Austria |
| KHD HW | KHD Humboldt Wedag GmbH, Cologne, Germany |
| KHD OOO | KHD Humboldt Engineering OOO, Moscow, Russia |
| KIS | KHD Humboldt Wedag Industrial Services AG, Cologne, Germany |
| Max Glory | Max Glory Industries Limited, Hong Kong, Hong Kong |
| Weir Minerals | Minerals Europe Limited, a subsidiary of Weir Group PLC, Glasgow, United Kingdom |

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This annual report is published also in German. In the event of any discrepancies, the German version prevails.

**FORWARD-LOOKING STATEMENTS AND FORECASTS**
This report contains forward-looking statements. These statements are based on the current experiences, assumptions, and forecasts of the Board of Management, as well as on the information currently available. The forward-looking statements do not constitute a guarantee for the future developments and results detailed therein. Future developments and results depend heavily on a range of factors. They comprise various risks and uncertainties and are based on assumptions that may turn out to be inaccurate. These risk factors include in particular the factors detailed in the risk report on pages 39 to 48. We undertake no obligation to update the forward-looking statements made in this report.

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