HUMBOLDT WEDAG

Financial Statement

2015

KHD Humboldt Wedag International AG

Management Report and Annual Financial Statements as of December 31, 2015

Colonia-Allee 3
51067 Köln

HRB Köln 36688
WKN 657800
ISiN DE00065780

List of Abbreviations

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

Management Report and Annual Financial Statements of KHD Humboldt Wedag International AG for the Financial Year 2015

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1 Management Report of KHD Humboldt Wedag International AG for the Financial Year 2015

1.1 Company

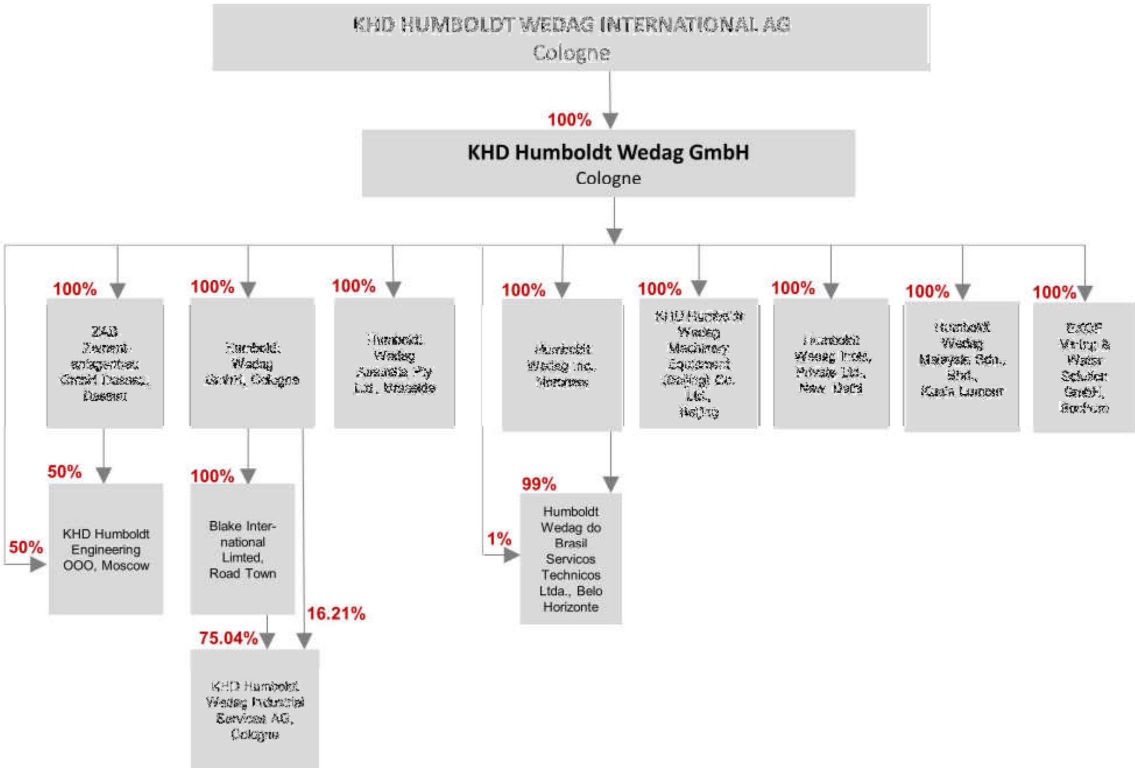
KHD Humboldt Wedag International AG (hereafter also referred to as “KHD,” the “Company” or “we”) based in Cologne, Germany, is the holding company of the KHD Group, which ranks as one of the world’s top equipment suppliers and service providers for the cement industry. The scope of services encompasses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

Group Structure and Shareholdings

In its capacity as the ultimate holding company of the Group, KHD holds a 100% investment in KHD Humboldt Wedag GmbH, which functions as a holding company with no operating business activities. KHD provides central Group management services, as well as legal and consulting services for the other Group companies. KHD also provides bonding facilities agreed bilaterally with several banks to the operating KHD Group companies.

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

As of December 31, 2015, the KHD Group's organizational structure is as follows:



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

Major Events during the Year under Review

Personnel Changes in the Management Board and Supervisory Board

KHD has resituated itself with a new management team in the 2015 financial year. Since January 1, 2015, as part of the Management Board, Daniel Uttelbach is now in charge of Sales & Technology. In February 2015, Johan Cnossen was appointed to the Management Board, effective May 1, 2015. Mr. Cnossen serves as Chief Executive Officer (CEO). Effective April 10, 2015, Jürgen Luckas was appointed to the Management Board as the Chief Financial Officer (CFO). Furthermore, Yizhen Zhu (Executive Vice President) remains a member of the Management Board, responsible for Global Supply Chain Management, among other areas. 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.

Shareholders passed a resolution to increase the amount of Supervisory Board members from three to six at the KHD general meeting on May 28, 2015. In addition to previous Supervisory Board members Mr. Hubert Keusch, Ms. Eliza Suk Ching Yuen and Mr. Kangning Zou, newly elected to the Supervisory Board by the shareholders were Mr. Xiaofeng Liu, Ms. Yiqiong Zhang and Mr. Tao Xing. Mr. Keusch was confirmed in his position as the Chairman of the Supervisory Board at the constitutional meeting of the Supervisory Board on July 3, 2015. Mr. Liu was elected as the Deputy Chairman of the Supervisory Board.

Loan contract with the Bank of China Limited, Frankfurt Branch

On September 30, 2015, KHD and the Bank of China Limited, Frankfurt am Main Branch signed a contract for a credit line of € 25 million. In October 2015, KHD made use of the entire available credit line by taking out a bank loan in the amount of € 25 million. The loan has a fixed term of three years and the right for termination on short-term notice. If the option to terminate the loan is not exercised, the loan is due for repayment in October 2018. The variable interest rate for this bank loan is significantly lower than the interest rate that KHD received on the loan extended to AVIC International (HK) Group Ltd.

1.2 Business Development for Plant Engineering

Economic Environment

At reporting time (December 2015) the International Monetary Fund (IMF) predicted global growth of 3.1% (previous year: 3.4%) for 2015. This is a downgrade of 0.2 percentage points compared to their previous estimate. Weaker pricing for raw materials, decreasing inflow of capital in developing countries and the related pressure on their respective currencies are the main reasons for this downgrade. The IMF analysis shows that regional growth rates differed strongly from one another. In contrast to the previous year, a slight recovery took place for the developed industrialized countries. However, growth in the developing countries remained relatively low for the fifth year in a row. This had varying effects in KHD's main markets:

- In India, growth remained on a high level of 7.3%, the same as in the previous year. Lower prices for oil and raw materials as well as increased trust in the government's reform program – in addition to declining inflation – contributed to the continuing high level of growth in India.
- The contraction of the Russian economy continued as predicted by the IMF, declining from 0.6% in 2014 to -3.8% in 2015. This development was reinforced by lower oil and gas prices, the decline of the ruble, international sanctions and continuing structural weaknesses.
- In Turkey, due to the low price of oil and the gradual recovery in Europe, growth amounted to 3.0%.
- Europe experienced a slight increase in growth, from 0.9% in 2014 to 1.5% in 2015. Domestic demand increased, and the region benefitted from low oil prices and an expansionary monetary policy.
- The economic recovery in the United States, with a growth rate of 2.6% (2014: 2.4%) is the most advanced in comparison with all other developed countries. Despite a robust second quarter, however, growth was not as strong as expected. The reasons for this are the difficult winter, harbor closings and declining investments in the oil sector.
- The decline in growth in China from 7.3% in 2014 to the current 6.8% was felt all over the world. It resulted in decreasing raw materials prices, particularly for some metals for which China had previously covered up to 50% of the global demand. Investments in the private housing sector declined as well. The IMF does not expect that this current phase of instability on the Chinese financial markets will

result in significant macroeconomic volatility. Nevertheless, the IMF is predicting an incremental slowing of growth in China.

- In the ASEAN-5 economies (Indonesia, Malaysia, the Philippines, Thailand and Vietnam), growth declined in Malaysia and, to a lesser extent, in Indonesia. Due to increased consumer confidence, growth in the Philippines remained stable at 6%. Thailand and Vietnam also experienced good growth; Vietnam achieved a growth rate of 6.5%.

In the above cited October report the IMF warns that “Geopolitical Risks and Ongoing events around Ukraine, the Middle East, and parts of Africa could lead to escalation in tensions and increased disruptions in global trade and financial transactions. Disruptions in energy and other commodity markets remain a particular concern, given the possibility of sharp price spikes, which, depending on their duration, could substantially lower real incomes and demand in importers. More generally, an escalation of such tensions could take a toll on confidence.”

Industry Environment

In 2015, the global cement market contracted for the first time since 2008. Based on an estimate of the market research institute CW Group, global cement demand decreased from 4.1 billion tons in 2014 to 4.0 billion tons in 2015. This is, in particular, a result of the geopolitical tensions in many parts of the world as we well as the decline in cement demand in China.

KHD’s key markets demonstrated very different tendencies in relation to cement consumption:

- In India, cement production has increased, but due to the lengthy monsoon season in the South and the unexpectedly high amount of rain in the North, cement demand remained behind expectations. In addition, the slow development in industrial sectors that are significant with regard to cement consumption (including the private housing and infrastructure sectors) resulted in unsatisfactory development in cement consumption.
- In Russia, the construction sector continues to be hampered by difficult economic conditions. In particular, the devaluation of the ruble and the generally weak

macroeconomic environment had a negative effect on infrastructure projects and, for this reason, on cement consumption as well.

- On the Turkish cement market, prospects are declining. The reasons for this decline include excess capacities in cement production, decreasing cement exports in the Middle East and North Africa due to geopolitical tensions and the recession in Russia. Despite these conditions, several cement manufacturers have announced investments in expansion.
- In the USA, cement consumption continues to increase and, for this reason, a further increase in cement prices is expected. Cement imports into the USA are increasing as well.

According to Exane BNP Paribas, the decreasing raw materials prices resulting from the downturn in China have also put pressure on the currencies of the emerging countries and, consequently, have had a negative effect on investments in infrastructure there. The declining growth rates in the global cement industry and the ongoing expansion of Chinese cement plant engineering companies into regions outside of China have resulted in increasingly difficult competition for the few available projects. The fusion of LafargeHolcim and the announced fusion of Italcementi and Heidelberger Zement are also resulting in additional delays in investments in new capacities.

Over the long term, investment in infrastructure by developing and emerging economies will remain the most important driver for growth in the cement industry.

Investment activities in new cement plants worldwide will continue to be determined by the price level of cement, the capacity utilization of existing plants, interest rates, and the availability of investment capital. Moreover, due to the downturn in China, the possibility of importing cement and/or clinker will play a significant role.

1.3 Company’s Position

Overall Assessment of the Results of Operations and Economic Position

The Management Board assesses the Company’s overall net assets, financial position, and result of operations in the previous financial year as satisfactory. Due to the ongoing amount of interest income accrued for the whole of 2016 from the loan granted to AVIC HK, the Company expects a satisfactory business result for the financial year 2016 as well.

Net Assets

The Company’s total assets increased again in this financial year by € 24,421 thousand from € 179,337 thousand to € 203,758 thousand. In particular, this increase is due to taking out a loan in the amount of € 25 million. The loan was used to make a capital contribution to KHD HW. KHD HW itself has used the loan to strengthen the business operations of the US subsidiary, HW Inc.

The most significant assets of the company, which functions as a management holding company, are the shares in KHD HW in the current amount of € 51 million and the loan granted last year to AVIC HK in the amount of € 100 million. The total value of these financial investments is equal to 74.3% of the total assets (previous year: 70.5%).

The increase in receivables due from affiliated companies is mainly attributable to the increase of a loan that KHD extended to an affiliated company by € 5,348 thousand from € 20,989 thousand to € 26,337 thousand. In contrast, other assets have decreased by € 1,191 thousand, from € 2,484 thousand in the previous year to € 1,293 thousand. Other assets mainly include VAT tax credit of € 1,184 thousand (previous year: € 2,333 thousand).

The decrease in bank balances by € 4,495 thousand to € 23,981 thousand (previous year: € 28,476 thousand) primarily resulted from the increase in receivables due from affiliated companies.

The Company’s equity increased by € 1,483 thousand from € 120,744 thousand to € 122,227 thousand. The reason for the increase in equity is the net profit achieved for the financial year in the amount of € 1,483 thousand. Despite the increase in equity, the equity ratio fell in the financial year due to the increase in total assets to 60.0% (previous year: 67.3%).

The decrease in provisions mainly resulted from drawing upon other provisions. In contrast, the provisions for taxes rose.

The € 22,845 thousand increase in liabilities from € 55,859 thousand to € 78,704 thousand was mainly due to taking out a loan. The variable interest loan has a fixed term of three years and is due for repayment in October 2018. As a result of taking out the loan, KHD's debt ratio (the ratio of borrowed capital to equity) increased to 66.7% (previous year: 48.5%).

The Company recognized deferred tax liabilities of € 576 thousand in the financial year based on temporary differences between the carrying amounts recognized in the balance sheet and the respective tax base.

Results of Operations

In the financial year under review, KHD's result from ordinary activities came to € 2,366 thousand (previous year: € 2,374 thousand). This means that the result from ordinary activities is at the same level as last year, but below the previous year's forecast. The reason for this deviation from last year's forecast is, despite the increase in interest income, primarily the significant reduction in other operating income. This decreased from € 7,114 thousand to € 5,006 thousand.

The other operation income decreased due to the declining business volume in the operating subsidiaries. For this reason, in the 2015 financial year, KHD subsidiaries have requested Group services to a lesser extent. As a result, mainly the income from the Service & Cost Allocation Agreement decreased by € 1,397 thousand to € 1,202 thousand, and income from the Bond Arrangement Agreement decreased by € 1,026 thousand to € 1,638 thousand. The income from the Bond Arrangement Agreement offsets bank guarantee fees, which are reported under interest and similar expenses. In addition, other operating income also includes realized and unrealized exchange rate gains of € 1,822 thousand (previous year: € 1,400 thousand) and the income from the release of other provisions in the amount of € 228 thousand (previous year: € 62 thousand).

Personnel expenses mainly relate to compensation for the members of the Management Board. Due to personnel changes on the Management Board, expenses for severance payments were recorded. Moreover, the increase in the number of Management Board members from three to four resulted in an increase in personnel expenses.

The increase in other operating expenses resulted primarily from expenses from foreign exchange forward contracts in the amount of € 1,563 thousand. Exchange gains, which are reported under other operating income, offset these expenses. In addition, other operating expenses include legal and consulting costs, costs of preparing and auditing the annual financial statements, Supervisory Board compensation, Group charges, costs related to the Annual General Meeting, investor relations costs, and other administrative costs.

Income from long-term loans in financial assets includes only the interest income in the amount of 6% per annum from the loans granted to AVIC HK for a total of € 100 million. In addition, interest income accrued from loans from KHD to an affiliated company. The interest expense of € 3,789 (previous year: € 2,372 thousand) resulted mainly from interest for loans taken out by two operating subsidiaries (€ 3,042 thousand, previous year: € 436 thousand) as well as bank and guarantee costs related to bank guarantees. Starting in October of the financial year, the interest expenses from a bank loan for € 25 million were recorded as well.

After considering income taxes of € 883 thousand (previous year: € 768 thousand), net profit for the year is € 1,483 thousand (previous year: € 1,606 thousand), which resulted in a net retained profit of € 7,724 thousand after taking into account the profit carried forward from the previous year of € 6,241 thousand.

The dividend payment potential of KHD is not determined solely by the achieved net profit for the year and the Group's net retained profit, but also by the capability of the operating KHD Group companies to achieve positive net period results. In the financial year under review, the results situation of the operating KHD Group companies was strongly influenced by the tense economic situation in cement plant engineering. For this reason, significant, planned budget goals were not able to be achieved in some Group companies. In particular, due to difficulties in the execution of some large projects, Humboldt Wedag GmbH and Humboldt Wedag, Inc. had to accept markedly negative net period results. For this reason, the dividend payment potential of the subsidiaries as well as KHD, indirectly, has decreased accordingly.

Financial Position

The Company’s financing is secured due to the liquidity available at the end of 2015, but also as a result of the retrievable resources and dividend payment potential of the KHD Group companies. Despite the negative net period results in some operating subsidiaries, as a whole, the liquidity and the dividend payment potential of the subsidiaries is satisfactory. Cash and cash equivalents as of the balance sheet date total € 23,981 thousand. Thus, the previous year's forecast was not reached.

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

As of December 31, 2015, the equity ratio stood at 60.0%, which was below the previous year’s ratio of 67.3%. The main reason for the decrease in equity ratio is the increase of the total assets as a result of the bank loan taken out from the Bank of China. Despite the decline in the equity ratio, equity rose in financial year 2015 by € 1,483 thousand to € 122,227 thousand and remains at a high level.

Financial and Non-Financial Performance Indicators:

KHD is a management holding company with no operating business activities, which is therefore not directly controlled based on financial or non-financial performance indicators significant for the Group.

The most important, relevant performance indicators used for the internal management of KHD are the following:

- Liquidity,
- The result from ordinary activities (before taking income from investments into consideration).

As a management holding company, KHD – unlike the operating Group companies – is not additionally controlled based on non-financial performance indicators.

1.4 Report on Events after the Reporting Period

Effective January 1, 2016, Mr. Tao Xing was appointed to the Management Board of KHD. His primary responsibilities include the development and expansion of KHD business in China, the Asia-Pacific region and the Americas. From July 3, 2015 through December 29, 2015, Mr. Tao Xing was a member of the KHD Supervisory Board.

Also effective January 1, 2016, Mr. Yizhen Zhu was appointed to the Management Board of KHD for another three years. He will continue to be responsible for Global Supply Chain Management and the international development of the cooperation with our strategic partner AVIC.

The arbitration claims pending in court since December 2013 has in the meantime been concluded by an arbitration award in January 2016. The arbitration award of the court is an adjusting event for the 2016 financial year. The arbitration award condemned Humboldt Wedag, Inc., Norcross (Georgia), USA, and KHD Humboldt Wedag International AG as joint and several debtors to pay to a customer in South America an amount of approximately € 10 million plus interest. The effects on the income statement have already been recognized in full in the 2015 financial year.

No significant events took place after December 31, 2015.

1.5 Compensation Report

The compensation report presents the principles, structure, and amount of both Management Board and Supervisory Board remuneration at KHD. The compensation report incorporates the recommendations made by the German Corporate Governance Code (GCGC). It also contains information required by Section 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 fringe 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 as well as other fringe benefits. A pension allowance is (or was) also provided for Mr. Luckas, Mr. Uttelbach and Mr. Quellmalz. This amount is shown, along with the non-cash benefits and other fringe 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.

For the 2015 financial year, members of the Management Board (Mr. Luckas, Mr. Zhu and Mr. Uttelbach) voluntarily waived their claims to variable compensation.

For Johan Cnossen, the new Chief Executive Officer, effective May 1, 2015, the Supervisory Board set a fixed bonus for the financial year 2015 and granted a signing fee to be paid in December 2015 and December 2016. The signing fee offsets the compensation that Mr. Cnossen would have received had he not taken the position with KHD.

In the management service contract with the former CEO, Jouni Salo, the Supervisory Board had agreed to a one-off pro rata fixed bonus for the 2015 financial year.

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. For current members of the Management Board, this period of notice is twelve months.

For Mr. Salo, a severance payment of one year's fixed compensation (€ 375,000) is payable by the Company due to the premature termination of his management service contract, originally scheduled to expire on December 10, 2015. In preceding years, KHD had already set-up an accrual for the severance payment to be made, so no additional expense had to be recorded in the 2015 financial year. In accordance with the termination agreement concluded with Mr. Salo, the severance pay was first due and payable in January 2016. For this reason, the accrual for Mr. Salo amounted to € 375,000 as of December 31, 2015. The further payments to Mr. Salo from the service contract after his recall and up to his termination on May 22, 2015 in the amount of € 22,177 are shown in the compensation report as "Severance pay / allocation to accrual".

The Supervisory Board dismissed the former Chief Financial Officer, Mr. Quellmalz, from his position on the Management Board effective April 9, 2015 and concluded a termination agreement with him with regard to the management service contract. In the termination agreement, specific payments and benefits were agree upon as compensation for the premature termination of the management service contract, originally scheduled to expire April 30, 2016. All of the payments made and benefits granted after April 9, 2015 for a total of € 266,482 are shown in the compensation report as "Severance pay / allocation to accrual".

There are no severance payment arrangements in the service contracts with Mr. Cnossen, Mr. Luckas, Mr. Zhu, Mr. Uttelbach and Mr. Xing.

Total Compensation paid to Management Board Members

Overview of key data concerning the Management Board (in the 2015 financial year):

Name	Management Board member since:	Appointment to the Management Board until:
Johan Cnossen	May 1, 2015	April 30, 2018
Jürgen Luckas	April 10, 2015	April 9, 2018
Yizhen Zhu	April 1, 2011	December 31, 2018
Daniel Uttelbach	January 1, 2015	December 31, 2017
Jouni Olavi Salo	December 11, 2008	April 30, 2015
Ralph Quellmalz	April 30, 2013	April 9, 2015

Effective January 1, 2016, Mr. Tao Xing was appointed as another regular member of the KHD Humboldt Wedag International AG Management Board for a three year period until December 31, 2018, by resolution of the Supervisory Board.

The total remuneration for active and former members of the KHD Management Board amounted to € 1,964 thousand in the 2015 financial year (previous year: € 1,340 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.

The benefits granted in the 2015 and 2014 financial years can be seen in the following overview:

Gewährte Zuwendungen (in €)	Johan Cnossen Vorstandsvorsitzender Vorstand seit 1. Mai 2015				Jürgen Luckas* Finanzvorstand Vorstand seit 10. April 2015			
	GJ 2014	GJ 2015	GJ 2015 (Min)	GJ 2015 (Max)	GJ 2014	GJ 2015	GJ 2015 (Min)	GJ 2015 (Max)
Festvergütung	0	256.667	256.667	256.667	0	159.167	159.167	159.167
Fixbonus	0	129.212	129.212	129.212	0	0	0	0
Signing Fee	0	270.081	270.081	270.081	0	0	0	0
Nebenleistungen	0	38.295	38.295	38.295	0	16.537	16.537	16.537
Summe	**0**	**694.255**	**694.255**	**694.255**	**0**	**175.704**	**175.704**	**175.704**
Einjährige variable Vergütung	0	0	0	0	0	0	0	0
Mehrjährige variable Vergütung								
Bonus finanzielle Ziele (bis 31. Dezember 2016)	0	0	0	0	0	0	0	105.000
Bonus individuelle Ziele (bis 31. Dezember 2015)**	0	0	0	0	0	0	0	45.000
Summe	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**150.000**
Versorgungsaufwand	0	0	0	0		0	0	0
Gesamtvergütung	**0**	**694.255**	**694.255**	**694.255**	**0**	**175.704**	**175.704**	**325.704**

Gewährte Zuwendungen (in €)	Yizhen Zhu* Executive Vice President Vorstand seit 1. April 2011				Daniel Uttelbach* Executive Vice President Sales & Technology Vorstand seit 1. Januar 2015			
	GJ 2014	GJ 2015	GJ 2015 (Min)	GJ 2015 (Max)	GJ 2014	GJ 2015	GJ 2015 (Min)	GJ 2015 (Max)
Festvergütung	210.000	220.000	220.000	220.000	0	220.000	220.000	220.000
Nebenleistungen	16.796	20.512	20.512	20.512	0	20.255	20.255	20.255
Summe	**226.796**	**240.512**	**240.512**	**240.512**	**0**	**240.255**	**240.255**	**240.255**
Einjährige variable Vergütung	0	0	0	0	0	0	0	0
Mehrjährige variable Vergütung								
Bonus finanzielle Ziele (bis 31. Dezember 2014)***	22.500	0	0	0	0	0	0	0
Bonus individuelle Ziele (bis 31. Dezember 2014)**	37.500				0			
Bonus finanzielle Ziele (bis 31. Dezember 2016)	0	0	0	105.000	0	0	0	105.000
Bonus individuelle Ziele (bis 31. Dezember 2015)**	0	0	0	45.000	0	0	0	45.000
Summe	**60.000**	**0**	**0**	**150.000**	**0**	**0**	**0**	**150.000**
Versorgungsaufwand	0	0	0	0	0	0	0	0
Gesamtvergütung	**286.796**	**240.512**	**240.512**	**390.512**	**0**	**240.255**	**240.255**	**390.255**

Gewährte Zuwendungen (in €)	Jouni Olavi Salo ehem. Vorstandsvorsitzender Vorstand bis 30. April 2015				Ralph Quellmalz ehem. Finanzvorstand Vorstand bis 9. April 2015			
	GJ 2014	GJ 2015	GJ 2015 (Min)	GJ 2015 (Max)	GJ 2014	GJ 2015	GJ 2015 (Min)	GJ 2015 (Max)
Festvergütung	375.000	125.000	125.000	125.000	220.000	60.833	60.833	60.833
Fixbonus	0	72.945	72.945	72.945	0	0	0	0
Abfindung / Zuführung zur Rückstellung	233.876	22.177	22.177	22.177	0	266.482	266.482	266.482
Nebenleistungen	44.899	59.519	59.519	59.519	24.393	6.781	6.781	6.781
Summe	**653.775**	**279.641**	**279.641**	**279.641**	**244.393**	**334.096**	**334.096**	**334.096**
Einjährige variable Vergütung	0	0	0	0	0	0	0	0
Mehrjährige variable Vergütung								
Bonus finanzielle Ziele (bis 31. Dezember 2014)***	56.250	0	0	0	22.500	0	0	0
Bonus individuelle Ziele (bis 31. Dezember 2014)**	56.250	0	0	0	30.000	0	0	0
Summe	**112.500**	**0**	**0**	**0**	**52.500**	**0**	**0**	**0**
Versorgungsaufwand	0	0	0	0	0	0	0	0
Gesamtvergütung	**766.275**	**279.641**	**279.641**	**279.641**	**296.893**	**334.096**	**334.096**	**334.096**

***** Für das Geschäftsjahr 2015 wurde ein freiwilliger Verzicht auf einen Bonus ausgesprochen.

** Der Bonus für die individuellen Ziele hat eine einjährige Bemessungsgrundlage, wird aber erst im folgenden Geschäftsjahr ausgezahlt (Deferral).

*** Der Bonus für die finanziellen Ziele für das Geschäftsjahr 2014 hatte eine einjährige Bemessungsgrundlage, wurde aber erst im Geschäftsjahr 2015 ausgezahlt (Deferral).

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 2015 and 2014 financial years:

Zufluss (in €)	Johan Cnossen Vorstandsvorsitzender		Jürgen Luckas Finanzvorstand		Yizhen Zhu Executive Vice President	
	GJ 2015	GJ 2014	GJ 2015	GJ 2014	GJ 2015	GJ 2014
Festvergütung	256.667	0	159.167	0	220.000	210.000
Signing Fee	155.081	0	0	0	0	0
Nebenleistungen	38.295	0	16.537	0	20.512	16.796
Summe	**450.043**	**0**	**175.704**	**0**	**240.512**	**226.796**
Einjährige variable Vergütung	0	0	0	0	0	0
Mehrjährige variable Vergütung						
Fixbonus (bis 31. Dezember	0	0	0	0	0	45.000
Bonus finanzielle Ziele (bis 31. Dezember 2014)	0	0	0	0	22.500	0
Bonus individuelle Ziele (bis 31. Dezember 2014)	0	0	0	0	37.500	0
Summe	**0**	**0**	**0**	**0**	**60.000**	**45.000**
Versorgungsaufwand	0	0	0	0	0	0
Gesamtvergütung	**450.043**	**0**	**175.704**	**0**	**300.512**	**271.796**

Zufluss (in €)	Daniel Uttelbach Executive Vice President		Jouni Olavi Salo ehem. Vorstandsvorsitzender		Ralph Quellmalz ehem. Finanzvorstand	
	GJ 2015	GJ 2014	GJ 2015	GJ 2014	GJ 2015	GJ 2014
Festvergütung	220.000	0	125.000	375.000	60.833	220.000
Fixbonus	0	0	72.945	0	0	0
Abfindung / Zuführung zur Rückstellung	0	0	22.177	0	266.482	0
Nebenleistungen	20.255	0	59.519	44.899	6.781	24.393
Summe	**240.255**	**0**	**279.641**	**419.899**	**334.096**	**244.393**
Einjährige variable Vergütung	0	0	0	0	0	0
Mehrjährige variable Vergütung						
Fixbonus (bis 31. Dezember	0	0	0	187.500	0	75.000
Bonus finanzielle Ziele (bis 31. Dezember 2014)***	0	0	56.250	0	22.500	0
Bonus individuelle Ziele (bis 31. Dezember 2014)**	0	0	56.250	0	30.000	0
Summe	**0**	**0**	**112.500**	**187.500**	**52.500**	**75.000**
Versorgungsaufwand	0	0	0	0	0	0
Gesamtvergütung	**240.255**	**0**	**392.141**	**607.399**	**386.596**	**319.393**

* Der für das Geschäftsjahr 2013 gewährte Fixbonus wurde im Geschäftsjahr 2014 ausgezahlt. Im Konzernanhang wurde der Fixbonus als erfolgsunabhängige Komponente ausgewiesen.

The variable compensation granted for the 2014 financial year based on the achievement of specific financial and individual goals were paid to the members of the Management Board in the 2015 financial year. 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 function of an independent Supervisory Board member with specialized knowledge of the application of accounting and valuation principles and internal control processes is also taken into account when distributing the Supervisory Board compensation.

The total compensation of each member of the Supervisory Board for the 2015 financial year is shown in the following table:

in €	**Fixed compensation**
Hubert Keusch (Chairperson)[1]	75,479
Xiaofeng Liu (Deputy Chairperson)[2]	32,877
Eliza Suk Ching Yuen[3]	50,000
Kangning Zou[4]	30,000
Yiqiong Zhang[5]	16,438
Tao Xing[6]	16,438
Total	**221,234**

[1] Chairman of the Supervisory Board

[2] Member of the Supervisory Board since June 15, 2015,
Deputy Chairperson of the Supervisory Board since July 3, 2015

[3] Member of the Supervisory Board,
Deputy Chairperson of the Supervisory Board until July 3, 2015

[4] Member of the Supervisory Board

[5] Member of the Supervisory Board since June 15, 2015

[6] Member of the Supervisory Board from June 15 to December 29, 2015

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 (Chairperson)[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 Chairwoman of the Supervisory Board since May 27, 2014,
Member of the Audit Committee until May 27, 2014

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

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

[5] Member of the Supervisory Board until May 27, 2014,
Member of the Personnel and Nomination Committee until May 27, 2014

[6] Member of the Supervisory Board until May 27, 2014

[7] Member of the Supervisory Board until May 27, 2014,
Chairman of the Audit Committee until May 27, 2014

1.6 Risks and Opportunities Report

The following representation of the key risks and opportunities expressly relates to the entire KHD Group, not just KHD as the holding company. The risks and opportunities associated with the current development of KHD as a holding company do not differ, however, from the risks and opportunities of the KHD Group. For this reason, in principle the Group's risks and opportunities can be transferred to KHD.

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 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. Central risk management is directly administered by the Chief Executive Officer, who is supported by a risk management coordinator.

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 regularly so that decision-makers are provided 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.

The Chief Executive Officer provides a detailed report on the risk situation every six months to the Supervisory Board, using the risk registers as a basis. In addition, he also reports on the effectiveness of the risk management system to the entire Management Board and the Supervisory Board of KHD. The independent auditors also assess the effectiveness of the risk early warning and internal monitoring system in accordance with Section 317 Paragraph 4 of the German Commercial Code (HGB) and report on the result of their audit to the Management Board and Supervisory Board.

Risk Assessment

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

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

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

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

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

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

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

Probability of Occurrence Impact	**1**	**2**	**3**	**4**	**5**
1	Low	Low	Low	Low	Low
2	Low	Low	Low	Medium	Medium
3	Low	Low	Medium	Medium	High
4	Low	Medium	Medium	High	High
5	Medium	Medium	High	High	High

Risk Management for Financial Instruments

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

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

Interest rate risks arise through market-related fluctuations in interest rates. As of the balance sheet date, the KHD Group is reporting not only an ongoing high level of cash and cash equivalents and large loans to the AVIC group, but also significant interest-bearing liabilities. In the fourth quarter of 2015, KHD took out a bank loan with a term of three years and a variable interest rate. Hedging transactions were not concluded because until the bank loan is due, the KHD Group does not expect a significant increase in the interest rate. Because the interest rate risk can be offset with regard to fluctuations in the interest rates for short-term and overnight deposits, to a certain extent, the interest rate risk is naturally hedged by the bank loan's variable interest rate. The interest rate for the loans to the AVIC group has been firmly agreed for the applicable term. This means that there is no interest rate 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 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 solid level of cash and cash equivalents. By means of financial and liquidity planning, cash and cash equivalents are available in such a way that the KHD Group is at all times able to fully meet its payment obligations. In order to ensure future growth, bank guarantee credit facilities were arranged with banks, which allow individual KHD Group companies to provide bank guarantees for its customers worldwide.

Accounting-related Internal Control System

Along with the risk management system, the KHD Group’s internal control system (ICS) also includes, in particular, extensive control activities to secure proper and reliable accounting and financial reporting. 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 the 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 all 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.

Summary of KHD Group’s Risk Position

To the extent required, balance sheet provisions have been established in the 2015 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 Capex and Plant Services segments, although the procurement, innovation, and project risks are of much higher significance for the Capex business unit. As long as there is no explicit reference within the relevant risk areas, the net risks remain unchanged in comparison to prior year.

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.

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”.

Equity Holding Risks

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

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

Project Risks

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

It is especially important for risk management to identify possible cost variances early on, to estimate the effect of the additional incurred costs up to completion and to take countermeasures in a timely manner. From as early as the tendering phase, we employ proven methods to manage such project risks, in order to prevent entering into uncalculated or unmanageable risks. In the project execution phase, the risk factors identified and assessed before the contract is signed are systematically processed and minimized. Together with organizational and procedural provisions, the methods used in project management and project controlling to identify, assess and minimize risks are subject to a continuous improvement process. Balance sheet provisions are set up to cover any defects that might arise during the warranty phase. Due to the increasing complexity of contractual obligations combined with an expansion of service requirements and growing customer demands, the restructured management took a critical look at all of the important orders and re-evaluated risk in the first half-year 2015 and implemented considerable improvements in project management. Therefore, the risk remaining after risk mitigation is lower than in the previous year and will now be classified as "medium".

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. Due to improvements with respect to the management of employees and the assessment of their competencies, remaining risk was reduced in comparison to the previous year. The risk remaining after risk mitigation is will now be 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”.

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 China and the Asia Pacific region as well as from the expansion of our market activities in South American countries.

Furthermore, we regard rising regulatory requirements to reduce the environmental impact of cement plants, 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 calculating the environmental impact of the cement production process as early as in the tendering phase. We are also constantly developing our products 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 in 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 access to more cost-effective, high-quality production capacities in China.

In addition, better opportunities for cooperation with manufacturing facilities in China are in progress. 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 strategic cooperation agreements. We monitor our current and future markets in order to identify such strategic that will 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 efficiency, reliability and availability of equipment, environment and climate protection, standardization, and user-friendliness into account the KHD Group generates significant opportunities as early as in the development phase.

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

Composition of Subscribed Capital

The Company's subscribed capital (share capital) amounted to € 49,703,573 as of December 31, 2015, and is divided into 49,703,573 no-par-value ordinary shares. All shares are ordinary bearer shares and grant the same rights. The rights and obligations arising from the shares are derived from statutory regulations.

Restrictions Affecting Voting Rights or the Transfer of Shares

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

Direct or Indirect Interests in the Share Capital Exceeding 10% of Voting Rights

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

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

- AVIC International Holding Corporation, Beijing, People’s Republic of China;
- Aviation Industry Corporation of China, Beijing, People’s Republic of China;
- People’s Republic of China, Beijing, People’s Republic of China.

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

The Management Board was not informed of any other shareholders whose voting rights directly or indirectly exceeded 10% of the total voting rights as of the reporting date December 31, 2015, or at the time of the preparation of the financial statements.

Shares with Special Rights Granting Control Authorizations

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

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

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

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

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

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

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

Up until March 22, 2015, the Management Board was authorized, with the approval of the Supervisory Board at the time, to increase the Company's share capital 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. This authorization was not extended.

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

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

Agreements with regard to a change of control have been made in the bilateral bonding lines with the Deutsche Bank AG and the 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 bonding lines.

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 that significantly affect the Company's future position with respect to assets, finances or income.

1.8 Corporate Governance

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

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

1.9 Relations with Affiliated Companies

The KHD Management Board has prepared a report on relations with affiliated companies – a dependent company report – in accordance with Section 312 of the German Stock Corporation Act (AktG) for the 2015 financial year.

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

"With respect to the legal transactions listed and in view of the facts known to us at the time at which the legal transactions were made, our Company received appropriate consideration for each legal transaction in the report for the 2015 financial year regarding relations with affiliated companies. There were no other legal transactions or measures at the request of or in the interest of the controlling companies or one of their affiliated companies in the 2015 financial year."

1.10 Outlook

Outlook

According to current planning, the Company anticipates a net annual profit for the 2016 financial year at about the same level as for the 2015 financial year, excluding the effect of income from investments. This forecast is based on the assumption that the operating subsidiaries receive services from the Bond Arrangement Agreement via KHD in the planned scope and that the Group charges for the services provided (management tasks of the Management Boards at the subsidiaries) and received do not change significantly. Furthermore, the forecast also assumes that, from the discretionary liquidity and the loans granted, interest income can be generated at a level at least equal to that of the previous year.

The Company's financing for the financial year 2016 is secured due to the continued solid level of liquidity and above all, due to the continuing dividend payment potential of the KHD Group companies. The conditions of the loan to AVIC HK also provide liquidity security; the loan granted to AVIC HK in July 2014 can be called at any time with a period of 30 days. For these reasons, the Management Board expects liquidity to be sufficient for the 2016 financial year. However, the expected liquidity will be below the prior year level.

Opportunities and Risks relating to the Outlook for the 2016 Financial Year

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

Opportunities and risks with respect to the Company forecast for the 2016 financial year also demonstrate the necessity for finding an appropriate investment with regard to risk and return aspects for KHD's continuing discretionary liquidity. At the same time, possible changes in interest rates can affect the forecast.

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

Cologne, Germany, March 2, 2016

The Management Board

(s) Johan Cnossen	(s) Jürgen Luckas	(s) Yizhen Zhu
(s) Daniel Uttelbach	(s) Tao Xing	

2 Balance Sheet as of December 31, 2015

Assets	Dec. 31, 2015 € thousand	Dec. 31, 2014 € thousand
A. Fixed assets		
I. Property, plant, and equipment		
Other plant, operating, and office equipment	7	15
	7	15
II. Financial investments		
1. Shares in affiliated companies	51,410	26,410
2. Long-term loans to affiliated companies	100,000	100,000
	151,410	126,410
	151,417	126,427
B. Current assets		
I. Receivables and other assets		
1. Receivables due from affiliated companies	27,002	21,670
2. Other assets	1,293	2,484
	28,295	24,154
II. Bank Balances	23,981	28,476
	52,276	52,630
C. Prepayments and deferred expenses	65	280
	203,758	179,337

Equity and liabilities		Dec. 31, 2015 € thousand	Dec. 31, 2014 € thousand
A.	**Equity**		
I.	**Subscribed capital**	49,704	49,704
II.	**Capital reserves**	61,493	61,493
III.	**Revenue reserves**		
1.	Legal reserve	1,538	1,538
2.	Other revenue reserves	1,768	1,768
		3,306	3,306
IV.	**Net retained profit**	7,724	6,241
		122,227	120,744
B.	**Provisions and accruals**		
1.	Tax provisions	1,075	785
2.	Other provisions and accruals	1,176	1,791
		2,251	2,576
C.	**Liabilities**		
1.	Liabilities due to banks those which have a residual term of up to one year: € 92 thousand (previous year: € 0 thousand)	25,092	0
2.	Trade payables	75	45
3.	Liabilities due to affiliated companies	53,379	55,784
4.	Other liabilities of which tax liabilities € 158 thousand (previous year: € 30 thousand)	158	30
		78,704	55,859
D.	**Deferred tax liabilities**	576	158
		203,758	179,337

3 Income Statement 2015

		2015 € thousand	2014 € thousand
1.	Other operating income of which from exchange rate gains € 1,822 thousand (previous year: € 1,400 thousand)	5,006	7,114
2.	Personnel expenses		
a)	Wages and salaries	2,145	1,790
b)	Social security expenses	41	33
		2,186	1,823
3.	Depreciation on other plant, operating, and office equipment	11	11
4.	Other operating expenses of which from exchange losses € 222 thousand (previous year: € 580 thousand)	4,638	3,452
5.	Interest from long-term loans in financial assets of which from affiliated companies € 6,083 thousand (previous year: € 1,750 thousand)	6,083	1,750
6.	Other interest and similar income of which from affiliated companies € 1,885 thousand (previous year: € 1,050 thousand)	1,901	1,168
7.	Interest and similar expenses of which to affiliated companies € 3,042 thousand (previous year: € 436 thousand)	3,789	2,372
8.	Result from ordinary activities	2,366	2,374
9.	Income taxes of which deferred taxes € 418 thousand (previous year: € 158 thousand)	883	768
10.	Net profit for the year	1,483	1,606
11.	Profit carried forward from previous year	6,241	4,635
12.	Net retained profit	7,724	6,241

4 Notes to the Financial Statements 2015

4.1 General Remarks

Accounting

The annual financial statements of KHD Humboldt Wedag International AG (KHD), Cologne, Germany, for the 2015 financial year have been prepared in accordance with the German Commercial Code (HGB) as applicable for large corporations and those of the German Stock Corporation Act (AktG). These financial statements have been prepared in euros. All amounts, including figures used for comparison, are generally stated in thousands of euros (€ thousand), unless otherwise indicated. All amounts have been rounded according to normal commercial practice. The nature of expense method has been applied to the income statement. KHD is a large corporation in the meaning of Sections 267 Paragraph 3 and 264d of the German Commercial Code (HGB).

To improve clarity, some the legally specified "of which" information in the balance sheet and the income statement is listed in the notes in the appendix.

4.2 Accounting and Valuation Principles

Fixed Assets

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

Shares in affiliated companies and loans to affiliated companies are recognized at cost. An expected permanent impairment triggers a depreciation of the acquisition costs to the lower realizable value.

Current Assets

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

Deferred taxes

In the balance sheet, deferred tax liabilities are used for the resulting tax expenses from differences between the carrying amounts of assets, debts, prepayments and deferred expenses recognized by commercial law and their respective tax valuations, which will likely decrease in later financial years. We do not exercise the right to use the overall tax benefit generated by such differences as deferred tax assets in the balance sheet. The valuation of the tax expenses is carried out using the company-specific tax rates at the time that the differences are reduced.

Equity

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

Other Provisions and Accruals

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

Liabilities

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

Currency Translation

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

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

Derivative Financial Instruments

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

4.3 Notes to the Balance Sheet and Income Statement

1. Fixed Assets

Please refer to the statement of movements in fixed assets between January 1 and December 31, 2015, which is attached as an appendix to the notes to the financial statements.

2. Receivables and Other Assets

Receivables due from affiliated companies mainly comprise a loan receivable in the amount of € 26,337 thousand (previous year: € 20,989 thousand) due from an affiliated company. The receivables due from companies of the KHD Group also relate to services invoiced as of December 31, 2015, based on the Service & Cost Allocation Agreement as well as the bond arrangement agreement amounting in total to € 132 thousand (previous year: € 283 thousand).

Other assets include a VAT credit in the amount of € 1,184 thousand (previous year: € 2,333 thousand). Within the tax unity for VAT are amounts payable to Humboldt Wedag GmbH (HW), Cologne, and ZAB Zementanlagenbau GmbH Dessau (ZAB), Dessau, for reimbursement claims totaling € 2,271 thousand (previous year: € 1,134 thousand). Consequently, an identical amount is reported under liabilities due to affiliated companies.

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

3. Bank Balances

The reduction in credit balances at banks by € 4,495 thousand to € 23,981 thousand (previous year: € 28,476 thousand) is principally the result of disbursements due to the increase in a loan to a subsidiary in the amount of € 5,348 thousand.

4. Equity

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

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.

Changes in Equity in the Financial Year 2015

€ thousand	Subscribed capital	Capital reserves	Legal reserve	Other revenue reserves	Net retained profit	Total
Status as of Dec. 31, 2014	49,704	61,493	1,538	1,768	6,241	120,744
Net profit for the year 2015	0	0	0	0	1,483	1,483
Status as of Dec. 31, 2015	49,704	61,493	1,538	1,768	7,724	122,227

Following the resolution of the Annual General Meeting of May 28, 2015, the net retained profit reported as of December 31, 2014, was carried forward to new account. Net retained profit as of December 31, 2015, includes profit carried forward from the previous year of € 6,241 thousand (previous year: € 4,635 thousand).

5. Provisions

	Dec. 31, 2015 € thousand	Previous year € thousand	Change € thousand
Provisions and Accruals			
Tax provisions	1,075	785	290
Other provisions and accruals	1,176	1,791	-615
	2,251	2,576	-325

Other provisions and accruals include provisions for personnel-related costs (€ 699 thousand), costs for the preparation and audit of annual financial statements (€ 109 thousand) and for outstanding invoices (€ 368 thousand). The provisions reported in the previous year for contingent losses in the amount of € 492 thousand were utilized.

6. Liabilities

	Dec. 31, 2015 € thousand	Dec. 31, 2014 € thousand	Change € thousand
Liabilities due to banks	25,092	0	25,092
Trade payables	75	45	30
Liabilities due to affiliated companies	53,379	55,784	(2,405)
Other liabilities	158	30	128
(of which tax liabilities)	(158)	(30)	(128)
	78,704	55,859	22,845

The liabilities due to affiliated companies are mainly the result of loans extended by ZAB and HW amounting to a total of € 50,000 thousand. The loans taken out by the subsidiaries are used to finance a loan for € 50,000 thousand granted from KHD itself to AVIC HK. The subsidiaries were allowed the same interest rate (6% per annum) that KHD obtained from its loan to AVIC HK. Comparable with the previous year, liabilities due to affiliated companies also relate to liabilities due to HW and ZAB arising from the tax unity for VAT.

Under liabilities due to banks, KHD includes a bank loan taken out in October 2015 in the amount of € 25 million. The loan is due and payable in October 2018 and, for this reason, its remaining term is greater than one year and less than five; all other liabilities reported as of December 31, 2015 have remaining terms of up to one year.

7. Contingent Liabilities

KHD has provided € 164.1 million (previous year: € 178.7 million) to affiliated companies in the form of Group guarantees, letters of comfort, and securities. Thereof contingent liabilities arising from sureties as well as draft and check guarantees amounted to € 0.3 million (previous year: € 0.3 million), and contingent liabilities arising from warranty guarantees amounted to € 163.8 million (previous year: € 178.4 million).

Furthermore, as of December 31, 2015, € 32,967 thousand (previous year: € 54,084 thousand) relate to contingent liabilities to banks resulting from bank guarantees that the Company has provided to KHD Group companies under existing bank guarantee credit facilities. The contingent liabilities to banks comprise of sureties as well as draft and check guarantees amounting to € 1,593 thousand (previous year: € 857 thousand), and contingent liabilities arising from warranty guarantees amounting to € 31,374 (previous year: € 53,227 thousand).

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

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

8. Other Financial Obligations

Other financial obligations amounting to € 731 thousand (previous year: € 1,099 thousand) relate to obligations arising from consulting contracts (€ 600 thousand), leasing contracts (€ 54 thousand) and rental contracts (€ 77 thousand) with a remaining term of up to three years.

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

Hedged risks	Hedging instrument	Hedged item	Positive fair value of the hedging instruments	Negative fair value of the hedged item
		USD thousand	€ thousand	€ thousand
Exchange rate risk of receivables	Foreign exchange forward contracts	29,000	340	-340

The derivative financial instruments only include foreign exchange forward contracts. They serve to hedge the currency risks arising from loans in the amount of USD 29,000 thousand (previous year: USD 27,000 thousand), which were granted to an affiliated company. As of December 31, 2015, these loans are reported in the amount of € 26,337 thousand (previous year: € 20,989 thousand) as receivables due from affiliated companies. The concluded foreign exchange forward contracts hedge the full nominal value of the underlying transactions (USD 29,000 thousand, previous year: USD 27,000 thousand). The foreign exchange forward contracts are combined with underlying transactions as single valuation units. As of December 31, 2015, negative changes in fair value of the underlying transactions amounting to € 340 thousand (previous year: € 1,287 thousand) are offset by positive changes in fair value of the foreign exchange forward contracts amounting to € 340 thousand (previous year: € 1,204 thousand). The fair values of the foreign exchange forward contracts as of December 31, 2015 are derived from bank confirmations.

An assessment of the effectiveness of single valuation units is carried out both at the beginning of the hedge relationships as well as on every following balance sheet date on which this hedge relationship continues to exist. The prospective effectiveness test was performed on the basis of the critical terms match method. As the nominal amount and term (maturity) of the underlying and hedge transactions correspond with each other, the changes in fair value are expected to offset each other in the future. The valuation for documentation of effectiveness is performed by means of the dollar-offset method. Recognition is based on the so-called “net hedge presentation method”. The provisions recorded in the previous year due to a negative balance / impending losses in the amount of € 83 thousand were reversed. The existing hedges have essentially a term of less than 12 months.

10. Other Operating Income

Other operating income mainly includes income from charges to affiliated companies pursuant to the Service & Cost Allocation Agreement in the amount of € 1,202 thousand (previous year: € 2,599 thousand) and the Bond Arrangement Agreement in the amount of € 1,638 thousand (previous year: € 2,663 thousand). In addition, other operating income also includes exchange rate gains of € 1,822 thousand (previous year: € 1,400 thousand) and the off-period income from the release of other provisions in the amount of € 228 thousand (previous year: € 62 thousand).

11. Personnel Expenses

Personnel expenses primarily have to do with the compensation of the current and former members of the Company's Management Board.

12. Other Operating Expenses

Other operating expenses comprise the following:

	2015 € thousand	2014 € thousand	Change € thousand
Realized losses from foreign exchange forward contracts	1,563	0	1,563
Group charges	852	410	442
Legal and consulting costs	613	645	-32
Audit fees / tax advisory costs	328	478	-150
Exchange rate losses	222	580	-358
Supervisory Board compensation	221	217	4
Investor relations	47	157	-110
Other	792	965	-173
	4,638	3,452	1,186

In the summer of 2015, PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft provided auditing services in connection with the error detected at KHD Humboldt Wedag, Inc. in the financial accounting for and valuation of some projects, which affected the consolidated financial statements of KHD for the 2014 financial year. The expenses in the amount of € 48 thousand for the services ordered by KHD are offset by a corresponding reimbursement claim against AVIC Beijing.

13. Interest income/expense

€ thousand	2015	2014
Income from long-term loans in financial assets	6,083	1,750
Other interest and similar income	1,901	1,168
Interest and similar expenses	-3,789	-2,372
	4,193	**546**

Income from long-term loans in financial assets in the amount of € 6,083 thousand is the interest income (6% per annum) from the two loans granted to AVIC HK in July 2014 and November 2014, each in the amount of € 50 million. Both loans have terms of three years, whereas KHD can call the loan disbursed in July 2014 for repayment at any time by giving 30 days' notice.

Other interest and similar income include interest on term deposits in the amount of € 15 thousand (previous year: € 117 thousand) and interest on a loan granted to a KHD Group company in the amount of € 1,886 (previous year: € 1,051 thousand).

Interest and similar expenses mainly include interest expenses in the amount of € 3,042 thousand (previous year: €400 thousand) for the loans granted to HW and ZAB. The subsidiaries were allowed the same interest rate (6% per annum) that KHD obtained from its loan to AVIC HK. Reported as well are bank guarantee fees in the amount of € 656 thousand (previous year: € 1,936 thousand) and the interest expense since October 2015 from the loan taken out from the Bank of China, Frankfurt Branch.

14. Litigation

Arbitration claim against a customer in South America and the claim by the same customer against HW Inc. and KHD:

The arbitration claims pending since December 2013 have been settled by the verdict of the arbitration court in January 2016. KHD was informed about the arbitration award in February 2016. According to this arbitration award, Humboldt Wedag, Inc., Norcross (Georgia), and KHD Humboldt Wedag International AG as the joint and several debtors have been ordered to pay the customer from South America a sum of about € 10 million, plus interest. The impact of the arbitration award on the income statement has been recognized in full already in the 2015 financial year. In the course of considering the effect from the arbitration award in the financial statements, expenses totaling approximately € 15 million were recognized.

Together with experts as well as internal and external legal consultants, KHD is currently evaluating options for proceeding against this verdict.

15. Other Information

Employees

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

Deferred Taxes

Pursuant to Section 274 Paragraph 1 of the German Commercial Code (HGB), the Company has to recognize deferred tax liabilities to the extent that these exceed deferred tax assets. Deferred tax liabilities resulted from the measurement of a foreign currency loan with the spot exchange rate. These excess liabilities were taken into account based on a tax rate of 32.45% for deferred tax valuation. Deferred tax liabilities amounted to € 576 thousand (previous year: € 158 thousand).

16. Shareholdings

Company		Capital share in %	Currency	Equity	Net result for the year
Subsidiaries					
KHD Humboldt Wedag GmbH, Cologne	direct	100.00	€ thousand	71,862	13,488
Humboldt Wedag GmbH, Cologne	indirect	100.00	€ thousand	48,531	-6,356
ZAB Zementanlagenbau GmbH Dessau, Dessau	indirect	100.00	€ thousand	22,447	2,799
EKOF Mining & Water Solution GmbH	indirect	100.00	€ thousand	-53	-235
Blake International Ltd., Road Town, British Virgin Islands	indirect	100.00	€ thousand	4,096	0
KHD Humboldt Wedag Industrial Services AG, Cologne	indirect	91.25	€ thousand	13,895	1,588
Humboldt Wedag Australia Pty Ltd., Braeside, Australia	indirect	100.00	€ thousand	217	-14
Humboldt Wedag, Inc., Norcross, USA	indirect	100.00	€ thousand	-1,393	-21,106
Humboldt Wedag India Private Ltd., New Delhi, India	indirect	100.00	€ thousand	24,762*	788*
KHD Humboldt Wedag Machinery Equipment (Beijing) Co. Ltd., Beijing, China	indirect	100.00	€ thousand	-232	-261
KHD Humboldt Engineering OOO, Moscow, Russia	indirect	100.00	€ thousand	673	568
Humboldt Wedag Malaysia Sdn. Bhd., Kuala Lumpur, Malaysia	indirect	100.00	€ thousand	-242	-98
Humboldt Wedag Do Brasil Servicos Technicos Ltda., Belo Horizonte, Brazil	indirect	100.00	€ thousand	-227	-254

* Prior year values as of March 31, 2015 for the stub period from January 1, 2015 to March 31, 2015.

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

Spot exchange rate as of December 31, 2015
1 euro corresponds to:

AUD	1.4894
INR	72.3087
USD	1.0892
RUB	80.4168
CNY	7.0724
MYR	4.6730
BRL	4.3139

4.4 Members of the Supervisory Board and Management Board

Members of the Supervisory Board

Hubert Keusch

Chairman of the Supervisory Board

Managing Director of ContiLink Services Limited

Xiaofeng Liu

(Member of the Supervisory Board since June 15, 2015)

Deputy Chairperson of the Supervisory Board (since July 3, 2015)

Chief Executive Officer of Hong Kong Jinyuan International Development Ltd.

Membership in supervisory boards and other governing bodies:

- Jinyuan Cement Co., Ltd., Member of the Board of Directors
- Sinoma Energy Conservation Ltd., Independent Member of the Board of Directors

Eliza Suk Ching Yuen

Deputy Chairperson of the Supervisory Board (since July 3, 2015)

Director of HLM CPA Limited

Kangning Zou

President AVIC International Beijing Co. Limited

Yiqiong Zhang

(Member of the Supervisory Board since June 15, 2015)

Chief Financial Officer of AVIC International Beijing Co. Limited

Tao Xing

(Member of the Supervisory Board from June 15 to December 29, 2015)

Vice President AVIC International Beijing Co. Limited

Members of the Management Board

Johan Cnossen, Engineer – (Chairman of the Management Board)
Chief Executive Officer of KHD (since May 1, 2015)
Member of the Board of Directors of HW Inc.
Member of the Board of Directors of HW India

Jürgen Luckas, Economics Graduate
Chief Financial Officer of KHD (since April 10, 2015)
Chairman of the Supervisory Board of KIS
Member of the Board of Directors of HW India

Yizhen Zhu, Engineer
Executive Vice President of KHD

Daniel Uttelbach, Engineer
Executive Vice President Sales & Technology of KHD (since January 1, 2015)
Member of the Supervisory Board of KIS

Tao Xing, Engineer
Executive Vice President of KHD (since January 1, 2016)

Jouni Salo, Engineer – (Chairman of the Management Board)
Chief Executive Officer of KHD (until April 30, 2015)

Ralph Quellmalz, Economics Graduate
Chief Financial Officer of KHD (until April 9, 2015)

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

The total remuneration for the active and former members of the KHD Management Board for their work the 2015 financial year was € 1,964 thousand (previous year: € 1,340 thousand). For work performed in the financial year, total compensation amounted to € 1,675 thousand (previous year: € 1,340 thousand). Total compensation for previous members of the Management Board came to € 289 thousand (previous year: € 0 thousand), € 289 thousand of which was severance pay (previous year: € 0 thousand).

The total remuneration granted to members of the Supervisory Board for their work amounted to € 221 thousand in the 2015 financial year (previous year: € 217 thousand). No compensation was paid to former Supervisory Board members or their remaining dependents following their resignation from the body.

There are no pension commitments with respect to previous members of the Management Board or Supervisory Board.

The compensation report contains further details about Management Board and Supervisory Board remuneration. The compensation report forms part of the management report and also describes the main aspects of the compensation system.

4.6 Parent Company and Consolidated Financial Statements

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

4.7 Reported Shareholdings

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

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

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

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

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

4.8 Auditor’s Fee

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

4.9 Corporate Governance

The Management Board and Supervisory Board of KHD issued the statement required pursuant to Section 161 of the German Stock Corporation Act (AktG) on February 24, 2016 and also made it – as well as statements from previous years – permanently publicly available to shareholders on the Company’s website (http://www.khd.com/entsprechenserklaerung.html).

4.10 Appropriation of Net Retained Profit

The Management Board and the Supervisory Board will propose to the Annual General Meeting to be held on May 18, 2016, to carry forward the net retained profit (determined in accordance with the German Commercial Code – HGB) of KHD Humboldt Wedag International AG in the amount of € 7.7 million to the new account.

Cologne, Germany, March 2, 2016

The Management Board

(s) Johan Cnossen (s) Jürgen Luckas (s) Yizhen Zhu

(s) Daniel Uttelbach (s) Tao Xing

5. Appendix to the Notes

Movements in Fixed Assets in the Financial Year 2015

		Gross carrying amounts				Accumulated amortization, depreciation, and write-downs				Net book value	
		Balance as January 1, 2015	Additions	Disposals	Balance as Dec. 31, 2015	Balance as January 1, 2015	Additions	Disposals	Balance as Dec. 31, 2015	Balance as Dec. 31, 2015	Dec. 31, 2014
		€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand
I.	**Property, plant, and equipment**										
	Other plant, operating, and office equipment	35	1	2	34	18	11	2	27	7	15
		35	1	2	34	18	11	2	27	7	15
II.	**Financial investments**										
1.	Shares in affiliated companies	26,410	25,000	0	51,410	0	0	0	0	51,410	26,410
2.	Long-term loans to affiliated companies	100,000	0	0	100,000	0	0	0	0	100,000	100,000
		126,410	25,000	0	151,410	0	0	0	0	151,410	126,410
		126,445	25,001	2	151,444	18	11	2	27	151,417	126,427

6 Responsibility Statement

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

Cologne, Germany, March 2, 2016

The Management Board

(s) Johan Cnossen	(s) Jürgen Luckas	(s) Yizhen Zhu
(s) Daniel Uttelbach	(s) Tao Xing	

7 Auditors' Report

We have audited the annual financial statements, comprising the balance sheet, income statement and notes to the financial statements, together with the bookkeeping system and the management report of KHD Humboldt Wedag International AG, Cologne, for the business year from January 1, 2015 to December 31, 2015. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Company's managing board. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system and the management report based on our audit.

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

The audit has not led to any reservations.

In our opinion based on the findings of our audit, the annual financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with (German) principles of proper accounting and the supplementary provisions of the articles of incorporation. The management report is consistent with the annual financial statements and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.

Cologne, March 7, 2016

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

(s) Bernd Boritzki	(s) ppa. Gerd Tolls
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

8 Report of the Supervisory Board

Dear Shareholders,

In the 2015 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 numerous meetings and in discussions outside of these meetings. The Supervisory Board requested the Management Board to report regularly, in a timely manner, and comprehensively, both in writing and verbally, about intended business policy and strategy, 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 immediately 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 und Supervisory Board

The Supervisory Board appointed Daniel Uttelbach to the Management Board, effective January 1, 2015. As Executive Vice President Sales & Technology, he is responsible for the Sales and Tendering areas as well as Technology / Research and Development.

The Supervisory Board appointed Johan Cnossen to 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 industries, Mr. Cnossen played a crucial role in the further implementation of improvements and in a turnaround of the KHD Group. On March 11, 2016, Mr. Cnossen resigned from his position as Chief Executive Officer and member of the Management Board for personal reasons. Immediately thereafter, the Supervisory Board began its search for a suitable successor. His responsibilities will be taken over for an interim period by the other Management Board members.

After Ralph Quellmalz, the previous CFO, decided to step down from his position, the Supervisory Board appointed Jürgen Luckas as new Chief Financial Officer (CFO), effective April 10, 2015. In challenging circumstances, Mr. Luckas among other duties is taking on the important task of improving the quality of essential evaluations and analyses that are required for successfully managing the KHD Group and providing comprehensive support for the operative functions.

The Supervisory Board appointed Tao Xing to the Management Board, effective January 1, 2016. As Executive Vice President, Mr. Xing is responsible for the improvement and expansion of KHD business activities in China, the Asia-Pacific region and the Americas. The primary focus of his work is improving the use of the extensive engineering and production possibilities in China for the benefit KHD.

On May 28, 2015, the Annual General Meeting passed a resolution to increase the number of Supervisory Board members from three to six persons and to amend the articles of association accordingly. With the entry of the change to the articles of association into the commercial register on June 15, 2015, the election of Ms. Yiqiong Zhang, Mr. Xiaofeng Liu and Mr. Tao Xing to the Supervisory Board became effective. At the meeting of the Supervisory Board on July 3, 2015, Hubert Keusch was confirmed in his position as the Chairman of the Supervisory Board and Mr. Liu was elected Deputy Chairman of the Supervisory Board.

On December 29, 2015, Mr. Tao Xing resigned from the Supervisory Board and was, as indicated above, appointed by the Supervisory Board to the Management Board, effective January 1, 2016.

Meetings and Resolutions of the Supervisory Board

In the 2015 financial year, the Supervisory Board held a total of five meetings that took place in person, in which all matters of fundamental importance for the KHD Group were comprehensively discussed. In addition, eight meetings were held by telephone conference. Furthermore, seven resolutions were passed by circulation procedure.

The Supervisory Board concerned itself with the monitoring of the financial reporting process and, in the presence of the auditors and the Management Board, with the annual and consolidated financial statements for 2014. At the meeting convened to approve the financial statements on March 17, 2015, the Supervisory Board held a thorough discussion of the annual and consolidated financial statements of KHD Humboldt Wedag International AG for the financial year ended December 31, 2014. The Supervisory Board approved the financial statements and the proposal for the appropriation of net retained profit. In addition, the Supervisory Board discussed about its proposal for the appointment of the independent auditors by the Annual General Meeting of shareholders.

The agendas of the Supervisory Board meetings that took place in person in February, March, August, October and December covered reports on business development, deviations of the actual business development from the budget and forecasts, the 2016 budget and the medium-term planning for 2017-20, 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 as well as discussions related to Corporate Governance and organizational matters of the Supervisory Board. The causes of the errors identified in the consolidated financial statements for 2014 and the need of an error correction were also thoroughly discussed. A strong focus in the 2015 financial year was on the discussion of the strategic development of the Group, improving competitiveness and development perspectives, organizational changes, and further operational issues. Moreover, the Supervisory Board focused intensively on matters related to the Management Board, including required changes to the remuneration system.

In addition to passing resolutions relating to transactions requiring approval, the meetings via telephone conference in January, April, May, June, July, September, October and November focused in particular on the error correction with respect to the consolidated financial statement for 2014, the economic development and the deviations from the budget. Moreover, the content of the interim reports were discussed with the Management Board prior to publication.

Resolutions made by circulation procedure concerned transactions requiring approval by the Supervisory Board, the appointment of Management Board members, the conclusion of management service contracts for members of the Management Board, as well as the approval of the Declaration of Compliance with the German Corporate Governance Code.

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 carried out by the full Supervisory Board. The Supervisory Board issued the audit mandate to the auditors and discussed and agreed upon the focal points of the audit as well as 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 in addition to the audit 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 concerned itself 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 were discussed. The Supervisory Board 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 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. The Management Board and Supervisory Board issued the annual declaration of compliance pursuant to Section 161 of the German Stock Corporation Act (AktG) in February 2016. This has since been published and made permanently available to shareholders on the Company's web site 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 and Consolidated Financial Statements

The Management Board prepared the annual financial statements of KHD Humboldt Wedag International AG, including the management report as of December 31, 2015, in a timely manner and 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, 2015, in accordance with IFRS as adopted by the European Union. The annual financial statements, including the management report and the consolidated financial statements, which include the Group management report, were audited by PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft, Cologne office, who were appointed by the Annual General Meeting of shareholders on May 28, 2015. The auditors 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 a timely manner. They were subject to extensive deliberations in the Supervisory Board meeting convened to approve the financial statements on March 15, 2016. 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 2015 financial year and of the consolidated financial statements including the Group management report for the 2015 financial year, as well as of the Management Board’s proposal on the appropriation of net retained profit for the 2015 financial year, taking into account the auditors’ reports.

The Supervisory Board examined all of the relevant documents and 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 PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft The Supervisory Board approves the annual financial statements and the consolidated financial statements as of December 31, 2015, 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 the relationships with affiliated companies (Dependency Report) was audited by the auditors 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 with respect to the Management Board’s final declaration in the Dependency Report or with respect to the result of the audit by the 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 15, 2016

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

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

The Management Board and the Supervisory Board of KHD Humboldt Wedag International AG hereby declare that since the last declaration of compliance on February 27, 2015 the recommendations of the German Corporate Governance Code (the "Code") as amended on May 5, 2015 have been complied with and will be complied with in future with the following exceptions:

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

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

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

The issues normally delegated to committees are jointly handled by all Supervisory Board members whereby each member of the Supervisory Board reports to the Supervisory Board as a whole on those topics that are primarily allocated to his/her responsibility based on specific expertise.

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

Reference is made to the explanation given in connection with item 5.3.1 of the Code. The objective of Code item 5.3.2 is still met as one independent member of the Supervisory Board, who is not a former member of the Management Board of the Company, has specialist knowledge and experience in the application of accounting principles and internal control processes.

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

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

- The Supervisory Board has neither specified an age limit nor a regular limit of length of membership for the members of the Supervisory Board as recommended by the Code (Code item 5.4.1 para. 2 first sentence).

The Supervisory Board considers extensive business experience from a long business career as beneficial for the competence of the Supervisory Board and the interests of the Company. A long-term membership in the Supervisory Board is also , as well as . Therefore, the Supervisory Board decided not to specify an age limit and regular limit of length of membership for the members of the Supervisory Board. of great advantage for the Companysince this provides for a better understanding in terms of the complexity of the business expert knowledge regarding specifics of the Company

Cologne, February 24, 2016

For the Management Board For the Supervisory Board

(s) Johan Cnossen (s) Jürgen Luckas (s) Hubert Keusch

(s) Yizhen Zhu (s) Daniel Uttelbach

(s) Tao Xing