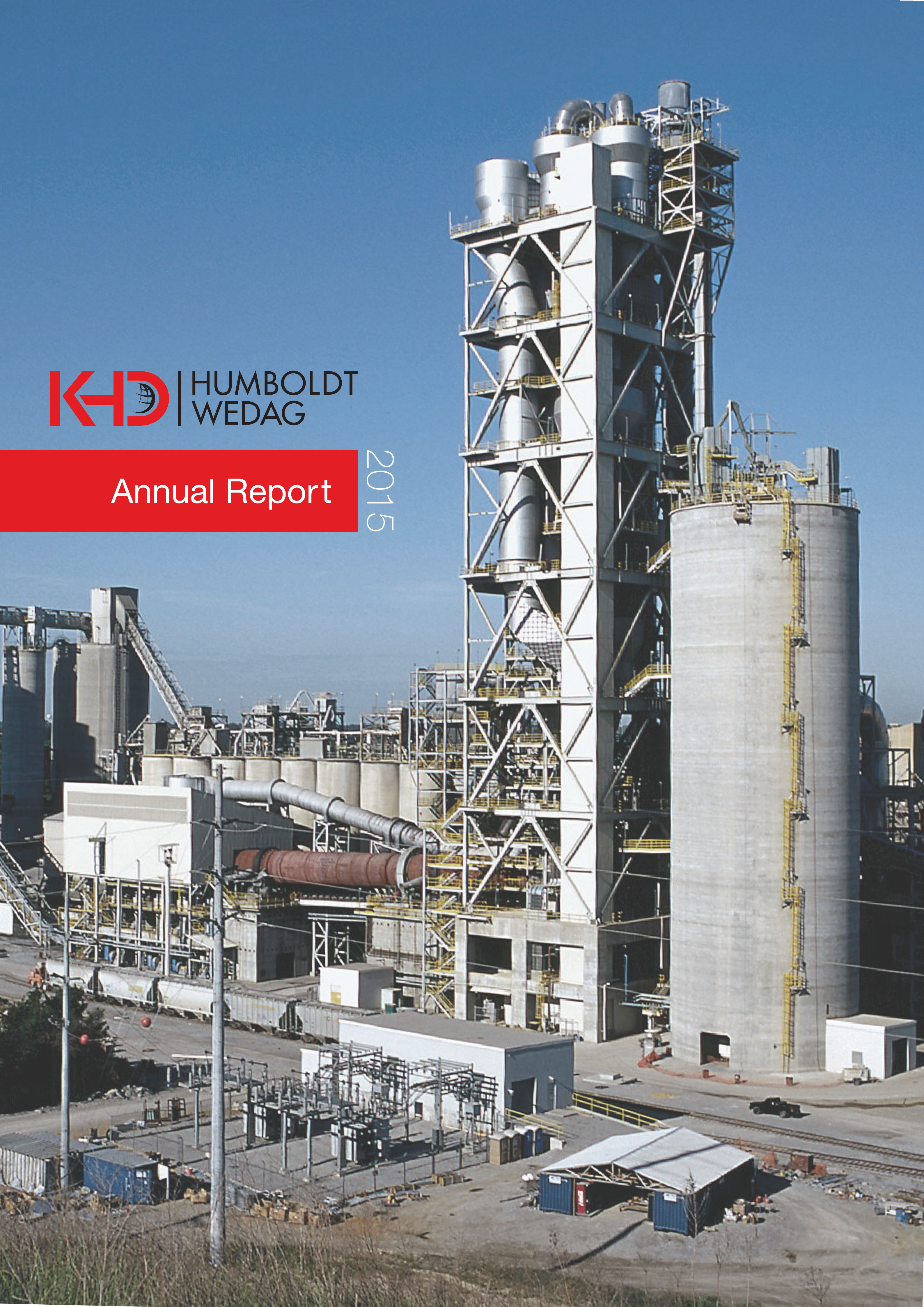

HUMBOLDT WEDAG

Annual Report 2015

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

Key Figures

in € million	2015	2014
Order Intake	154.1	101.3
Revenue	172.1	234.3*
Adjusted Gross Profit	16.2	26.4*
Adjusted Gross Profit margin (in %)	9.4	11.3*
Adjusted EBIT	-17.8	-4.8*
Adjusted EBIT-Margin (in %)	-10.3	-2.0*
EBT	-9.2	-1.9*
Group net loss for the year	-17.5	-4.3*
EPS (in €)	-0.35	-0.10*
Operating cash flow	-43.6	-8.2
Cash flow from investing activities **	4.8	-72.9
Cash flow from financing activities	25.0	1.4

in € million	Dec. 31, 2015	Dec. 31, 2014
Equity	203.4	219.5*
Equity ratio (in %)	51.8	56.6*
Cash and Intercompany loan ***	212.7	223.6
Net working capital	25.1	11.8*
Order Backlog	183.8	201.8*
Employees	735	777

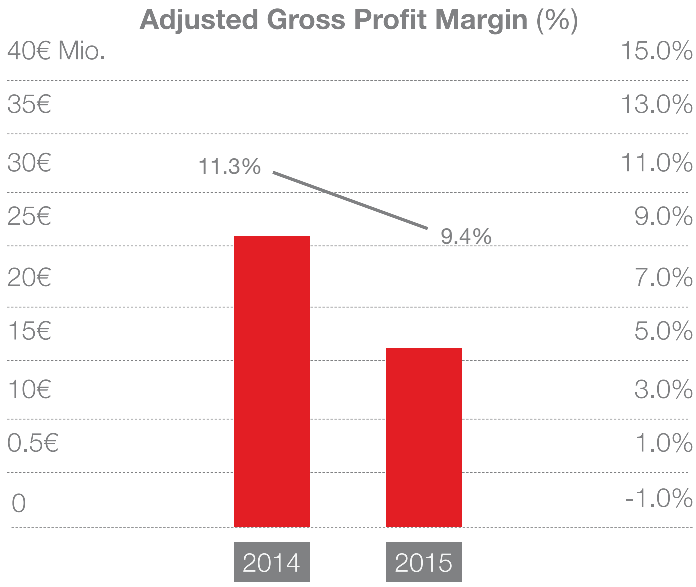
* restated according to IAS 8, please refer to section 4 of the notes
** disclosure of interest received under cash flow from operating activities or cash flow from investing activities from 2015 financial year onwards
*** including intercompany loan of € 50 million with entitlement to call for early repayment by giving 30 days' notice

Facts & Figures

Very difficult market conditions resulted in considerably fewer orders for the entire industry.

€ 154 million
order intake (52.1%)

€ 184 million
order backlog (-8.9%)



Foreword of the Management Board

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

The 2015 financial year was one of the most difficult years ever for the KHD Group. At the beginning of the year, order backlog totaled just € 202 million – far less than required for full capacity utilization. Unexpected additional costs in the execution of several large projects, with already low margins, and the outcome of an arbitration court proceeding had a significant negative effect on our results. Moreover, the errors that were identified with respect to the measurement of individual projects in the 2014 financial year at our American subsidiary presented a very specific challenge. In addition to this, very difficult market conditions resulted in considerably fewer new orders in comparison with last year's expectations for the entire industry.

In mid 2015 an almost completely new Group management team took over the responsibility to steer KHD through these difficult times and bring KHD back to profitable and sustainable business within the next two years. Setting the course for the turnaround has already started based on a three-step approach:

Step 1 – Re-organization and Governance
Step 2 – Sales Focus
Step 3 – Becoming a full service provider

In October 2015 we implemented a leaner yet flatter and more effective organization for our Cologne headquarters. This included increased sales and tendering resources and a more efficient and project-based organization, which has already significantly strengthened our project execution processes. Our new engineering organization will help us become more flexible by utilizing our resources on a global level. We have a strong engineering base in Cologne and in Delhi and by focusing on the strengths of both we will be in a much better position to manage our projects. For project execution we have a new Global Director of Projects along with efficient monitoring policies in place. We are confident that we will not see the project execution problems experienced in 2015 again.

The global demand for cement went down in 2015 for the first time since 2008. This had a direct impact on the demand for the products and services provided by KHD. In such a tough market the focus on our customers and an efficient sales organization are more important than ever. We have strengthened our sales organization in terms of personnel and are taking a much more strategic approach toward sales, in order to be more effective in the early and middle game and increase our win rate. We have also put more efforts into marketing and showed a strong presence at important trade shows in our key markets. In fact, the KHD booth won first place at a major event in Turkey and second place at another event in the Middle East.

To become a full service provider that offers complete solution concepts to our cement plant customers, we will continue to make a number of changes. Firstly, we have re-launched our Plant Services business to be wholly focused on spare parts, services and consulting. Before this change supervision of erection and commissioning services for projects (Capex projects) were also reported in this business unit. For our future development it is also important to put KHD in a position to successfully manage EPC projects and we are strengthening our expertise in this area. Furthermore, KHD will also continue to develop its Clean Technology solutions to help our customers meet ever stricter environmental requirements.

Despite the difficulties there were also highlights in 2015. KHD successfully handed over several new plants to customers in Turkey, Russia and India. In July, we won a milestone order in India for equipment and services for eight slag grinding units using KHD roller press technology. More and more customers are turning to KHD’s roller press technology for applications traditionally dominated by other technologies; like the ball mill or vertical mills. We also won exciting new orders in Turkey. We are delivering some the most advanced pyro processing and grinding technology into this important cement market, and thus defending KHD’s position as market leader in Turkey.

With a 52% equity ratio KHD’s equity position is still strong and gives us the stand-up power to continue to focus on improving in all areas for a turnaround in the next two years. Going into 2016 with an order backlog of just € 184 million, our return to profits will strongly depend on the timing and level of 2016 order intake.

We would especially like to thank our customers and our dedicated employees as well as our shareholders and Supervisory Board for their confidence and support over the challenging 2015 financial year and look forward to keeping you up to date on KHD's turnaround!

Best regards,

Management Board – KHD Humboldt Wedag International AG

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 of 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 website at www.khd.com. Further information on corporate governance can be found in the Corporate Governance Report that is also available on the website.

Annual 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)

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 (until July 3, 2015)

Director of HLM CPA Limited

Kangning Zou

President of 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)

Member of the Management Board of KHD Humboldt Wedag International AG (since January 1, 2016); previously Vice President of AVIC International Beijing Co. Limited

Group Management Report

GROUP MANAGEMENT REPORT

FUNDAMENTAL PRINCIPLES OF KHD GROUP

Business Model

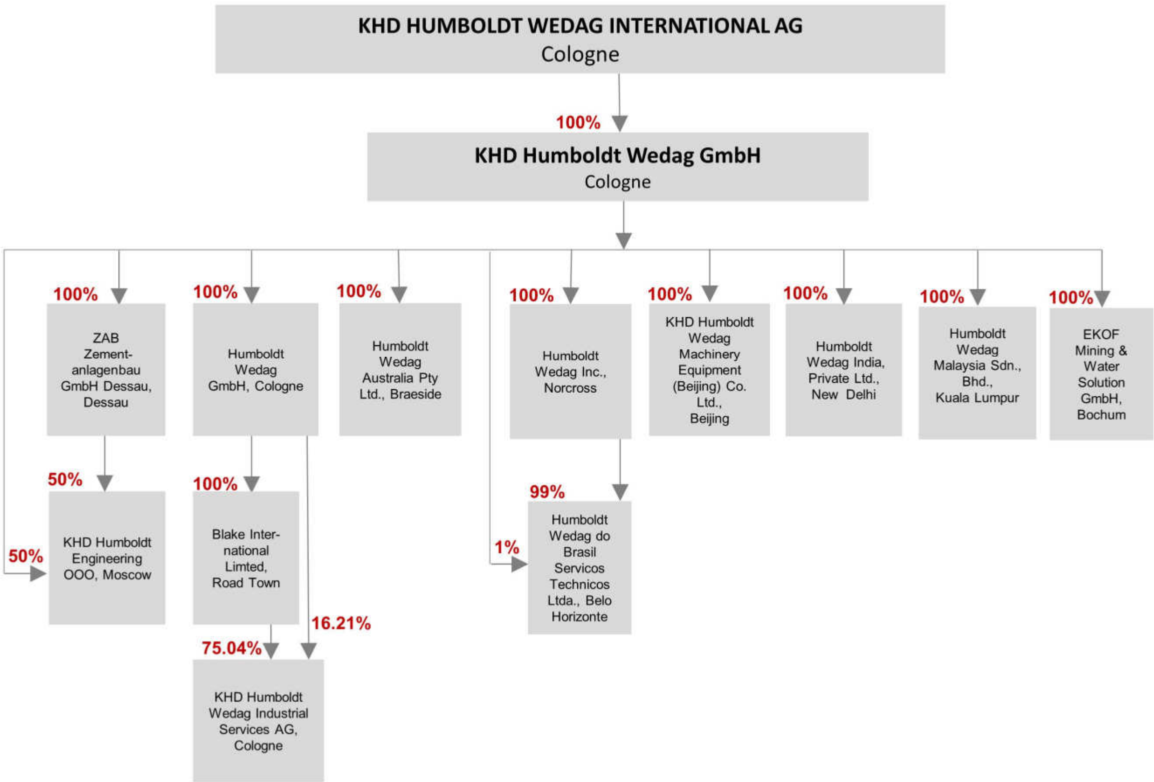
Organizational Structure and Locations

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

In its capacity as the ultimate holding company of the Group, KHD Humboldt Wedag International AG holds a 100% investment in KHD Humboldt Wedag GmbH (KHD HW), Cologne, Germany, which functions as a holding company with no operating business activities. The 13 KHD Group companies focus on the business segment of industrial plant engineering as well as related services.

KHD has been a group company of the Beijing-based AVIC International Beijing Co. Limited (AVIC Beijing), since January 2014. AVIC Beijing is part of the Aviation Industry Corporation of China, a corporate group owned by the People’s Republic of China. AVIC International Engineering Holdings Pte. Ltd. Ltd. (AVIC Engineering), and Max Glory Industries Limited (Max Glory), directly hold a 69.02% stake and a 20.00% stake in KHD, respectively. The strategic collaboration of the groups has been further strengthened as a result of the takeover. KHD and AVIC work together especially on project tendering.

Group Structure

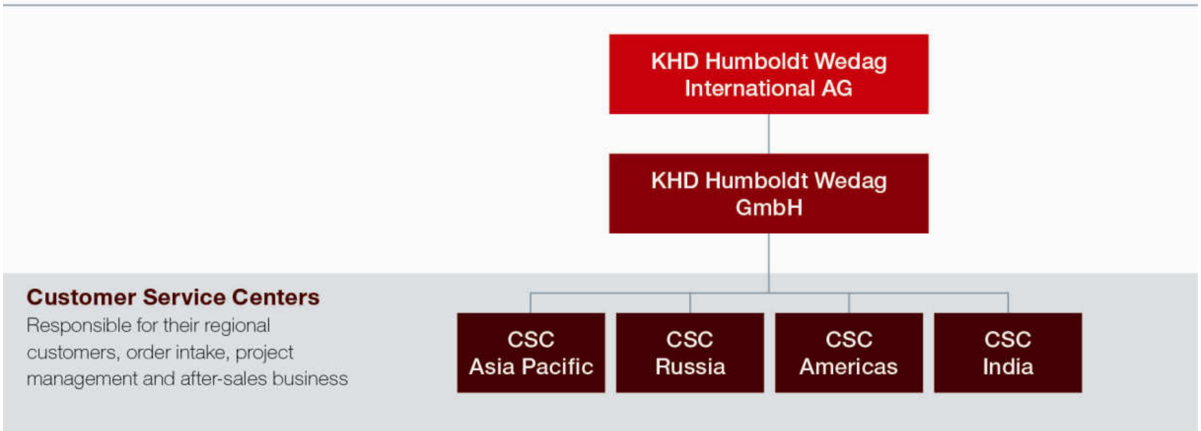


KHD’s customer base is made up of cement producers from around the world. Maintaining close contact with this target group is one of the keys to the success of the Group’s business activities. Through our targeted account management, we ensure that our customers are served in accordance with their individual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

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

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

Customer Service Centers (CSC)



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

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

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

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

Range of Products and Services

KHD has redefined the distinction between the Capex segment (project business) and the Plant services segment (previously Parts & Services), effective October 1, 2015. The goal of this organizational change is to improve management control and continue expanding the service business.

Capex (Project Business)

The scope in the Capex business unit encompasses the process technology, design, engineering, project management, and the supply of technology and equipment (grinding, pyro process, system automation). Starting October 1, 2015, the supervision of the erection and commissioning of cement plants and related equipment (also called Field Services) that is directly connected with the project business is also classified under this segment. The KHD Group also organizes training for cement plant personnel. For this purpose, KHD draws on its own e-learning program SIMULEX®, with which all processes in a cement plant can be simulated and controlled by the course participants. In this way, the Capex segment comprises all of the deliveries and services directly connected with a plant engineering project.

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

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

Plant Services (previously Parts & Services)

KHD's services include the supply of spare and wear parts as well as various plant services. These include maintenance services such as refurbishing roller presses, technical inspections and audits, as well as consulting and assistance services. In this respect, consulting on energy efficiency, as well as emissions reduction and reduction of operating costs (e.g. fuel substitution by alternative fuels) when modernizing plants are important subjects.

Management and Supervision

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

Management Board

KHD has resituated itself to meet future challenges with a new management team in the 2015 financial year. Since January 1, 2015, Daniel Uttelbach, who is in charge of Sales & Technology, is member of the Management Board. 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.

Supervisory Board

At the KHD general meeting on May 28, 2015 the shareholders passed a resolution to increase the number of Supervisory Board members from three to six. In addition to the already acting Supervisory Board members Mr. Hubert Keusch, Ms. Eliza Suk Ching Yuen and Mr. Kangning Zou, by the shareholders newly elected Mr. Xiaofeng Liu, Ms. Yiqiong Zhang and Mr. Tao Xing to the Supervisory Board. 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.

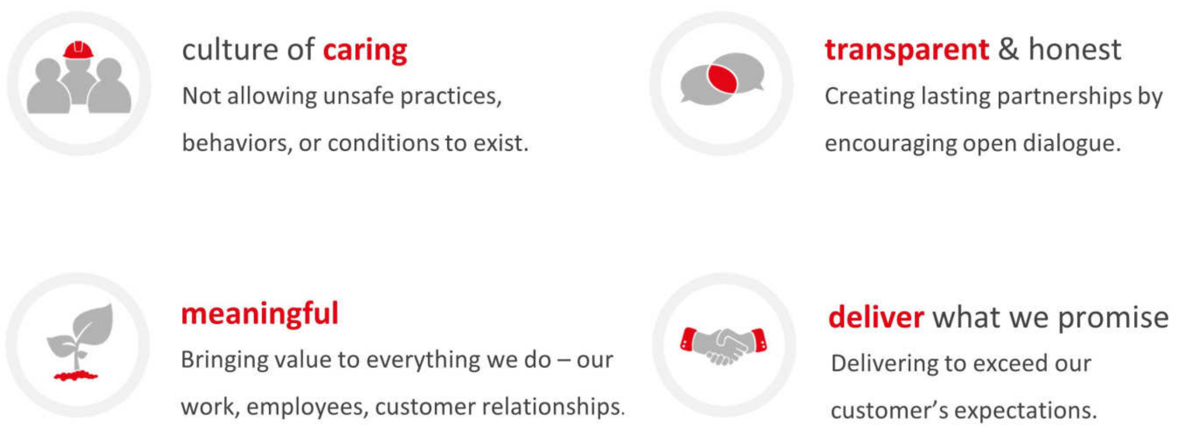
Corporate Governance

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 declaration on corporate governance that also includes the declaration of compliance pursuant to Section 161 of the German Stock Corporation Act (AktG).

The corporate governance report (see Section 3.10 of the GCGC) provides further details concerning corporate governance. The declaration of compliance and the corporate governance report (including the declaration on corporate governance in accordance with Section 289a of the German Commercial Code (HGB)) are available on KHD’s website (http://www.khd.com/corporate-governance-370.html).

Objectives and Strategy

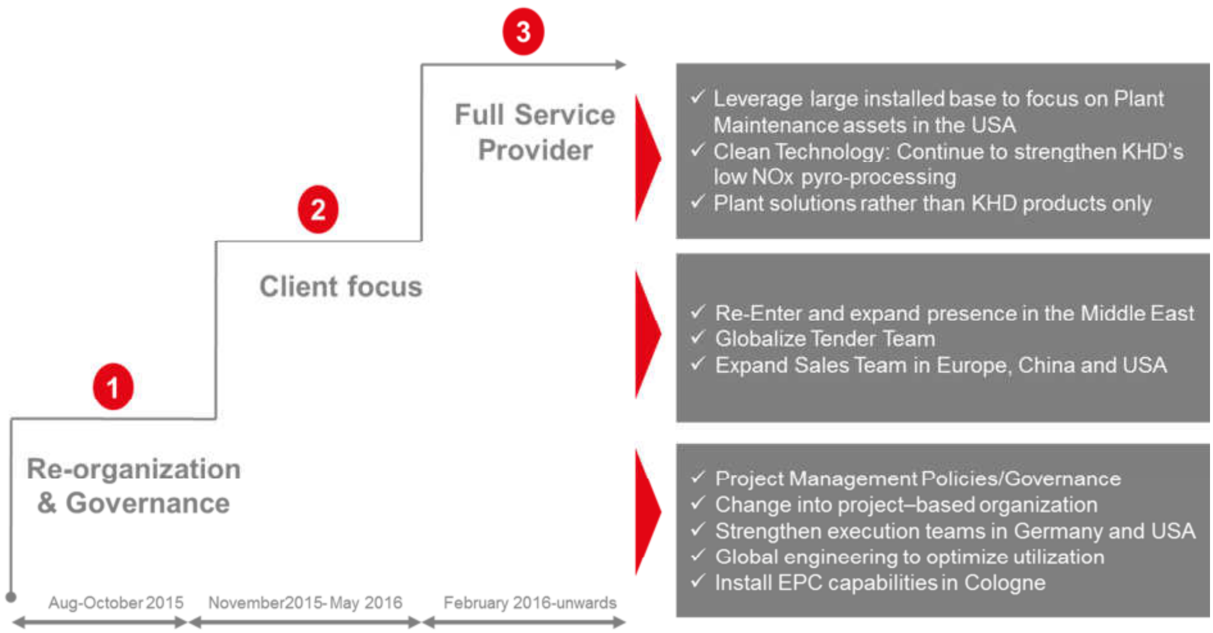
In order to achieve a turnaround for KHD, the Management Board reoriented the Group strategy. In addition, there will be a stronger focus on implementing the strategy and measuring and monitoring the progress. KHD’s business model is based on four customer-oriented values.



Whether in working with our customers and business partners, our internal processes or on jobsites all over the world, KHD's strategy and business model as well as our day to day work is aligned with these four values.

The objective of the Group strategy is to make KHD a sustainable, full service provider for the global cement industry. After the strategy has been fully implemented, KHD will be able to work on an EP or EPC basis and to achieve at least 30% of the Group turnover and an even higher share of EBIT through the Plant Services business unit. The cost basis of our environmentally sound technology for kiln lines as well as our solutions for grinding technology will be further optimized while maintaining KHD quality. Furthermore, KHD's global organization will be improved with regard to maximizing flexibility for our customers.

The Management Board has started the implementation of a three-stage program in order to become a sustainable, successful full service provider.



Reorganization and Government

The newly composed management team holds regular Town Hall Meetings and encourages open dialog with respect to the KHD strategy. A leaner, project-focused organization has been implemented since October 2015. Both the Director of Projects and the Director of Engineering report directly to the Chief Executive Officer, who is fully responsible for successful project execution. The entire KHD organization is aligned with respect to project requirements. The Health & Safety Officer, newly hired in Cologne, coordinates this extremely important issue for the entire Group. In the course of reorganization, the supervision of the erection and commissioning of cement plants that is directly connected with the project business has been re-aligned under the Capex segment. The Plant Services segment (previously Parts & Services) shall focus even more strongly on spare parts and plant services. By managing this segment completely independent from the project business, significant expansion in the maintenance and optimization of existing cement plants is expected.

The overall responsibility for governance lies with KHD in Cologne, regardless of the locations of the individual KHD companies. To prevent surprises in project execution – both for our customers and our shareholders – improved guidelines as well as decision-making and monitoring processes have been introduced.

Client Focus

The geopolitical situation and the slowdown of growth in China resulted in significantly fewer projects for cement plant engineering in 2015. In addition to the established competitors, plant engineering companies from China are increasingly appearing on the global market. The competition for new orders was more difficult than ever before and will remain a great challenge in the future. For these reasons, KHD has expanded its sales and tendering capacities for projects in regions, where growth potential has been identified. Moreover, the Group is working on increasing its win rate by carefully selecting the project opportunities that fit well with the KHD offering. Close consultation with the customer from the initial feasibility study stage all the way through to implementation is an important factor for success. The Management Board sees sales as a crucial process, which includes employees from all disciplines. When risk identification and assessment are carried out by a cross-functional team, risks can be reduced and projects can be managed better in both the tendering phase and during project execution.

Full Service Provider

KHD is working towards becoming a reliable, full service provider for its customers. In addition to strengthening project management capabilities, including the ability to manage EPC projects, KHD will continue to strengthen its brand and strengthen its clean technology solutions in the pyro-processing and grinding area. The Plant Services segment will leverage KHD’s large installed base of cement plants to offer our customers comprehensive maintenance services along with advanced cement plant solutions.

Management and Control System

The strategy of KHD also manifests itself in the way the Group is managed. By using a uniform system of key financial targets across the Group, we ensure a common understanding of how to measure success. The primary financial indicators KHD uses to determine target achievement are calculated monthly on the basis of key figures. These include:

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

Research and Development

In the 2015 financial year, the following trends have continued to define the industry:

- Consolidation of global cement producers
- Need for energy-efficient plants to reduce operating costs
- Use of alternative fuels – driven by costs and legislation
- Higher requirements for emission controls

Research and development activities at KHD are focused on the trends listed above. KHD spent € 4.7 million on research and development in the 2015 financial year (previous year: € 4.8 million). This corresponds to 2.7% (previous year: 2.0%) of revenue, a high value in industry comparisons according to KHD research. A total of 21 patents (previous year: 36 patents, including one registered design) were applied for in the reporting year. At the end of the year, KHD owned the rights to a total of 1,087 items of intellectual property, of which 514 (previous year: 500) were patents, 559 (previous year: 552) were brands and 14 (previous year: 17) were registered designs.

Due to lower emissions, together with a high rate of efficiency and robust German engineering, KHD's pyro-processing technology is recognized as among the best in the industry. One of the newest KHD innovations, the new PFC^2 cooler, is running successfully in two cement plants. The new design offers customers higher heat recuperation rates with lesser wear and lower material spillage and thus helps them make their production process even more efficient.

Our product management is now focusing more on the entire process rather than on individual products. Research and development work (R&D) is closely tied to the market and the Group is working on launching several joint R&D projects with its clients. The success of research and development projects is measured based on scheduling and cost evaluation as well as the targeted results.

ECONOMIC REPORT

Macroeconomic and Sector-related Conditions

Economic Environment

At reporting time (December 2015) the International Monetary Fund (IMF) predicted global growth of 3.1% for 2015 (previous year: 3.4%). 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 metal ores 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 growth; Vietnam achieved a growth rate of 6.5%.

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 demand.
- 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 merger of LafargeHolcim and the announced merger of Italcementi and HeidelbergCement are also resulting in additional delays in investments in new capacities and modernizations.

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.

Financial Market Environment

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

Compared with the closing rate for the previous year, as of December 31, 2015, the Indian rupee gained 6.7% with regard to the euro. However, at 70.96 rupees to the euro, the average rate was significantly lower than that of the previous year (80.78 rupees to the euro). The closing rate of the US dollar also gained significant ground (+11.7%), but at 1.10 US dollars per euro, the average rate was significantly lower than that of the previous year (1.32 US dollars per euro). The year-end rate of the Russian ruble fell against the euro by 19.0%. The average rate moved to 68.66 rubles to the euro (previous year: 51.50 rubles per euro). Due to converting local financial statements into euros, exchange rate changes over the reporting year have had an overall positive impact on the KHD Group.

Important Events of the Financial Year

Changes in the Segment Classifications

Spare parts and services for cement plants continue to be of critical importance to the KHD Group as they play a significant role in providing reliable revenues and results. The Group is planning to continue to expand this future-oriented business with targeted investments and the development of additional expertise in maintenance as well as consultation services for all areas of cement plants. In addition to further development of existing services, KHD wants to establish itself as an expert consultant for performance optimization.

The new segment classification that became effective as of October 1, 2015 is an expression of this strategy. Supervision of erection and commissioning (also called Field Services) of cement plants is directly connected with project (Capex) business. Therefore, these services are now classified under the Capex segment. In this way, the Capex segment comprises all deliveries and services directly connected with a plant engineering project. With the newly classified Plant Services (previously Parts & Services) segment, the Management Board wants to focus even more strongly on spare parts and plant services, establish management and controlling that is completely independent from the project business, and ensure continuous expansion.

Error Correction in the KHD Group Financial Statements for 2014

In connection with a detailed analysis of running projects, errors were identified with respect to the measurement of individual projects in the 2014 financial year at KHD's U.S. subsidiary.

The errors from the 2014 financial year were corrected retroactively in accordance with IAS 8 in the context of the preparation of the 2015 annual financial statements by restating the comparative amounts for the prior periods presented. After concluding internal and external investigations, the revenue reported for the 2014 financial year was overstated by € 5.9 million. Due to the effects of currency exchange difference the retroactive reduction of Group equity amounts to € 6.4 million. The error corrections to be made, which affect the balance sheet and the income statement for the financial reports as of June 30, 2014, December 31, 2014 and June 30, 2015, are disclosed and explained under section 4 of the notes to the 2015 financial statements.

New Orders from India

Humboldt Wedag India Private Ltd. (HW India), New Delhi, India, and Humboldt Wedag GmbH (HWG), Cologne, two subsidiaries of KHD, signed contract for a total value between € 55 and 60 million for the supply of equipment and services for eight slag grinding units. A significant component of each slag grinding unit includes two KHD roller presses with a total capacity of 180 tons per hour. The customer, JSW Cement Ltd. (JSW), is part of the same corporate group as the Indian steel producer JSW Steel Limited.

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 fully utilized the 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 is due for repayment in October 2018. KHD is entitled for a short-term termination of the loan contract. The variable interest rate for this bank loan is significantly lower than the interest rate that KHD receives on the loans extended to AVIC International (HK) Group Ltd.

Arbitration Court Proceedings with a Customer in South America

In the 2013 financial year, a customer in South America submitted an arbitration claim with the International Chamber of Commerce (ICC). The arbitration proceedings took place in Lisbon, Portugal. The claim sought a reduction of the contractually agreed price, compensation for maintenance costs and reputation loss suffered as well as compensation for the costs accrued during the arbitration court proceedings. In addition, the arbitration claim also aimed either to win indemnity as if the contract had not been concluded (negative interest) or to win indemnity as if the contract had been fulfilled as agreed (positive interest). Based on the progress of the arbitration court proceedings as well as based on information obtained from legal consultants, the risk assessment with respect to the expected outcome of the arbitration court proceedings was changed significantly in comparison to the assessment in the 2014 financial year. For this reason, in order to ensure adequate risk provisioning, additional expenses of approximately € 15 million have been recorded in the 2015 consolidated financial statements. The arbitration claims pending in court have in the meantime been concluded by an arbitration award in January 2016. KHD was informed about the arbitration award in February 2016.

Cooperation Agreement between Humboldt Wedag GmbH and AVIC International Beijing Co. Limited

In the 2015 financial year, Humboldt Wedag GmbH (HWG) and AVIC International Beijing Co. Limited (AVIC Beijing), Beijing, China, signed a cooperation agreement. In some projects AVIC Beijing benefitted considerably in their own business with respect to market position and the positive appeal of HWG's technological expertise. AVIC Beijing benefits from the extensive technological expertise and the positive influence of HWG on customers during marketing, tendering for joint projects, contract negotiations as well as during project execution. In consideration of this context, AVIC Beijing agreed to compensate HWG in a one-time payment of € 18 million. In the future HWG and AVIC Beijing also want to work together on marketing and with regard to technology on a case by case basis. In such cases HWG shall allow AVIC Beijing to use market information, technology and patents against compensation to be agreed upon.

Overall Assessment of the Results of Operations and Economic Position

Based on order intake, revenue development and earnings before taxes and interest (EBIT), business development in 2015 was not satisfactory. The reasons for the markedly negative net result for the period include the difficult economic situation in the cement industry, as well as unplanned difficulties in the execution of several large projects. With a relatively low order backlog already at the beginning of the year, some of the projects forecasted as order intake were not realized in the 2015 financial year. This resulted in an underload with regard to our capacities and, consequently, to related idle capacity costs. In sum, significant budget targets were not met in the 2015 financial year.

While accelerated growth in the cement markets was assumed in the outlook for the 2015 financial year, the development of cement consumption in KHD's core markets remained on a low level. Political and economic insecurity in markets important to KHD, in particular Russia and the EMEA region, have resulted in further delays in awarding orders. Consequently, order intake reached € 154.1 million, remaining significantly lower than the forecast (about € 200 million) and lower than the level expected in the interim report of November 13, 2015 as well. As of December 31, 2015, order backlog reached a level of just € 183.8 million, remaining below the forecast amount. The order backlog at the end of the 2015 financial year was low in comparison with opening order backlog in many previous years and does currently not ensure the full utilization of our capacities. The opening low order backlog makes KHD much more dependent on the expected order intake for the first half of the new financial year (2016) than has been the case in the past.

As forecast, revenue at € 172.1 million was considerably lower than the previous year, but stayed within the range specified in the 2015 half-year financial report. The substantial decline in revenue is the result of the low order backlog at the beginning of the financial year as well as low order intake.

Overall, KHD achieved earnings before interest and taxes (EBIT) of € -17.7 million and thus a significantly negative EBIT margin of -10.3%. Although the previous year's forecast had predicted a considerably negative EBIT for the 2015 financial year, the actual 2015 EBIT is lower than original expectations. The compensation from the cooperation agreement with AVIC Beijing in the amount of € 18 million that was recorded under other operating income contributed to a EBIT that is significantly better than what was indicated with the range specified in the 2015 half-year financial report. The reasons for the considerable deviations from the original budget include, in particular, unexpected additional costs in the execution of several large projects, expenses related to an arbitration award, and costs related to idle capacity. The adjusted EBIT – adjusted by expenses related to an arbitration award, idle capacity costs and one-time compensation relating to the cooperation agreement – amounts to € -17.8 million and is also significantly below the budget. Earnings before tax (EBT) amounted to € -9.2 million and include – as forecasted – the positive net finance income, characterized in particular by the interest income from the loans granted to AVIC International (HK) Group Ltd.

With respect to cash flow from operating activities (€ -43.6 million), no further significant cash outflows were planned in the original budget. Due to additional costs in some large projects and lower inflows as a result of the low order intake, an outflow of funds of more than € 30 million was already expected in the 2015 half-year financial report. However, KHD’s financial and net assets position – despite the markedly negative operating cash flow – still remains stable due to adequate liquidity and a high equity ratio.

In assessing business development of the two segments and while comparing the originally forecasted development with the actual development, the changes in the segment classification that happened during the year have to be taken into consideration. The originally forecasted values (Parts & Services) cannot be directly compared with the actual values (Plant Services). For this reason the actual results according to the new segment structure were compared with forecast values adjusted for the newly shaped Plant Services segment.

The Capex business unit achieved an order intake of € 113.2 million, which is significantly lower than the originally budgeted value for new business. Revenue of € 136.7 million was in line with the budget. Nevertheless, EBIT in the Capex segment of € -21.9 million (adjusted EBIT: € -22.0 million) was clearly below the budget figure. In particular, unexpected additional costs in the execution of several large projects are the cause of this deviation.

In the business unit Plant Services the order intake of € 40.9 million was in line with the budget. However, revenue of € 35.3 million was slightly below the original budget figure. Anyhow, earnings in the segment Plant Services showed a positive development which resulted in an EBIT at € 4.2 million that is better than originally forecasted.

Business and Earnings Position

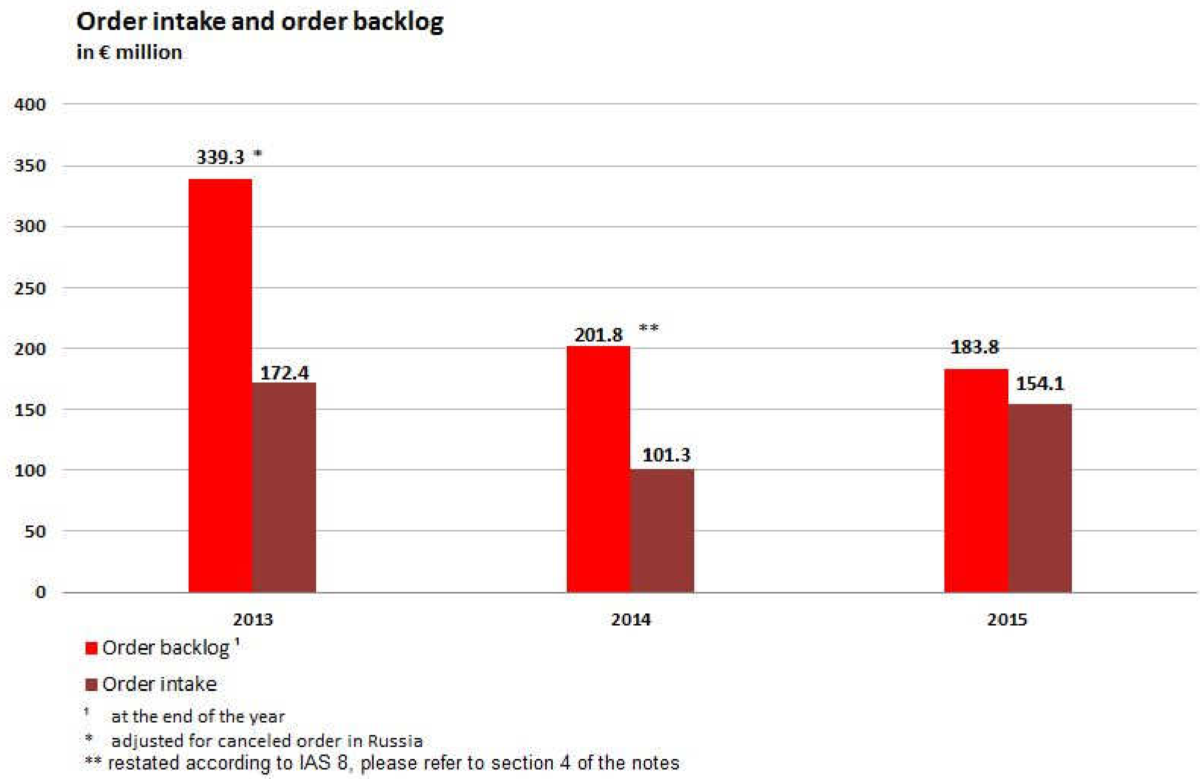
Order Intake and Order Backlog

During the 2015 financial year, order intake was € 154.1 million (€ 101.3 million 2015). Overall, order intake remained significantly lower than expected. Due to pending approvals and the fact that the customer has not yet secured financing, the new order won in September 2015 in Russia, with a total volume of over € 100 million, could not be recorded in order intake by year's end. There were also delays in the awarding of orders for other projects. In particular, the situation in Russia as a result of the Ukraine crisis and difficulties of some of our customers with regard to financing the planned investments are main reasons for delays in the awarding of contracts.

In the Capex segment orders with a total volume of € 113.2 million were booked as order intake. A significant contribution to order intake came from the Indian market; two large orders (cost-effective and energy-efficient grinding systems based on KHD roller presses) with a total contract value of more than € 60 million were recorded in the order intake in the 2015 financial year.

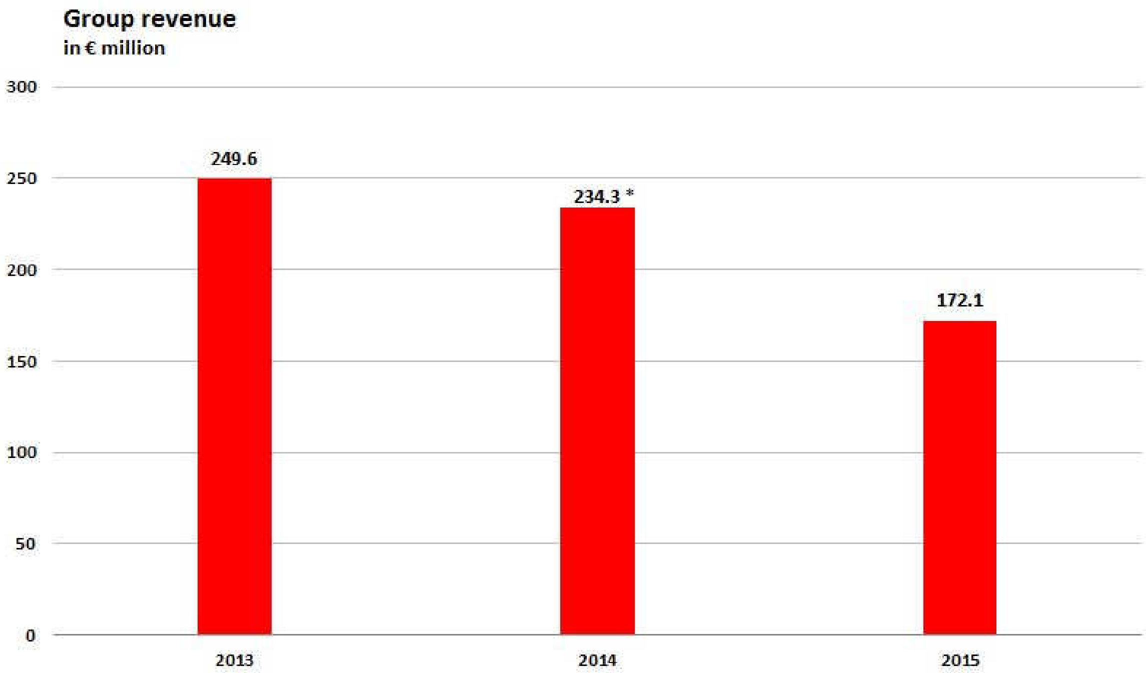
With € 40.9 million, the spare parts and service business (Plant Services) contributed a significant share to the total order intake. Compared with the previous year's figure of € 34.5 million – taking into account the changes in the segment classification – this reflects a significant growth.

As a result of the low level of order intake and the progressing execution of existing projects, order backlog as of December 31, 2015 was € 183.8 million (previous year: € 201.8 million). Thus, order backlog remains at a low level and does not provide a sufficient basis for the full utilization of existing capacities in the 2016 financial year.



Group Revenue

In the 2015 financial year, KHD achieved revenue in the amount of € 172.1 million. The considerable decrease of 26.5% in comparison with the previous year's figure (€ 234.3 million) is mainly the result of the low order backlog at the beginning of the financial year, which is due to the low order intake in the previous periods. Projects in India, North America, Russia, and Malaysia were the biggest contributors to revenue.



* restated according to IAS 8, please refer to section 4 of the notes

Group Earnings Position

The costs of sales comprise € 14.6 million expenses related to an arbitration award as well as € 3.3 million idle capacity costs that resulted from an underload for the existing capacities. As these costs are directly linked to the revenue recognized in 2015 they are eliminated while determining the adjusted gross profit margin. The adjusted gross profit decreased to € 16.2 million (previous year: € 26.4 million). The reasons for the decline in gross profit were, in addition to the reduced turnover, primarily additional costs due to difficulties in the execution of several large projects. Following intensive negotiations regarding variation orders from customers for increasing the project value and backcharging to subcontractors, a significant share of these additional costs could be compensated. While a negative gross profit had to be reported at the end of the third quarter in 2015, a markedly positive adjusted gross profit was realized due to successful agreement with several business partners in the fourth quarter of the financial year. KHD continues to negotiate on both the customer and supplier side in order to get variation orders and agree on backcharges, respectively. Due to the fact that these variation orders and backcharges were not accepted by the end of the 2015 financial year, no further improvement in the gross profit could be recognized. However, based on ongoing negotiations, KHD expects improvements of the gross profits in the 2016 financial year. Due to the challenges in order execution and the related additional costs, the adjusted gross profit margin fell considerably with respect to the previous year from 11.3% to 9.4%.

Other operating income increased considerably to € 23.6 million (previous year: € 5.6 million). A significant reason for the increase is a one-time compensation from AVIC Beijing in the amount of € 18.0 million. AVIC Beijing benefits from the extensive technological expertise and the positive influence of KHD on customers during marketing, tendering for joint projects, contract negotiations as well as during project execution. In consideration of this context, AVIC Beijing agreed to compensate KHD for extensive technical support as well as benefits from KHD's brand value and customer contacts. Furthermore, other operating income includes income from exchange rate fluctuations in the amount of € 4.5 million (previous year: € 4.0 million). From an economic perspective it has to be considered that due to the foreign currency hedging performed the income from exchange rate fluctuations should be offset against expenses from foreign exchange forward contracts (€ 3.6 million) that are presented as other expenses.

In accordance with the KHD strategy, sales and tendering activities focus specifically on opportunities with a high likelihood of success and that fit well with KHD’s product offering. Due to this focus, sales expenses were reduced by 7.0% to € 9.3 million (previous year: € 10.0 million).

The general and administrative costs of € 17.8 million remained almost at the previous year's level (€ 17.7 million). With targeted cost management, external general and administrative costs were reduced considerably. However, at the same time, personnel expenses increased, in particular due to salary increases. In addition to the costs of general administration, in particular, legal and consulting costs, costs for preparing and auditing financial statements, Management Board remuneration, Supervisory Board remuneration, and costs related to the KHD Group’s stock exchange listing are included in general and administrative costs.

Other operating expenses increased considerably in comparison with the previous year by € 3.3 million to € 12.4 million (previous year: € 9.1 million). The reasons for this increase are primarily expenses due to currency exchange rate fluctuations and changes in market value of foreign exchange forward contracts for hedging exposure on foreign currency receivables (€ 5.9 million; previous year: € 2.6 million). From an economic perspective, the income from exchange rate fluctuations (€ 4.5 million, previous year: € 4.0 million) should be offset against the expenses from fair value adjustments of foreign exchange forward contracts and expenses due to exchange rate fluctuations. Expenses for research and development € 4.7 million (previous year: € 4.8 million) are also presented as other expenses. Despite the difficult earnings situation, the research and development activities remain at a high level, illustrating the efforts of KHD to ensure technological leadership into the future.

After deduction of the expenses, the unsatisfactory earnings before interest and taxes (EBIT) amounts to € -17.7 million (previous year: € -4.8 million). As a result, the EBIT margin is -10.3% (previous year: -2.0%). Without considering expenses related to an arbitration award, idle capacity cost and the one-time compensation from the cooperation agreement with AVIC Beijing, the adjusted EBIT amounts to € -17.8 million and the adjusted EBIT margin to -10.3%.

The Group's net finance income of € 8.5 million improved significantly over the previous year (€ 2.9 million). In particular, it includes interest income in the amount of € 6.1 million from the two loans, each for € 50 million, which were granted to AVIC International (HK) Group Ltd. (AVIC HK) in July and November 2014. As in 2014, the largest single item under finance expenses, which totaled € 0.8 million (previous year: € 1.6 million), was the interest expense related to pension benefit obligations, provisions, and other non-current liabilities.

At € -9.2 million, earnings before tax (EBT) decreased significantly (previous year: € -1.9 million). Despite the negative earnings before tax KHD accounted for income tax expenses of € 8.3 million (previous year: € 2.4 million) in the 2015 financial year. KHD Group's high tax expense is caused by differing profitability of KHD's subsidiaries. Some subsidiaries achieved positive EBT that resulted in income tax expenses, whereas other subsidiaries sustained significant losses. KHD did recognize deferred tax assets on temporary differences and tax loss carry-forwards only to a limited extent. As a consequence, only a low compensation effect on the current income tax expenses could be recognized. The group net loss for the year amounted to € -17.5 million (previous year: € -4.3 million). Basic and diluted earnings per share decreased to € -0.35 (previous year: € -0.10).

Segment Earnings Situation

In assessing business development of the two segments and while comparing with the previous year's figures, the changes in the segment classification that happened during the year have to be taken into consideration. For the Capex segment it also has to be considered that expenses related to an arbitration award (€ 14.6 million) as well as idle capacity costs (€ 3.3 million) were eliminated while determining the adjusted gross profit and the adjusted gross profit margin. For determining the adjusted EBIT the one-time compensation from the cooperation agreement with AVIC Beijing in the amount of € 18.0 million was also eliminated.

At € 136.7 million, revenue for the Capex segment fell short of previous year’s amount (€ 199.7 million). Despite back charging project costs to subcontractors, the adjusted gross profit in the Capex business unit reached only € 6.7 million (previous year: € 15.9 million). As a result the adjusted gross profit margin of 4.9% was also significantly lower than the previous year figure of 7.9%. Main reasons for the unsatisfactory adjusted gross profit margin were poor margin quality of the projects in the opening order backlog in the financial year 2015 and, in particular, cost overruns in current projects.

Other operating income of € 23.6 million (previous year: € 5.6 million) was attributed to the Capex business unit. Other operating income includes a one-time compensation in the amount of € 18.0 million from the cooperation agreement between AVIC Beijing and HWG. The segment’s sales expenses amounted to € 7.7 million (previous year: € 7.9 million). General and administrative expenses were € 14.1 million (previous year: € 14.8 million), which reflects the impact from cost savings. KHD Group’s other expenses are almost exclusively allocated to the Capex segment, i.e. for this segment other expenses of € 12.4 million (previous year: € 9.0 million) were recorded. Due to major challenges in the market environment and the all in all unsatisfactory development, EBIT for the business unit amounted to € -21.9 million (previous year: € -10.3 million). The adjusted EBIT was also significantly negative and amounted to € -22.0 million (adjusted EBIT margin of -16.1%).

Revenue in the Plant Services segment totaled € 35.3 million (previous year: € 34.6 million), and therefore showed a slight growth compared with the previous year’s figure. The gross profit of Plant Services reached € 9.5 million (previous year: € 10.3 million), which again was fully satisfactory. Nevertheless, the gross profit margin of 26.9% was slightly lower than in the previous year (30.4%).

Sales expenses, general and administrative expenses and other expenses for the Plant Services segment amounted to € 5.3 million (previous year: € 5.0 million). EBIT for the business unit reached € 4.2 million (previous year: € 5.5 million). Despite the margin pressure that is also felt in Plant Services, EBIT was again significantly positive.

Appropriation of Net Retained Profit

The Management Board and the Supervisory Board will propose to the shareholders at the Annual General Meeting to be held on May 18, 2016 that the net retained profit of KHD Humboldt Wedag International AG amounting to € 7.7 million (reported pursuant to the German Commercial Code (HGB)), should be carried forward.

Financial Position and Net Assets

Fundamentals of the Financing Strategy

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

KHD Humboldt Wedag International AG controls the Group's financial management and makes sufficient cash available to Group companies where required so that payment obligations can be met in full at all times. The major part of the excess liquidity which is not necessary for daily operations has been granted to AVIC HK as loans (€ 100 million in total) with an attractive interest rate of 6% per annum.

While KHD has financed itself exclusively from internal sources in recent years, in the 2015 financial year, the company took out a bank loan. As of December 31, 2015, the loan amounted to € 25 million. One of the reasons for taking this bank loan was the favorable interest rate, which is significantly lower than the interest rate obtained by KHD from the loan granted to AVIC HK.

In accordance with the KHD financial strategy, Group companies are in the first instance responsible for accumulating liquidity surpluses to cover their financing requirements (principle of internal financing). However, KHD provides its subsidiaries with additionally required liquidity as needed. The project business means that the KHD Group has to cope with a very cyclical market environment that is characterized by individual high-volume orders and varying financing structures. A high liquidity position is necessary in order to have sufficient cash and cash equivalents to meet Group companies' operational financing requirements at all times. Financial security is controlled via the operating cash flow and is largely measured by determining freely available liquidity and by using the equity ratio.

All operating companies in the KHD Group have access to bank guarantee credit facilities for various hedging instruments such as guarantees via bank guarantee credit facilities with Deutsche Bank AG (€ 40 million) and Austrian Raiffeisen Bank International AG (€ 38 million). Furthermore, the KHD Group has bank guarantee credit facilities with Bank of China, Frankfurt branch, and Zurich Insurance plc, with a total volume of approximately € 20 million. As of December 31, 2015 the bank guarantee credit facilities have been utilized in a total amount of € 33.0 million.

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

Financial Position

Total cash and cash equivalents declined from € 123.6 to € 112.7 million during the reporting year. Without the inflow of € 25 million from the bank loan, the decrease would actually have been € 35.9 million. The significant decline is primarily due to cash outflows from operating activities.

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

Cash Flow

Cash flow from operating activities of € -43.6 million (previous year: € -8.2 million) was negatively influenced by the low volume of advance payments resulting from the restrained level of new business, as well as relatively low progress payments due to a high stage of completion of significant projects in the order backlog.

Further details of the operating cash flow (in accordance with internal reporting) are presented in the following table:

Cash flow effect from operating activities for the year 2015	in € thousand
Cash flow from construction contracts in progress (including progress billings)	11,794
Cash flow from current liabilities/ invoices from subcontractors	(7,821)
Cash flow from changes in trade receivables	(13,302)
Cash flow from utilization of provisions and long term liabilities	(3,173)
Receivables from cooperation agreement	(18,000)
Cash inflow from result (EBITDA)	(15,792)
Cash flow from tax payments made/ received	(5,913)
Other cash inflows and outflows	2,262
Cash flow from operating activities	**(43,599)**

The interest received is disclosed under cash flow from operating activities or cash flow from investing activities from the 2015 financial year onwards, whereas it had been allocated to cash flow from financing activities in the previous year. The previous year’s presentation was changed in order to ensure comparability.

Cash flow from investing activities of € 4.9 million (previous year: € -72.9 million) mainly results from interest received (€ 6.1 million, previous year: € 1.8 million) on the loans granted to AVIC HK. Cash flow from investing activities was affected by the cash outflow of the granted loans (€ 100 million) and the inflow regarding the release of restricted cash in the previous year. This interest received had been allocated to cash flow from financing activities in the previous year, whereas the interest received on the loans is now disclosed under cash flow from investing activities. The previous year's presentation was changed in order to ensure comparability.

Cash flow from financing activities of € 25.0 million (previous year: € 1.4 million) resulted almost exclusively from taking a bank loan in the amount of € 25.0 million.

Total Assets

The balance sheet total increased from the figure at the end of 2014 (€ 387.9 million) by € 4.3 million to € 392.3 million. Cash and cash equivalents made up 28.7% (previous year: 31.9%) of total assets.

The non-current assets increased within the financial year from € 117.8 to € 121.6 million. The increase was caused by a deferred payment plan for a trade receivable, i.e. the amount of € 5.6 million that becomes due for payment after the closing of the 2016 financial year is presented as part of non-current assets. Property, plant and equipment as well as intangible assets remained largely unchanged compared with the previous year. Deferred tax assets decreased by € 1 million. There were no major investments in property, plant and equipment. The low volume of property, plant and equipment reflects KHD's business model, in which production is almost completely outsourced to external manufacturers. Unchanged to the previous year the two loans with a fixed term of three years that were granted to AVIC HK in a total amount of € 100 million represent the most significant item within non-current assets. Due to the two loans non-current assets make up 29.6% (previous year: 30.4%) of the balance sheet total, i.e. non-current assets remained at a comparably high level.

In addition to cash and cash equivalents, current assets include the gross amount due from customers for contract work of € 46.0 million (previous year: € 44.6 million). As of the end of 2015, costs incurred for these contracts plus proportionate profits recognized exceeded progress billings. Trade and other receivables increased to € 94.4 million (previous year: € 83.7 million). The increase was mainly caused by transactions with companies of the AVIC Group in the fourth quarter 2015. Receivables due from related parties increased from € 5.1 million as at December 31, 204 to € 45.3 million as at the reporting date. Running counter to this current trade receivable due from third parties declined from € 69.3 million to € 44.2

million. Payments made in advance at € 11.8 million (previous year: € 12.1 million) remained largely unchanged to previous year despite a lower volume of projects currently in execution.

Financing

Equity saw a decrease from € 219.5 million at the end of 2014 by € 16.1 million to € 203.4 million. The decrease was primarily caused by the net loss for the year. The equity ratio as of December 31, 2015 amounted to 51.8% and decreased slightly compared to the figure as of December 31, 2014 (56.6%).

The increase in non-current liabilities to € 56.0 million (previous year: € 33.7 million) mainly results from taking up a bank loan of € 25.0 million. Due to attractive conditions of the bank loan KHD could further optimize its financing and obtained additional liquidity for financing its operational business. KHD now accounts for interest-bearing debt (the bank loan), whereas it had been completely self-financed before.

On the liabilities side of the balance sheet, current liabilities decreased slightly by € 1.7 million to € 133.0 million (previous year: € 134.7 million). Despite the decreasing order volume the commitments under construction contracts increased from € 34.8 million to € 37.3 million. Trade payables (primarily resulting from contract costs) and other liabilities saw a decrease to € 71.4 million (previous year: € 80.5 million) due to an advanced stage of completion of current projects and a lower business. Current provisions increased significantly by € 5.1 million to € 22.8 million.

Net working capital – the difference between current assets (less cash and cash equivalents) and current liabilities – increased to € 25.1 million (end of 2014: € 11.8 million), which primarily resulted from the rise in receivables due from related parties.

Non-financial Performance Indicators

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

KHD has a standard procedure for employee evaluation and development with which important competencies, such as performance and results orientation, assertiveness and communication are assessed. The results form the basis for a discussion of individual development activities as well as long term personnel and successor planning.

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

Employees

Personnel Development

As of the end of 2015, KHD employed 735 people, 42 fewer than the previous year's total of 777. This decline is due to measures initiated to adapt capacities to the reduced business volume as a result of the low order intake. These headcount reductions were primarily made by not filling vacant positions. As of the end of 2015, approximately 48% of employees in the Group worked in Germany and 38% in India.

In the financial year KHD's personnel expenses did not decrease in proportion to the reduction in headcount as the decrease was just € 0.7 million to € 46.7 million (previous year: € 47.4 million). The particular reasons for this are salary increases and severance payments for former employees and members of the Management Board.

Development of Team and Leadership Skills

Our employees undergo a variety of internal and external training programs. This is intended to ensure that the knowledge, skills, and working practices are adapted to continuously changing conditions and to customers' growing expectations. For example, external qualifications include the accreditation of project managers by the Project Management

Institute or the participation of employees of the Plant Services segment in a Service Manager Certification Course. Manager training focuses on leadership and communication.

Collaboration with AVIC

In order to foster international communication and raise employees' awareness of the other company's culture, both AVIC and KHD have formed specialized communications and culture teams, which support the advancing cooperation. Our employees' ability to effectively and efficiently collaborate despite the existing cultural differences is an increasingly significant performance factor.

DISCLOSURES PURSUANT TO SECTION 315 PARAGRAPH 4 OF THE GERMAN COMMERCIAL CODE (HGB)

Composition of Subscribed Capital

The Company's subscribed capital (share capital) amounted to € 49,703,573 as of December 31, 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 Company Limited, Beijing, China;

- AVIC International Holdings Limited, Shenzhen, China;
- AVIC International Shenzhen Company Limited, Shenzhen, China;
- AVIC International Holding Corporation, Beijing, China;
- Aviation Industry Corporation of China, Beijing, China;
- People's Republic of China, Beijing, China.

AVIC International Engineering Holdings Pte. Ltd. and Max Glory Industries Limited directly hold a 69.02% and a 20.00% stake in the share capital, respectively.

The Management Board was not informed of any other shareholders whose voting rights directly or indirectly exceeded 10% of the total voting rights as of the reporting date December 31, 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 315 Paragraph 4 No. 5 of the German Commercial Code (HGB).

Regulations governing the Appointment and Recall from Office of Management Board Members, as well as Regulations governing Changes to the Articles of Association

The Management Board consists of one or more persons whom the Supervisory Board appoints for a maximum of five years pursuant to Section 84 German Stock Corporation Act (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, 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, 2013, and remains valid until October 4, 2017.

Significant Agreements subject to a Change of Control following a Takeover Bid

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

Compensation Agreements that the Company has entered into with Management Board Members or Employees in the Event of a Takeover Offer

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

COMPENSATION REPORT

The compensation report presents the principles, structure, and amount of both Management Board and Supervisory Board remuneration at KHD. The compensation report incorporates the recommendations made by the German Corporate Governance Code (GCGC). It also contains information required by Section 314 Number 6a Sentences 5–8 of the German Commercial Code (HGB); this information is therefore not provided additionally in the notes to the consolidated financial statements, in line with Section 315 Paragraph 2 Number 4 Sentence 2 of the HGB.

Compensation System for Members of the Management Board

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

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

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

Management Board compensation generally consists of fixed (non-performance-based) and variable (earnings- and performance-related) components. Fixed compensation is paid out as a basic remuneration every month as a non-performance-based salary. In addition, Management Board members receive 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. An allowance for an external pension scheme 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 management 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, appointed effective May 1, 2015, the Supervisory Board set a fixed bonus for the 2015 financial year 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 that his entitlement to variable compensation will be replaced by 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 management 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 due and payable in January 2016. For this reason, the accrual for Mr. Salo amounted to € 375,000 as of December 31, 2015. The payments to Mr. Salo in the amount of € 22,177 after his resignation from the Management Board and up to the termination of the management service contract on May 22, 2015 are shown in the compensation report as "Severance pay / allocation to accrual".

Mr. Quellmalz resigned from his position as Chief Financial Officer of KHD with effect from April 9, 2015 and has concluded a termination agreement with the Supervisory Board with regard to his 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 a 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 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:

Benefits granted (in €)	Johan Cnossen Chief Executive Officer Management Board member since May 1, 2015				Jürgen Luckas* Chief Financial Officer Management Board member since April 10, 2015			
	FY 2014	FY 2015	FY 2015 (Min)	FY 2015 (Max)	FY 2014	FY 2015	FY 2015 (Min)	FY 2015 (Max)
Fixed compensation	0	256.667	256.667	256.667	0	159.167	159.167	159.167
Fixed bonus	0	129.212	129.212	129.212	0	0	0	0
Signing Fee	0	270.081	270.081	270.081	0	0	0	0
Fringe benefits	0	38.295	38.295	38.295	0	16.537	16.537	16.537
Total	**0**	**694.255**	**694.255**	**694.255**	**0**	**175.704**	**175.704**	**175.704**
One-year variable compensation	0	0	0	0	0	0	0	0
Multi-year variable compensation								
Bonus for financial targets (until December 31, 2016)	0	0	0	0	0	0	0	105.000
Bonus for individual targets (until December 31, 2015)**	0	0	0	0	0	0	0	45.000
Total	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**150.000**
Service cost	0	0	0	0		0	0	0
Total compensation	**0**	**694.255**	**694.255**	**694.255**	**0**	**175.704**	**175.704**	**325.704**

Benefits granted (in €)	Yizhen Zhu* Executive Vice President Management Board member since April 1, 2011				Daniel Uttelbach* Executive Vice President Sales & Technology Management Board member since January 1, 2015			
	FY 2014	FY 2015	FY 2015 (Min)	FY 2015 (Max)	FY 2014	FY 2015	FY 2015 (Min)	FY 2015 (Max)
Fixed compensation	210.000	220.000	220.000	220.000	0	220.000	220.000	220.000
Fringe benefits	16.796	20.512	20.512	20.512	0	20.255	20.255	20.255
Total	**226.796**	**240.512**	**240.512**	**240.512**	**0**	**240.255**	**240.255**	**240.255**
One-year variable compensation	0	0	0	0	0	0	0	0
Multi-year variable compensation								
Bonus for financial targets (until December 31, 2014)***	22.500	0	0	0	0	0	0	0
Bonus for individual targets (until December 31, 2014)**	37.500				0			
Bonus for financial targets (until December 31, 2016)	0	0	0	105.000	0	0	0	105.000
Bonus for individual targets (until December 31, 2015)**	0	0	0	45.000	0	0	0	45.000
Total	**60.000**	**0**	**0**	**150.000**	**0**	**0**	**0**	**150.000**
Service cost	0	0	0	0	0	0	0	0
Total compensation	**286.796**	**240.512**	**240.512**	**390.512**	**0**	**240.255**	**240.255**	**390.255**

Benefits granted (in €)	Jouni Olavi Salo ex-Chief Executive Officer Management Board member until April 30, 2015				Ralph Quellmalz ex-Chief Financial Officer Management Board member until April 9, 2015			
	FY 2014	FY 2015	FY 2015 (Min)	FY 2015 (Max)	FY 2014	FY 2015	FY 2015 (Min)	FY 2015 (Max)
Fixed compensation	375.000	125.000	125.000	125.000	220.000	60.833	60.833	60.833
Fixed bonus	0	72.945	72.945	72.945	0	0	0	0
Severance pay / allocation to accrual	233.876	22.177	22.177	22.177	0	266.482	266.482	266.482
Fringe benefits	44.899	59.519	59.519	59.519	24.393	6.781	6.781	6.781
Total	**653.775**	**279.641**	**279.641**	**279.641**	**244.393**	**334.096**	**334.096**	**334.096**
One-year variable compensation	0	0	0	0	0	0	0	0
Multi-year variable compensation								
Bonus for financial targets (until December 31, 2014)***	56.250	0	0	0	22.500	0	0	0
Bonus for individual targets (until December 31, 2014)**	56.250	0	0	0	30.000	0	0	0
Total	**112.500**	**0**	**0**	**0**	**52.500**	**0**	**0**	**0**
Service cost	0	0	0	0	0	0	0	0
Total compensation	**766.275**	**279.641**	**279.641**	**279.641**	**296.893**	**334.096**	**334.096**	**334.096**

***** A voluntary waiver of bonus entitlement was declared for the 2015 financial year.

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

*** The bonus for the financial targets for the 2014 financial year was based on a one-year assessment period, but was only paid out in the 2015 financial year (deferral).

The variable compensation (benefits granted) disclosed corresponds to the amount recorded as an expense in the 2015 and 2014 financial years.

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:

Allocation (in €)	Johan Cnossen Chief Executive Officer		Jürgen Luckas Chief Financial Officer		Yizhen Zhu Executive Vice President	
	FY 2015	FY 2014	FY 2015	FY 2014	FY 2015	FY 2014
Fixed compensation	256.667	0	159.167	0	220.000	210.000
Signing Fee	155.081	0	0	0	0	0
Fringe benefits	38.295	0	16.537	0	20.512	16.796
Total	**450.043**	**0**	**175.704**	**0**	**240.512**	**226.796**
One-year variable compensation	0	0	0	0	0	0
Multi-year variable compensation						
Fixed bonus (until December 31, 2013)*	0	0	0	0	0	45.000
Bonus for financial targets (until December 31, 2014)	0	0	0	0	22.500	0
Bonus for individual targets (until December 31, 2014)	0	0	0	0	37.500	0
Total	**0**	**0**	**0**	**0**	**60.000**	**45.000**
Service cost	0	0	0	0	0	0
Total compensation	**450.043**	**0**	**175.704**	**0**	**300.512**	**271.796**

Allocation (in €)	Daniel Uttelbach Executive Vice President		Jouni Olavi Salo ex-Chief Executive Officer		Ralph Quellmalz ex-Chief Financial Officer	
	FY 2015	FY 2014	FY 2015	FY 2014	FY 2015	FY 2014
Fixed compensation	220.000	0	125.000	375.000	60.833	220.000
Fixed bonus	0	0	72.945	0	0	0
Severance pay / allocation to accrua	0	0	22.177	0	266.482	0
Fringe benefits	20.255	0	59.519	44.899	6.781	24.393
Total	**240.255**	**0**	**279.641**	**419.899**	**334.096**	**244.393**
One-year variable compensation	0	0	0	0	0	0
Multi-year variable compensation						
Fixed bonus (until December 31, 2013)*	0	0	0	187.500	0	75.000
Bonus for financial targets (until December 31, 2014)	0	0	56.250	0	22.500	0
Bonus for individual targets (until December 31, 2014)	0	0	56.250	0	30.000	0
Total	**0**	**0**	**112.500**	**187.500**	**52.500**	**75.000**
Service cost	0	0	0	0	0	0
Total compensation	**240.255**	**0**	**392.141**	**607.399**	**386.596**	**319.393**

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

The 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
Yiyiqiong 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 Chairperson of the Supervisory Board since May 27, 2014,
Member of the Audit Committee until May 27, 2014

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

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

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

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

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

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 regular member of the KHD Supervisory Board.

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

The arbitration claims pending in court since December 2013 have in the meantime been concluded by an arbitration award in January 2016. KHD was informed about the arbitration award in February 2016. 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 other significant events took place after December 31, 2015.

RISK AND OPPORTUNITIES REPORT

Risk Management

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

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

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

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

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

Risk Management Organization, Responsibilities, Instruments, and Reporting

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

The KHD Group has appointed employees responsible for risk management at 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 taken care of 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 a continuous high level of cash and cash equivalents and large loans granted 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. Transactions for hedging the variable interest rate were not concluded because the KHD Group does not expect a significant increase in the interest rate until the maturity date of the bank loan. As the interest rate risk with regard to fluctuations in the interest rates for short-term and overnight deposits do have an offsetting impact to a certain extent, this can be regarded as a natural hedge of the interest rate risk the variable interest rate of the bank loan. 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 for the loans.

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

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. Overall the risk position improved compared with the previous year, in particular due to a lower assessment of project risks. For measurable specific risks provisions on the face of the balance sheet have been set up to the extent required in the 2015 financial year.

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.

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".

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 in an early stage in order to estimate the effect on the costs to complete 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. Provisions are set up on the face of the balance sheet 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 newly composed Management Board carried out a critical review of all major projects and re-evaluated the respective risks during the first half-year 2015. Furthermore, considerable improvements in project management were implemented. Therefore, the risk remaining after risk mitigation is lower than in the previous year and is now 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 leadership and the reliable assessment of employees' competencies, the remaining risk was reduced in comparison to the previous year. The risk remaining after risk mitigation is now 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 “medium”.

Tax Risks

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

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

IT Risks

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

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

Default Risks on Loans Extended

In the 2014 financial year, the KHD Group concluded 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.

The KHD Group is expecting significant opportunities to develop from the suspension of sanctions against Iran following the agreement in the nuclear dispute between the Islamic Republic of Iran and the Western countries as announced on January 16, 2016. KHD hopes that as the substantial investment bottleneck in Iran will be resolved, both new orders and modernization projects will materialize. KHD wants to capitalize on the Group’s strong market position before the sanctions were introduced.

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 considering 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 as early as December 2010. Following the successful conclusion of the takeover by AVIC there is now also a stable shareholder structure with a very significant majority. Together with the KHD Group’s activities in Global Supply Chain Management, we aim to utilize our partnership with AVIC to gain easier and more extensive access to the Chinese supply market. AVIC makes it significantly easier to gain access to more cost-effective, high-quality production capacities in China.

In addition, better opportunities for 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. We monitor our current and future markets in order to identify opportunities for strategic acquisitions or cooperations which may 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.

OUTLOOK

Projected Market Environment

Global economic growth is expected to increase slightly in 2016. The International Monetary Fund (IMF) expects a growth rate of 3.6% (3.1% in 2015). The IMF is also predicting a further increase in growth in the emerging countries for 2016. For countries that were in tense economic situations in 2015 (including Brazil, Russia and some countries in Latin America and the Middle East), it is now expected that a partial normalization of conditions will significantly weaken the recession as the year 2016 goes on. The emerging and developing countries will also benefit from a more robust activity in the developed countries. The end of sanctions against Iran supports the higher growth expectations of the IMF, while a further slowdown in growth is expected for the Chinese economy.

In September 2015, the market research institute CW Group reduced last year's mid-term forecast for growth in the global cement market and is now expecting annual growth in cement consumption of 3.5% until 2020, with growth of just 0.6% in 2016.

For the United States, Thailand and the Philippines, strong growth in cement consumption (5% - 7.5%) is expected. Medium growth (2.5% - 5%) is predicted for countries such as Canada, Mexico, India, Iran and some European countries, among others. Nevertheless, demand for additional capacity for cement production will remain subdued.

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

However, it must be taken into consideration that the trend towards consolidation among cement producers and in cement plant engineering continues. In addition to established competitors, equipment suppliers from China are increasingly appearing on the global market. The competition for new projects will remain a great challenge in the future and ensures that margins in cement plant engineering will likely remain under pressure.

Expected Business Development

Despite the unsatisfactory course of business in 2015 the KHD Group has better chances in current tenders. This is thanks to its international market presence and commitment to its growth-oriented strategy. In order to meet the ever more difficult market conditions, KHD focuses on areas and with customers, where it is the strongest. Major potential growth drivers are:

- The suspension of sanctions against Iran, with the possibility that KHD can regain its market leadership in this region;
- Further development of KHD's particularly strong market position in India, combined with the expansion of local production and the service portfolio of the Plant Services;
- Easing of the political situation between Russia and Western countries, resulting in the implementation of delayed investments. Demand for new capacities in Russia will remain high until 2020. KHD can benefit from its strong market position as well as successful reference projects;

- The expansion of spare parts and services business activities in all regions. In times of fewer capacity additions the demand for plant services increases in order to keep existing plants up and running or to optimize old plants;
- The demand for innovative clean technology solutions in order to meet the increasing regulatory requirements in many regions of the world;
- Gaining a foothold in attractive and high-growth niches of the Chinese market, primarily due to stricter environmental requirements.

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

The KHD Group utilizes its resources to target business opportunities in its traditionally strong markets. We are expecting a significantly higher order intake for the 2016 financial year as compared to 2015. New business is expected to improve significantly, especially in the first half of 2016. By the end of 2016 the order backlog should be significantly above previous year’s figure and thus again be at a satisfactory level to ensure full capacity utilization for the future.

Despite the low order backlog at the start of the financial year, the KHD Group is budgeting revenue for the 2016 financial year that is slightly higher the previous year’s level. However, due to insecurities with respect to the significant order intake planned for the first half year 2016, there is a risk that revenue can also come in considerably lower than the 2015 figure.

Since revenue in the 2016 financial year will also be generated through projects won, or which are to be won, in a highly competitive environment with strong margin pressure, we once again expect an unsatisfactory gross profit margin just slightly above the adjusted gross profit in 2015.

Despite the measures introduced in previous years toward cost optimization, our planning again shows significantly negative EBIT and a significantly negative EBIT margin for the current year. This is in particular due to the low revenue forecast and the unsatisfactory margins. However, in comparison to the 2015 financial year, a considerable improvement is expected. We aim to counter the continued margin pressure caused by ever tougher competition in cement plant engineering through increased realization of cost advantages available through our Global Supply Chain Management, improvement in project execution, and strict cost discipline. In conjunction with focusing on projects with better margins as early as in the tendering phase and expansion of service activities, these measures are intended to guarantee an improvement in future profitability. However, if order intake fails to materialize in the first quarter of the 2016 financial year, further cost reductions, including personnel expenses, will become necessary.

Due to a distinctly positive financial result, which is expected to be on a similar level as in the 2015 financial year, KHD is also expecting considerable improvements in earnings before tax (EBT) in comparison with the 2015 financial year.

Following the significant cash outflows of previous years, we are expecting no further material cash outflows from the operating cash flow in the 2016 financial year.. This is due to increasing order intake and planned cash inflows from progress billings.

Overall, the KHD Group expects unsatisfactory business development for the 2016 financial year. This is due in particular to continued difficult market conditions and the low order backlog at the start of the year. However, we forecast that the KHD Group’s financial and net assets position will remain stable and will probably not change significantly in the 2016 financial year (compared to 2015). Our liquidity situation continues to be adequate. This, combined with our high equity ratio, gives us the flexibility we need to successfully master difficult market phases. It enables us to continuously develop our portfolio of products and services, and to make the most of opportunities for internal and external growth.

Expected Economic Development of the Capex Segment

Following the disappointing development in the 2015 financial year, we are expecting significantly higher order intake for the Capex segment in the 2016 financial year. Order intake will significantly exceed the level reached in 2015. New business is expected to improve significantly, especially in the first half of 2016. However, this is marked by a high degree of uncertainty due to economic unpredictability. According to the budget, order backlog for the Capex business unit as of the end of 2016 should be significantly above previous year's figure and thus again be at a satisfactory level to ensure full capacity utilization for the future.

The low order backlog at the start of the financial year leads the KHD Group to expect revenue in the Capex segment for the 2016 financial year that will not be significantly higher than the 2015 value of € 137 million. If significant orders planned as order intake in the first half year 2016 do not materialize, there is a risk that revenue can also come in considerably lower than the 2015 value.

Despite the measures introduced in previous years toward cost optimization, our planning in the Capex segment once again shows significantly negative EBIT and a significantly negative EBIT margin for the current year. This is in particular due to the low revenue forecast and the low gross profit margin. However, compared with the 2015 financial year, a considerable improvement is expected.

Expected Economic Development of the Plant Services Segment

As we are focusing our activities in the Plant Services segment, the expansion of our market position in this business unit remains an important goal for the 2016 financial year. According to our planning nearly 20% of expected order intake will be attributable to this segment in 2016. We are expecting a material increase in order intake compared to the 2015 figure (€ 41 million).

On the revenue side, we are planning for the Plant Services segment to contribute approximately 20 – 25% to the total revenue in the 2016 financial year. Therefore, KHD expects sales to be above the previous year's amount of € 35 million. For EBIT, a distinctly positive result of over € 4 million and a EBIT margin at the same level as in the previous year are expected to be generated in the Plant Services segment.

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

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

Significant risks and opportunities regarding the budget values exist for order intake, particularly in the Capex segment. The awarding of individual large contracts to the KHD Group can significantly affect the order intake in the 2016 financial year. Despite close collaboration with customers during the tendering process, customers' investment decision and the awarding of individual projects to the KHD Group can only be forecast with substantial uncertainty, possibly leading to either a significantly higher or significantly lower order intake.

The revenue outlook is mainly based on the order backlog and expected order intake for the initial months of the 2016 financial year in the Capex segment and on the planning of the relatively stable business in the Plant Services segment. In particular, due to the high volume of order intake planned for the first half year 2016, the risks and opportunities relating to the planned revenue figures are significant. It has to be considered that in addition to delays or accelerations in project execution, the risk that orders do not materialize or are postponed can directly affect planned revenue figures.

In addition to sales volume effects, the forecasted result (EBIT) is materially affected by project-related risks. These arise from unexpected technical problems, supply bottlenecks or quality problems at suppliers of important components, delays in project execution, legal disputes and unforeseeable developments during the erection and commissioning phase on site. There are also warranty risks after the commissioning of the plant. On the other hand, improved project execution and negotiations with customers and suppliers with regard to increasing order values or backcharging cost overruns result in opportunities for significantly improving the planned EBIT.

Cologne, Germany, March 2, 2016

The Management Board

(s) Johan Cnossen

(s) Jürgen Luckas

(s) Yizhen Zhu

(s) Daniel Uttelbach

(s) Tao Xing

Group Financial Statements

Other Information

1 Group Income Statement for KHD Humboldt Wedag International AG for the Financial Year 2015

in € thousand	Note	2015	2014	
Revenue	5	172,074	234,328	*
Cost of sales	21	(173,824)	(207,927)	*
Gross profit		**(1,750)**	**26,401**	*
Other operating income	22	23,590	5,635	
Sales expenses	23	(9,329)	(9,955)	
General and administrative expenses	24	(17,767)	(17,732)	
Other expenses	25	(12,416)	(9,132)	
Profit before interest and taxes (EBIT)		**(17,672)**	**(4,783)**	*
Finance income	26	9,286	4,514	
Finance expenses	26	(812)	(1,628)	
Net finance income		**8,474**	**2,886**	
Profit before tax (EBT)		**(9,198)**	**(1,897)**	*
Income tax expense	27	(8,295)	(2,391)	
Group net loss for the year		**(17,493)**	**(4,288)**	*
Of which are attributable to:				
Parent company shareholders		(17,619)	(4,727)	*
Non-controlling interests		126	439	
		(17,493)	**(4,288)**	*

EARNINGS PER SHARE

	Note	2015	2014	
Basic (undiluted) and diluted earnings per share in €	28	(0.35)	(0.10)	*

* Adjusted in accordance with IAS 8; see explanation in section 4 of the notes

2 Group Statement of Comprehensive Income for KHD Humboldt Wedag International AG for the Financial Year 2015

in € thousand	2015	2014	
Group net loss for the year	(17,493)	(4,288)	*
Items that will be reclassified subsequently to profit or loss when specific conditions are met			
Currency translation differences	1,291	947	*
Items that will not be reclassified subsequently to profit or loss			
Actuarial gains and losses related to defined benefit obligations less - deferred taxes related thereto	59	(961)	
Other comprehensive income	**1,350**	**(14)**	*
Group comprehensive income	**(16,143)**	**(4,302)**	*
Of which attributable to:			
Parent company shareholders	(16,269)	(4,741)	*
Non-controlling interests	126	439	
	(16,143)	**(4,302)**	*

* Adjusted in accordance with IAS 8; see explanation in section 4 of the notes

As in the previous year, no income taxes on currency translation differences were applicable. Deferred tax liabilities related to actuarial gains and losses amount to € -29 thousand (previous year: deferred tax assets in the amount of € 465 thousand).

3 Group Balance Sheet for KHD Humboldt Wedag International AG as of December 31, 2015

ASSETS	Note	Dec. 31, 2015	Dec. 31, 2014	
in € thousand				
Non-current assets				
Property, plant and equipment	6	3,946	3,937	
Goodwill	7	5,162	5,162	
Other intangible assets	7	1,337	2,167	
Trade receivables	8	5,568	-	
Other financial assets	12	100,000	100,000	
Deferred tax assets	9	5,556	6,548	
Total non-current assets		**121,569**	**117,814**	
Current assets				
Inventories	10	2,082	2,378	
Gross amount due from customers for contract work	11	46,020	44,558	*
Trade and other receivables	8	94,424	83,742	
Payments made in advance		11,893	12,110	
Other financial assets		618	569	
Income tax assets		3,018	3,150	
Cash and cash equivalents	13	112,673	123,627	
Total current assets		**270,728**	**270,134**	*****
Total assets		**392,297**	**387,948**	*****

* Adjusted in accordance with IAS 8; see explanation in section 4 of the notes

EQUITY AND LIABILITIES	Note	Dec. 31, 2015	Dec. 31, 2014	
in € thousand				
Equity				
Subscribed capital		49,704	49,704	
Capital reserves		61,097	61,097	
Treasury shares		-	-	
Currency translation differences recognized in equity		(4,341)	(5,632)	*
Retained earnings		95,548	113,108	*
Shares of equity attributable to shareholders of the parent company		202,008	218,277	*
Non-controlling interests		1,348	1,229	
Total equity	14	**203,356**	**219,506**	*****
Non-current liabilities				
Other liabilities	17	3,305	5,077	
Loan	17	25,000	-	
Pension benefit obligations	15	24,111	25,284	
Deferred tax liabilities	9	1,670	1,318	
Provisions	16	1,868	2,020	
Total non-current liabilities		**55,954**	**33,699**	
Current liabilities				
Trade and other payables	17	71,396	80,546	
Commitments under construction contracts	18	37,331	34,792	
Income tax liabilities		1,499	1,741	
Provisions	16	22,761	17,664	
Total current liabilities		**132,987**	**134,743**	
Total equity and liabilities		**392,297**	**387,948**	*****

* Adjusted in accordance with IAS 8; see explanation in section 4 of the notes

4 Group Statement of Cash Flows for KHD Humboldt Wedag International AG for the Financial Year 2015

in € thousand	2015	2014	
Cash flow from operating activities			
Group net profit for the year	(17.493)	(4.288)	*
Income tax expense recognized in the income statement	8.295	2.391	
Net finance income recognized in the income statement	(8.474)	(2.886)	
Earnings before interest and taxes (EBIT)	**(17.672)**	**(4.783)**	*
Amortisation and depreciation of non-current assets	1.880	1.898	
Book gain (-)/loss on disposal of fixed assets	178	25	
Increase(-)/decrease in trade receivables and financial assets	(16.250)	1.060	
Increase (-)/decrease in inventories and gross amount due from customers for contract work	(1.166)	17.432	*
Increase (-)/decrease in payments made in advance and other financial assets	168	8.054	
Increase (+)/decrease in trade and other payables and in commitments under construction contracts	(6.611)	(20.788)	
Increase (+)/decrease in pension benefit obligations	(1.173)	594	
Increase (+)/decrease in provisions and non-current liabilities	3.173	(7.562)	
Other non-cash-transactions	(3.103)	(5.540)	*
Dividends received	49	47	
Interest received	3.037	2.717	
Interest paid	(196)	-	
Income tax received	580	2.454	
Income tax paid	(6.493)	(3.854)	
Cash flow from operating activities	**(43.599)**	**(8.246)**	
Cash flow from investing activities			
Cash outflow for intangible assets	(323)	(524)	
Cash outflow for property, plant and equipment	(936)	(2.212)	
Cash inflow from the disposal of property, plant and equipment	23	40	
Interest received from Intercompany loans	6.083	1.750	
Disbursements from the extension of loans to affiliated companies	-	(100.000)	
Non-cash increase of restricted cash	-	28.017	
Cash flow from investing activities	**4.847**	**(72.929)**	

* Adjusted in accordance with IAS 8; see explanation in section 4 of the notes

in € thousand	2015	2014
Cash flow from financing activities		
Payment for purchase of shares from non-controlling interests	(7)	(118)
Inflows from the receipt of loans	25.000	-
Payments from sale of treasury shares	-	1.477
Cash flow from financing activities	**24.993**	**1.359**
Change in unrestricted cash and cash equivalents	**(13.759)**	**(79.816)**
Opening balance of unrestricted cash and cash equivalents	123.541	200.066
Exchange rate effects	2.805	3.291
Closing balance of unrestricted cash and cash equivalents	**112.587**	**123.541**

in € thousand	Dec.31, 2015	Dec.31, 2014
Composition of unrestricted cash and cash equivalents		
Current bank accounts and cash	56.126	85.177
Short-term bank deposits and restricted cash	56.547	38.450
Total cash and cash equivalents	**112.673**	**123.627**
Restricted cash (collateral for bank guarantees)	(86)	(86)
Closing balance of unrestricted cash and cash equivalents	**112.587**	**123.541**

Cash and cash equivalents decreased in the financial year by € 10,954 thousand to € 112,673 thousand (previous year: € 123,627 thousand). The significant cash outflows from operating activities of € 43,599 thousand (previous year: € 8,246) are offset by cash inflows from investing activities in the amount of € 4,847 thousand as well as cash inflows from financing activities, particularly from taking out a bank loan for € 25,000 thousand. In the previous financial year, the negative cash flow from investing activities of € 72.929 thousand was affected by granting loans to AVIC HK totaling € 100,000 thousand. In the current year, cash inflows from investing and financing activities did not cover the cash outflows from operating activities, so that at the end of the year, unrestricted cash and cash equivalents had decreased by € 10,954 thousand (previous year: decrease of € 76,525 thousand). At the end of the financial year, unrestricted cash and cash equivalents amounted to € 112,587 thousand (previous year: € 123,541 thousand).

From the 2015 financial year onwards the interest received is – subject to the economic nature – reported under operating cash flow or cash flow from investing activities, whereas it had been allocated to cash flow from financing activities in the previous year. In order to ensure comparability, the previous year's figures have been changed accordingly. Furthermore, the change in restricted cash amounting to € 28,017 thousand that had been presented as cash flow from financing activities in the previous year has been reclassified in the 2014 column and is now reported as cash flow from investing activities. The level of restricted cash remains unchanged so that this adjustment affects the reporting of the previous year’s figures only.

5 Group Statement of Changes in Equity for KHD Humboldt Wedag International AG for the Financial Year 2015

in € thousand	Subscribed capital	Capital reserves	Treasury shares	Currency translation differences recognized in equity	Retained earnings	Euqity attributable to shareholders of the parent company	Non-controlling interests	Total
Dec.31, 2013 / Jan. 1, 2014	**49,704**	**59,841**	**(221)**	**(6,579)**	**118,797**	**221,542**	**908**	**222,450**
Group net loss for the year*	-	-	-	-	1,141	1,141	439	**1,580**
Actuarial gains and losses**	-	-	-	-	(961)	(961)	-	**(961)**
Currency translation differences*	-	-	-	1,455	-	1,455	-	**1,455**
Group comprehensive income*	**-**	**-**	**-**	**1,455**	**180**	**1,635**	**439**	**2,074**
Other changes	-	-	-	-	(1)	(1)	-	**(1)**
Sale of treasury shares	-	1,256	221	-	-	1,477	-	**1,477**
Purchase of non-controlling interests	-	-	-	-	-	-	(118)	**(118)**
Dec.31, 2014* / Jan. 1, 2015	**49,704**	**61,097**	**-**	**(5,124)**	**118,976**	**224,653**	**1,229**	**225,882**
Adjustments according to IAS 8 *								
Group net loss for the year	-	-	-	-	(5,868)	(5,868)	-	**(5,868)**
Currency translation differences	-	-	-	(508)	-	(508)	-	**(508)**
Group comprehensive income	**-**	**-**	**-**	**(508)**	**(5,868)**	**(6,376)**	**-**	**(6,376)**
31.12.2014/ 01.01.2015 after adjustments according to IAS 8	**49,704**	**61,097**	**-**	**(5,632)**	**113,108**	**218,277**	**1,229**	**219,506**
Group net loss for the year	-	-	-	-	(17,619)	(17,619)	126	**(17,493)**
Actuarial gains and losses**	-	-	-	-	59	59	-	**59**
Currency translation differences	-	-	-	1,291	-	1,291	-	**1,291**
Group comprehensive income	**-**	**-**	**-**	**1,291**	**(17,560)**	**(16,269)**	**126**	**(16,143)**
Purchase of non-controlling interests	-	-	-	-	-	-	(7)	**(7)**
Dec.31, 2015	**49,704**	**61,097**	**-**	**(4,341)**	**95,548**	**202,008**	**1,348**	**203,356**

***** restated according to IAS 8, please refer to section 4 of the notes

** actuarial gains and losses are recognized in other comprehensive income

6 Notes to the Group Financial Statements of KHD Humboldt Wedag International AG for the Financial Year 2015

1. Summary of Major Accounting and Measurement Principles

Basis of Preparation and Other Notes

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

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

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

Consolidation

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

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

Currency Translation

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

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

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

	currency	Closing rate As of Dec.31, 2015	Average rate Jan.1 to Dec.31, 2015
	1 Euro =		
Australia	**AUD**	1.4894	1.4787
India	**INR**	72.3087	70.9623
USA	**USD**	1.0892	1.1039
Malaysia	**MYR**	4.6730	4.3409
Brazilia	**BRL**	4.3139	3.7418
Russia	**RUB**	80.4168	68.6566

Exchange rates used in the preceding financial year:

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

Intangible Assets

Goodwill

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

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

Other intangible assets

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

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

Property, Plant, and Equipment

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

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

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

Borrowing Costs

Borrowing costs are capitalized in the KHD Group to the extent that they are attributable to the purchase or production of qualifying assets. Borrowing costs are otherwise expensed through the income statement under net finance income. As in the previous year, no borrowing costs were capitalized in the 2015 financial year.

Impairment Test on Non-current Assets

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

Financial Investments, Other Financial Assets, and Financial Liabilities

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

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

and are classified accordingly. Financial assets are measured at fair value on initial recognition. Transaction costs that are directly attributable to the acquisition of an asset are also considered at initial recognition of financial assets except for those financial assets that are not measured at fair value through profit or loss.

Financial assets are designated to a measurement category at the time of initial recognition. With the exception of derivatives held for trading, all arm's length purchases and sales of financial assets are recognized at the settlement date, i.e. the date at which an asset is delivered to or by the Group. Derivatives are recognized at the trade date, i.e. the date at which the Group entered into the commitment to purchase or sell an asset. Arm's length acquisitions or disposals are acquisitions or disposals of financial assets that require delivery of an asset within a period defined by market rules or standards.

Financial Assets Measured at Fair Value through Profit or Loss

In the KHD Group, the group of financial assets measured at fair value through profit or loss comprises financial assets held for trading. To date, the KHD Group has not utilized the option to designate financial assets as financial assets measured at fair value through profit or loss at the date of initial recognition.

Financial assets are classified as held for trading if they are acquired for the purpose of disposal in the near term. Derivatives are always classified as held for trading.

Loans and Receivables

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

Impairment of Financial Assets

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

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

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

If there is objective evidence with respect to trade receivables and other receivables that not all amounts due will be received in accordance with the originally agreed terms stated in the invoice (such as doubtful solvency of a debtor), a valuation allowance is made by using an allowance account. Receivables are derecognized if they are considered to be irrecoverable. Impairments of other financial assets are taken into account by directly writing down the respective carrying amount.

Cash and Cash Equivalents

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

Financial Liabilities

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

Financial liabilities in the KHD Group largely consist of:

- Financial liabilities,
- Trade and other payables.

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

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

Derivative Financial Instruments and Hedges

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

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

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

Inventories

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

Construction Contracts

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

Pension Benefit Obligations and Retirement Benefit Plans

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

Personnel expenses of some subsidiaries include contributions for defined contribution plans. Payments are made to pension insurance funds on a contractual basis. The Group companies enter into no obligations beyond the rendering of contribution payments. The Group companies do not enter into any obligations beyond the rendering of contribution payments.

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

Provisions

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

Provisions are measured at the expected settlement value, taking into consideration all recognizable risks. The settlement value is determined based on best possible estimate. The expected outflow of resources embodying economic benefits for all products covered by warranty terms is estimated by the Group as of the balance sheet date. While recognizing provisions individual warranty obligations with a probability of occurrence that is more than 50% are considered. In addition, provisions are measured on the basis of expenses incurred in the past combined with current estimates of the warranty risk.

Provisions are discounted if this effect is significant. Reimbursement claims are not balanced with provisions; instead, if their realization is virtually ensured, they are capitalized separately.

Income Tax Expense

Income taxes include both, actual income taxes as well as deferred taxes. Current tax liabilities and tax assets primarily include obligations and refund claims related to domestic and international income taxes. Current taxes comprise obligations and refund claims from the current year as well as from previous years. Tax liabilities and assets are calculated on the basis of respective local tax law and regulations.

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

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

Recognition of Income and Expenses

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

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

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

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

Estimates and Assumptions

To a certain extent, the preparation of the group financial statements in accordance with IFRS requires estimates and assumptions, which affect the recognition, measurement and presentation of assets and liabilities, the disclosure of contingent liabilities as of the balance sheet date, and the presentation of income and expenses. The estimates made include complex and subjective assessments as well as the utilization of assumptions, some of which concern circumstances that are uncertain by nature and that can be subject to change. Such estimates can change over time and significantly affect the net assets, financial position and result of operations of KHD. In the evaluation of these estimates and assumptions, KHD made all discretionary decisions based to the best of its knowledge and belief in order to disclose a true and fair view of the actual net assets, financial position and result of operations. The estimates and assumptions that comprise a significant risk in the form of possible adjustments of the carrying amounts of assets and liabilities within the next financial year are explained in the following:

Measurement of Construction Contracts

KHD operates in the area of long-term plant engineering and construction and determines the result from construction contracts in accordance with the percentage of completion (PoC) method based on the stage of completion. The PoC method leads to recognition of profit based on the stage of completion corresponding to the proportion of contract costs incurred to the estimated total contract costs. Expected losses from construction contracts are immediately recorded as an expense. With this method, the estimate of the stage of completion is particularly important; moreover, it can include estimates with regard to the scope of deliveries and services required to meet the contractual obligations. These significant estimates also include the overall project costs, the overall contract revenues, the contract risks and other relevant figures. According to the PoC method, changes in estimates can lead to an increase or decrease in revenue. KHD regularly checks and, if necessary, adjusts all of the estimates in connection with such construction contracts.

Impairment of goodwill

Once a year, KHD reviews goodwill for possible impairment in compliance with the rules of IAS 36. The measurement of the recoverable amount of the respective cash generating units to which goodwill was allocated is subject to estimates. The forecast result based on these estimates is affected by the volatility on the capital markets and expected economic developments, among other factors. The determination of this recoverable amount as defined by IAS 36.30ff. is carried out based on discounted cash flow valuation. These discounted cash flows are based on five year budgets built upon financial forecasts. The forecasts of future cash flows take past experiences into account and are based on the best possible estimate of future developments. Cash flows beyond the planning period are extrapolated by using individual growth rates. The most important assumptions upon which the determination of the recoverable amount is based include estimated growth rates, weighted average capital cost rates and tax rates. These estimates and the methodology they are based on can significantly influence the respective values and, ultimately, the amount of a possible impairment of goodwill.

Income tax expenses

The respective, local tax regulations and the relevant administrative opinions are taken into consideration when determining the tax asset and liability items recorded in this financial statement and, due to their complexity, these items are possibly subject to differing interpretations, by the taxpayer, on one hand, and the local tax authority, on the other. Subsequent tax payments for previous years can be required due to differing interpretations of tax regulations resulting from audits. Deferred tax assets are recognized to the extent to which it is probable that a future, taxable result will be available. In this case, included are the planned results from ordinary activities, the effects of the reversal of temporary differences that are to be taxed, and tax planning possibilities, among others. Based on the planned, future, taxable results, KHD assesses the impairment of deferred tax assets as of the respective balance sheet date. Because future business developments are uncertain, assumptions are required to estimate the future, taxable income as well as the realization of deferred tax assets after that date. Estimates are adjusted for periods for which sufficient information exists in order to adjust them.

Accounting for employee benefits

Benefits after the term of employment ends in the form of obligations for pensions and other benefits are determined in accordance with actuarial assessments. These assessments are based on significant assumptions, including discount rates, salary and retirement trends and mortality rates, among others. The discount rates applied are determined based on the returns obtained at the end of the reporting period for blue-chip, fixed-interest corporate bonds with a corresponding term. Due to changing market, economic and social conditions, the assumptions upon which the assessments are based can differ from actual developments. This can significantly affect the obligations for pensions and other benefits after the term of employment ends. The resulting differences are recorded in their entirety, without affecting profit and loss, in the period in which they are generated.

Provisions

The assessment of provisions for contingent losses from orders, of guarantee provisions, and of provisions for litigation is connected to a considerable degree with estimates. KHD establishes provisions for contingent losses from order if the currently estimated overall costs exceed the expected revenue from the respective contract. As a result of new information available as the project progresses, these estimates can change. KHD identifies orders that will lose money with continuous controlling of project progress and updating the calculated overall costs. With respect to the assessment of guarantee provisions, estimates are required to a considerable degree regarding future expenses for repairs, renovations or other services.

KHD is facing litigation and regulatory proceedings in various jurisdictions. As a result of these proceedings, KHD could be subject to possible criminal or civil sanctions, fines, claims for damages or other claims or disgorgement of profits. KHD establishes provisions for litigation if it is likely for an obligation to arise in connection with these proceedings, which is likely to result in cash outflows, the amounts of which can be reliably estimated. Litigation is frequently based on complex, legal issues associated with considerable uncertainty. Accordingly, the assessment as to whether or not a current obligation has resulted from an event in the past as of the reporting date, and as to whether or not a future cash outflow is likely and the obligation can be reliably estimated, is based on considerable discretion. KHD regularly assesses the respective status of a legal procedure, with the involvement of experts as well as internal and external lawyers. An assessment can change due to new information. It can become necessary to adjust the amount of a provision for ongoing proceedings in the future based on new developments. Changes in estimates and assumptions can significantly affect the future results of operations over the course of time.

Applying New or Revised "International Financial Reporting Standards"

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

- Annual Improvements - Cycle 2010-2012 and 2011-2013:

  The changes from the two annual improvement projects 2010-2012 and 2011-2013 are to be applied for the first time in the 2015 financial year. The two collective standards are related to the IASB process for the annual implementation of small improvements of standards and interpretations (Annual Improvements Cycles). The initial application of the new rules did not affect the group financial statements.

- Amendments to IAS 19 Employee Benefits: Defined Benefit Plans – Employee Contributions:

  The changes affect the regulations with respect to contributions of employees or third parties, which are associated with the length of employment and clarify the respective rules for assigning such contributions to the employment periods. The initial application of this rule did not affect the group financial statements.

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

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

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

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

The application of IFRS 15 – provided it is endorsed into EU law – is mandatory for financial years beginning on or after January 1, 2018. It is permissible to use the rules earlier. The first application will be done retrospectively, although various reliefs are permitted under IFRS 15.

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

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

- Amendments to IAS 16 “Property, plant and equipment” and IAS 38 “Intangible assets”: “Clarifying acceptable depreciation methods”
- Amendments to IAS 1, “Presentation of Financial Statements”: “Disclosure initiatives”
- Annual improvements - Cycle 2012-2014

- Changes to IFRS 10 and IAS 28 "Sales or contributions of assets between an investor and its associate/joint venture"
- Changes to IFRS 11 "Acquisition of an interest in a joint operation"
- IFRS 16 “Leases”

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

2. Subsidiaries of KHD Humboldt Wedag International AG as of December 31, 2015

Name of company	Registered office	Main Buisness	Capital and voting rights in % Dec. 31, 2015	Capital and voting rights in % Dec. 31, 2014		Currency	Subscribed capital Dec. 31, 2015	Subscribed capital Dec. 31, 2014
KHD Humboldt Wedag GmbH	Cologne, Germany	Holding function	100.00	100.00	D	€	15,339,300	15,339,300
Humboldt Wedag GmbH	Cologne, Germany	Plant engineering	100.00	100.00	I	€	7,000,000	7,000,000
ZAB Zementanlagenbau GmbH Dessau	Dessau, Germany	Plant engineering	100.00	100.00	I	€	2,000,000	2,000,000
Blake International Ltd.	Road Town, British Virgin Islands	Holding function	100.00	100.00	I	USD	1,000	1,000
KHD Humboldt Wedag Industrial Services AG	Cologne, Germany	Services	91.25	91.18	I	€	3,600,000	3,600,000
EKOF Mining & Water Solution GmbH	Bochum, Germany	Flotation technology	100.00	100.00	I	€	51,129	51,129
Humboldt Wedag Australia Pty Ltd.	Braeside, Australia	Sales	100.00	100.00	I	AUD	200,002	200,002
Humboldt Wedag Inc.	Norcross, USA	Plant engineering	100.00	100.00	I	USD	1,000	1,000
Humboldt Wedag India Private Ltd.	New Delhi, India	Plant engineering	100.00	100.00	I	INR	19,200,000	19,200,000
KHD Humboldt Wedag Machinery Equipment (Beijing) Co. Ltd	Beijing, China	Sales	100.00	100.00	I	USD	1,050,000	1,050,000
KHD Humboldt Engineering OOO	Moscow, Russia	Plant Engineering	100.00	100.00	I	RUB	3,350,000	3,350,000
Humboldt Wedag Malaysia Sdn. Bhd.	Kuala Lumpur, Malaysia	Plant engineering	100.00	100.00	I	MYR	500,000	500,000
Humboldt Wedag Do Brasil Servicos Technicos Ltda	Belo Horizonte, Brazil	Sales	100.00	100.00	I	BRL	801,847	200,000

D = directly owned
I = indirectly owned

As of December 31, 2015, the scope of consolidation included five (December 31, 2014: five) domestic and eight (December 31, 2014: eight) foreign subsidiaries in addition to KHD.

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

		Interest and voting rights share of non-controlling interests		Gain or loss attributable to non-controlling interests*		Accumulated attributable to non-controlling interests*	
Name of the company	**Registered office**	**Dec. 31, 2015 in %**	**Dec. 31, 2014 in %**	**Dec. 31, 2015 in € thousand**	**Dec. 31, 2014 in € thousand**	**Dec. 31, 2015 in € thousand**	**Dec. 31, 2014 in € thousand**
KHD Humboldt Wedag Industrial Services AG	Cologne, Germany	8.75	8.82	126	439	1,348	1,229

* Intergroup transactions were not estimated in the amounts specified

The Group acquired another 0.07% of the shares in KIS during the 2015 financial year for an amount of € 7 thousand. Therefore, the Group's share increased to 91.25%. Changes in 2015 to KIS equity attributable to KHD are as follows:

	T€
Equity of shareholders of the parent company as of January 1, 2015	**12,700**
Increase in equity caused by acquisition of additional capital respectively voting rights attributable to shareholders of the parent company in 2015	7
Change in comprehensive income attributable to shareholders of the parent company in 2015	1,350
Equity of shareholders of the parent company as of December 31, 2015	**14,057**

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

KHD Humboldt Wedag Industrial Services AG	Dec. 31, 2015 in € thousand	Dec. 31, 2014 in € thousand
Current assets	14,914	13,077
Non-current assets	2,341	2,560
Current liabilities	(1,778)	(1,634)
Non-current Liabilities	(72)	(74)
Share of equity attributable to shareholders of the parent company	14,057	12,700
Share of equity attributable to non-controlling interests	1,348	1,229

	Dec. 31, 2015 in € thousand	Dec. 31, 2014 in € thousand
Revenue	12,063	15,726
Expenses	(10,587)	(10,859)
Net profit for the year	**1,476**	**4,867**
Net profit for the year attributable to shareholders of the parent company	1,350	4,428
Net profit for the year attributable to the non-controlling shareholders	126	439
Total net profit for the year	**1,476**	**4,867**
Other comprehensive income attributable to shareholders of the parent company	(1)	(3)
Other comprehensive income attributable to non-controlling shareholders	-	-
Total other comprehensive income	**(1)**	**(3)**
Comprehensive income attributable to shareholders of the parent company	1,349	4,425
Comprehensive income attributable to non-controlling shareholders	126	439
Comprehensive income	**1,475**	**4,864**
Dividends paid to non-controlling interests	**-**	**-**
Net cash flow from operating activities	750	1,612
Net cash flow from investment activities	(32)	(738)
Net cash flow from financing activities	-	-
Total net cash flow	**718**	**874**

3. Changes to the Scope of Consolidation

The Group's scope of consolidation has not changed since the previous year.

4. Error correction in accordance with IAS 8

In June 2015 errors in the recognition and measurement of individual projects in the 2014 financial year were identified at the U.S. subsidiary of KHD, Humboldt Wedag, Inc., Norcross, USA. These projects are accounted for as construction contracts in accordance with IAS 11; revenue and profit are recognized in accordance with the stage of completion (PoC method).

Immediately after identification of the errors, KHD initiated internal investigations. The results of the investigations show that in three projects of the U.S. subsidiary, estimated costs to complete and, therefore, the total project costs were understated significantly. Information about the increase of costs to complete and total project costs as at the closing date were available by the end of the period for adjusting subsequent events. In a careful assessment of the facts, this information should have been reflected, i.e. these cost overruns should have already been taken into account in the group financial statements as of December 31, 2014 (subjective scope of information).

The increase in total estimated costs was substantially caused by customer-driven changes in the scope of work, significant changes to the time schedule and engineering changes, and deviations from the originally planned concept for project execution. A major portion of these cost overruns should be covered by variation orders. However, reliable evidence as basis for increasing the contract values was not available by the date of finalizing the preparation of the 2014 Group financial statements. Due to deficiencies in organizational and procedural precautions within Humboldt Wedag, Inc., the project cost estimations were not adjusted on a timely basis. As a result, the costs to complete and the total estimated costs were assessed significantly too low, whereas the calculation of the stage of completion and the estimated gross profit for the three projects were significantly too high. According to the method of profit recognition based on the percentage of completion method, the revenue recognized in the 2014 financial year was overstated by € 5,862 thousand and the cost of sales were understated by € 6 thousand – amounts converted into euro. In total the earnings figures were overstated by € 5,868 thousand.

Not considering the additional project costs resulted in errors in KHD Group's financial statements for the 2014 financial year. The corrections were made according to the rules of IAS 8.41ff. in this 2015 group financial statements by restating the comparative amounts for the prior period (2014 financial year ending December 31, 2014). Thus, the correction of the errors does not have any impact on the profit and loss in the reporting period (2015 financial year). Due to the corrections, the revenue in the Capex segment (North American region) is reduced by € 5,862 thousand, whereas cost of sales are increased by € 6 thousand in the 2014 financial year. At the same time, the gross amount due from customers for contract work as of December 31, 2014 is reduced by € 6,376 thousand. Due to different exchange rates for the income statement and for the balance sheet of Humboldt Wedag, Inc., currency translation differences amounting to € 508 thousand occurred, which did not impact profit and loss, but were recorded under "currency translation differences recognized in equity" within equity.

Due to the retrospective adjustment of revenue in the 2014 financial year, the order backlog as of December 31, 2014 increased by € 5.9 million to € 201.8 million.

The root cause of the errors was an increase in project costs to complete, which should have been determined in the 2014 financial year. For this reason, the errors do not affect reporting periods prior to the 2014 financial year. Consequently, there are no adjustments to the opening balances as of January 1, 2014.

In these group financial statements, the Management Board of KHD meets its obligation to perform complete and timely correction of errors. Thus, the corrections of the Group income statement, the Group statement of comprehensive income, the Group balance sheet and the Group statement of cash flows for the 2014 financial year are disclosed. As far as the correction affects mandatory disclosure notes of the 2015 group financial statements, this is explained in the respective section of the notes.

Correction of KHD’s Group Financial Statements for the financial year 2014

Correction of KHD Group’s Income Statement for the financial year 2014

in € thousand	2014 (as reported)	restatement according to IAS 8	2014 (restated)
Revenue	240,190	(5,862)	234,328
Cost of sales	(207,921)	(6)	(207,927)
Gross profit	**32,269**	**(5,868)**	**26,401**
Other operating income	5,635	-	5,635
Sales expenses	(9,955)	-	(9,955)
General and administrative expenses	(17,732)	-	(17,732)
Other expenses	(9,132)	-	(9,132)
Profit before interest and taxes (EBIT)	**1,085**	**(5,868)**	**(4,783)**
Finance income	4,514	-	4,514
Finance expenses	(1,628)	-	(1,628)
Net finance income	**2,886**	**-**	**2,886**
Profit before tax (EBT)	**3,971**	**(5,868)**	**(1,897)**
Income tax expense	(2,391)	-	(2,391)
Group net result for the year	**1,580**	**(5,868)**	**(4,288)**
Of which are attributable to:			
Parent company shareholders	1,141	(5,868)	(4,727)
Non-controlling interests	439	-	439
	1,580	**(5,868)**	**(4,288)**

Correction of KHD Group's Statement of Comprehensive Income for the financial year 2014

in € thousand	2014 (as reported)	restatement according to IAS 8	2014 (restated)
Group net result for the year	**1,580**	**(5,868)**	**(4,288)**
Items that will be reclassified subsequently to profit or loss when specific conditions are met			
Currency translation differences	1,455	(508)	947
Items that will not be reclassified subsequently to profit or loss			
Actuarial gains and losses related to defined benefit obligations less deferred taxes related thereto	(961)	-	(961)
Other comprehensive income	**494**	**(508)**	**(14)**
Group comprehensive income	**2,074**	**(6,376)**	**(4,302)**
Of which attributable to:			
Parent company shareholders	1,635	(6,376)	(4,741)
Non-controlling interests	439	-	439
	2,074	**(6,376)**	**(4,302)**

Correction of KHD Group's Balance Sheet for the 2014 financial year

ASSETS	Dec. 31, 2014 (as reported)	restatement according to IAS 8	Dec. 31, 2014 (restated)
in € thousand			
Non-current assets	**117,814**	**-**	**117,814**
Current assets			
Inventories	2,378	-	2,378
Gross amount due from customers for contract work	50,934	(6,376)	44,558
Trade and other receivables	83,742	-	83,742
Payments made in advance	12,110	-	12,110
Other financial assets	569	-	569
Income tax assets	3,150	-	3,150
Cash and cash equivalents	123,627	-	123,627
Total current assets	**276,510**	**(6,376)**	**270,134**
Total assets	**394,324**	**(6,376)**	**387,948**

EQUITY AND LIABILITIES	Dec. 31, 2014 (as reported)	restatement according to IAS 8	Dec. 31, 2014 (restated)
in € thousand			
Equity			
Subscribed capital	49,704	-	49,704
Capital reserves	61,097	-	61,097
Treasury shares	-	-	-
Currency translation differences recognized in equity	(5,124)	(508)	(5,632)
Retained earnings	118,976	(5,868)	113,108
Shares of equity attributable to shareholders of the parent company	224,653	(6,376)	218,277
Non-controlling interests	1,229	-	1,229
Total equity	**225,882**	**(6,376)**	**219,506**
Non-current liabilities	**33,699**	-	**33,699**
Total current liabilities	**134,743**	**-**	**134,743**
Total equity and liabilities	**394,324**	**(6,376)**	**387,948**

Correction of KHD Group's Statement of Cash Flows for the 2014 financial year

in € thousand	2014 (as reported)	restatement according to IAS 8	2014 (restated)
Cash flow from operating activities			
Group net result for the year	1,580	(5,868)	(4,288)
Income tax expense recognized in the income statement	2,391	-	2,391
Net finance income recognized in the income statement	(2,886)	-	(2,886)
Earnings before interest and taxes (EBIT)	**1,085**	**(5,868)**	**(4,783)**
Amortization and depreciation of non-current assets	1,898	-	1,898
Book gain (-)/loss on disposal of fixed assets	25	-	25
Increase(-)/decrease in trade receivables and financial assets	1,060	-	1,060
Increase (-)/decrease in inventories and gross amount due from customers for contract work	11,056	6,376	17,432
Increase (-)/decrease in payments made in advance and other financial assets	8,054	-	8,054
Increase (+)/decrease in trade and other payables and in commitments under construction contracts	(20,788)	-	(20,788)
Increase (+)/decrease in pension benefit obligations	594	-	594
Increase (+)/decrease in provisions and non-current liabilities	(7,562)	-	(7,562)
Other non-cash-transactions	(5,032)	(508)	(5,540)
Dividends received	47	-	47
Interest received	2,717		2,717
Income tax received	2,454	-	2,454
Income tax paid	(3,854)	-	(3,854)
Cash flow from operating activities	**(8,246)**	**-**	**(8,246)**
Cash flow from investing activities	**(72,929)**	**-**	**(72,929)**
Cash flow from financing activities	**1,359**	**-**	**1,359**
Change in unrestricted cash and cash equivalents	**(79,816)**	**-**	**(79,816)**
Opening balance of unrestricted cash and cash equivalents	200,066	-	200,066
Exchange rate effects	3,291	-	3,291
Closing balance of unrestricted cash and cash equivalents	**123,541**	**-**	**123,541**

5. Segment Reporting

For KHD, reporting is done in two separate segments since January 1, 2014. It is oriented towards internal Group management control and internal financial reporting and is based on the management approach.

Due to changes in the classification of the two reportable segments KHD adapted the internal organization and, as a result, the internal Group reporting as of October 1, 2015. Reporting was done for the Capex (project business) and Parts & Services segments up to September 30, 2015. Starting on October 1, 2015, the services directly linked to project business are no longer reported in the Parts & Services segment, but instead in the Capex segment. Thus, in addition to the equipment supply, the Capex segment now also includes, in particular, services during supervision of erection and commissioning of projects. The Parts & Services segment was renamed as "Plant Services" as of October 1, 2015. The goal of these organizational changes is to improve the internal management control of KHD and strengthen the strategic expansion of the services business.

To ensure comparability, the segment reporting was adapted with regard to the new segment structure that applies since October 1, 2015. The business activities of the two reportable segments as of December 31, 2015 now include the following activities and services:

- **Capex (Project Business)**

  In the Capex segment, KHD reports all revenues and expenses resulting from supplying equipment for cement plants and providing services that are in direct linked to the equipment supply. This encompasses process technology, design, engineering, project management and the supply of technology and equipment. In addition, supervision of erection and commissioning of cement plants are now allocated to this segment. General and administrative expenses, sales expenses and other expenses (in particular research and development costs) are allocated to this segment, accordingly.

- **Plant Services**

  The Plant Services segment comprises all revenues and expenses resulting from supplying spare parts and providing services to existing cement plants. Services include optimizing cement plants, maintenance services, carrying out plant audits, creating optimization concepts and training plant personnel. General and administrative expenses, sales expenses and other expenses are allocated to the segment accordingly.

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

The following table provides an overview of the business for the 2015 and 2014 financial years. The figures for the 2014 financial year were adapted with regard to the new segment structure that applies since October 1, 2015.

in € million	**Capex**	**Plant Service**	**Total Concern**	**Capex**	**Plant Service**	**Total Concern**
	Jan. 1-Dec. 31, 2015	**Jan. 1-Dec. 31, 2015**	**Jan. 1-Dec. 31, 2015**	**Jan. 1-Dec. 31, 2014**	**Jan. 1-Dec. 31, 2014**	**Jan. 1-Dec. 31, 2014**
Order intake	113	41	154	67 **	34 **	101
Revenue	137	35	172	200 **	34 **	234 *
Cost of sales	(148)	(26)	(174)	(184) **	(24) **	(208) *
Gross profit	(11)	9	(2)	16 **	10 **	26 *
Other expenses / other income (net)	(11)	(5)	(16)	(26) **	(5) **	(31) *
Earnings before interest and taxes (EBIT)	(22)	4	(18)	(10) **	5 **	(5) *
Net finance income			9			3
Profit before tax			(9)			(2) *
for information:						
depreciation and amortization	-		(2)	-		(2)

***** restated according to IAS 8, please refer to section 4 of the notes
** retrospectivly restated segment values based on new segment structure, please refer to section 5 of the notes

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

KHD only reports revenue from external customers in its segment reports, i.e. revenue between the two segments is already eliminated. As a result of the previously described change in the segment structure the Plant Services segment does not recognize any revenue with the Capex segment (previous year: € 14 million revenue of the Parts & Services segment with Capex). As in the previous year, the Capex segment did not recognize any revenue with the Plant Services segment. Transactions between the two segments are in line with market conditions.

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

	Revenue			Non-current assets	
in € thousand	**2015**	**2014**		**2015**	**2014**
Germany	4,672	6,708		6,192	7,110
Russia	44,176	47,242		3,035	3,038
Rest of Europe	6,037	10,978		-	-
North America	44,353	53,194	*	150	87
South America	11,740	11,073		31	55
Middle East	19,249	22,342		-	-
India	25,436	50,408		994	920
China	492	1,333		22	37
Rest of Asia	12,234	22,857		21	19
Africa	3,496	5,535		-	-
Other	189	2,658		-	-
	172,074	**234,328**		**10,445**	**11,266**

	Order Intake		Order Backlog		
in € thousand	**2015**	**2014**	**2015**	**2014**	
Germany	1,709	9,624	2,853	5,816	
Russia	7,781	17,270	15,596	51,991	
Rest of Europe	5,533	10,269	6,860	7,364	
North America	22,219	15,732	28,254	50,387	*
South America	7,921	10,199	6,385	10,205	
Middle East	14,647	17,323	18,657	23,258	
India	76,793	9,489	88,137	36,781	
China	57	716	18	453	
Rest of Asia	13,140	4,124	15,484	14,578	
Africa	3,777	4,021	1,247	966	
Other	542	2,549	353	-	
	154,119	**101,316**	**183,844**	**201,799**	

***** restated according to IAS 8, please refer to section 4 of the notes

The order backlog includes an order of which around 60% was passed on to the strategic partner AVIC Beijing. The part of the order passed on originally amounted to approximately € 60 million. The KHD Group does not achieve any gross profit for this part of the order that has been passed on.

Information about Key Customers

In the financial year, revenue of € 37.4 million and € 21.4 million (previous year: € 72.5 million and € 36.5 million) was attributable to two individual customers, with which at least 10% of the Group's revenue was achieved. Revenue with the key customers was generated in both segments.

6. Property, plant, and equipment

in € thousand	Leasehold improvements	Property, plant and equipment	Total
COST			
Dec.31, 2013	**466**	**8,933**	**9,399**
Additions	8	2,204	2,212
Disposals	**-**	(1,665)	(1,665)
Foreign currency translation	6	**69**	75
Dec.31, 2014	**480**	**9,541**	**10,021**
Additions	17	919	936
Disposals	**-**	(107)	(107)
Foreign currency translation	4	**(2)**	2
Dec.31, 2015	**501**	**10,351**	**10,852**
Accumulated depreciation			
Dec.31, 2013	**170**	**6,653**	**6,823**
Additions	58	803	861
Disposals	-	(1,600)	(1,600)
Dec.31, 2014	**228**	**5,856**	**6,084**
Additions	77	841	918
Disposals	-	(96)	(96)
Dec.31, 2015	**305**	**6,601**	**6,906**
Carrying amount			
Dec.31, 2014	**252**	**3,685**	**3,937**
Dec.31, 2015	**196**	**3,750**	**3,946**

The additions to property, plant, and equipment in the financial year primarily result from replacement investments in IT hardware. Total depreciation in the financial year amounted to € 918 thousand (previous year: € 861 thousand).

7. Goodwill and Other Intangible Assets

in € thousand	Goodwill	Licences and other intangible assets	Total
Cost			
Dec.31, 2013	**5,162**	**8,393**	**13,555**
Additions	-	524	524
Disposals	-	(45)	(45)
Dec.31, 2014	**5,162**	**8,872**	**14,034**
Additions	-	323	323
Disposals	-	(193)	(193)
Dec.31, 2015	**5,162**	**9,002**	**14,164**
Accumulated amortisation			
Dec.31, 2013	**-**	**5,713**	**5,713**
Additions	-	1,037	1,037
Disposals	-	(45)	(45)
Dec.31, 2014	**-**	**6,705**	**6,705**
Additions	-	961	961
Disposals	-	(1)	(1)
Dec.31, 2015	**-**	**7,665**	**7,665**
Carrying amount			
Dec.31, 2014	**5,162**	**2,167**	**7,329**
Dec.31, 2015	**5,162**	**1,337**	**6,499**

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

Goodwill

Goodwill as reported as of December 31, 2015 arises from acquisitions and was allocated to the respective cash generating units. Overall, the carrying amount of goodwill of € 5,162 thousand remained unchanged compared with the previous year. As of December 31, 2015, the goodwill is attributable to the following cash generating units:

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

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

The (pre-tax) cash flows accounted for are based on the management-approved medium-term planning, which includes a 5 year period. Planning is based on the assumption of steadily growing sales markets in the Plant Services segment. For the cash generating unit Capex KHD OOO mid-term growth in the Russian market was planned. The assumptions are based on the one hand on the increased demand from customers and the expansion of activities in the Plant Services segment and, on the other hand, the increasing cement consumption forecast in Russia has been taken into account for Capex KHD OOO. In order to calculate the value contribution arising from the perpetual return (value contribution after expiry of the detailed planning period), the long-term operating cash flows were calculated as the arithmetic average of the 2019 to 2020 planning years. A 1.0% (previous year: 1.0%) growth rate was assumed for the perpetuity. This growth rate reflects the management's long-term expectations.

The capitalization rates were derived from market data, taking into account the risk situation of the respective cash generating unit, and amount to 8.89% before tax (previous year: 12.54%) and 12,52% (previous year: 14.49%), while taking various risk premiums for country risks into consideration. Because the calculated value in use exceeds the carrying amount of the respective cash generating unit (including goodwill), there was no need to recognize an impairment loss pursuant to IAS 36.

A change to the key measurement parameters, such as a 10% reduction in the expected cash flows by 10% or an increase of the capitalization rate by 20% would not affect the measurement as of December 31, 2015. For this reason, there is no additional need to recognize an impairment loss.

8. Receivables and Financial Assets

in € thousand	Dec.31, 2015	Dec.31, 2014
Current financial assets		
Trade receivables	47,940	73,533
Less valuation allowances for impairment of receivables	(3,724)	(4,253)
Trade receivables - net	44,216	69,280
Intercompany receivables	45,255	5,087
Other financial assets	618	569
Financial receivables	2,750	6,507
Current financial assets	**92,839**	**81,443**
Other receivables	2,203	2,868
Current financial assets and other receivables	**95,042**	**84,311**
Non-current financial assets		
Trade receivables	5,568	-
Other non-current financial assets	100,000	100,000
Non-current financial assets	**105,568**	**100,000**

Trade receivables (gross amounts) fell by € 25,593 thousand from € 73,533 thousand to € 47,940 thousand, primarily due to low business volume. In contrast, the intercompany receivables increased considerably to € 45,255 thousand due to the transaction volume. Transactions with companies of the AVIC Group in the final two months of the 2015 financial year are the primary reason.

As in the previous financial year, the largest share of the valuation allowances relate to customers from North Africa, the Middle East, Malaysia and India. For trade receivables that are not overdue and for which no valuation allowance has been provided the Group does not foresee any impairment due to the credit rating of the debtors.

As in the previous year, intercompany receivables result from delivery of goods and services to AVIC Group companies.

In comparison with the previous year, financial receivables decreased by € 3,757 thousand, from € 6,507 thousand to € 2,750 thousand. Financial receivables as of December 31, 2015 mainly comprise costs backcharged to subcontractors, securities, insurance claims and prepaid expenses totaling € 1,831 thousand (previous year: € 2,588 thousand).

Other receivables in the amount of € 2,203 thousand (previous year: € 2,868 thousand) arise from reimbursement claims for value-added tax.

For trade receivables in the amount of € 6,952 thousand (previous year: € 15,186 thousand), which were overdue more than 61 days, no valuation allowances were made, because no material change in the credit standing of these debtors was identified and the outstanding amounts are expected to be recoverable.

Other non-current financial assets include trade receivables against a customer in an amount of € 5,568 thousand (previous year: € 0 thousand), with whom a deferral agreement was agreed.

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

in € thousand	Dec.31, 2015	Dec.31, 2014
61 to 90 days	710	3,000
91 to 180 days	1,335	5,990
181 to 365 days	4,200	1,223
Over 365 days	707	4,973
Total	**6,952**	**15,186**

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

Movement in valuation allowances on trade receivables

in € thousand	2015	2014
Valuation allowances as of Jan.1	4,253	5,894
Addition	1,434	2,356
Utilization	(367)	(2,921)
Currency translation differences	221	271
Reversal	(1,817)	(1,347)
Valuation allowances as of Dec.31	**3,724**	**4,253**

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

9. Deferred Tax Assets and Liabilities

The Group has accounted for deferred taxes arising from temporary differences between the IFRS amount and the tax base as well as tax assets on tax loss carry-forwards. Deferred tax assets and liabilities are calculated on the basis of local tax rates. Deferred tax assets are recognized to the extent to which it is probable that a future, taxable result will be available. In compliance with the accounting standards, the extent to which convincing, substantial indications of future, taxable profits exists is taken into account.

As of December 31, 2015, KHD has a total amount of tax loss carry-forwards of € 47.9 million for corporate income tax and comparable foreign income taxes. For trade tax, the total amount of tax loss carry-forwards is € 29.2 million. In the reporting of deferred tax assets as of December 31, 2015, tax loss carry-forwards of € 14.9 million (previous year: € 24.2 million) for corporate income tax and comparable foreign income taxes as well as € 14.6 million (previous year: € 19.5 million) for trade tax were recognized. Deferred tax assets are only recognized to the extent that based on the 5-year business planning future taxable profit will be available or corresponding deferred tax liabilities have been recognized, respectively. Basis for the expected future taxable profit is KHD's estimation in relation to the future development of its subsidiaries. KHD expects that the respective subsidiaries generate positive results and ultimately taxable profit, both in the segment Capex and in the segment Plant Services within the 5-year business planning.

The probable taxable profit in the future are determined for the respective subsidiary based on business planning done for Group purposes. No deferred tax assets were recognized based on differences and tax loss carry-forwards for which the future utilization is not sufficiently probable. In principle, the tax loss carry-forwards of the German companies can be carried forward with no time limit. The utilization of tax loss carry-forwards for foreign companies is subject to some time limits. Unutilized loss carry-forwards for foreign companies in the amount of € 17,834 thousand (previous year: € 0 thousand) will expire during the time period from 2030 through 2032.

Deferred tax liabilities of € 29 thousand (previous year: deferred tax assets of € 465 thousand) were recorded in other comprehensive income in the financial year. These relate exclusively to actuarial gains and losses from the valuation of pension benefit obligations not recognized in profit and loss. The total amount of deferred taxes assets not recognized through profit and loss amounts to € 2,366 thousand (previous year: € 2,395 thousand).

For temporary differences amounting to € 112.7 million (previous year: € 134.5 million) which are linked to shares in subsidiaries and which will not reverse in the foreseeable future, no deferred tax assets or liabilities were recognized.

Deferred tax assets and liabilities arise from the following items:

in € thousand	**Dec.31, 2015**	**Dec.31, 2014**
Deferred tax assets		
Provisions	6.242	5.143
Resulting from tax loss carry-forwards	4.373	8.012
Offset with deferred tax liabilities	(5.059)	(6.607)
	5.556	**6.548**

Deferred tax liabilities		
Construction contracts / PoC method	(6.729)	(7.925)
Offset with deferred tax assets	5.059	6.607
	(1.670)	**(1.318)**

In general, KHD recognizes deferred tax assets and deferred tax liabilities if KHD has a right to offset them and if the deferred tax assets and deferred tax liabilities relate to the same tax authority.

10. Inventories

in € thousand	Dec.31, 2015	Dec.31, 2014
Raw materials, consumables, and supplies	3,496	3,421
Work in progress	139	579
Write-downs to net realizable value	(1,553)	(1,622)
	2,082	2,378

In the financial year, inventories in the amount of € 4,708 thousand (previous year: € 7,710 thousand) were recorded as part of cost of sales. Write-downs to net realizable value amounted to € 1,553 thousand as of December 31, 2015 (previous year: € 1,622 thousand). These write-downs relate to raw materials, consumables, and supplies, the carrying amount of which is € 1,879 thousand (previous year: € 2,115 thousand).

11. Construction Contracts

in € thousand	Dec. 31, 2015	Dec. 31, 2014	
Costs incurred to date for construction contracts	481.320	422.630	*
Proportionate results under these contracts recognized to date	41.181	30.618	*
Total costs incurred and profits recognized	522.501	453.248	*
Less recognized contract losses	(23.829)	(9.553)	*
Less progress billings	(485.186)	(430.346)	
Balance of construction contracts account	**13.486**	**13.349**	*****
This amount is comprised as follows:			
Gross amount due from customers for contract work	46.020	44.558	*
Gross amount due to customers for contract work	(32.534)	(31.209)	
	13.486	**13.349**	*****
Gross amount due to customers for contract work	(32.534)	(31.209)	
Advances received under construction contracts (before related work is performed)	(4.797)	(3.583)	
Commitments under construction contracts	**(37.331)**	**(34.792)**	

***** restated according to IAS 8, please refer to section 4 of the notes

Of the revenue recognized in the 2015 financial year in the amount of € 172,074 thousand (previous year: € 234,328 thousand), € 151,065 thousand (previous year: € 209,273 thousand) is attributable to construction contracts for which revenue was recognized based on stage of completion.

The measurement of construction contracts is affected by estimations with respect to project revenue and project costs. Here, particularly costs to complete and, therefore, total estimated costs are subject to changes in estimates. Changes in estimates for projects are considered while calculating the amount of revenue and expenses recognized in profit or loss for the period in which the change in estimate was made as well as in the following periods. In this way, changes in estimates have a direct effect on the recognized result from construction contracts. There were negative effects from changes in estimates in the range of € 17.5 – € 22.5 million in the 2015 financial year.

12. Other financial assets

As in the previous financial year, the non-current other financial assets include two loans to AVIC HK for a total amount of € 100,000 thousand. Both of the loans amounting to € 50,000 thousand, each, have a fixed term of three years. However, KHD is entitled to call for repayment of one of the loans at any time prior to its maturity by giving 30 days' notice. KHD does not intend to call this loan for repayment within the next 12 months. The other loan also amounts to € 50,000 thousand and has a term of three years. However, KHD cannot unilaterally call this loan for repayment prior to its maturity. Both loans bear interest of 6% and are secured by group guarantees from AVIC.

13. Cash and Cash Equivalents

The Group reports cash and cash equivalents in the amount of € 112,673 thousand (previous year: € 123,627 thousand).

in € thousand	**Dec.31, 2015**	**Dec.31, 2014**
Bank balances and cash on hand	56,126	85,177
Short-term bank deposits	56,461	38,364
Restricted Cash (collateral for guarantees)	86	86
	112,673	**123,627**

14. Equity

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

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

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 may already have acquired and may still hold, 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.

Retained earnings amounting to € 95,548 thousand comprise revenue reserves, profits carried forward from previous years as well as items of other comprehensive income from remeasuring defined benefit plans that will not be reclassified subsequently to profit or loss. Other items of other comprehensive income relate to currency translation differences from the translation of foreign currency financial statements. This is presented as separate item within equity.

The non-controlling interests of 8.75% (previous year: 8.82%) relate solely to the minority shareholders of KHD Humboldt Wedag Industrial Service AG.

15. Pension Benefit Obligations

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

As of December 31, 2015, the Group's pension benefit obligations amounted to € 24,111 thousand (previous year: € 25,284 thousand).

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

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

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

The most important actuarial assumptions made are as follows:

in %	**Dec.31, 2015**	**Dec.31, 2014**
Discount rate	2.00	1.90
Pension trend	1.50	1.50
Employee turnover rate	0	0

As in the previous year, the unchanged mortality tables 2005 G from Dr. Klaus Heubeck form the biometric basis for calculating these obligations.

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

- If the discount rate increases by 0.5%, the pension benefit obligations decrease by € 1,164 thousand (previous year: € 1,264 thousand). If, however, the discount rate instead falls by 0.5%, the pension benefit obligations increase by € 1,270 thousand (previous year: € 1,382 thousand).
- If the pension trend increases by 0.25%, the pension benefit obligations rise by € 854 thousand (previous year: € 652 thousand). If the pension trend decreases by 0.25%, the pension benefit obligations are reduced by € 342 thousand (previous year: € 627 thousand).
- If life expectancy increases by one year for both men and women, the benefit obligation increases by € 1,526 thousand (previous year: € 1,703 thousand).

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

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

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

in € thousand	**Dec.31, 2015**	**Dec.31, 2014**
Defined benefit obligation on Jan. 1	25,284	24,690
Interest cost	465	740
Benefits actually paid (total)	(1,548)	(1,545)
Losses / (gains) due to experience adjustments	155	(369)
Actuarial (gains) / losses due to change in actuarial assumptions	(245)	1,768
Defined benefit obligation on Dec.31	**24,111**	**25,284**

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

As of December 31, 2015, of the total obligations of € 24,111 thousand (previous year: € 25,284 thousand), an amount of € 846 thousand falls to active employees (previous year: € 963 thousand), € 3,073 thousand to former employees (previous year: € 2,991 thousand), and € 20,192 thousand to pensioners and surviving dependents (previous year: € 21,330 thousand).

As of December 31, 2015, the average term of the defined benefit obligation was 10.1 years (previous year: 10.6 years).

Cumulative remeasurement recorded in comprehensive income:

in € thousand	**Dec.31, 2015**	**Dec.31, 2014**
Opening balance - cumulative remeasurement gains (-) / losses	7,383	5,984
Actuarial gains (-) / losses	(90)	1,399
Closing balance - cumulative remeasurement gains (-) / losses	**7,293**	**7,383**

in € thousand	**Dec.31, 2015**	**Dec.31, 2014**
Defined benefit costs		
Current service cost	-	-
Net interest expense	**465**	**740**
Actuarial (gains) / losses due to experience adjustments	155	(369)
Actuarial (gains) / losses due to change in actuarial assumptions	(245)	1,768
Actuarial (gains) / losses recognized in other comprehensive income	**(90)**	**1,399**
Defined benefit costs	**375**	**2,139**

In the financial year under review, interest expenses on pensions of € 465 thousand (previous year: € 740 thousand) were recognized under finance expenses.

Expected benefit payments

in € thousand	2015	2014
in 2016	1,634	1,614
in 2017	1,612	1,594
in 2018	1,589	1,573
in 2019	1,565	1,550
in 2020	1,544	-
2020 to 2024		7,255
2021 to 2025	7,099	-

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

16. Provisions

in € thousand	Warranty	Tax and litigation risks	Impending losses	Total
Provisions as of Jan.1, 2015	18.233	526	925	19.684
Additions	3.863	10.842	1.430	16.135
Release	(6.007)	(150)	(352)	(6.509)
Interest accrual	514	-	-	514
Currency translation effects	895	36	93	1.024
Utilization / reclassification	(7.867)	3.083	(1.435)	(6.219)
Provisions as of Dec.31, 2015	**9.631**	**14.337**	**661**	**24.629**

in € thousand	Dec. 31, 2015	Dec. 31, 2014
Non-current (warranty)	1.868	2.020
Current	22.761	17.664
	24.629	**19.684**

The provisions for warranties cover all identifiable risks which relate to guarantee or warranty commitments. The provisions are measured on a contract-by-contract basis according to the best estimate. The significant reduction of provisions for guarantee and warranty commitments is partly due to utilization, but also due to the reduction of remaining warranty risks. The amounts reported as non-current incorporate warranty commitments for a term of more than one year. The remaining expected maturities are between one and four years.

The provisions for tax and litigation risks primarily involve the likely utilization due to legal disputes. The high addition to these provisions relates to an arbitration claim from a customer in South America which was resolved in January 2016. KHD was informed about the arbitration award in February 2016.

The effects from currency translation of € 1,024 thousand (previous year: € 1,385 thousand) are mainly attributable to the translation of HW India’s local currency.

17. Liabilities

in € thousand	Dec.31, 2015	Dec.31, 2014
Current financial liabilities		
Trade payables	50,733	62,137
Liabilities due to affiliated companies	13,129	9,546
Current financial liabilities	92	-
Other current liabilities	6,916	8,292
Current financial liabilities	**70,870**	**79,975**
Other liabilities		
Tax and social security	526	571
Income tax liabilities	1,499	1,741
Other liabilities	**2,025**	**2,312**
Current liabilities	**72,895**	**82,287**
Other non-current liabilities		
Other non-current liabilities	3,305	5,077
Loan	25,000	-
Other non-current liabilities	**28,305**	**5,077**

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

Other non-current liabilities comprise a bank loan raised in October 2015 as well as non-current warranty obligations.

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

18. Commitments under construction contracts

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

19. Personnel Expenses

in € thousand	2015	2014
Wages and salaries	40,239	40,650
Social security contributions and costs, including pension costs	6,512	6,733
	46,751	**47,383**

Number of employees

	As of Mar.31, 2015	As of Jun. 30, 2015	As of Sept. 30, 2015	As of Dec. 31, 2015
Salaried employees	698	687	692	677
Industrial employees	54	54	53	58
Total	**752**	**741**	**745**	**735**

As of December 31, 2015, the number of employees was 735 (previous year: 777). In the year under review, the average number of employees was 743, of whom 55 were industrial employees (previous year: 777 employees, of whom 56 were industrial).

Personnel expenses include employer contributions to statutory pension insurance in Germany in the amount of € 1,924 thousand (previous year: € 2,005 thousand) and expenses for contractually defined contribution plans of € 730 thousand (previous year: € 694 thousand).

20. Total Remuneration of Current and Former Members of the Management Board and the Supervisory Board (Key Management Personnel in Accordance with IAS 24)

The total remuneration for key management personnel amounted to € 2,186 thousand in the 2015 financial year (previous year: € 1,557 thousand).

The total remuneration for members of the KHD Management Board in the financial year 2015 amounted to € 1,964 thousand (previous year: € 1,340 thousand). It can be attributed to the following categories in accordance with IAS 24.17:

- € 1,675 thousand (previous year: € 1,106 thousand) – short-term benefits,

- € 0 thousand (previous year: € 0 thousand) – post-employment benefits,
- € 0 thousand (previous year: € 0 thousand) – short-term employee benefits,
- € 289 thousand (previous year: € 234 thousand) – termination benefits,
- € 0 thousand (previous year: € 0 thousand) – share-based payment.

As of December 31, 2015 balances amounting to € 619 thousand (previous year: € 600 thousand) of the total remuneration of the Management Board are outstanding for payment. The balances outstanding for payment comprise € 244 thousand (previous year: € 225 thousand) short-term benefits and € 375 thousand (previous year: € 375 thousand) termination benefits.

The remuneration for former members of the Management Board amounted to € 289 thousand (previous year: € 0 thousand), of which € 289 thousand (previous year: € 0 thousand) related to termination benefits.

The total remuneration granted to members of the Supervisory Board for performing their duties in the 2015 financial year amounted to € 221 thousand (previous year: € 217 thousand). The remuneration of the Supervisory Board members relate in full (€ 221 thousand, previous year: € 217 thousand) to short-term benefits. As of December 31, 2015 balances amounting to € 184 thousand (previous year: € 138 thousand) of the total remuneration of members of the Supervisory Board are outstanding for payment.

No benefits were granted to former Management Board or Supervisory Board members or their remaining dependents after their resignation from the respective board. There are no pension commitments with respect to this group of individuals.

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

21. Cost of Sales

Expenses related to an arbitration award and costs of idle capacity that are both presented as part of cost of sales are not directly linked to the revenue recognized in the 2015 financial year.

in T€	2015	2014
Normal cost of sales	155,903	207,927
Expenses related to arbitration award	14,623	-
Cost of idle capacity	3,298	-
	173,824	**207,927**

22. Other Operating Income

in € thousand	**2015**	**2014**
Exchange gains	4,522	3,970
Income from cooperation agreement	18,000	-
Other income	1,068	1,665
	23,590	**5,635**

Other operating income includes exchange gains in the amount of € 4,522 thousand (previous year: € 3,970 thousand). The increase in exchange gains is mainly the result of exchange rate fluctuations between the US dollar and the euro. Exchange gains include both realized and unrealized exchange rate effects. Regarding exchange gains it should be considered that from an economic perspective due to the foreign currency hedging performed the expenses from foreign exchange forward contracts that are presented under other expenses should be offset against the income from exchange rate fluctuations.

Other operating income increased considerably by € 17,955 thousand. The main reason for the increase is a one-time compensation amounting to € 18,000 thousand made by AVIC Beijing based on the cooperation agreement concluded in the 2015 financial year.

23. Sales Expenses

In the financial year, KHD focused on sales and tendering activities with a high likelihood of success and which fit well with the KHD product range. This resulted in a reduction of sales expense compared with the previous year (€ 9,955 thousand) by € 626 thousand to € 9,329 thousand. The sales expenses include expenses for tendering in the amount of € 4,638 thousand (previous year: € 4,823 thousand).

24. General and Administrative Expenses

General and administrative expenses of € 17,767 remained largely unchanged in comparison with the previous year (€ 17,732 thousand). Aside from the costs of general administration, general and administrative expenses include in particular costs for Management Board compensation, legal and consulting costs, costs of preparing and auditing financial statements, Supervisory Board remuneration and investor relations costs.

25. Other Expenses

in € thousand	**2015**	**2014**
Research and development	4.724	4.819
Exchange rate losses and expenses from derivatives	5.880	2.582
Miscellaneous expenses	1.812	1.731
	12.416	**9.132**

Other expenses increased over the previous year by € 3,284 thousand, from € 9,132 thousand to € 12,416 thousand. While research and development costs amounting to € 4,724 thousand decreased slightly by € 95 thousand (previous year: € 4,819 thousand), both the expenses from foreign exchange forward contracts and exchange rate losses as well as other expenses increased significantly. The expenses for exchange rate losses and for expenses from foreign exchange forward contracts increased over the previous year by € 3,298 thousand from € 2,582 thousand to € 5,880 thousand. These include expenses from foreign exchange forward contracts in the amount of € 3,595 thousand (previous year: € 2,139 thousand). Foreign exchange rate forward contracts are exclusively used to hedge foreign currency receivables. Therefore, expenses arising from exchange rate forwards contracts have to be compared against income from exchange rate effects. Since the derivative financial instruments used by the KHD Group do not meet the strict requirements of hedge accounting, the economic hedge relationship is not reflected by using hedge accounting in the group financial statements.

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

26. Net Finance Income

Net finance income is composed as follows:

in € thousand	2015	2014
Interest income	9,120	4,467
Total interest income	**9,120**	**4,467**
Dividend income	-	47
Gains on securities	49	-
Interest related to non current assets	117	-
Finance income	**9,286**	**4,514**
Other finance expenses	(163)	(93)
Interest related to pension benefit obligations, provisions and other non-current liabilities	(649)	(1,020)
Losses on securities	-	(515)
Finance expenses	**(812)**	**(1,628)**
Net finance income	**8,474**	**2,886**

Interest income mainly includes interest income from bank deposits and cash equivalents of € 2,912 thousand (previous year: € 2,693 thousand) and interest income from loans to an affiliated company of € 6,083 thousand (previous year: € 1,750 thousand). Interest income increased by € 4,653 thousand from € 4,467 thousand to € 9,120 thousand. Interest income results from financial assets that are measured at amortized cost. Due to fair value measurement of listed shares held as financial assets gains on securities amounting to € 49 thousand (previous year: loss of € 515 thousand) were recognized in the financial year.

Finance expenses include interest related to pension benefit obligations in the amount of € 465 thousand (previous year: € 740 thousand). In the financial year, interest expenses of € 184 thousand (previous year: € 280 thousand) were incurred due to interest on provisions and other non-current liabilities.

27. Income Tax Expense

The income tax expense of € 8,295 thousand incurred in the 2015 financial year (previous year: € 2,391 thousand) is composed as follows:

in € thousand	**2015**	**2014**
Current tax expense	(6,684)	(4,143)
Deferred tax expense / income	(1,611)	1,752
Tax expense for the year	**(8,295)**	**(2,391)**

The expected tax expense is reconciled to actual tax expense as follows:

in € thousand	**2015**	**2014**
Earnings before income tax	(9,198)	(1,897) *
Expected tax expense while applying an average tax rate of 32,45 % (Previous year: 32,45 %)	2,985	616
Effects of tax-free income	64	39
Effects of non-tax-deductible expenses	(144)	(748)
Effects of unutilized deferred tax losses not recognized as deferred assets recognized tax losses and offset possibilities	(12,358)	(3,706) *
Effects of originally unrecognized unutilized tax losses and offset possibilities, which are now reported as deferred tax assets and effects arising from changes to tax loss carryforwards	18	1,661
Effects of subsidiaries' divergent tax rates	966	(16)
Adjustments for previous years' taxes recognized in the current period	724	(175)
Other non-tax-effective additions and deductions	(550)	(62)
Tax expense for the year	**(8,295)**	**(2,391)**

* Adjusted in accordance with IAS 8; see explanation in section 4 of the notes

Tax rates that differ from the average Group tax rate primarily relate to the USA and India (previous year: USA and Russia).

The effective Group taxation rate is -90.2% (previous year: -126.0%).

The income tax expense is due to the varying profitability of the subsidiaries. While some subsidiaries achieved significant taxable profits, other subsidiaries recorded high tax losses. However, deferred tax assets are not recognized on temporary differences and tax loss carry-forwards if the future utilization is not reasonably assured. As a result, the Group tax rate is very unfavorable.

28. Earnings and Dividends per Share

Earnings per Share

As in the previous year, the number of ordinary shares issued amounts to 49,703,573.

	2015	2014
Net profit attributable to shareholders (in € thousand)	(17,619)	(4,727) *
Weighted average number of shares outstanding	49,703,573	49,703,573
Basic (undiluted) and diluted earnings per share (in €)	(0.35)	(0.10) *

* restated according to IAS 8, please refer to section 4 of the notes

Dividend per Share

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

29. Total Fees Charged by the Auditors for the Financial Year

PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft is functioning as the independent auditor for the 2015 financial year. Last year, the independent auditor was Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft.

The total fees charged by PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft for the 2015 financial year as well as the fees charged for 2014 by the previous independent auditor are comprised as follows:

in € thousand	2015	2014
Financial statement audit services	286	545
Tax advisory services	-	14
Other services	48	11
	334	**570**

The total remuneration for the auditor for the 2015 financial year is € 334 thousand (previous year: € 570 thousand). In the summer of 2015, PricewaterhouseCoopers AG Wirtschafts-prüfungsgesellschaft provided audit-related consulting in connection with the errors related to the recognition and measurement of individual projects in the 2014 financial year that were detected at HW Inc. The expenses in the amount of € 48 thousand for the services ordered by KHD are offset by a corresponding reimbursement claim against AVIC Beijing. The previous year's figure for financial statement audit services included an amount of € 259 thousand that was reimbursed by AVIC International Holdings. The total fee for audit services (net of reimbursement) amounted to € 286 thousand (previous year: € 286 thousand).

30. Commitments and Contingent Liabilities and Assets

Commitments for Operating Leases

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

in € thousand	Dec.31, 2015	Dec.31, 2014
Within one year	3,167	2,154
Between two and five years	3,145	3,747
After five years	227	764
Total lease and rental commitments	**6,539**	**6,665**

Other contingent liabilities from current contracts amount to € 700 thousand (previous year: € 1,080 thousand).

Expenses for leased and rented office space and office equipment recognized in the Group income statement amount to € 3,684 thousand in the year under review (previous year: € 3,158 thousand).

Contingent Liabilities

Contingent liabilities of KHD are obligations that do not meet the criteria for recognition as a provision, but the possibility of an outflow of resources is more than remote.

As of the reporting date, potential contingent liabilities result from a possible calling of guarantees and from other claims against KHD that exceed the amounts covered by provisions. For the KHD Group the total of contingent liabilities amount to a single-digit million range. Considering the current stage of negotiations, a more precise quantification is neither practical nor possible.

Contingent Assets

Contingent assets are claims by KHD, for which the realization of income is not virtually certain, but the inflow of economic benefits is probable.

Contingent assets arise from claims against customers due to subsequent scope changes of projects and cost overruns caused by customers as well as from claims for backcharges against subcontractors. As of the reporting date, KHD has contingent assets in a single-digit million range with respect to suppliers and customers for several large projects.

Both the development of contingent assets and contingent liabilities are monitored continuously. As soon as the corresponding claims and obligations are substantiated, they are recorded in profit and loss for the period.

31. Additional Notes on Financial Instruments

FINANCIAL RISK FACTORS

In its position as a globally operating Group, KHD is exposed to various financial risks (currency, interest rate, default, credit, and liquidity risks) which may have a significant impact on the Group's net assets, financial position, and result of operations.

CAPITAL MANAGEMENT

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

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

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

KHD is subject to the minimum capital requirements applicable to German stock corporations. Compliance with these requirements is monitored continuously. KHD was in compliance with these requirements in 2015.

in € thousand	Dec.31, 2015	Dec.31, 2014
Equity	203,356	219,506 *
Total assets	392,297	387,948 *
Equity ratio (in %)	51.84	56.58

* restated according to IAS 8, please refer to section 4 of the notes

The equity ratio increased by 4.8 percentage points compared with the previous year from 56.6% to 51.8%.

MARKET RISK

Currency Risk

In the case of foreign exchange risks, a differentiation should be made between currency risks related to the execution of projects in different currency areas and risks arising from translation of individual Group companies' financial statements denominated in a foreign currency at various reporting dates. As part of the execution of projects, exchange rate risks are determined on the basis of planned cash flows and minimized by using derivative financial instruments. The derivative financial instruments utilized exclusively comprise foreign exchange forward contracts.

The Group recognized assets and liabilities denominated in foreign currencies translated to a carrying amount of € 8,061 thousand (previous year: € 10,410 thousand). In this context, foreign currency denotes that a company of the KHD Group holds assets and liabilities in a currency that is not the functional currency of the subsidiary. Without taking any exchange rate forward contracts into account that may be in place, a 10% variance in exchange rates would change Group earnings / comprehensive income by € 545 thousand (previous year: € 703 thousand).

The individual financial statements prepared by the foreign subsidiaries are translated into euros in line with the functional currency principle. The Group's functional currency is the euro. Assets and liabilities are translated at the balance sheet closing rate. Currency translation differences resulting from translating the assets and liabilities of foreign subsidiaries denominated in local currencies into the Group's functional currency may have an impact on Group equity. A 10% change in foreign currency exchange rates would change Group equity by € 3,270 thousand (previous year: € 2,449 thousand).

Price Risk

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

CREDIT AND DEFAULT RISK

The risk of credit concentration with regard to trade 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 only sold to customers with appropriate credit ratings. The risk of counterparty default is managed through regular monitoring and analysis of the trade receivables and the structure of receivables. The risk of counterparty default is managed through regular monitoring and reviews of the trade receivables and the structure of receivables. At the KHD Group, receivables from export contracts are to a large extent secured against default risks by letters of credit, as well as through letters of comfort, guarantees, and cover notes, which also include export credit agencies (e.g. Hermes).

Securities for receivables in the financial year amounted to € 3,692 thousand (previous year: € 11,795 thousand).

In the 2014 financial year, the KHD Group concluded two loan agreements totaling € 100 million, each with a term of three years, with AVIC International (HK) Group Ltd. as borrower. Possible default risks are effectively minimized by continuous monitoring of the credit worthiness of the borrower and by a Group guarantee issued to the KHD Group. The KHD Group is also entitled to call the first loan of € 50 million for repayment at any time prior to its maturity by giving 30 days' notice.

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

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

LIQUIDITY RISK

The KHD Group has been pursuing a conservative, forward-looking policy of liquidity hedging for many years and has a high level of cash and cash equivalents.

In order to avoid financial risks from the plant engineering business, construction contracts are executed through progress billings and customer payments made in advance, which largely financed projects in progress as of the balance sheet date. By means of financial and liquidity planning, cash and cash equivalents are available in such a way that the KHD Group is at all times able to fully meet its payment obligations. The majority of current liabilities reported as of the balance sheet date are payable within 60 days.

The non-current liabilities have differing maturity dates. The bank loan obtained is due for repayment in October 2018. With regard to the maturity of the pension benefit obligations reference is made to section 15. Other liabilities and provisions that are recorded within non-current liabilities have residual terms of up to five years. The terms of these liabilities are substantially determined by the warranty periods.

Within the scope of its normal business transactions, the Group has commitments due to advance guarantees, performance bonds, and guarantees for warranty obligations. The Group does not anticipate any material liabilities due to these commitments. The arranged bank guarantee credit facilities allow individual KHD Group companies to provide bank guarantees for its customers worldwide. As part of these guarantee facilities, the Group has provided bank guarantees within the scope of its normal business activities in the amount of € 33.0 million (previous year: € 54.1 million).

INTEREST RATE RISK

The Group holds assets that are affected by changes in market interest rates over the course of time. In the event that market interest rates had risen or fallen by 50 basis points, Group earnings as of December 31, 2015, would have been € 381 thousand (previous year: € 418 thousand) higher or lower, respectively. As of December 31, 2015, KHD reports interest-bearing debt in the form of la bank loan. The loan has a variable interest rate, so it is subject to interest risk due to changes in market interest rates. In the event that market interest rates had risen by 50 basis points, Group earnings as of December 31, 2015, would have been € 125 thousand (previous year: € 0 thousand) lower and in the event that market interest rates had fallen by 50 basis points or lower, Group earnings as of December 31, 2015, would have been € 20 thousand higher. A fixed interest rate has been agreed for each of the three-year loans extended to AVIC HK, so there is no risk from interest rate changes with regard to these loans.

NET EARNINGS PER CATEGORY

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

2015		Financial assets		Financial liabilities		Total
in € thousand	Available for sale	Held for trading	Loans and receivables	Held for trading	Amortized cost	
Expenses due to valuation allowances on financial assets	-	-	(1,434)	-	-	(1,434)
Interest Income / expense	-	-	9,120	-	-	9,120
Other net earnings	-	(3,546)	3,876	-	-	330
Net earnings	**-**	**(3,546)**	**11,562**	**-**	**-**	**8,016**

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

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

LIST OF THE FINANCIAL ASSETS AND LIABILITIES BY CATEGORY

Dec.31, 2015	Financial assets				Financial liabilities				
in € thousand	Available for sale	Held for trading	Loans and receivables	Not in IFRS 7 application area	Held for trading	Amortized cost	Not in IFRS 7 application area	Carrying amount Dec. 31, 2015	Fair value Dec. 31, 2015
Non-current financial assets	-	-	105.568	-		-	-	105.568	100.811
Trade receivables	-	-	44.216	-		-	-	44.216	44.216
Other financial assets	-	618	-	-		-	-	618	618
Other receivables	-	-	2.750	2.203		-	-	4.953	4.953
Cash and cash equivalents	-	-	112.673	-		-	-	112.673	112.673
Total financial assets	**-**	**618**	**265.207**	**2.203**		**-**	**-**	**268.028**	**263.271**
Financial liabilities		-	-	-		92	-	92	92
Loan	-	-	-	-		25.000	-	25.000	25.000
Other liabilities	-	-	-	-		6.476	3.305	9.781	9.781
Derivatives	-	-			440			440	440
Trade payables	-	-	-	-		63.862	-	63.862	63.862
Total financial liabilities	**-**	**-**	**-**	**-**	**440**	**95.430**	**3.305**	**99.175**	**99.175**

Dec.31, 2014	Financial assets				Financial liabilities				
in € thousand	Available for sale	Held for trading	Loans and receivables	Not in IFRS 7 application area	Held for trading	Amortized cost	Not in IFRS 7 application area	Carrying amount Dec. 31, 2014	Fair value Dec. 31, 2014
Non-current financial assets	-	-	100,000	-		-	-	100,000	100,000
Trade receivables	-	-	69,280	-		-	-	69,280	69,280
Other financial assets	-	569	-	-		-	-	569	569
Other receivables	-	-	6,507	2,868		-	-	9,375	9,375
Cash and cash equivalents	-	-	123,627	-		-	-	123,627	123,627
Total financial assets	**-**	**569**	**299,414**	**2,868**		**-**	**-**	**302,851**	**302,851**
Other liabilities	-	-	-	-		6,586	5,077	11,663	11,663
Derivatives	-	-			1,706			1,706	1,706
Trade payables	-	-	-	-		71,683	-	71,683	71,683
Total financial liabilities	**-**	**-**	**-**	**-**	**1,706**	**78,269**	**5,077**	**85,052**	**85,052**

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

The fair values of financial assets and financial liabilities held for trading and of the long-term, secured loan to AVIC HK measured at amortized cost were determined according to the following procedure:

- The fair values of the listed securities that are held for trading are determined by reference to quoted market prices.
- The fair value of derivatives is calculated on the basis of discounted cash flow analyses, using corresponding yield curves for the term to maturity of the instruments concerned.
- The fair value for the loan receivables from AVIC HK is calculated based on the present value method. The future cash flows from the loan are discounted using a risk-adjusted market interest rate that takes the specific country, credit rating and guarantee risks into consideration.

Financial assets and financial liabilities	Fair value		Level	Measurement method	significant unobservable input(s)
	Dec. 31, 2015	Dec. 31, 2014			
Derivatives	Financial assets: € 0 thousand Financial liabilities: € 440 thousand	Financial assets: € 0 thousand Financial liabilities: € 1.706 thousand	level 2	Discounted cash flow	N/A
Securities	Financial assets: € 440 thousand	Financial assets: € 569 thousand	level 1	listed price on active market	N/A
Loan	Financial assets: € 100.811 thousand Financial liabilities: € 25.000 thousand	Financial assets: € 100.000 thousand Financial liabilities: € 0 thousand	level 3	Discounted cash flow	Credit risk of the borrower

SECURITIES HELD FOR TRADING

Securities held for trading amounted to € 618 thousand (previous year: € 569 thousand). A 10% variance in the market price would change Group earnings by € 62 thousand (previous year: € 57 thousand).

RECEIVABLES

Overdue Group receivables, including receivables for which valuation allowances were made, amounted to € 11,137 thousand (previous year: € 19,440 thousand). After deducting securities (letters of credit and Hermes coverage), the Group values the resulting risk at € 7,425 thousand (previous year: € 7,560 thousand). The receivables for which valuation allowances have been made are generally more than 90 days overdue.

DERIVATIVES

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

The net balance of the derivatives carries a fair value of € 440 thousand (previous year: € 1,706 thousand). A 10% change in the exchange rate hedged by the derivative would affect earnings by € 2,383 thousand (previous year: € 1,517 thousand). The total amount of underlying transactions allocated to foreign exchange forward contracts amounts to € 35.3 million (previous year: € 22.4 million). Foreign exchange forward contracts amounting to € 24.8 million (previous year: € 22.4 million) are due within one year.

OFFSETTING

In the KHD Group there are offsetting agreements with the corresponding banks for derivative financial instruments. In accordance with these framework agreements, the amounts owed by each respective party with respect to transactions in the same currency that are still outstanding on a specific date of maturity are offset to reach a net amount. The derivative financial instruments concluded as of the reporting date and as of the previous year's reporting date have a negative value of € 440 thousand (previous year: € 1,706 thousand). In this respect, no offsetting based on the offsetting agreement is done.

32. Litigation

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

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.

In addition, there are other civil-law legal disputes that are not material due to their potential impact and likelihood.

33. Related Party Disclosures

As defined by IAS 24, in addition to the subsidiaries of KHD, the related companies also include those companies that have a controlling or joint management interest in KHD or exercise considerable influence as well as those other related companies of AVIC Group that are affiliated with these. As business transactions between KHD and its consolidated subsidiaries were eliminated in the consolidation process, the following presents only the transactions with respect to direct and indirect parent companies of KHD and the other related companies or persons that were not eliminated. These are primarily business transactions with companies of the AVIC Group and the members of the Management Board and Supervisory Board.

Relations with affiliated companies

There has been a cooperation agreement with AVIC Beijing since 2010, reinforced since February 2011 by the capital interests in KHD amounting to 20% that is held by Max Glory Industries Limited (Max Glory), an AVIC Beijing group company. As a consequence of a public takeover offer, AVIC Beijing further increased its indirect share in KHD in the 2014 financial year. As of December 31, 2015, AVIC Beijing indirectly holds the majority of KHD shares with 89.02%. Among others, the strategic partnership between AVIC and KHD resulted in joint projects in Malaysia, Venezuela, and Turkey.

Other transactions with related parties

During the 2014 financial year the cooperation between the KHD Group and the AVIC Group was reflected in the conclusion of two loan contracts, each for € 50,000 thousand, with AVIC HK as the borrower. The interest on the loans amounts to 6% per annum. Both loans have a term of three years. For the loan extended in June 2014, KHD has the right to demand loan repayment at any time before the due date with a notification period of 30 days. The loans granted to AVIC HK are secured by a corporate guarantee from AVIC.

The expansion of the strategic partnership and cooperation with the AVIC Group was also expressed in a cooperation agreement between AVIC Beijing and HWG. In some projects AVIC Beijing benefitted considerably in their own business with respect to market position and the positive appeal of HWG's technological expertise. In consideration of these benefits, AVIC Beijing agreed to compensate HWG in a one-time payment of € 18,000 thousand in the 2015 financial year. The parties also agreed that HWG and AVIC Beijing in future want to work together on marketing and with regard to technology on a case by case basis. In such cases HWG shall allow AVIC Beijing to use market information, technology and patents against compensation to be agreed upon.

In the 2015 financial year, in the interest of AVIC Beijing, PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft provided audit related consulting services in connection with the errors identified in KHD's 2014 Group Financial Statements. Based on an agreement, AVIC Beijing shall reimburse the entire amount of the fees for the delivery of these services. In the 2015 financial year KHD charged fees in the amount of € 48 thousand to AVIC Beijing.

The following business transactions with related companies took place during the reporting year:

Income

Income with indirect parent companies amounted to € 46,742 thousand (previous year: € 2,628 thousand). Income in the current year largely relates to income generated from projects in Turkey, Venezuela, Canada and the USA in which our cooperation partner AVIC Beijing was KHD's customer or was involved in the project execution. The income also includes a one-time compensation from the cooperation agreement concluded.

Interest income from the loans extended to AVIC HK in the amount of € 6,083 thousand is reported under income with other affiliated companies.

in T€	**2015**	**2014**
Indirect parent company	46,742	2,628
Other related companies	6,083	1,750
	52,825	4,378

Expenses

Expenses arising from transactions with related companies are amounted to € 9,382 thousand in the reporting year (previous year: € 26,727 thousand). The expenses from transactions with AVIC Group reflect project costs arising from the contracts described above.

in € thousand	**2015**	**2014**
Indirect parent company	9,382	20,588
Other related companies	-	6,139
	9,382	26,727

Current assets

In the financial year under review, there were current assets due from companies of the AVIC Group in the amount of € 51,136 thousand (previous year: € 8,534 thousand). These current assets in an amount of € 51,136 thousand (previous year: € 8,534 thousand) result from advance payments, project receivables, and refund claims. An amount of € 18,000 thousand resulted from the cooperation agreement between AVIC Beijing and HWG.

in € thousand	**2015**	**2014**
Indirect parent company	47,946	6,964
Other related companies	3,190	1,570
	51,136	8,534

Non-current assets

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

Liabilities

As of December 31, 2015, liabilities due to AVIC Beijing amounted to € 6,054 thousand (previous year: € 9,546 thousand). The liabilities also relate to the aforementioned projects.

in € thousand	**2015**	**2014**
Indirect parent company	5,732	4,037
Other related companies	322	5,509
	6,054	9,546

Relationships with Associated Persons

Associated persons include the current and former members of the Management Board and Supervisory Board of KHD and their family members.

The remuneration for key management personnel in accordance with IAS 24 includes the compensation of the active members of the Management Board and Supervisory Board. With regard to the current remuneration of members of the Management Board and Supervisory Board and with respect to termination benefits for former Management Board members reference is made to note 20.

34. 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 permanently publicly available to shareholders on the Company's website at (http://www.khd.com/declaration-of-compliance.html).

Furthermore, the Management Board and Supervisory Board of the publicly listed Group company KIS issued the statement required pursuant to Section 161 of the German Stock Corporation Act (AktG) on February 18, 2016, and also made it permanently publicly available to shareholders on this company’s website (www.khdis.de).

35. 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 have in the meantime been concluded by an arbitration award in January 2016. KHD was informed about the arbitration award in February 2016. 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 other significant events took place after December 31, 2015.

36. Release for Publication by the Management Board

These group financial statements were released for publication by the Management Board resolution of March 2, 2016. The Supervisory Board approval is due to be issued at the Supervisory Board meeting on March 15, 2016.

Cologne, Germany, March 2, 2016

The Management Board

(s) Johan Cnossen

(s) Jürgen Luckas

(s) Yizhen Zhu

(s) Daniel Uttelbach

(s) Tao Xing

Responsibility Statement

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

Cologne, Germany, March 2, 2016

The Management Board

(s) Johan Cnossen

(s) Jürgen Luckas

(s) Yizhen Zhu

(s) Daniel Uttelbach

(s) Tao Xing

Independent Auditor‘s Report

We have audited the consolidated financial statements prepared by KHD Humboldt Wedag International AG, Cologne, comprising the balance sheet, the income statement and statement of comprehensive income, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report of KHD Humboldt Wedag International AG, Cologne, for the business year from January 1, 2015 to December 31, 2015. The preparation of the consolidated financial statements and the group management report in accordance with IFRS, as to be applied in the EU, and the supplementary provisions pursuant to Section 315a (1) German commercial law is the responsibility of the parent company’s management board. Our responsibility is to express an opinion on the consolidated financial statements and the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with 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 consolidated financial statements in accordance with IFRS, as to be applied in the EU, and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control systems and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily a test basis within the framework of the audit. The audit includes assessing the annual financial statements of the companies included in consolidation, the determination of the companies to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the management board, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

The audit has not led to any reservations.

In our opinion based on the findings of our audit, the consolidated financial statements comply with IFRS, as to be applied in the EU, and the supplementary commercial law provisions under Section 315a (1) HGB and the group management report, prepared in accordance with Section 315 HGB, and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these provisions. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and 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)

List of Abbreviations

AVIC Beijing	AVIC International Beijing Company Limited, Beijing, China
AVIC Engineering	AVIC International Engineering Holding Pte. Ltd., Singapore, Singapore
AVIC HK	AVIC International Holdings (HK) Limited, Hong Kong
AVIC International	AVIC International Holdings Limited, Hong Kong, Hong Kong
AVIC Malaysia	AVIC Cement Sdn. Bhd., Kuala Lumpur, Malaysia
CSC	Customer Service Center
CSC Risks	Risks affecting the operating units
Group Risks	Risks that affect the entire Group
HWG	Humboldt Wedag GmbH, Cologne
HW India	Humboldt Wedag India Private Ltd., New Delhi, India
HW Malaysia	Humboldt Wedag Malaysia Sdn. Bhd., Kuala Lumpur, Malaysia
HW Inc.	Humboldt Wedag, Inc., Norcross (Georgia), USA
ICC	International Chamber of Commerce
KHD	KHD Humboldt Wedag International AG, Cologne, Germany
KHD HW	KHD Humboldt Wedag GmbH, Cologne, Germany
KHD OOO	KHD Humboldt Engineering OOO, Moscow, Russia
KIS	KHD Humboldt Wedag Industrial Services AG, Cologne, Germany
Max Glory	Max Glory Industries Limited, Hong Kong, Hong Kong

Appendix to the notes to KHD Humboldt Wedag International AG's group financial statements for the financial year 2015

This appendix to the notes to KHD's consolidated financial statements for the 2015 financial year does not form an integral part of the audited financial statements for the 2015 financial year of KHD Humboldt Wedag International AG.

Error correction in accordance with IAS 8 – related to the half-year financial reports 2014 and 2015

As reported in section 4 of the notes to KHD's consolidated financial statements for the 2015 financial year, errors have been identified with regard to the recognition and measurement of individual projects in the 2014 financial year at the U.S. subsidiary of KHD, Humboldt Wedag, Inc., Norcross, USA.

In the consolidated financial statements for the 2015 financial year, the KHD carried out and disclosed complete and timely correction of the errors for the 2014 financial year (12 months period). The errors also impacted financial figures reported in the unaudited Half-Year financial reports 2014 and 2015. The error correction for the unaudited Half-Year financial reports 2014 and 2015 is not covered by the audited notes to KHD's consolidated financial statements for the 2015 financial year. Thus, the corrections of the Group income statement, the Group statement of comprehensive income, the Group balance sheet and the Group statement of cash flows for the unaudited Half-Year financial reports 2014 and 2015 are disclosed below:

Correction of KHD's Consolidated Financial Statements for the half year period 2014

Correction of the Group Income Statement for the Period from January 1 through June 30, 2014

in € thousand	1.1. to 30.06.2014 (as reported)	restatement according to IAS 8	1.1. to 30.06.2014 (restated)
Revenue	114,809	(2,923)	111,886
Cost of sales	(98,805)	-	(98,805)
Gross profit	**16,004**	**(2,923)**	**13,081**
Other operating income	488	-	488
Sales expenses	(5,133)	-	(5,133)
General and administrative expenses	(8,960)	-	(8,960)
Other expenses	(3,262)	-	(3,262)
Profit before interest and taxes (EBIT)	**(863)**	**(2,923)**	**(3,786)**
Finance income	1,383	-	1,383
Finance expenses	(689)	-	(689)
Net finance income	**694**	**-**	**694**
Profit before tax (EBT)	**(169)**	**(2,923)**	**(3,092)**
Income tax expense	(471)	-	(471)
Group net result for the year	**(640)**	**(2,923)**	**(3,563)**
Of which are attributable to:			
Parent company shareholders	(754)	(2,923)	(3,677)
Non-controlling interests	114	-	114
	(640)	**(2,923)**	**(3,563)**

Correction of Earnings per Share

	1.1. to 30.06.2014 (as reported)	restatement according to IAS 8	1.1. to 30.06.2014 (restated)
Not profit attributable to shareholders (in € thousand)	(754)	(2,923)	(3,677)
Weighted average number of shares outstanding	49,703,573	49,703,573	49,703,573
Basic (undiluted) and diluted earnings per share (in €)	(0.02)	-	(0.08)

Correction of the Group Statement of Comprehensive Income for the Period from January 1 to June 30, 2014

in € thousand	1.1. to 30.06.2014 (as reported)	correction according to IAS 8	1.1. to 30.06.2014 (restated)
Group net result for the year	**(640)**	**(2,923)**	**(3,563)**
Items that will be reclassified subsequently to profit or loss when specific conditions are met			
Currency translation differences	809	(5)	804
Items that will not be reclassified subsequently to profit or loss			
Actuarial gains and losses related to defined benefit obligations less deferred taxes related thereto	(871)	-	(871)
Other comprehensive income	**(62)**	**(5)**	**(67)**
Group comprehensive income	**(702)**	**(2,928)**	**(3,630)**
Of which attributable to:			
Parent company shareholders	(816)	(2,928)	(3,744)
Non-controlling interests	114	-	114
	(702)	**(2,928)**	**(3,630)**

Correction of the Group Balance Sheet as of June 30, 2014

ASSETS	**June 30, 2014 (as reported)**	**restatement according to IAS 8**	**June 30, 2014 (restated)**
in € thousand			
Non-current assets	**15,313**	**-**	**15,313**
Current assets			
Inventories	3,266	-	3,266
Gross amount due from customers for contract work	49,074	(2,281)	46,793
Trade and other receivables	84,750	-	84,750
Payments made in advance	17,686	-	17,686
Other financial assets	1,147	-	1,147
Income tax assets	5,239	-	5,239
Cash and cash equivalents	228,028	-	228,028
Total current assets	**389,190**	**(2,281)**	**386,909**
Total assets	**404,503**	**(2,281)**	**402,222**

EQUITY AND LIABILITIES	**June 30, 2014 (as reported)**	**restatement according to IAS 8**	**June 30, 2014 (restated)**
in € thousand			
Equity			
Subscribed capital	49,704	-	49,704
Capital reserves	61,097	-	61,097
Treasury shares	-	-	-
Currency translation differences recognized in equity	(5,770)	(5)	(5,775)
Retained earnings	117,180	(2,923)	114,257
Shares of equity attributable to shareholders of the parent company	222,211	(2,928)	219,283
Non-controlling interests	955	-	955
Total equity	**223,166**	**(2,928)**	**220,238**
Non-current liabilities	**33,843**	**-**	**33,843**
Trade and other payables	77,329	-	77,329
Commitments under construction contracts	50,296	647	50,943
Income tax liabilities	822	-	822
Provisions	19,047	-	19,047
Total current liabilities	**147,494**	**647**	**148,141**
Total equity and liabilities	**404,503**	**(2,281)**	**402,222**

Correction of the Group Statement of Cash Flow for the Period from January 1 to June 30, 2014

in € thousand	1.1. to 30.06.2014 (as reported)	restatement according to IAS 8	1.1. to 30.06.2014 (restated)
Cash flow from operating activities			
Group net result for the year	(640)	(2,923)	(3,563)
Income tax expense recognized in the income statement	471	-	471
Net finance income recognized in the income statement	(694)	-	(694)
Earnings before interest and taxes (EBIT)	**(863)**	**(2,923)**	**(3,786)**
Amortization and depreciation of non-current assets	922	-	922
Book gain (-)/loss on disposal of fixed assets	(3)	-	(3)
Increase(-)/decrease in trade receivables and financial assets	52	-	52
Increase (-)/decrease in inventories and gross amount due from customers for contract work	12,028	2,281	14,309
Increase (-)/decrease in payments made in advance and other financial assets	2,384	-	2,384
Increase (+)/decrease in trade and other payables and in commitments under construction contracts	(8,985)	647	(8,338)
Increase (+)/decrease in pension benefit obligations	(420)	-	(420)
Increase (+)/decrease in provisions and non-current liabilities	(5,235)	-	(5,235)
Other non-cash-transactions	(756)	(5)	(761)
Dividends received	47	-	47
Interest received	1,336	-	1,336
Income tax received	-	-	-
Income tax paid	(1,848)	-	(1,848)
Cash flow from operating activities	**(1,341)**	**-**	**(1,341)**
Cash flow from investing activities	**925**	**-**	**925**
Cash flow from financing activities	**1,410**	**-**	**1,410**
Change in unrestricted cash and cash equivalents	**994**	**-**	**994**
Opening balance of unrestricted cash and cash equivalents	200,066	-	200,066
Exchange rate effects	971	-	971
Closing balance of unrestricted cash and cash equivalents	**202,031**	**-**	**202,031**

Correction of KHD’s Consolidated Financial Statements for the half year period 2015

Correction of the Group Income Statement for the Period from January 1 through June 30, 2015

in € thousand	1.1. to 30.06.2015 (as reported)	restatement according to IAS 8	1.1. to 30.06.2015 (restated)
Revenue	95,225	(5,821)	89,404
Cost of sales	(95,862)	(2,012)	(97,874)
Gross profit	**(637)**	**(7,833)**	**(8,470)**
Other operating income	3,189	-	3,189
Sales expenses	(4,782)	-	(4,782)
General and administrative expenses	(9,385)	-	(9,385)
Other expenses	(9,031)	-	(9,031)
Profit before interest and taxes (EBIT)	**(20,646)**	**(7,833)**	**(28,479)**
Finance income	4,601	-	4,601
Finance expenses	(305)	-	(305)
Net finance income	**4,296**	**-**	**4,296**
Profit before tax (EBT)	**(16,350)**	**(7,833)**	**(24,183)**
Income tax expense	(1,579)	-	(1,579)
Group net result for the year	**(17,929)**	**(7,833)**	**(25,762)**
Of which are attributable to:			
Parent company shareholders	(18,005)	(7,833)	(25,838)
Non-controlling interests	76	-	76
	(17,929)	**(7,833)**	**(25,762)**

Correction of Earnings per Share

	1.1. to 30.06.2015 (as reported)	restatement according to IAS 8	1.1. to 30.06.2015 (restated)
Not profit attributable to shareholders (in € thousand)	(18,005)	(7,833)	(25,838)
Weighted average number of shares outstanding	49,703,573	49,703,573	49,703,573
Basic (undiluted) and diluted earnings per share (in €)	(0.36)	(0.16)	(0.52)

The errors detected in the US subsidiary in the financial statements as of June 30, 2015 only affect net income and retained earnings. Since both the net profit and the profit carried forward in the balance sheet are recognized in other reserves, the consolidated balance sheet as of June 30, 2015 is no subject to change.

Correction of the Group Statement of Comprehensive Income for the Period from January 1 to June 30, 2015

in € thousand	1.1. to 30.06.20145 (as reported)	correction according to IAS 8	1.1. to 30.06.2015 (restated)
Group net result for the year	**(17,929)**	**(7,833)**	**(25,762)**
Items that will be reclassified subsequently to profit or loss when specific conditions are met			
Currency translation differences	2,281	-	2,281
Items that will not be reclassified subsequently to profit or loss			
Actuarial gains and losses related to defined benefit obligations less deferred taxes related thereto	246	-	246
Other comprehensive income	**2,527**	**-**	**2,527**
Group comprehensive income	**(15,402)**	**(7,833)**	**(23,235)**
Of which attributable to:			
Parent company shareholders	(15,478)	(7,833)	(23,311)
Non-controlling interests	76	-	76
	(15,402)	**(7,833)**	**(23,235)**

Correction of the Group Statement of Cash Flow for the Period from January 1 to June 30, 2015

in € thousand	1.1. to 30.06.2015 (as reported)	restatement according to IAS 8	1.1. to 30.06.2015 (restated)
Cash flow from operating activities			
Group net result for the year	(17,929)	(7,833)	(25,762)
Income tax expense recognized in the income statement	1,579	-	1,579
Net finance income recognized in the income statement	(4,296)	-	(4,296)
Earnings before interest and taxes (EBIT)	**(20,646)**	**(7,833)**	**(28,479)**
Amortization and depreciation of non-current assets	1,033	-	1,033
Increase(-)/decrease in trade receivables and financial assets	(3,162)	-	(3,162)
Increase (-)/decrease in inventories and gross amount due from customers for contract work	(10,337)	7,833	(2,504)
Increase (-)/decrease in payments made in advance and other financial assets	528	-	528
Increase (+)/decrease in trade and other payables and in commitments under construction contracts	7,811	-	7,811
Increase (+)/decrease in pension benefit obligations	(929)	-	(929)
Increase (+)/decrease in provisions and non-current liabilities	(3,090)	-	(3,090)
Other non-cash-transactions	(1,690)	-	(1,690)
Dividends received	-	-	-
Interest received	1,566	-	1,566
Income tax paid	(1,522)	-	(1,522)
Cash flow from operating activities	**(30,438)**	**-**	**(30,438)**
Cash flow from investing activities	**2,353**	**-**	**2,353**
Cash flow from financing activities	**4,852**	**-**	**4,852**
Change in unrestricted cash and cash equivalents	**(28,092)**	**-**	**(28,092)**
Opening balance of unrestricted cash and cash equivalents	123,541	-	123,541
Exchange rate effects	3,494	-	3,494
Closing balance of unrestricted cash and cash equivalents	**98,943**	**-**	**98,943**