KHD Humboldt Wedag International AG, Cologne, Germany

Half-year Financial Report 2016

ISIN: DE0006578008

GERMAN SECURITIES IDENTIFICATION NUMBER (WKN): 657800

Stock Exchange Symbol: KWG

www.khd.com

Summary of the First Half Year 2016

- Ongoing restraint among customers in awarding orders
- Revenue decrease of 25.5% to € 66.6 million.
- Adjusted gross profit of € 1.7 million (previous year: € -8.5 million).
- Adjusted EBIT of € -15.0 million due to low sales volume, low margins on existing projects and additional costs in particular projects

Key Figures at a Glance

in € million	Jan. 1 - June 30, 2016	Jan. 1 - June 30, 2015	
Order Intake	19.3	65.7	
Revenue	66.6	89.4	*
Adjusted Gross Profit **	1.7	-8.5	*
Adjusted Gross Profit margin (in %) **	2.6	-9.5	*
Adjusted EBIT **	-15.0	-26.5	*
Adjusted EBIT margin (in %) **	-22.5	-29.6	*
EBT	-15.4	-24.2	*
Group net result for the period	-17.3	-25.8	*
EPS (in €)	-0.35	-0.52	*
Cash flow from operating activities	-52.3	-30.4	
Cash flow from investing activities	2.5	2.4	
Cash flow from financing activities	0.0	0.0	
in € million	**June 30, 2016**	**Dec. 31, 2015**	
Equity	183.4	203.4	
Equity ratio (in %)	51.8	51.8	
Cash and Intercompany loans ***	161.7	212.7	
Net working capital	60.2	25.1	
Order Backlog	136.6	183.8	
Employees	742	735	

* restated according to IAS 8, please refer to section 4 of the Group notes and the appendix to the notes to the Group Financial Statements of December 31, 2015

** adjusted by the idle capacity costs due to under-utilization of capacities

*** intercompany loans of € 100 million, thereof € 50 million with entitlement to call for early repayment by giving 30 days' notice

Please note that differences can result from the use of rounded amounts and percentages.

MANAGEMENT REPORT TO THE INTERIM GROUP FINANCIAL STATEMENTS AS OF JUNE 30, 2016

Fundamental Group Principles

KHD Humboldt Wedag International AG (hereinafter also referred to as “KHD” or the “Group”) made no fundamental changes to its business model, strategy or management system (see Group management report of December 31, 2015, pp. 15-22) during the first half-year 2016. In addition to further expansion of business activities in the segment Plant Services (formerly: Parts & Services), the focus is on strengthening the Capex segment by increasing competitiveness, intensifying research and development activities and supporting a culture of excellence and performance.

Management, monitoring and reporting within the Group continue to be based on the following financial indicators:

- 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.

Management and Supervision

Management Board

Effective January 1, 2016, Mr. Tao Xing was appointed as a new member of the Management Board. With his many years of experience in the cement industry, Mr. Tao Xing’s main tasks will include improving and expanding KHD business activities in China, the Asia-Pacific region and the Americas. From June through the end of December 2015, Mr. Tao Xing was a member of the KHD Supervisory Board.

In this reporting period, Mr. Johan Cnossen resigned from his position as CEO and member of the Management Board effective March 11, 2016. In agreement with the Supervisory Board, the Management Board team reorganized the responsibilities for a transition period following the resignation of the previous CEO. As a result, Mr. Jürgen Luckas, Chief Financial Officer (CFO), is taking over the role of Management Board spokesperson.

Supervisory Board

At the KHD annual general meeting on May 18, 2016, Messrs. Gerhard Beinhauer and Da Hua were elected as new members of the Supervisory Board to serve alongside the re-elected members Mr. Xiaofeng Liu, Ms. Eliza Suk Ching Yuen, Mr. Kangning Zou and Ms. Yiqiong Zhang. Mr. Beinhauer was elected as Chairman of the Supervisory Board and Mr. Liu was re-elected as Deputy Chairman at the constitutional meeting of the Supervisory Board on May 18, 2016.

Economic Report

Market Environment

The International Monetary Fund (IMF) adjusted the outlook for global growth for 2016 to 3.2% (previous year: 3.1%). In the developing countries, prospects for growth remain uneven and, for all intents and purposes, weaker than in the last two decades. The growth forecast for these countries is 4.1% (previous year: 4.0%). The predicted growth in industrialized countries is 2.0% (previous year: 1.9%).

According to an analysis by HSBC Holdings plc, global cement consumption decreased in 2015. An increase in demand expected for 2016 in the markets outside of China will, however, change low capacity utilization only slightly, so that it will have no significant effect on the cement price.

KHD’s markets demonstrate differing tendencies with respect to expected cement consumption:

- In India, consolidation among cement producers continues. The Indian government has made additional financial resources available for the country’s infrastructure (particularly roads, the rail network, freeways). In connection with generally good economic growth, Indian cement manufacturers will be able to improve the utilization of their production capacities in the coming years.
- In Russia it is not likely that cement demand will exceed the 2014 level again before 2018. This is a result of the current significant oversupply as well as a weak foundation for economic growth.

- Growth in cement consumption in Turkey in 2016 is expected to remain stable at 3.8%.
- In the USA, the Portland Cement Association (PCA) reduced the growth forecast for cement consumption from 5.0% to 3.4% because the US economy is generally experiencing slower growth.

Overall Assessment of the Economic Situation

Economic development as measured by order intake and revenue, and particularly with respect to profitability and liquidity, was unsatisfactory in the first half-year 2016. Significant budget targets were not met.

Revenue of € 66.6 million was significantly lower than the previous year's value and approximately 20% below the budgeted value. The reasons for the drop in revenue were, in particular, delays in project execution, reductions in order value and unsatisfactory order intake.

In the current reporting period, KHD's adjusted gross profit is just € 1.7 million. Although the adjusted gross profit was significantly above last year's level, the value budgeted for the first half-year 2016 (approximately € 7 million) was not reached. EBIT of € -18.8 million (adjusted EBIT: € -15.0 million) for the reporting period is also considerably below the budgeted figure. Adjusted EBIT differs from the forecast value by more than € 5 million. For EBIT (including idle capacity costs due to under-utilization of existing capacities into consideration), the difference is actually about € 9 million.

These variances were caused by delays as well as major challenges while executing individual projects, which resulted in unexpected cost overruns. Due to the low order backlog and order intake that did not materialize, KHD's financial result is also affected by under-utilization of existing capacities (idle capacity costs of approx. € 3.8 million).

Overall, the negative operating result and delays in payments for projects with challenges in execution and payments due to an arbitration award resulted in a cash flow from operating activities of € -52.3 million although the outlook projected only low cash outflows in the first half-year.

In spite of the unfavorable market and margin situation, KHD is convinced that the Group will achieve a successful economic turnaround in the medium term.

Business Development

In the first half-year 2016, order intake was € 19.3 million. This is considerably lower than the level reached in the previous year (€ 65.7 million). Particularly in comparison with the budget, the order intake is especially disappointing. The difference is more than € 100 million as compared to budget; this was primarily caused by customers' contract award decisions and delays in investment decisions. The low order intake results from a low level of new business (€ 29.4 million) together with order cancellations and reductions (€ -6.5 million) and effects from currency rates (€ -3.3 million) in the order backlog.

Orders of just € 11.5 million were placed in the Capex segment in the first half-year (previous year: € 45.1 million). Budget targets were also not achieved in the Plant Services segment. In comparison with the Capex segment, spare parts and service business is relatively stable. With € 17.6 million (previous year: € 20.6 million), it contributed 60.9% to order intake.

Due to the low order intake volume and the progress in execution of existing projects, the order backlog as of June 30, 2016 decreased – compared with the figure of December 31, 2015 – by € 47.2 million to € 136.6 million. The current order backlog is not sufficient for complete utilization of existing capacities. Despite the significant improvement in order intake expected as the financial year progresses, careful evaluations are now underway to determine the extent to which capacity adjustments are necessary for individual companies of the KHD Group

Group Earning Situation

KHD's revenue amounting to € 66.6 million is considerably lower than the figure for the previous year (€ 89.4 million). Significant contributions to revenue came primarily from projects in India, North America and Russia. Reasons for the decrease of 25.5% are the relatively low order backlog at the beginning of the year, delays in project execution, reductions in order value and order intake that did not materialize in the first half-year 2016.

The gross profit for the first half-year was € -2.1 million (previous year: € -10.5 million). Cost of sales include € 3.8 million of idle capacity costs due to under-utilization of existing capacities (previous year: € 2.0 million). Because these costs are not directly associated with the revenues recognized, they were corrected when determining the adjusted gross profit. The adjusted gross profit for the first half-year 2016 was € 1.7 million (previous year: € -8.5 million). In comparison with the previous year, the adjusted gross profit is slightly positive, but it is still at an unsatisfactory level and continues to be characterized by projects won in a highly competitive environment with strong margin pressure. In addition, some individual large projects showed an increase in costs to complete, resulting in a considerable increase in the estimated total costs.

In contrast to the first six months of the financial year 2015, sales expenses increased by 29.7%, from € 4.8 million to € 6.2 million. Due to the ongoing difficulties in the market environment, KHD consciously invested in the expansion of sales activities, which focus on strategically important projects in KHD's core markets. These core markets traditionally include the Iranian market as well. After the years of embargo, the sales office in Iran was strengthened substantially to ensure competent and efficient customer service in the region. In comparison with the previous year, general and administrative expenses of € 8.1 million (previous year: € 9.4 million) have decreased by 14.2%. This reduction is in no small part due to the success of active cost management. Other expenses decreased considerably to € 4.5 million (previous year: € 7.0 million). Besides € 1.8 million in expenses for research and development (previous year: € 2.6 million), other expenses also include exchange rate effects of € 1.3 million (previous year: € 0.7 million). In the previous year, other expenses also included expenses related to fair value adjustments of foreign exchange forward contracts for hedging exposure on foreign currency receivables in the amount of € 2.5 million. From an economic perspective, other income resulting from the effects of currency exchange rates on the foreign currency receivables (€ 1.3 million, previous year: € 2.5 million) and the income from fair value adjustments of foreign exchange forward contracts (€ 0.5 million) should be offset against the expenses from exchange rate effects and fair value adjustments of foreign exchange forward contracts.

Earnings before interest and taxes (EBIT) increased from € -28.5 million in the previous year to a current amount of € -18.8 million; the adjusted EBIT (after eliminating idle capacity costs) improved from € -26.5 million to € -15.0 million. The low sales volume combined with the unsatisfactory gross profit margin – particularly due to the distinct effects explained above – have resulted in a considerably negative EBIT margin of -28.3% (previous year: -31.9%) in the first half-year 2016.

Net finance income decreased by € 0.9 million from € 4.3 million to € 3.4 million. Finance income includes interest received in the amount of € 3.0 million from two loans extended to AVIC International (HK) Group Ltd. (AVIC HK) for a total of € 100.0 million in the financial year 2014 and amounted to € 4.1 million, whereas finance expenses accounted for € 0.7 million. For the most part, the decrease of € 0.5 million in finance income was due to a lower level of cash and cash equivalents. The primary reason for the increase in finance expenses of € 0.4 million was the interest on a € 25.0 million bank loan.

The Group net result for the period was € -17.3 million (previous year: € -25.8 million), which translates into diluted and basic earnings per share of € -0.35 (previous year: € -0.52).

Segment Earnings Situation[1]

Revenue in the Capex segment in the six-month period reached only € 47.3 million (previous year: € 71.8 million). The relatively stable business in the Plant Services segment achieved revenues of € 19.3 million (previous year: € 17.6 million), € 1.7 million more than the comparable value from the previous year. However, this did not compensate for the considerable decrease revenues in the Capex segment.

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[1] As of October 1, 2015, KHD adjusted the internal group reporting due to changes in the classification of the two reportable segments. To ensure comparability, the segment figures for the comparable period ending June 30, 2015 were adjusted retrospectively with regard to the segment structure that applied starting on October 1, 2015. For this reason, the previous year's figures given for the segments differ from those published in the Half-Year Report 2015.

While gross profit of € -8.2 million (previous year: € -14.5 million) in the Capex segment was unsatisfactory due to the execution of projects with low margins, and in particular due to high unexpected cost overruns in some projects, the Plant Services segment generated gross profit of € 6.1 million (previous year: € 4.0 million). The idle capacity costs apply to the Capex segment only, so the adjusted gross profit amounts to € -4.4 million (previous year: € -12.5 million). As a result the adjusted gross profit margin in the Capex segment was -9.3% (previous year: -17.4%). In contrast, the Plant Services segment achieved a positive gross profit margin of 31.6% (previous year: 22.7%).

EBIT in the Capex segment of € -21.4 million (previous year: € -30.5 million) reflects the difficult economic environment of recent years, high unexpected margin deterioration and idle capacity costs, which resulted from under-utilization of existing capacities. EBIT in the Plant Services segment of € 2.6 million (previous year: € 2.0 million) offset the significantly negative result of the Capex segment only to a certain degree.

Financial Position and Net Assets

Liquidity

KHD's total cash and cash equivalents decreased considerably in the first half-year. As of June 30, 2016, this figure amounted to € 61.7 million (end of 2015: € 112.7 million). The main reason for this development is the notable decrease in cash flow from operating activities, which amounted to € -52.3 million during the reporting period (previous year: -€ 30.4 million). The reasons for the outflow of funds in operational business were, in addition to unfavorable business development, primarily negative cash flows from projects with challenges in execution and payments due to an arbitration award.

For further details regarding operative cash flow, see the following table:

Cash flow effect from operating activities for the half year 2016	**in € thousand**
Cash flow from construction contracts in progress (including progress billings)	15,353
Cash flow from current liabilities/ invoices from subcontractors	(9,580)
Cash flow from changes in receivables	(22,652)
Cash flow from utilization of provisions and long term liabilities	(11,703)
Cash outflow from result (EBITDA)	(17,969)
Cash flow from tax payments made/ received	(3,895)
Other cash inflows and outflows	(1,856)
Cash flow from operating activities	**(52,302)**

The cash flow from investment activities of € 2.5 million (previous year: € 2.4 million) primarily includes interest payments from the loans extended to AVIC HK. Taking the effects of currency exchange rates in the amount of € -1.1 million into consideration, cash and cash equivalents as of June 30, 2016 now total € 61.6 million (December 31, 2015: € 112.6 million).

Total Assets

In comparison with the end of 2015 (€ 392.3 million), the balance sheet total decreased by € 38.3 million to € 354.0 million. This was primarily the result of the decrease in cash and cash equivalents of € 51.0 million, a decrease in the gross amount due from customers for contract work of € 5.1 million as well as a decrease in payments made in advance in the amount of € 5.2 million. In contrast, trade receivables and other receivables increased significantly by € 22.7 million due to the timing of billing the customers. Other current and non-current assets differed only slightly.

Financing

On the liabilities side, non-current liabilities remained unchanged for the most part in comparison with December 31, 2015, but current liabilities decreased with respect to the end of 2015 (€ 133.0 million) by € 19.1 million to € 113.9 million. Trade and other payables decreased by € 12.1 million to € 59.3 million and provisions shown under current liabilities decreased by € 11.7 million to € 11.1 million. The reasons for these reductions are primarily the reduced business volume and a payment related to an arbitration award. In contrast, commitments under construction contracts increased by € 5.3 million to € 42.6 million. The main reason for this increase are high progress billings, which exceeded the aggregate amount of project costs incurred and recognized profits.

The net working capital – the difference between current assets (less cash) and current liabilities – increased considerably from the figure reported on December 31, 2015 (€ 25.1 million) to € 60.2 million. The main reason for this is the increase in trade receivables due to the timing of billing the customers.

Equity dropped by € 20.0 million from € 203.4 million to € 183.4 million. The main reason for this decrease aside from currency translation differences recognized in equity of € 1.2 million and actuarial losses related to defined benefit obligations in the amount of € -1.5 million, is the distinctly negative Group net result for the period in the amount of € -17.3 million. Despite the reduction in equity, the equity ratio remained unchanged at 51.8%.

Non-Financial Performance Indicators

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

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

KHD spent € 1.8 million on research and development in the first half-year 2016 (previous year: € 2.6 million), keeping the activities in this area at a high level. Despite the current, unsatisfactory result situation, KHD invested in the enhancement and further development of technology for cement plants. For this reason, in addition to improving significant cement plant components, the primary focus of research and development (R&D) is improving the efficiency of cement plants. Other crucial R&D topics include developing environmentally friendly products, with a particular emphasis on energy efficiency and emissions reduction, as well as using alternative fuels in cement plants.

The KHD Group had 742 employees (excluding trainees) at the end of June 2016 (end of 2015: 735). This increase in headcount applies to the Indian subsidiary where the number of employees increased by 28 (of whom 8 employees are in the workshop with temporary contracts). In the other Group companies, as a rule, positions vacated due to usual employee fluctuation will not be filled and planned hiring will be postponed. Due to the low order backlog, necessary adjustments of the capacities should be made in a manner compatible with social needs to the maximum extent possible. Despite the expected significant improvement in order intake as the financial year progresses, careful evaluations are now underway to determine the extent to which capacity adjustments are necessary for individual companies of the KHD Group.

Report on Events after the Reporting Period

There were no substantial developments or events of particular significance after the balance sheet date June 30, 2016.

Risk and Opportunities Report

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

In comparison with the balance sheet date in 2015, there has been no significant change as of the date of this Half-Year Report in the assessment of risks and opportunities. For example, KHD does not expect any major changes to risks and opportunities for KHD business activities as a result of the referendum of June 23, 2016 in which the United Kingdom decided to leave the European Union. In addition, based on KHD's assessment, the current political developments in Turkey resulting from the coup attempt on July 15 and 16, 2016 will not directly affect business activities. However, the specific risk associated with the Turkish market, which is important to KHD, will be monitored very closely.

For a detailed description of the risks and opportunities, please refer to the relevant section in the KHD Group management report as of December 31, 2015 (page 55 ff. of the Group Annual Report).

Outlook

The expected development of cement production in 2016 in some markets is associated with a high degree of uncertainty. Confidence related to growth in cement consumption is fragile and growth in demand is volatile. Currency devaluations and lower raw materials prices have resulted in significant financial upheaval.

Cement manufacturers see themselves as exposed to risk from excess capacity due to large investments in new cement plants in recent years. At the same time, consolidation remains an important subject in the industry, i.e. production capacities for some individual cement producers do not increase due to investments in new facilities or in the expansion of existing cement plants, but due to acquisitions. In the long run, however, investments in infrastructure by developing and emerging countries will remain the most significant driver of growth in the cement industry.

The particularly high degree of uncertainty associated with the outlook was highlighted in the section titled ‘Opportunities and Risks Relating to the Outlook for the 2016 Financial Year’ in the KHD Group management report of December 31, 2015 (page 74 et seq. of the Group Annual Report). In the course of updating the forecast, KHD had to make adjustments, some of major significance, with regard to the forecast values for the 2016 financial year that had been disclosed in the outlook on the Group’s economic development described in the 2015 Group Annual Report.

Despite the very unsatisfactory first half-year, KHD expects a considerable increase in new orders in the second half-year 2016. In total, KHD still expects higher order intake than in the previous year (€ 154 million). In the Capex segment, order intake above last year’s value (€ 113.2 million) is expected, and in the Plant Services segment, order intake close to the value in the financial year 2015 (€ 40.9 million) is the goal.

Revenue and EBIT will likely be within the scope of the forecast updated on May 3, 2016. Due to delays in contract awarding associated with opportunities included in the planned order intake, contrary to the original planning, significant projects can be recorded as order intake no earlier than in the second half-year 2016. Together with challenges in the execution of several large projects, this significantly affects the forecast figures with respect to revenue and EBIT. In accordance with the updated planning, KHD expects revenue in the financial year 2016 that will be more than 10% lower than the previous year’s value. EBIT is expected to be significantly lower than the figure for the financial year 2015.

Due to the lower order intake and worse payment conditions as well as negative cash flows from projects with challenges in execution, KHD expects that the operating cash flow in the financial year 2016 will be considerably negative. However, in comparison with the value of June 30, 2016 (€ -52.3 million), no further decline is expected.

Despite the considerably negative impacts from earnings and decreased liquidity, our forecast shows that KHD’s financial and net asset position will remain stable. In comparison with the first half-year, we expect significant improvements – particularly in order intake – in the second half-year of the 2016 financial year. As the liquidity situation and the high equity ratio remain comfortable this provides us with the flexibility to successfully cope with difficult market phases as well as the current, unsatisfactory earnings situation. In spite of the unfavorable market and margin situation, KHD is convinced that the Group will achieve a successful economic turnaround in the medium term. We will continue to develop our service and product portfolio and use opportunities for internal and external growth.

Opportunities and Risks Relating to the Forecast for the Second Half-Year 2016

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

Significant risks and opportunities regarding the forecast 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 second half of the 2016 financial year. Despite close collaboration with customers during the tendering process, customer investment decisions and the awarding of individual projects to the KHD Group can only be forecast with substantial uncertainty, which can lead to either a significantly higher or significantly lower order intake.

The revenue and earnings forecast is mainly based on the order backlog in the Capex segment and on the planning of the relatively stable business in the Plant Services segment. The risks and opportunities relating to the planned revenue and earnings figures are nevertheless significant in the second half-year of the financial year 2016 as well, since delays or accelerations in project execution, postponement of awarding projects included in planned order intake and unexpected cost overruns can affect these figures.

Cologne, Germany, August 12, 2016

The Management Board

(s) Jürgen Luckas (s) Yizhen Zhu (s) Daniel Uttelbach

(s) Tao Xing

INTERIM GROUP FINANCIAL STATEMENTS

1 GROUP INCOME STATEMENT of KHD Humboldt Wedag International AG for the Period from January 1 to June 30, 2016

in € thousand	Jan. 1 - June 30, 2016	Jan. 1 - June 30, 2015	
Revenue	66,567	89,404	*
Cost of sales	(68,684)	(99,881)	* / **
Gross profit	**(2,117)**	**(10,477)**	* / **
Other operating income	2,028	3,189	
Sales expenses	(6,202)	(4,782)	
General and administrative expenses	(8,050)	(9,385)	
Other expenses	(4,487)	(7,024)	**
Earnings before interest and taxes (EBIT)	**(18,828)**	**(28,479)**	*
Finance income	4,125	4,601	
Finance expenses	(722)	(305)	
Net finance income	**3,403**	**4,296**	
Earnings before tax (EBT)	**(15,425)**	**(24,183)**	*
Income tax expense	(1,898)	(1,579)	
Group net result for the period	**(17,323)**	**(25,762)**	
Of which attributable to:			
Parent company shareholders	(17,336)	(25,838)	*
Non-controlling interests	13	76	
	(17,323)	**(25,762)**	*

Earnings per share	Jan. 1 - June 30, 2016	Jan. 1 - June 30, 2015	
Net result attributable to shareholders (in € thousand)	(17,336)	(25,838)	*
Weighted average number of shares outstanding	49.703.573	49.703.573	
Basic (undiluted) and diluted earnings per share (in €)	(0.35)	(0.52)	*

* restated according to IAS 8, please refer to section 4 of the Group notes and the appendix to the notes to the Group Financial Statements of December 31, 2015

** In contrast to the Half-Year Report of June 30, 2015, idle capacity costs resulting from under-utilization of existing capacities are not disclosed as other expenses, but instead, as part of cost of sales. To ensure comparability, the previous year's figures were adjusted retrospectively.

2 GROUP STATEMENT OF COMPREHENSIVE INCOME for KHD Humboldt Wedag International AG for the Period from January 1 to June 30, 2016

in € thousand	Jan. 1 - June 30, 2016	Jan. 1 - June 30, 2015	
Group net result for the period	**(17,323)**	**(25,762)**	*
Items that will be reclassified subsequently to profit or loss when specific conditions are met			
Currency translation differences	(1,208)	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	(1,458)	246	
Other comprehensive income	**(2,666)**	**(67)**	
Group comprehensive income	**(19,989)**	**(23,235)**	*
Of which attributable to:			
Parent company shareholders	(20,002)	(23,311)	*
Non-controlling interests	13	76	
	(19,989)	**(23,235)**	*

* restated according to IAS 8, please refer to section 4 of the Group notes and the appendix to the notes to the Group Financial Statements of December 31, 2015

As in the previous year, no income taxes on the currency translation differences were applicable. Deferred tax assets in the amount of € 701 thousand (previous year: deferred tax liabilities of T€ 118 million) relating to the actuarial gains and losses have been considered.

3 GROUP BALANCE SHEET of KHD Humboldt Wedag International AG as of June 30, 2016

ASSETS	June 30, 2016	Dec. 31, 2015
in € thousand		
Non-current assets		
Property, plant and equipment	3,816	3,946
Goodwill	5,162	5,162
Other intangible assets	1,098	1,337
Trade receivables	3,356	5,568
Other financial assets	100,000	100,000
Deferred tax assets	4,811	5,556
Total non-current assets	**118,243**	**121,569**
Current assets		
Inventories	3,825	2,082
Gross amount due from customers for contract work	40,949	46,020
Trade and other receivables	117,076	94,424
Payments made in advance	6,695	11,893
Other financial assets	512	618
Income tax assets	5,014	3,018
Cash and cash equivalents	61,709	112,673
Total current assets	**235,780**	**270,728**
Total assets	**354,023**	**392,297**

EQUITY AND LIABILITIES	June 30, 2016	Dec. 31, 2015
in € thousand		
Equity		
Subscribed capital	49,704	49,704
Capital reserves	61,097	61,097
Currency translation differences recognized in equity	(5,549)	(4,341)
Retained earnings	76,754	95,548
Shares of equity attributable to shareholders of the parent company	182,006	202,008
Non-controlling interests	1,361	1,348
Total equity	**183,367**	**203,356**
Non-current liabilities		
Other liabilities	3,331	3,305
Loans	25,000	25,000
Pension benefit obligations	25,730	24,111
Deferred tax liabilities	909	1,670
Provisions	1,816	1,868
Total non-current liabilities	**56,786**	**55,954**
Total current liabilities		
Trade and other payables	59,262	71,396
Commitments under construction contracts	42,604	37,331
Income tax liabilities	920	1,499
Provisions	11,084	22,761
Total current liabilities	**113,870**	**132,987**
Total equity and liabilities	**354,023**	**392,297**

4 GROUP STATEMENT OF CASH FLOW for KHD Humboldt Wedag International AG for the Period from January 1 to June 30, 2016

in € thousand	Jan. 1 – June 30, 2016	Jan. 1 – June 30, 2015	
Cash flow from operating activities			
Group net loss for the year	(17,323)	(25,762)	*
Income tax expense recognized in the income statement	1,898	1,579	
Net finance income recognized in the income statement	(3,403)	(4,296)	
Earnings before interest and taxes (EBIT)	**(18,828)**	**(28,479)**	*
Amortization and depreciation of non-current assets	859	1,033	
Book gain (-)/loss on disposal of fixed assets	(6)	-	
Increase(-)/decrease in trade receivables and financial assets	(22,652)	(3,162)	
Increase (-)/decrease in inventories and gross amount due from customers for contract work	3,328	(2,504)	*
Increase (-)/decrease in payments made in advance and other financial assets	5,304	528	
Increase (+)/decrease in trade and other payables and in commitments under construction contracts	(6,861)	7,811	
Increase (+)/decrease in pension benefit obligations	(540)	(929)	
Increase (+)/decrease in provisions and non-current liabilities	(11,703)	(3,090)	
Other non-cash-transactions	1,920	(1,690)	*
Interest received	1,092	1,566	
Interest paid	(320)	-	
Income tax received	70	-	
Income tax paid	(3,965)	(1,522)	
Cash flow from operating activities	**(52,302)**	**(30,438)**	
Cash flow from investing activities			
Cash outflow for intangible assets	(143)	(34)	
Cash outflow for property, plant and equipment	(427)	(630)	
Cash inflow from the disposal of property, plant and equipment	19	-	
Interest received from loans to affiliated companies	3,033	3,017	
Cash flow from investing activities	**2,482**	**2,353**	

* restated according to IAS 8, please refer to section 4 of the Group notes and the appendix to the notes to the Group Financial Statements of December 31, 2015

in € thousand	Jan. 1 – June 30, 2016	Jan. 1 – June 30, 2015
Cash flow from financing activities		
Payment for purchase of shares from non-controlling interests	-	(7)
Cash flow from financing activities	**-**	**(7)**
Change in unrestricted cash and cash equivalents	**(49,820)**	**(28,092)**
Opening balance of unrestricted cash and cash equivalents	**112,587**	**123,541**
Exchange rate effects	(1,144)	3,494
Closing balance of unrestricted cash and cash equivalents	**61,623**	**98,943**

in € thousand	June 30, 2016	June 30, 2015
Composition of unrestricted cash and cash equivalents		
Current bank balances and cash on hand	35,180	42,849
Short-term bank deposits and restricted cash	26,529	56,180
Total cash and cash equivalents	**61,709**	**99,029**
Restricted Cash (collateral for guarantees)	(86)	(86)
Closing balance of unrestricted cash and cash equivalents	**61,623**	**98,943**

5 GROUP STATEMENT OF CHANGES IN EQUITY of KHD Humboldt Wedag International AG for the Period from January 1 to June 30, 2016

in € thousand	Subscribed Capital	Capital reserve	Treasury shares	Currency translation differences recognized in equity	Other liabilities	Equity attributable to shareholders of the parent company	Non-controlling interests	Total
Dec. 31, 2014/Jan. 1, 2015 following restatement according to IAS 8	**49,704**	**61,097**	**-**	**(5,632)**	**113,108**	**218,277**	**1,229**	**219,506**
Group net result for the period	-	-	-	-	(18,005)	(18,005)	76	**(17,929)**
Actuarial gains and losses					246	246		**246**
Currency translation differences	-	-	-	2,281	-	2,281		**2,281**
Group comprehensive income	**-**	**-**	**-**	**2,281**	**(17,759)**	**(15,478)**	**76**	**(15,402)**
Other changes	**-**	**-**	**-**	-	-	-	(3)	**(3)**
Purchase of non-controlling interests	-	-	-	-	-	-	(7)	**(7)**
June 30, 2015	**49,704**	**61,097**	**-**	**(3,351)**	**95,349**	**202,799**	**1,295**	**204,094**
Restatements according to IAS 8								
Group net result for the period	-	-	-	-	(7,833)	(7,833)	-	**(7,833)**
June 30, 2015/July 1, 2015 following restatement according to IAS 8	**49,704**	**61,097**	**-**	**(3,351)**	**87,516**	**194,966**	**1,295**	**196,261**
Group net result for the period	-	-	-	-	8,219	8,219	50	**8,269**
Actuarial gains and losses	-	-	-	-	(187)	(187)		**(187)**
Currency translation differences	-	-	-	(990)	-	(990)		**(990)**
Group comprehensive income	**-**	**-**	**-**	**(990)**	**8,032**	**7,042**	**50**	**7,092**
Other changes	**-**	**-**	**-**	-	-	-	3	**3**
Dec. 31, 2015	**49,704**	**61,097**	**-**	**(4,341)**	**95,548**	**202,008**	**1,348**	**203,356**
Group net result for the period	-	-	-	-	(17,336)	(17,336)	13	**(17,323)**
Actuarial gains and losses	-	-	-	-	(1,458)	(1,458)		**(1,458)**
Currency translation differences	-	-	-	(1,208)	-	(1,208)		**(1,208)**
Group comprehensive income	**-**	**-**	**-**	**(1,208)**	**(18,794)**	**(20,002)**	**13**	**(19,989)**
June 30, 2016	**49,704**	**61,097**	**-**	**(5,549)**	**76,754**	**182,006**	**1,361**	**183,367**

* restated according to IAS 8, please refer to section 4 of the Group notes and the appendix to the notes to the Group Financial Statements of December 31, 2015

6 NOTES TO THE GROUP FINANCIAL STATEMENTS of KHD Humboldt Wedag International AG as of June 30, 2016

1. Group structure and affiliated companies

KHD Humboldt Wedag International AG ("KHD" or "Group") is one of the world's leading providers of equipment and services for cement producers. In its capacity as the managing holding company of the Group, KHD holds a 100% interest in KHD Humboldt Wedag GmbH, Cologne/Germany on June 30, 2016, unchanged since December 31, 2015. The core business areas of KHD's 13 Group companies are industrial plant engineering and providing related services. The strategic and operational focus of the Group entities is on planning and constructing plants for the cement industry and providing a comprehensive range of services.

2. Reporting principles

The interim financial statements of KHD are prepared using uniform accounting principles. The interim financial statements of KHD and of the subsidiaries that are included in the consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) and the related interpretations of the International Accounting Standards Board (IASB), as applicable pursuant to Regulation No. 1606/2002 of the European Parliament and Council concerning the application of International Accounting Standards in the EU for interim financial reporting. In accordance with IAS 34, this interim report does not contain all of the information and notes to the financial statements that the IFRS requires for consolidated financial statements at the end of a financial year.

These consolidated financial statements and the Group management report for the first half-year 2016 were neither audited pursuant to Section 317 of the German Commercial Code (HGB), nor were they subjected to an auditor's review.

The accounting and measurement methods applied in these interim financial statements are consistent with those applied as of December 31, 2015, unless changes are described. The methods are described in detail in KHD's Group Annual Report on the IFRS consolidated financial statements as of December 31, 2015 on pages 85ff.

These interim consolidated financial statements give a true and fair view of the net assets, financial position and result of operations during the reporting period.

The preparation of interim financial statements requires that estimates are used and assumptions are made that have an impact on the assets, liabilities, provisions, deferred tax assets and liabilities, as well as income and expenses. Over time, the estimates and assumptions can change and significantly affect the net assets, financial position and result of operations of KHD. Although the estimates and assumptions are made carefully and conscientiously, it cannot be excluded that the actual amounts might deviate from the estimates used in the interim financial statements.

The assumptions and estimates apply for the most part to the group-wide determination of economic useful life, the assumption used as basis for the impairment test of the goodwill, the measurement of provisions, the usability of tax loss carryforwards as well as the estimation of project costs and the percentage of completion in case of construction contracts.

KHD operates in the area of plant engineering and construction and determines the result of construction contracts according to the percentage of completion (POC) method based on the stage of completion. The POC method leads to profit recognition based on the stage of completion corresponding to the ratio of costs incurred to the estimated overall project costs. Expected losses from construction contract 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 project revenues, the project risks and other relevant figures. According to the POC method, changes in estimates can lead to an increase or decrease in revenue.

These interim consolidated financial statements have been prepared in euro. All amounts, including figures used for comparison, are stated in thousands of euros (€ thousand). All amounts have been rounded in accordance with standard commercial practice.

3. 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).

The following standards and/or changes to standards were published by the IASB during the reporting period.

- In January 2016, the IASB published IFRS 16 “Leases”. Following its pending endorsement into European law, its initial application is expected starting on January 1, 2019. In the fundamentally revised concept of lease accounting based on the right of use model, KHD will recognize leases previously treated as off-balance sheet transactions on the face of the balance sheet. The differentiation of financing and operating leases previously required under IAS 17 will no longer apply for the lessee. The standard will affect the presentation of the assets, financial and earnings position of KHD. The entire effect of IFRS 16 is currently being evaluated in context of a group-wide project. An estimation of the quantitative effects will not be possible before the project is concluded.

- In addition, in January 2016, the IASB published an amendment to IAS 7, “Disclosure Initiatives” as well as amendment of IAS 12, “Recognition of Deferred Tax Assets for Unrealized Losses”. While the amendment of IAS 7 stipulates disclosures with regard to the separation of cash flows resulting from financial debts (liabilities arising from financing activities), the addition in IAS 12 clarifies the accounting for deferred tax assets for unrealized losses. According to the current assessment, neither the amendment of IAS 7 nor the clarification in IAS 12 significantly affect the KHD Group financial statements.

- In addition to IFRS 15, “Revenue from Contracts with Customers”, published as early as May 2014, the IASB published a clarification regarding IFRS 15 in April 2016. These explanations do not include any amendments to the fundamental principles of the standard; instead, they function purely as clarification and additional simplification for the transition process. For this reason, with respect to the effects and the application of the new rules, reference is made to the Group Annual Report 2015.

For further information regarding standards, interpretations and amendments that have been published, but are not yet applicable, please see section 1 of the Group notes to the Group Annual Report 2015.

4. Consolidation

Subsidiaries are investees over which KHD has 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. At KHD this is regularly the case when 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.

Besides KHD AG, the Group includes:

Name of company	Registered office	Main business	Voting rights and equity interest in % June 30, 2016	Voting rights and equity interest in % Dec. 31, 2015		Currency	Subscribed capital June 30, 2016	Subscribed capital Dec. 31, 2015
Subsidiaries								
KHD Humboldt Wedag GmbH	Cologne, Germany	Holding function	100.00	100.00	D	€	15,339,300	15,339,300
Humboldt Wedag GmbH	Cologne, Germany	Plant engineering	100.00	100.00	I	€	7,000,000	7,000,000
ZAB Zementanlagenbau GmbH Dessau	Dessau, Germany	Plant engineering	100.00	100.00	I	€	2,000,000	2,000,000
Blake International Ltd.	Road Town, British Virgin Islands	Holding function	100.00	100.00	I	USD	1,000	1,000
KHD Humboldt Wedag Industrial Services AG	Cologne, Germany	Services	91.18	91.18	I	€	3,600,000	3,600,000
EKOF Flotation GmbH	Bochum, Germany	Flotation technology	100.00	100.00	I	€	51,129	51,129
Humboldt Wedag Australia Pty Ltd.	Braeside, Australia	Sales	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

5. Segment reporting

For KHD, reporting is done in two separate segments. 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 previous year's segment reporting was adjusted retrospectively to the segment structure that applied starting on October 1, 2015. The business activity of the two reportable now includes 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 directly 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 also allocated to this segment. General and administrative expenses, sales expenses and other expenses (in particular research and development expenses) 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 optimization of cement plants, maintenance services, plant audits, creating plant 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 2016 and 2015 financial half-years. The figures for the first financial half-year 2015 were adjusted retrospectively with regard to the new segment structure that applies since October 1, 2015.

in € million	**Capex Jan. 1 - June 30, 2016**	**Plant Services Jan. 1 - June 30, 2016**	**Total Group Jan. 1 - June 30, 2016**	**Capex Jan. 1 - June 30, 2015**	**Plant Services Jan. 1 - June 30, 2015**	**Total Group Jan. 1 - June 30, 2015**	
Order Intake	1.7	17.6	19.3	45.1	20.6	65.7	
Revenue	47.3	19.3	66.6	71.8	17.6	89.4	*
Cost of sales	-55.5	-13.2	-68.7	-86.3	-13.6	-99.9	**
Gross Profit	-8.2	6.1	-2.1	-14.5	4.0	-10.5	*
Other expenses / other income (net)	-13.2	-3.5	-16.7	-16.0	-2.0	-18.0	
Earnings before interest and taxes (EBIT)	-21.4	2.6	-18.8	-30.5	2.0	-28.5	*
Net finance income			3.4			4.3	
Earnings before tax (EBT)			-15.4			-24.2	*
For information only: Depreciation	*0.9*		*0.9*	*1.0*		*1.0*	

* restated according to IAS 8, please refer to section 4 of the Group notes and the appendix to the notes to the Group Financial Statements of December 31, 2015

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.

In its segment reporting, KHD reports only revenue from external customers, i.e. revenue between the two segments is eliminated. As a result of the change in the segment structure as described above, the segments currently do not generate revenue with the respective other segment.

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

in € thousand	Revenue Jan. 1 - June 30, 2016	Revenue Jan. 1 - June 30, 2015	Non-current assets June 30, 2016	Non-current assets Dec. 31, 2015
Germany	2,656	2,983	5,671	6,192
Russia	3,428	23,843	3,037	3,035
Rest of Europe	2,761	3,220		-
North America	14,856	33,689*	199	150
South America	4,208	2,847	23	31
Middle East	8,622	12,388		-
India	24,541	5,984	1,115	994
China	366	387	13	22
Rest of Asia	3,629	2,202	18	21
Africa	1,422	2,001	-	-
Other	78	(140)	-	-
	66,567	**89,404**	**10,076**	**10,445**

in € thousand	Order intake Jan. 1 - June 30, 2016	Order intake Jan. 1 - June 30, 2015	Order backlog June 30, 2016	Order backlog Dec. 31, 2015	
Germany	1,153	1,224	1,350	2,853	
Russia	2,215	3,415	14,383	15,596	
Rest of Europe	2,198	3,053	6,297	6,860	
North America	2,514	7,319	15,912	28,254	*
South America	618	1,584	2,795	6,385	
Middle East	2,993	5,803	13,028	18,657	
India	8,714	36,617	72,310	88,137	
China	706	(17)	358	18	
Rest of Asia	3,489	5,417	8,366	15,484	
Africa	1,649	1,638	1,474	1,247	
Other	70	(217)	345	353	
	19,341	**65,836**	**136,618**	**183,844**	

* restated according to IAS 8, please refer to section 4 of the Group notes and the appendix to the notes to the Group Financial Statements of December 31, 2015

6. Construction contracts

The gross amount due from or due to customers for contract work is recognized at contract cost incurred plus proportionate profits depending on the stage of completion less progress billings and recognized contract losses.

in € thousand	**June 30, 2016**	**Dec. 31, 2015**
Costs incurred to date for construction contracts	490,779	481,320
Proportionate profits under these contracts recognized to date	34,625	41,181
Total costs incurred and profits recognized	525,404	522,501
Less recognized contract losses	(30,795)	(23,829)
Less progress billings	(490,066)	(485,186)
Balance of construction contracts account	**4,543**	**13,486**
This amount is comprised as follows:		
Gross amount due from customers for contract work	40,949	46,020
Gross amount due to customers for contract work	(36,406)	(32,534)
	4,543	**13,486**
Gross amount due to customers for contract work	(36,406)	(32,534)
Advances received under construction contracts (before related work is performed)	(6,198)	(4,797)
Commitments under construction contracts	**(42,604)**	**(37,331)**

The balance of the construction contracts decreased from € 13,486 thousand by € 8,943 thousand to € 4,543 thousand due to the timing of the billing. Of the revenue of € 66,567 thousand recognized in the period under review (previous year, as of June 30, 2015: € 89,404 thousand), € 54,331 thousand (previous year, as of June 30, 2015: € 78,419 thousand) is attributable to construction contracts for which revenue was recognized on the basis of the 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 amount of about € 6 million in the first half-year of 2016.

7. Cash and cash equivalents

The Group reports cash and cash equivalents in the amount of € 61,709 thousand (previous year, as of December 31, 2015: € 112,673 thousand).

in € thousand	**June 30, 2016**	**Dec. 31, 2015**
Bank balances and cash on hand	35,180	56,126
Short-term bank deposits	26,443	56,461
Restricted cash (collateral for guarantees)	86	86
	61,709	**112,673**

8. Other expenses

in € thousand	**Jan. 1 - June 30, 2016**	**Jan. 1 - June 30, 2015**
Research and development	1,760	2,600
Exchange rate losses and expenses from foreign exchange forward contracts	1,328	3,261
Miscellaneous expenses	1,399	1,163 *
	4,487	**7,024**

* In contrast to the Half-Year Report of June 30, 2015, idle capacity costs resulting from under-utilization of existing capacities are not disclosed as other expenses, but instead, as part of the cost of sales. To ensure comparability, the previous year's figures were adjusted retrospectively.

9. Income tax

The expenses booked in the first half-year 2016 for income taxes amounts to € 1,898 thousand (previous year, as of June 30, 2015: € 1,579 thousand). The income tax expense is composed as follows:

in € thousand	**Jan. 1 - June 30, 2016**	**Jan. 1 - June 30, 2015**
Current tax expense	(1,364)	(2,248)
Deferred tax expense / income	(534)	669
Tax expense for the year	**(1,898)**	**(1,579)**

The taxes reported in the interim period are calculated using the estimated effective tax rate of the respective company.

10. Litigation

As already reported in the 2015 Group Financial Statements, pending arbitration claims were finally decided in January 2016 by an arbitration award. The effects of the arbitration award on the income statement were already recognized in full in the financial year 2015. In the reporting period, only the outstanding payment to the customer was made.

All other litigations that are subject to disclosure are unchanged compared with the status that had been reported in the 2015 Group Financial Statements.

11. Transactions with related parties

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.

Relationships to parent entities

There has been a cooperation agreement with AVIC Beijing since 2010, reinforced since February 2011 by the capital interest 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 June 30, 2016, AVIC Beijing indirectly holds the majority of KHD shares with 89.02%. Among others, the strategic partnership between AVIC Beijing and KHD resulted in joint projects in Malaysia, Venezuela, and Turkey.

Relationships to other related entities

The cooperation between the KHD Group and the AVIC Group was expressed in the conclusion of two loan contracts in the financial year 2014, each regarding € 50.0 million, with AVIC International (HK) Group Ltd. (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 granted 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 Group.

The following transactions took place with related companies in the first half-year 2016:

Income

in € thousand	Jan. 1 - June 30, 2016	Jan. 1 - June 30, 2015
Indirect parent entities	7,395	-
Other related entities	3,033	3,892
	10,428	3,892

Income with indirect parent companies relate to revenue from projects in America in which the cooperation partner AVIC Beijing is KHD's customer as well as costs charged back for a project in which AVIC Beijing is the supplier. Included in the income with other related entities is interest income from the loan with AVIC HK in the amount of € 3,033 thousand.

Expenses

in € thousand	Jan. 1 - June 30, 2016	Jan. 1 - June 30, 2015
Indirect parent entities	25	9,382
Other related entities	-	1,757
	25	11,139

In the financial year, the expenses from transactions with related entities total € 25 thousand (previous year: € 9,382 thousand). The expenses from transactions with indirect parent companies are related to contract costs of projects for which AVIC Beijing provides supplies and services to KHD.

Current assets

in € thousand	June 30, 2016	Dec. 31, 2015
Indirect parent entities	55,371	47,946
Other related entities	230	3,190
	55,601	51,136

As of June 30, 2016, there were current assets due from the companies of the AVIC Group in the amount of € 55,601 thousand (previous year: € 51,136 thousand). These assets result from advance payments, receivables from projects, and claims. An amount totaling € 18,000 thousand results from the cooperation agreement between AVIC Beijing and Humboldt Wedag GmbH.

Non-current assets

As of the reporting date, loans to other related entities in a total amount of € 100,000 thousand are included in the balance sheet under non-current assets.

Liabilities

in € thousand	June 30, 2016	Dec. 31, 2015
Indirect parent entities	10,155	5,732
Other related entities	7,095	322
	17,250	6,054

As of June 30, 2016, liabilities due to AVIC Beijing in the amount of € 17,250 thousand (previous year: € 6,054 thousand) were reported in the balance sheet. The liabilities relate to the projects mentioned above.

12. Additional notes on financial instruments

List of Financial Assets and Liabilities by Category

June 30, 2016	**Financial assets**				**Financial liabilities**				
in € thousand	Available for sale	Held for trading purposes	Loans and receivables	Not in the scope of application IFRS7	Held for trading purposes	Carried at amortized acquisition costs	Not in the scope of application IFRS7	Carrying amount June 30, 2016	Fair value June 30, 2016
Non-current assets	-	-	103,356	-	-	-	-	103,356	104,245
Trade receivables	-	-	57,715	-	-	-	-	57,715	57,715
Other financial assets	-	512	-	-	-	-	-	512	512
Derivatives		50			-	-	-	50	50
Other receivables	-	-	1,935	2,548	-	-	-	4,483	4,483
Cash and cash equivalents	-	-	61,709	-	-	-	-	61,709	61,709
Total financial assets	**-**	**562**	**224,715**	**2,548**	**-**	**-**	**-**	**227,825**	**228,714**
Financial liabilities	-	-	-		-	92	-	92	92
Loans						25,000		25,000	25,000
Other liabilities	-	-	-		-	3,946	3,331	7,277	7,277
Derivatives	-	-	-		2	-	-	2	2
Trade and other payables	-	-	-		-	54,281	-	54,281	54,281
Total financial liabilities	**-**	**-**	**-**	**-**	**2**	**83,319**	**3,331**	**86,652**	**86,652**

Dec. 31, 2015 in € thousand	Financial assets Available for sale	 Held for trading purposes	 Loans and receivables	 Not in the scope of application IFRS7	Financial liabilities Held for trading purposes	 Carried at amortized acquisition costs	 Not in the scope of application IFRS7	Carrying amount Dec. 31, 2015	Fair value Dec. 31, 2015
Non-current 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
Loans						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**

The carrying amounts reported on June 30, 2016 in general correspond to the fair values.

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

- The fair values for the securities listed on the stock exchange which are held for trading purposes are determined in reference to quoted market prices.
- The fair value of the derivatives is calculated based on discount 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 determined based on the present value method. The future cash flow from the loans is discounted with risk-adjusted market interest that takes the specific country, credit and security risks into consideration.

Financial assets and financial liabilities	Fair value		Hie-rar-chy	Measurement method	Significant unobservable input(s)
	June 30, 2016	Dec. 31, 2015			
Derivatives	Financial assets: T€ 50 Liabilities: T€ 2	Financial assets: T€ 0 Liabilities: T€ 440	Level 2	Discounted cash flow	N/A
Securities	Financial assets: T€ 512	Financial assets: T€ 618	Level 1	Listed price on active market	N/A
Loans	Financial assets: T€ 100,889 Liabilities: T€ 25,000	Financial assets: T€ 100,811 Liabilities: T€ 25,000	Level 3	Discounted cash flow	Credit risk for the borrower

There was no reclassification between levels 1 and 2 in the current reporting period.

13. Other disclosures

Within the scope of its normal business activities, the Group has contingent liabilities due to advance guarantees, performance bonds, and guarantees for warranty obligations. The Group does not anticipate any material liabilities due to these commitments. There are bank guarantee credit facilities that allow the individual companies of the Group to provide bank guarantees for their customers all over the world. Within the scope of these bank guarantee credit facilities, the Group has provided bank guarantees in the amount of € 37.4 million (previous year, as of Dec. 31, 2015: € 33.0 million).

With respect to events that occurred after the closing date for the financial statements, please refer to the corresponding section in the Management Report regarding the Interim Group Financial Statements as of June 30, 2016.

14. Responsibility statement

To the best of our knowledge we assure that, in accordance with the applicable reporting standards for interim financial reporting, the interim consolidated financial statements, in accordance with the accounting standards generally accepted in Germany, give a true and fair view of the net assets, financial position, and result of operations of the Group, and the interim Group management report includes a fair review of the development and performance of the business and the position of the Group along with a description of the principal opportunities and risks associated with the expected development of the Group for the remainder of the financial year.

In addition, we assure that the interim financial report complies with the regulations of IAS 34, as well as the further applicable International Accounting Standards and the applicable interpretations of the IFRS Interpretations Committee.

Cologne, Germany, August 12, 2016

The Management Board

(s) Jürgen Luckas (s) Yizhen Zhu (s) Daniel Uttelbach

(s) Tao Xing