

# Financial Statements 2016



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**KHD Humboldt Wedag  
International AG**



**Annual Financial Statements  
as of December 31, 2016**

## List of Abbreviations

AVIC Beijing	AVIC International Beijing Company Limited, Beijing, China
AVIC Engineering	AVIC International Engineering Holdings Pte. Ltd. Singapore, Singapore
AVIC HK	AVIC International Holdings (HK) Limited, Hong Kong
BiRUG	Accounting Directive Implementation Act
HW	Humboldt Wedag GmbH, Cologne, Germany
HWAUS	Humboldt Wedag Australia Pty Ltd., Braeside, Australia
HW Do Brasil	Humboldt Wedag Do Brasil Servicos Technicos Ltda., Belo Horizonte, Brazil
HW Inc.	Humboldt Wedag, Inc., Norcross / Georgia, USA
HW India	Humboldt Wedag India Private Ltd., New Delhi, India
HW Malaysia	Humboldt Wedag Malaysia Sdn. Bhd., Kuala Lumpur, Malaysia
KHD	KHD Humboldt Wedag International AG, Cologne, Germany
KHD Beijing	KHD Humboldt Wedag Machinery Equipment (Beijing) Co. Ltd., Beijing, China
KHD HW	KHD Humboldt Wedag GmbH, Cologne, Germany
KHD OOO	KHD Humboldt Engineering OOO, Moscow, Russia
KIS AG	KHD Humboldt Wedag Industrial Services AG, Cologne, Germany
ZAB	ZAB Zementanlagenbau GmbH Dessau, Dessau, Germany

**Annual Financial Statements of  
KHD Humboldt Wedag International AG  
for the 2016 Financial Year**

Table of Contents

	Page
1. Combined Management Report of KHD Humboldt Wedag International AG and the Group for the Financial Year 2016	3
Annual Financial Statements of KHD Humboldt Wedag International AG	
2. Balance Sheet as of December 31, 2016	4
3. Income Statement 2016	6
4. Notes to the Financial Statements 2016	7
5. Movements in Fixed Assets in the 2016 Financial Year (Appendix to the Notes)	27
6. Responsibility Statement	28
7. Auditor's opinion	29
8. Report of the Supervisory Board of the Fiscal Year 2016	31
9. Declaration of Compliance	37

## **1 Combined Management Report of KHD Humboldt Wedag International AG and the Group for the Financial Year 2016**

The management report of KHD Humboldt Wedag International AG (KHD), Cologne, and the Group management report are combined in accordance with Section 315 Paragraph 3 of the German Commercial Code (HGB) together with Section 298 Paragraph 3 of the HGB and published in the 2016 annual report of the KHD Group.

The annual report of the KHD Humboldt Wedag International AG is available on the internet site of KHD (<http://www.khd.com/annual-report.html>).

## 2 Balance Sheet of KHD Humboldt Wedag International AG as of December 31, 2016

<b>Assets</b>	Dec. 31, 2016 € thousand	Dec. 31, 2015 € thousand
<b>A. Fixed assets</b>		
<b>I. Property, plant, and equipment</b>		
Other plant, operating, and office equipment	6	7
	<u>6</u>	<u>7</u>
<b>II. Financial investments</b>		
1. Shares in affiliated companies	63,410	51,410
2. Long-term loans to affiliated companies	100,000	100,000
	<u>163,410</u>	<u>151,410</u>
	<u>163,416</u>	<u>151,417</u>
<b>B. Current assets</b>		
<b>I. Receivables and other assets</b>		
1. Receivables due from affiliated companies	22,304	27,002
those which have a residual term of more than one year: € 7,296 thousand (previous year: € 0 thousand)		
2. Other assets	763	1,293
	<u>23,067</u>	<u>28,295</u>
<b>II. Bank balances</b>	<u>7,882</u>	<u>23,981</u>
	<u>30,949</u>	<u>52,276</u>
<b>C. Prepayments and deferred expenses</b>	54	65
	<u>194,419</u>	<u>203,758</u>

<b>Equity and liabilities</b>	<b>Dec. 31, 2016</b> <b>€ thousand</b>	<b>Dec. 31, 2015</b> <b>€ thousand</b>
<b>A. Equity</b>		
<b>I. Subscribed capital</b>	49,704	49,704
<b>II. Capital reserves</b>	61,493	61,493
<b>III. Revenue reserves</b>		
1. Legal reserve	1,538	1,538
2. Other revenue reserves	1,768	1,768
	<u>3,306</u>	<u>3,306</u>
<b>IV. Accumulated loss / Net retained profit</b>	-9,046	7,724
	<u>105,457</u>	<u>122,227</u>
<b>B. Provisions and accruals</b>		
1. Provisions for taxes	1,234	1,075
2. Other provisions and accruals	1,226	1,176
	<u>2,460</u>	<u>2,251</u>
<b>C. Liabilities</b>		
1. Liabilities due to banks	25,093	25,092
those which have a residual term of up to one year: € 93 thousand (previous year: € 92 thousand)		
2. Trade payables	70	75
3. Liabilities due to affiliated companies	61,249	53,379
4. Other liabilities	49	158
of which tax liabilities € 49 thousand (previous year: € 158 thousand)		
	<u>86,461</u>	<u>78,704</u>
<b>D. Deferred tax liabilities</b>	41	576
	<u>194,419</u>	<u>203,758</u>

### 3 Income Statement for the period from January 1 to December 31, 2016

in € thousand	2016	2015
1. Revenue	2,842	0
2. Other operating income	1,237	5,006
of which from exchange rate gains		
€ 1,028 thousand (previous year: € 1,822 thousand)		
3. Cost of purchased services	595	0
4. Personnel expenses		
a) Wages and salaries	1,245	2,145
b) Social security expenses	30	41
	1,275	2,186
5. Amortization		
a) on other plant, operating and office equipment	7	11
b) of current assets,		
as much as they exceed customary		
amortization in the corporation	17,749	0
6. Other operating expenses	3,556	4,638
of which from exchange losses		
€ 49 thousand (previous year: € 222 thousand)		
7. Income from long-term loans in financial assets	6,100	6,083
of which from affiliated companies		
€ 6,100 thousand (previous year: € 6,083 thousand)		
8. Other interest and similar income	1,722	1,901
of which from affiliated companies		
€ 1,719 thousand (previous year: € 1,885 thousand)		
9. Interest and similar expenses	4,536	3,789
of which to affiliated companies		
€ 3,437 thousand (previous year: € 3,042 thousand)		
10. Income taxes	953	883
of which deferred taxes		
€ -535 thousand (previous year: € 418 thousand)		
11. Earnings after taxes	-16,770	-16,770
12. Net loss / profit for the year	-16,770	1,483
13. Profit carried forward from previous year	7,724	6,241
14. Accumulated loss / Net retained profit	-9,046	7,724



## **4 Notes to the Financial Statements 2016**

### **4.1 General Remarks**

#### **Combined Management Report:**

The management report of KHD Humboldt Wedag International AG (KHD), Cologne, and the Group management report are combined in accordance with Section 315 Paragraph 3 of the German Commercial Code (HGB) together with Section 298 Paragraph 3 of the HGB and published in the 2016 annual report of the KHD Group. The annual financial statements and the combined management report of KHD together with the Group management report for the 2016 financial year are submitted to the provider of the Federal Gazette where they are published. The annual financial statements of KHD and the Group annual report for the 2016 financial year are also available online at <http://www.khd.com/annual-report.html>.

#### **Accounting**

KHD is registered at the District Court Cologne under the Commercial Register number HRB 36688. The company maintains its head office at Colonia-Allee 3 in Cologne, Germany. The annual financial statements of KHD for the 2016 financial year have been prepared in accordance with the German Commercial Code (HGB) as applicable for large corporations and those of the German Stock Corporation Act (AktG). All amounts, including figures used for comparison, are generally stated in thousands of euros (€ thousand), unless otherwise indicated. All amounts have been rounded according to normal commercial practice. The nature of expense method has been applied to the income statement. KHD is a large corporation in the meaning of Sections 267 Paragraph 3 and 264d of the German Commercial Code (HGB).

For the first time, the annual financial statements of KHD for the 2016 financial year take into account the amendment of the commercial code based on the Accounting Directive Implementation Act (BilRUG). The Accounting Directive Implementation Act is not applied retroactively. If, due to the amendments to the law, a comparison with the previous year's figures and information cannot be ensured, reference will be made in the respective, attached notes and the effect of the adjustment indicated.

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

## **4.2 Accounting and Valuation Principles**

### **Fixed Assets**

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

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

### **Current Assets**

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

### **Prepaid Expenses**

As prepaid expenses the payments before the balance sheet date are recognized as long as they represent expenses for a certain period after this date

### **Deferred Taxes**

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

**Equity**

Subscribed capital corresponds to the articles of association and the entry in the commercial register and is recorded at nominal value.

**Other Provisions and Accruals**

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

**Tax provision**

Tax provisions are recognized in an amount corresponding to expected additional payments by taking into account the advanced payments.

**Liabilities**

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

**Currency Translation**

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

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

**Derivative Financial Instruments**

Derivative financial instruments are used to hedge currency risks. The fair value of the derivatives is calculated based on discounted cash flow analyses using the corresponding yield curves for the term of the respective instruments. As pending transactions, derivative financial instruments are not recognized in the balance sheet. They are recognized only if the measurement of the respective financial instrument as of the reporting date is expected to result in a contingent loss.

In the previous year, in accordance with the option in Section 254 of the German Commercial Code (HGB), derivative financial instruments were combined with underlying transactions as a single valuation unit because there was a direct hedge relationship between the financial instrument and the underlying transaction. The single valuation unit was eliminated during the year because the underlying transactions were terminated in the 2016 financial year. The option in Section 254 of the German Commercial Code (HGB) was not utilized as of December 31, 2016. As a result, the reporting for the financial instruments existing on December 31, 2016 is done in accordance with the general accounting and valuation principles.

### **4.3 Notes to the Balance Sheet and Income Statement**

#### **1. Fixed Assets**

Please refer to the statement of movements in fixed assets between January 1 and December 31, 2016, which is attached as an appendix to the notes to the financial statements.

The financial assets include the shares in KHD Humboldt Wedag GmbH in the amount of € 63,410 thousand (previous year: € 51,410 thousand). The increase in shares in KHD HW in the amount of € 12,000 thousand is the result of a contribution to the capital reserves of the subsidiary in December 2016.

The long-term loans to affiliated companies include two loans in of € 50 million each to AVIC HK. Both loans were granted in the 2014 financial year and each has a term of three years.

#### **2. Receivables and Other Assets**

Receivables due from affiliated companies total € 22,304 thousand (previous year: € 27,002 thousand)

The considerable decrease in receivables due from affiliated companies is, in particular, the result of a waiver of loan and interest receivables from an indirect subsidiary in the USA declared by KHD on December 7, 2016. The waiver of receivables results from the unfavorable asset and earnings development of the subsidiary in the 2016 financial year.

The extraordinary expenses from the waiver of receivables declared amount to € 17,749 thousand. The waiver of receivables is associated with a debtor warrant, i.e. the receivable is restored if the equity of the subsidiary exceeds a specific value.

KHD acquired receivables due from an indirect parent company, AVIC Beijing, from several subsidiaries in the financial year. The receivables due from AVIC Beijing amounted to € 21,854 thousand (previous year: € 48thousand) as of December 31, 2016. The receivables incur interest based on a deferral agreement at usual market conditions. Of the total amount, € 7,296 thousand has a residual term of more than one year.

The rest of the receivables due from affiliated companies primarily relate to receivables due from companies of the KHD Group for services invoiced as of December 31, 2016, based on the service and cost allocation agreement as well as the bond arrangement agreement amounting in total to € 450 thousand (previous year: € 132 thousand).

Other assets include a VAT credit in the amount of € 755 thousand (previous year: € 1,184 thousand). Within the tax unity for VAT are amounts payable to the subsidiaries HW and ZAB for reimbursement claims totaling € 719 thousand (previous year: € 1,155 thousand). Consequently, an identical amount is reported under liabilities due to affiliated companies.

As in the previous year, all amounts have a residual term of up to one year. Only the receivables due from AVIC Beijing regarding the deferral agreement in the amount of € 7,296 thousand have a remaining term of more than one year.

### 3. Bank Balances

The reduction in bank balances by € 16.099 thousand to € 7,882 thousand (previous year: € 23,981 thousand) is principally the result of a contribution to the capital reserves of KHD HW in December 2016.

### 4. Equity

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

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

#### Changes in Equity in the 2016 Financial Year

€ thousand	Subscribed capital	Capital reserves	Legal reserve	Other revenue reserves	Net retained profit / accumulated loss	Total
Status as of Jan. 1, 2016	49,704	61,493	1,538	1,768	7,724	122,227
Net loss for 2016	0	0	0	0	-16,770	-16,770
Status as of Dec. 31, 2016	49,704	61,493	1,538	1,768	-9,046	105,457

Following the resolution of the Annual General Meeting of May 18, 2016, the net retained profit reported as of December 31, 2015, was carried forward to new account. An accumulated loss of € 9,046 thousand as of December 31, 2016 is a result of the net loss for the year of € 16,770 thousand.

## 5. Provisions and Accruals

	Dec. 31, 2016 € thousand	Dec. 31, 2015 € thousand	Change € thousand
Provisions for taxes	1,234	1,075	159
Other provisions and accruals	1,226	1,176	50
	<u>2,460</u>	<u>2,251</u>	<u>209</u>

Other provisions and accruals include provisions for personnel-related costs (€ 71 thousand, previous year € 699 thousand), for the preparation and audit of annual financial statements (€ 111 thousand, previous year: € 109 thousand) and for outstanding invoices (€ 655 thousand, previous year: € 368 thousand) as well as provisions for contingent losses (€ 389 thousand, previous year: € 0).

## 6. Liabilities

Under liabilities due to banks, KHD includes a bank loan taken out in October 2015 in the amount of € 25 million. The loan is due and payable in October 2018 and its remaining term is greater than one year and less than five years; all other liabilities reported as of December 31, 2016 have remaining terms of up to one year.

The liabilities due to affiliated companies amount to € 61,249 thousand (previous year: € 53,379) and mainly result of loans extended by ZAB and HW amounting to a total of € 50,000 thousand. The loans taken out by the subsidiaries are used to finance a loan for € 50,000 thousand granted from KHD itself to AVIC HK. The subsidiaries were allowed the same interest rate (6% per annum) that KHD obtained from its loan to AVIC HK. In addition to these in the 2014 financial year granted loans further loans respectively credit lines were granted to KHD. HW granted KHD another loan of € 5 million in the 2016 financial year, which incurs interest at 6% p.a. In addition, KIS AG granted KHD a credit line of € 7 million in the 2016 financial year, of which € 5 million was utilized. The credit line incurs interest at 6% p.a. Moreover, liabilities due to affiliated companies also relate to liabilities due to HW and ZAB arising from the tax unity for VAT as well as liabilities from the exchange of services.

## **7. Contingent Liabilities**

KHD has provided € 151.3 million (previous year: € 164.1 million) to affiliated companies in the form of Group guarantees, letters of comfort, and securities. Thereof contingent liabilities arising from sureties as well as draft and check guarantees amount to € 0.3 million (previous year: € 0.3 million), and contingent liabilities arising from warranty guarantees amount to € 151.0 million (previous year: € 163.8 million).

Furthermore, as of December 31, 2016, € 33,638 thousand (previous year: € 32,967 thousand) relate to contingent liabilities to banks resulting from bank guarantees that the Company has provided to KHD Group companies under existing bank guarantee credit facilities. The contingent liabilities to banks comprised of sureties as well as draft and check guarantees amount to € 1,313 thousand (previous year: € 1,593 thousand), and contingent liabilities arising from warranty guarantees amount to € 32,325 (previous year: € 31,374 thousand).

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

DEUTZ AG, Cologne, Germany, has provided a deed of release of € 127 thousand (previous year: € 232 thousand) to cover KHD's subsidiary liability due to Unterstützungsgesellschaft mbH of Maschinenfabrik Fahr AG. Arising from this matter, HypoVereinsbank AG, Munich, Germany, a company of the UniCredit Group, has provided a letter of comfort that secures the settlement by DEUTZ AG.

## **8. Other Financial Obligations**

Other financial obligations amounting to € 146 thousand (previous year: € 731 thousand) relate to obligations arising from consulting contracts (€ 120 thousand) and leasing contracts (€ 26 thousand) with a remaining term of up to three years.

## **9. Revenue**

Revenue mainly includes income from charges for the supply of centralized services to affiliated companies pursuant to the service and cost allocation agreement in the amount of € 1,544 thousand (previous year: € 0) and financial services pursuant to the bond arrangement agreement in the amount of € 1,298 thousand.



As a result of the initial application of the Accounting Directive Implementation Act (BilRUG), these services will be reported under revenue in the 2016 financial year. These services were reported under other operating income in the previous year, when the services from the service and cost allocation agreement totaled € 1,202 thousand and those from the bond arrangement agreement totaled € 1,638 thousand.

The revenue is generated with Group companies that have their location in the following geographic markets:

	2016 € thousand
Germany	1,259
USA	813
India	759
Russian Federation	2
China	8
Malaysia	1
	<u>2,842</u>

#### **10. Other Operating Income**

Other operating income primarily includes exchange rate gains of € 1,028 thousand (previous year: € 1,822 thousand) and the prior period income from the release of other provisions in the amount of € 136 thousand (previous year: € 228 thousand). Services reported under other operating income in the previous year also included services from the service and cost allocation agreement (€ 1,202 thousand) and from the bond arrangement agreement (€ 1,638 thousand). Income from these services is shown as revenue in the 2016 financial year.

#### **11. Expenses For Purchased Services**

KHD shows expenses for purchased services in the amount of € 595 thousand due to the first-time adoption of BILRUG. These expenses include third-party services relating to intragroup revenue.

## 12. Personnel Expenses

Personnel expenses primarily have to do with the compensation of the current and former members of the Company's Management Board. The considerable decrease in personnel expenses is, in particular, a result of the special circumstances that occurred in the previous year (severance pay and signing fee).

## 13. Amortization

Amortization in the 2016 financial year includes both depreciation on other plant, operating, and office equipment in the amount of €7 thousand (previous year: €11 thousand) and depreciation of loan and interest receivables due from subsidiary in the amount of €17,749 thousand (previous year: €0) due to a waiver of receivables including a debtor warrant.

## 14. Other Operating Expenses

Other operating expenses comprise the following:

	2016 € thousand	2015 € thousand	Change € thousand
Group charges	1,788	852	936
Losses from foreign exchange forward contracts	541	1,563	-1,022
Legal and consulting costs	144	613	-469
Audit fees / tax advisory costs	299	328	-29
Supervisory Board compensation	242	221	21
Exchange rate losses	49	222	-173
Investor relations	37	47	-10
Other	456	792	-336
	<u>3,556</u>	<u>4,638</u>	<u>-1,082</u>

The reason for the increase in Group charges is, in particular, the expansion of the services received under the service and cost allocation with HW. In addition, operations related to brand management, marketing and sales support were settled in the financial year. The part of the legal- and consulting costs and other costs based on the service and cost allocation agreements, which is relating to intragroup revenue, is shown under expenses for purchased services due to the first-time adoption of BILRUG.

## 15. Interest income/expense

	2016 € thousand	Previous year € thousand	Change € thousand
Interest from long-term loans in financial assets	6,100	6,083	17
Other interest and similar income	1,722	1,901	-179
Interest and similar expenses	-4,536	-3,789	-747
	<u>3,286</u>	<u>4,195</u>	<u>-909</u>

Income from long-term loans in financial assets in the amount of € 6,100 thousand is the interest income (6% per annum) from the two loans granted to AVIC HK in July 2014 and November 2014, each in the amount of € 50 million. Both loans have terms of three years, whereas KHD can call the loan disbursed in July 2014 for repayment at any time by giving 30 days' notice.

Other interest and similar income include interest on term deposits in the amount of € 4 thousand (previous year: € 15 thousand), interest on a loan granted to a KHD Group company in the amount of € 1,009 (previous year: €1,886 thousand), and interest from the deferral agreement concluded with AVIC Beijing in the amount of € 709 thousand (previous year: € 0).

Interest and similar expenses mainly include interest expenses in the amount of € 3,050 thousand (previous year: €3,042 thousand) for the loans granted to HW and ZAB. The subsidiaries were allowed the same interest rate (6% per annum) that KHD obtained from its loan to AVIC HK. The interest expenses also include interest in the amount of € 177 thousand for the additional loans granted to HW and KIS AG. In addition, interest expenses in the amount of € 210 thousand were also recorded as a result of a deferral agreement concluded with HW in April 2016. Reported as well are bank guarantee fees in the amount of € 563 thousand (previous year: € 656 thousand) and interest expenses from the loan taken out from the Bank of China, Frankfurt Branch.

## **16. Other Information**

### **Employees**

The Company employed one salaried staff member on average during the year (previous year: 1). The Company does not have any blue-collar employees.

### **Deferred Taxes**

Pursuant to Section 274 Paragraph 1 of the German Commercial Code (HGB), the Company has to recognize deferred tax liabilities to the extent that these exceed deferred tax assets. Deferred tax liabilities resulted from the measurement of a foreign currency loan with the spot exchange rate. These excess liabilities were taken into account based on a tax rate of 32.45% for deferred tax valuation. The resulting accrual for deferred tax liabilities decreased by € 535 thousand from € 576 thousand to € 41 thousand.

## 17. Shareholdings

Company		Capital share in %	Currency	Equity	Net result for the year
<b><u>Subsidiaries</u></b>					
KHD Humboldt Wedag GmbH, Cologne	direct	100.00	€ thousand	59,659	-24,203
Humboldt Wedag GmbH, Cologne	indirect	100.00	€ thousand	35,333	-13,197
ZAB Zementanlagenbau GmbH Dessau, Dessau	indirect	100.00	€ thousand	24,552	2,105
EKOF Mining & Water Solution GmbH, Bochum	indirect	100.00	€ thousand	-119	-66
Blake International Ltd., Road Town, British Virgin Islands	indirect	100.00	€ thousand	4,222	0
KHD Humboldt Wedag Industrial Services AG, Cologne	indirect	91.26	€ thousand	14,591	696
Humboldt Wedag Australia Pty Ltd., Braeside, Australia	indirect	100.00	€ thousand	209	-13
Humboldt Wedag, Inc., Norcross, USA	indirect	100.00	€ thousand	8,287	-14,993
Humboldt Wedag India Private Ltd., New Delhi, India	indirect	100.00	€ thousand	33,659	8,730*
KHD Humboldt Wedag Machinery Equipment (Beijing) Co. Ltd., Beijing, China	indirect	100.00	€ thousand	-920	-696
KHD Humboldt Engineering OOO, Moscow, Russia	indirect	100.00	€ thousand	511	-324
Humboldt Wedag Malaysia Sdn. Bhd., Kuala Lumpur, Malaysia	indirect	100.00	€ thousand	278	517
Humboldt Wedag Do Brasil Servicos Technicos Ltda., Belo Horizonte, Brazil	indirect	100.00	€ thousand	32	316

\*Financial statements as of March 31, 2016

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

Spot exchange rate as of December 31, 2016

1 euro corresponds to:

AUD	1.4617
INR	71.8220
USD	1.0568
RUB	64.7667
CNY	7.3443
MYR	4.7406
BRL	3.4394

#### **4.4 Members of the Supervisory Board and Management Board**

##### **Members of the Supervisory Board**

###### **Gerhard Beinhauer**

Chair of the Supervisory Board (since May 18, 2016)

Managing Director of BBI Beteiligungs- und Handelsgesellschaft mbH

Membership in supervisory boards and other governing bodies:

- BIEGLO Holding GmbH & Co. KGaA, Hamburg, Chairman of the Supervisory Board
- Gold Cache Inc., Thunder Bay, Canada, non-executive Member of the Board

###### **Da Hua**

(Member of the Supervisory Board since May 18, 2016)

Deputy Chair of the Supervisory Board (since September 6, 2016)

Executive Vice President of AVIC International Beijing Co. Limited

###### **Yqiong Zhang**

Chief Financial Officer of AVIC International Beijing Co. Limited

###### **Eliza Suk Ching Yuen**

Director of HLM CPA Limited

**Hubert Keusch**

Chair of the Supervisory Board (until May 18, 2016)

Retired

**Xiaofeng Liu**

Deputy Chair of the Supervisory Board (until July 3, 2016)

Chair of the Board of Directors of Shangdong Gufeng Building Materials Technology Co., Ltd.

Membership in supervisory boards and other governing bodies:

- Zhejiang CBM Net Technology Co., Ltd., Deputy Chair of the Board of Directors
- Sinoma Energy Conservation Ltd., Independent member of the Board of Directors

**Kangning Zou**

(Member of the Supervisory Board until August 5, 2016)

President of AVIC International Beijing Co. Limited

**Members of the Management Board**

**Gerold Keune**, Master's Degree in Engineering (Dipl.-Ing.)

Management Board member of KHD (since October 17, 2016)

Chief Executive Officer of KHD

Member of the Board of Directors of HW India

**Jürgen Luckas**, Master's Degree in Economics (Dipl.-Kaufmann)

Chief Financial Officer of KHD

Chairman of the Supervisory Board of KIS AG

Member of the Board of Directors of HW India

**Yizhen Zhu**, Master's Degree in Engineering

Executive Vice President of KHD

Vice Chairman of the Supervisory Board of KIS AG

Member of the Board of Directors of HW Inc.

**Daniel Uttelbach**, Master's Degree in Engineering (Dipl.-Ing.)

(on the Management Board until December 31, 2016)

Managing Director of HW

Member of the Supervisory Board of KIS AG

**Tao Xing**, Engineer

(Executive Vice President of KHD until December 31, 2016)

Vice President of AVIC International Beijing Co. Limited

Member of the Board of Directors of HW Inc.

**Johan Cnossen**, Graduate Engineer

Chief Executive Officer of KHD (until March 11, 2016)

Member of the Board of Directors of HW Inc. (until March 11, 2016)

Member of the Board of Directors of HW India (until March 11, 2016)

Mr. Daniel Uttelbach and Mr. Tao Xing both resigned from the Management Board effective December 31, 2016.

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

The 2016 financial year total remuneration for the active members of the KHD Management Board for their work in the 2016 financial year was € 1,133 thousand (previous year: € 1,964 thousand). For work performed in the financial year, total compensation amounted to € 1,133 thousand (previous year: € 1,675 thousand). Total compensation for previous members of the Management Board came to € 0 thousand (previous year: € 289 thousand), € 0 thousand of which was severance payments (previous year: € 289 thousand).

The total remuneration granted to members of the Supervisory Board for their work amounted to € 242 thousand in the 2016 financial year (previous year: € 221 thousand). No compensation was paid to former Supervisory Board members or their remaining dependents following their resignation from the body.



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

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

#### **4.6 Report on Events after the Reporting Period**

No events of special significance occurred after the conclusion of the financial year that could affect the result of operations, financial position, and net assets.

#### **4.7 Parent Company and Consolidated Financial Statements**

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

#### **4.8 Reported Shareholdings**

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

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

- Aviation Industry Corporation of China<sup>1</sup>, Beijing, People's Republic of China,
- AVIC International Holding Corporation<sup>1</sup>, Peking, People's Republic of China,

- AVIC International Shenzhen Company Limited<sup>1</sup>, Shenzhen, People's Republic of China,
- AVIC International Holdings Limited<sup>1</sup>, Shenzhen, People's Republic of China,
- AVIC International Beijing Co. Limited<sup>1</sup>, Peking, People's Republic of China,
- AVIC International Kairong Limited<sup>1</sup>, Hong Kong, Hong Kong,
- Kaihang Industrial Limited<sup>1</sup>, Road Town, British Virgin Islands,
- Golden Prosperity Group Limited<sup>1</sup>, Road Town, British Virgin Islands,
- Goldimax Group Limited<sup>1</sup>, Road Town, British Virgin Islands,
- AVIC International Engineering Holdings Pte. Ltd.<sup>1</sup>, Singapore, Singapore,
- Max Glory Industries Limited<sup>1</sup>, Hong Kong, Hong Kong.

<sup>1</sup> The notification of January 16, 2014, pursuant to Section 23 Paragraph 1 Sentence 1 Number 3 of the German Securities Acquisition and Takeover Act (WpÜG) communicated that the voting rights share totaled 89.02% (equivalent to 44,244,113 voting rights).

The Management Board was informed that Max Glory Industries Limited holds 20.00% (equivalent to 9,940,715 voting rights) and AVIC International Engineering Holdings Pte. Ltd. holds 69.02% (equivalent to 34,303,398 voting rights) pursuant to Section 21 Paragraph 1 of the German Securities Trading Act (WpHG). The voting rights not directly held are allocated to those subject to disclosure pursuant to Section 22 Paragraph 1 WpHG.

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

#### **4.9 Auditor's Fee**

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

#### **4.10 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, 2017 and also made it – as well as statements from previous years – permanently publicly available to shareholders on the Company's website (<http://www.khd.com/entsprechenserklaerung.html>).

#### **4.11 Appropriation of Net Retained Profit**

The annual financial statements for the 2016 financial year indicate a net loss of € -16,770 thousand and an accumulated loss of € 9,046 thousand. The Management Board and the Supervisory Board will propose to the Annual General Meeting to be held on May 23, 2017, to carry forward the accumulated loss (determined in accordance with the German Commercial Code – HGB) of KHD Humboldt Wedag International AG to the new account.

Cologne, Germany, February 28, 2017

The Management Board

(s) Gerold Keune

(s) Jürgen Luckas

(s) Yizhen Zh

## 5. Appendix to the Notes

### Movements in Fixed Assets in the for the Period from January 1 to December 31, 2016

	Gross carrying amounts				Accumulated amortization, depreciation, and write-downs			Net book value		
	Balance as Jan. 1, 2016 € thousand	Additions € thousand	Disposals € thousand	Balance as Dec. 31, 2016 € thousand	Balance as Jan. 1, 2016 € thousand	Additions € thousand	Disposals € thousand	Balance as Dec. 31, 2016 € thousand	Balance as Dec. 31, 2016 € thousand	Dec. 31, 2015 € thousand
<b>I. Property, plant and equipment</b>										
Other plants, operating and office equipment	34	6	0	40	27	7	0	34	6	7
<b>II. Financial investments</b>										
1. Shares in affiliated companies	51.410	12.000	0	63.410	0	0	0	0	63.410	51.410
2. Loans to affiliated companies	100.000	0	0	100.000	0	0	0	0	100.000	100.000
	<u>151.410</u>	<u>12.000</u>	<u>0</u>	<u>163.410</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>163.410</u>	<u>151.410</u>
	<u>151.444</u>	<u>12.006</u>	<u>0</u>	<u>163.450</u>	<u>27</u>	<u>7</u>	<u>0</u>	<u>34</u>	<u>163.416</u>	<u>151.417</u>

## **6 Responsibility Statement**

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

Cologne, Germany, February 28, 2017

The Management Board

(s) Gerold Keune

(s) Jürgen Luckas

(s) Yizhen Zhu

## **7 Auditor's opinion**

We have audited the annual financial statements, comprising the balance sheet, income statement and notes to the financial statements, together with the bookkeeping system and the management report of KHD Humboldt Wedag International AG, Cologne, which is combined with the group management report, for the business year from January 1, 2016 to December 31, 2016. The maintenance of the books and records and the preparation of the annual financial statements and combined management report in accordance with German commercial law are the responsibility of the Company's managing board. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system and the combined management report based on our audit.

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

The audit has not led to any reservations.

In our opinion based on the findings of our audit, the annual financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with (German) principles

of proper accounting and the supplementary provisions of the articles of incorporation. The combined management report is consistent with the annual financial statements and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development."

Cologne, March 3, 2017

PricewaterhouseCoopers GmbH  
Wirtschaftsprüfungsgesellschaft

(s) Bernd Boritzki  
Wirtschaftsprüfer  
(German Public Auditor)

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



## **8 Report of the Supervisory Board**

Dear Shareholders,

In the 2016 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 significant 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 and the Spokesman of the Management Board, respectively, over and above the regular meetings and discussed the Group's strategy, risk situation, and risk management. The Management Board 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 Gerold Keune to the Company's Management Board, effective October 17, 2016. On October 18, 2016 Mr. Keune was appointed as Chief Executive Officer (CEO). As an experienced leader with competent knowledge of the industry, well-established contacts to KHD's customers and a proven track record of successful reorganizations and turnarounds, Mr. Keune will play a crucial role in the implementation of improvements and thus contribute to the successful future of the KHD Group.

Effective December 31, 2016 the two previous Management Board members, Mr. Daniel Uttelbach and Mr. Tao Xing resigned from their position as members of the Management Board. As Managing Director of Humboldt Wedag GmbH, Mr. Uttelbach is now focused on the expansion of sales activities and the further development of the technology of this particularly important KHD Group entity.

As already communicated last year, the former CEO Mr. Johan Cnossen resigned for personal reasons from his position as member of the Management Board on March 11, 2016.

On May 18, 2016, the Annual General Meeting elected Mr. Gerhard Beinhauer, Mr. Xiaofeng Liu, Ms. Eliza Suk Ching Yuen, Mr. Kangning Zou, Ms. Yiqiong Zhang and Mr. Da Hua as Supervisory Board members. The previous Chairman of the Supervisory Board, Mr. Hubert Keusch, did not stand as candidate for re-election. At the meeting of the Supervisory Board on May 18, 2016, Mr. Gerhard Beinhauer was elected as new Chairman of the Supervisory Board. Mr. Xiaofeng Liu and Mr. Kangning Zou resigned from their position as members of the Supervisory Board on August 3 and 5, 2016, respectively.

### **Meetings and Resolutions of the Supervisory Board**

In the 2016 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, two meetings were held by telephone conference. Furthermore, four 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 2015. At the meeting convened to approve the financial statements on March 15, 2016, 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, 2015. 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 March, May, September, October and December covered reports on business development, deviations of the actual business development from the budget and forecasts, the 2017 budget and the medium-term planning for 2018-21, discussions of the half-year report prior to publication, discussion of proposed resolutions for the Annual General Meeting, the internal control system, the risk management system as well as discussions related to Corporate Governance and organizational matters of the Supervisory Board. In the 2016 financial year a strong focus once again 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.

The meetings via telephone conference as well as the 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 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 2017. This has since been published and made permanently available to shareholders on the Company's web site at [www.khd.com](http://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 in a timely manner the annual financial statements of KHD Humboldt Wedag International AG as of December 31, 2016 in accordance with principles set out in the German Commercial Code (HGB), and the consolidated financial statements as of December 31, 2016, in accordance with IFRS as adopted by the European Union, including the combined management report for the 2016 financial year. The annual financial statements and the consolidated financial statements, which include the combined management report, were audited by PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft, Cologne office, who were appointed by the Annual General Meeting of shareholders on May 18, 2016. 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 14, 2017. 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 for the 2016 financial year and of the consolidated financial statements including the combined management report for the 2016 financial year, as well as of the Management Board's proposal on the appropriation of net retained profit for the 2016 financial year, taking into account the auditors' reports. After considering the final results of the Supervisory Board's examination 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, 2016, 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 (Dependent Company Report) was audited by the auditors and issued with the following unqualified audit opinion:

"On the basis of our proper audit and judgment, we confirm that

1. the factual statements of the report are correct,
2. the consideration paid by the Company for the legal transactions stated in the report was not inappropriately high."

The Management Board presented the Dependent Company Report to the Supervisory Board that examined the Dependent Company Report. After considering the final results of its own examination, the Supervisory Board has no objections to raise with respect to the Management Board's final declaration in the Dependent Company 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 14, 2017

(s) Gerhard Beinhauer

(Chairman of the Supervisory Board)

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

The Management Board and the Supervisory Board of KHD Humboldt Wedag International AG hereby declare that since the last declaration of compliance on February 24, 2016 the recommendations of the German Corporate Governance Code (the "Code") as amended on May 5, 2015 have been complied with and will be complied with in future with the following exceptions:

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

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

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

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

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

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

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

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

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

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

Cologne, February 24, 2017

For the Management Board

For the Supervisory Board

(s) Gerold Keune

(s) Jürgen Luckas

(s) Gerhard Beinhauer

(s) Yizhen Zhu