

2017

Financial Statements



**KHD Humboldt Wedag
International AG**



**Annual Report
as of December 31, 2017**

List of Abbreviations

AVIC Beijing	AVIC International Beijing Company Limited, Beijing, China
AVIC Kairong	AVIC International Kairong Limited, Hong Kong, Hong Kong
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
	KHD VV KHD Humboldt Wedag Vermögensverwaltungs-AG, Cologne, Germany
ZAB	ZAB Zementanlagenbau GmbH Dessau, Dessau, Germany

**Annual Report of
KHD Humboldt Wedag International AG
for the 2017 Financial Year**

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1 Combined Management Report of KHD Humboldt Wedag International AG and for the Group for the 2017 Financial Year

The management report and Group management report of KHD Humboldt Wedag International AG are combined in accordance with Section 315 Paragraph 3 in conjunction with Section 298 Paragraph 3 of the German Commercial Code (HGB) and published in the annual report of KHD Humboldt Wedag International AG for the 2017 financial year.

The annual report of KHD Humboldt Wedag International AG can be found on the website of KHD Humboldt Wedag International AG (<http://www.khd.com/annual-report.html>).

2 Balance Sheet of KHD Humboldt Wedag International AG as of December 31, 2017

Assets	Dec. 31, 2017 € thousand	Dec. 31, 2016 € thousand
A. Fixed assets		
I. Property, plant, and equipment		
Other plant, operating, and office equipment	5	6
	<u>5</u>	<u>6</u>
II. Financial investments		
1. Shares in affiliated companies	63,410	63,410
2. Long-term loans to affiliated companies	100,000	100,000
	<u>163,410</u>	<u>163,410</u>
	<u>163,415</u>	<u>163,416</u>
B. Current assets		
I. Receivables and other assets		
1. Receivables due from affiliated companies	10,128	22,304
those which have a residual term of more than one year: € 0 thousand (previous year: € 7,296 thousand)		
2. Other assets	1,138	763
	<u>11,266</u>	<u>23,067</u>
II. Bank Balances	18,986	7,882
	<u>30,252</u>	<u>30,949</u>
C. Prepaid Expenses	313	54
	<u>193,980</u>	<u>194,419</u>

Equity and liabilities	Dec. 31, 2017 € thousand	Dec. 31, 2016 € thousand
A. Equity		
I. Subscribed capital	49,704	49,704
II. Capital reserves	61,493	61,493
III. Revenue reserves		
1. Legal reserve	1,538	1,538
2. Other revenue reserves	1,768	1,768
	<u>3,306</u>	<u>3,306</u>
IV. Accumulated loss	-8,705	-9,046
	<u>105,798</u>	<u>105,457</u>
B. Provisions and accruals		
1. Provisions for taxes	953	1,234
2. Other provisions and accruals	804	1,226
	<u>1,757</u>	<u>2,460</u>
C. Liabilities		
1. Liabilities due to banks	25,090	25,093
those which have a residual term of up to one year: € 25,090 thousand (previous year: € 93 thousand)		
2. Trade payables	75	70
3. Liabilities due to affiliated companies	61,218	61,249
4. Other liabilities	42	49
of which tax liabilities € 42 thousand (previous year: € 49 thousand)		
	<u>86,425</u>	<u>86,461</u>
D. Deferred tax liabilities	0	41
	<u>193,980</u>	<u>194,419</u>

3 Income Statement for the Period from January 1 to December 31, 2017

	2017 € thousand	2016 € thousand
1. Revenue	2,515	2,842
2. Other operating income	1,244	1,237
of which from exchange rate gains		
€ 60 thousand (previous year: € 1,028 thousand)		
3. Costs of purchased services	339	595
4. Personnel expenses		
a) Wages and salaries	1,332	1,245
b) Social security expenses	37	30
	1,369	1,275
5. Amortization		
a) on other plant, operating and office equipment	3	7
b) of current assets,		
as much as they exceed customary		
amortization in the corporation	0	17,749
6. Other operating expenses	4,039	3,556
of which from exchange losses		
€ 1,862 thousand (previous year: € 49 thousand)		
7. Income from long-term loans in financial assets	6,063	6,100
of which from affiliated companies		
€ 6,064 thousand (previous year: € 6,100 thousand)		
8. Other interest and similar income	1,006	1,722
of which from affiliated companies		
€ 1,006 thousand (previous year: € 1,719 thousand)		
9. Interest and similar expenses	4,458	4,536
of which to affiliated companies		
€ 3,646 thousand (previous year: € 3,437 thousand)		
10. Income taxes	279	953
of which deferred taxes		
€ -41 thousand (previous year: € -535 thousand)		
11. Earnings after taxes	341	-16,770
12. Net profit / loss for the year	341	-16,770
13. Loss / profit carried forward from previous year	-9,046	7,724
14. Accumulated loss	-8,705	-9,046

4 Notes to the Financial Statements 2017

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 2017 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 2017 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 2017 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 2017 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).

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

4.2 Accounting and Valuation Principles

Fixed assets

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

Shares in affiliated companies and loans to affiliated companies are recognized at cost. An expected permanent impairment triggers a depreciation of the acquisition costs to the lower realizable value. In case of probable permanent impairment, acquisition costs are amortized at the lower fair value. In case of probable permanent impairment, acquisition costs are amortized at the lower fair value. In the case of non-permanent impairment no write-downs will be made in accordance with section 253 (3) sentence 4 HGB. The carrying amount of shares in affiliated companies is subjected to an impairment test once a year.

The assessment of the recoverability of the shares in affiliated companies and investments is based on a five-year medium-term planning. The underlying planning is based on estimates and assumptions that are subject to uncertainties. In order to determine the fair value, the expected future cash flows are discounted to their present value on the basis of a suitably derived discount rate. The determination is made according to the principles of the IDW RS HFA 10 using the income capitalization method.

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.

Provisions for taxes

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 with residual terms of 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 with residual terms of 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.

The Company did not use the option to combine derivative financial instruments with underlying transactions as a single valuation unit in accordance with Section 254 of the German Commercial Code (HGB). As a result, the reporting for the financial instruments existing on December 31, 2017 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, 2017, 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: € 63,410 thousand).

The long-term loans to affiliated companies include two loans in the amount of € 50 million each to AVIC International Kairong Limited (AVIC Kairong), Hong Kong. The loans were granted in July and November of 2017 and each has a term of three years. Both loans are secured by a corporate guarantee from AVIC.

2. Receivables and Other Assets

Receivables due from affiliated companies totaling € 10,128 thousand (previous year: € 22,304 thousand) have decreased considerably in the 2017 financial year. The reason for this reduction is the receipt of payments on deferred receivables due from an indirect parent company, AVIC Beijing. The receivables due from AVIC Beijing amounted to € 9,754 thousand (previous year: € 21,854 thousand) as of December 31, 2017. The receivables incur interest based on a deferral agreement at usual market conditions.

The rest of the receivables due from affiliated companies primarily relates to receivables for services invoiced due from companies of the KHD Group as of December 31, 2017, based on the service and cost allocation agreement as well as the bond arrangement agreement amounting in total to € 373 thousand (previous year: € 450 thousand).

Other assets include a VAT credit in the amount of € 917 thousand (previous year: € 755 thousand). Within the tax unity for VAT are amounts payable to the subsidiaries HW and ZAB for reimbursement claims totaling € 861 thousand (previous year: € 719 thousand). Consequently, an identical amount is reported under liabilities due to affiliated companies.

All amounts have a residual term of up to one year. In the previous year, receivables due from affiliated companies totaling € 7,296 thousand had a residual term of more than one year.

3. Bank Balances

The increase in bank balances by € 11,104 thousand to € 18,986 thousand (previous year: € 7,882 thousand) is principally the result of payments of deferred receivables by AVIC Beijing made during the year.

4. Prepaid Expenses

The prepayment and deferred expense assets increased by € 259 thousand to € 313 thousand (previous year: € 54 thousand). This increase is due to the payment of a fee for the provision of a multi-year guarantee of AVIC International Holdings Limited. Two bank guarantee credit facility agreements from two banks are secured by the respective guarantees from AVIC International Holdings Limited.

5. 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.

Changes in Equity in the 2017 Financial Year

€ thousand	Subscribed capital	Capital reserves	Legal reserve	Other revenue reserves	Accumulated loss	Total
Status as of Dec. 31, 2016	49,704	61,493	1,538	1,768	-9,046	105,457
Net profit for the year 2017	0	0	0	0	341	341
Status as of Dec. 31, 2017	49,704	61,493	1,538	1,768	-8,705	105,798

Following the resolution of the Annual General Meeting of May 23, 2017, the accumulated loss reported as of December 31, 2016 was carried forward to new account. An accumulated loss of € 8,705 thousand as of December 31, 2017 is the result of the net profit for the year of € 341 thousand.

6. Provisions and Accruals

	Dec. 31, 2017 € thousand	Dec. 31, 2016 € thousand	Change € thousand
Provisions for taxes	953	1,234	-281
Other provisions and accruals	804	1,226	-422
	<u>1,757</u>	<u>2,460</u>	<u>-703</u>

Other provisions and accruals include provisions for personnel-related costs (€ 292 thousand, previous year € 71 thousand), for the preparation and audit of annual financial statements (€ 109 thousand, previous year: € 111 thousand) and for outstanding invoices (€ 403 thousand, previous year: € 655). The provisions for contingent losses in the amount of € 389 thousand reported in the previous year were reversed in the financial year under consideration.

7. 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.

The liabilities due to affiliated companies amount to € 61,218 thousand (previous year: € 61,249) and mainly result from 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 Kairong. The subsidiaries were allowed nearly the same interest rate (6% per annum) that KHD obtained from its loan to AVIC Kairong. In addition to these two loans, further loans and credit lines were granted to KHD in the 2016 financial year by subsidiaries. HW granted KHD an additional loan of € 5 million in the 2016 financial year, which incurs interest at 6% p.a. In addition, KHD VV granted KHD a credit line of € 7 million in the 2016 financial year, of which € 5 million was utilized. Using the credit line also 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.

All reported liabilities have a residual term of up to one year as of December 31, 2017. In the previous year, liabilities to banks in the amount of € 25 million had a remaining term of more than one year and less than five, while all other liabilities had a remaining term of up to one year.

8. Contingent Liabilities

KHD has provided € 135.9 million (previous year: € 151.3 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 € 135.6 million (previous year: € 151.0 million).

Furthermore, as of December 31, 2017, € 33,153 thousand (previous year: € 33,638 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 € 903 thousand (previous year: € 1,313 thousand), and contingent liabilities arising from warranty guarantees amount to € 32,250 (previous year: € 32,325 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 € 105 thousand (previous year: € 127 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.

9. Other Financial Obligations

Other financial obligations amounting to € 382 thousand (previous year: € 146 thousand) relate to obligations arising from consulting contracts (€ 363 thousand; previous year: € 120 thousand) and leasing contracts (€ 19 thousand; previous year: € 26 thousand) with a remaining term of up to three years.

10. 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 € 1,366 thousand (previous year: € 1,544 thousand) and financial services pursuant to the bond arrangement agreement in the amount of € 1,149 thousand (previous year: € 1,298 thousand).

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

Revenue based on region	2017 € thousand	2016 € thousand	Change € thousand
USA	1,070	813	257
Germany	775	1,259	-484
India	642	759	-116
China	26	8	17
Russian Federation	1	2	-1
Malaysia	1	1	0
	<u>2,515</u>	<u>2,842</u>	<u>-327</u>

11. Other Operating Income

Other operating income primarily includes prior period income from the release of other provisions in the amount of € 691 thousand (previous year: € 136 thousand), income from exchange rate forward contracts in the amount of € 465 thousand (previous year: € 49 thousand), and exchange rate gains of € 60 thousand (previous year: € 1,028 thousand).

12. Costs of purchased services

KHD reports expenses for purchased services in the amount of € 339 thousand (previous year: € 595 thousand). These expenses include third-party services relating to intragroup revenue.

13. Personnel Expenses

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

14. Amortization

Amortization in the 2017 financial year includes depreciation on other plant, operating, and office equipment in the amount of € 3 thousand (previous year: € 7 thousand). Amortization in the previous year also included depreciation on current receivables. Value

adjustments of € 17,749 thousand were made on loan and interest receivables from a subsidiary.

15. Other Operating Expenses

Other operating expenses comprise the following:

	2017	2016	Change
	<u>€ thousand</u>	<u>€ thousand</u>	<u>€ thousand</u>
Exchange rate losses	1,862	49	1,813
Group charges	1,360	1,788	-428
Audit fees / tax advisory costs	221	299	-78
Supervisory Board compensation	196	242	-46
Legal and consulting costs	84	144	-60
Investor relations	31	37	-6
Losses from foreign exchange forward contracts	0	541	-541
Other	<u>285</u>	<u>456</u>	<u>-171</u>
	<u><u>4,039</u></u>	<u><u>3,556</u></u>	<u><u>483</u></u>

The exchange rate losses in the amount of € 1,862 must be considered together, financially, with the income from foreign exchange forward contracts in the amount of € 465 thousand. The reduction in Group charges of €428 thousand to € 1,360 thousand is primarily due to lower expenses calculated by HW for the services provided, based on the Service & Cost Allocation Agreement.

16. Interest income/expense

	2017	2016	Change
	<u>€ thousand</u>	<u>€ thousand</u>	<u>€ thousand</u>
Interest from long-term loans in financial assets	6,063	6,100	-37
Other interest and similar income	1,006	1,722	-716
Interest and similar expenses	<u>-4,458</u>	<u>-4,536</u>	<u>78</u>
	<u><u>2,611</u></u>	<u><u>3,286</u></u>	<u><u>-675</u></u>

The income from long-term loans in financial assets includes interest income in the amount of € 1,730 thousand from two loan contracts of € 50 million each, which KHD concluded with AVIC Kairong in July and November, respectively, in the 2017 financial year. The loans bear interest of 6% and 5.7% p.a., respectively, and both have a term of three years. For the loan extended in July 2017, KHD has the right to demand repayment

at any time before the due date with a notification period of 30 days. In extending the loan, KHD assigned its repayment claims due from AVIC International (HK) Group Ltd. from the loans granted in the 2014 financial year to AVIC Kairong. Up to the maturity date of these loans in July and November 2017, respectively, KHD received income from long-term loans in financial assets in the amount of € 4,333 thousand (previous year: € 6,100 thousand) from AVIC International (HK) Group Ltd.

Other interest and similar income includes interest from the deferral agreement concluded with AVIC Beijing in the 2016 financial year in the amount of € 1,006 thousand (previous year: € 709 thousand). In the previous year, this also included interest in the amount of € 1,009 thousand from a loan receivable due from a KHD Group company.

Interest and similar expenses include interest expenses in the amount of € 3,042 thousand (previous year: €3,050 thousand) for the loans granted to HW and ZAB in the 2014 financial year. The subsidiaries were allowed nearly the same interest rate (6% per annum) that KHD obtained from its loan to AVIC Kairong. This also includes interest in the amount of € 604 thousand (previous year: € 177 thousand) for the additional loans granted by HW and KHD VV. Interest expenses from a bank loan in the amount of € 534 thousand (previous year: € 536 thousand) as well as bank guarantee fees in the amount of € 278 thousand (previous year: € 563 thousand) are also reported under interest and similar expenses.

17. Tax expenses

Tax expenses amount to € 279 thousand (previous year: € 953 thousand).

18. 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. The deferred tax liabilities in the amount of € 41 thousand in the previous year

that resulted from the measurement of a foreign currency loan with the spot exchange rate were derecognized in the financial year under consideration.

Financial Instruments

The Group currently utilizes derivative financial instruments only to mitigate the foreign currency risk of recognized assets and liabilities denominated in foreign currencies. The nominal value secured by derivative financial instruments is € 7,319 as of the reporting date. The payment conditions specified in the respective derivative contract stipulate the regular settlement of the underlying transaction in cash at a specified time. The amount of the future cash inflow or outflow fluctuates depending on changes in the exchange rate.

12. Shareholdings

Company		Capital share in %	Currency	Equity	Net result for the year
<u>Subsidiaries</u>					
KHD Humboldt Wedag GmbH, Cologne	direct	100.00	€ thousand	63,746	4,087
Humboldt Wedag GmbH, Cologne	indirect	100.00	€ thousand	21,450	--12,393
ZAB Zementanlagenbau GmbH Dessau, Dessau	indirect	100.00	€ thousand	22,346	-2,206
Blake International Ltd., Road Town, British Virgin Islands	indirect	100.00	€ thousand	3,715	0
KHD Humboldt Wedag Vermögensverwaltungs-AG, Cologne, Germany	indirect	91.26	€ thousand	14,895	304
Humboldt Wedag Australia Pty Ltd., Braeside, Australia	indirect	100.00	€ thousand	279	81
Humboldt Wedag, Inc., Norcross, USA	indirect	100.00	€ thousand	2,076	-5,216
Humboldt Wedag India Private Ltd., New Delhi, India	indirect	100.00	€ thousand	36,912	5,399 *
KHD Humboldt Wedag Machinery Equipment (Beijing) Co. Ltd., Beijing, China	indirect	100.00	€ thousand	-99	-158
KHD Humboldt Engineering OOO, Moscow, Russia	indirect	100.00	€ thousand	444	-136
Humboldt Wedag Malaysia Sdn. Bhd., Kuala Lumpur, Malaysia	indirect	100.00	€ thousand	426	154
Humboldt Wedag Do Brasil Servicos Technicos Ltda., Belo Horizonte, Brazil	indirect	100.00	€ thousand	21	-7

*Financial statements as of March 31, 2017

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, 2017

1 euro corresponds to:

AUD	1.5378
INR	76.7139
USD	1.2010
RUB	69.1006
CNY	7.8216
MYR	4.8604
BRL	3.9783

4.4 Members of the Supervisory Board and Management Board

Members of the Supervisory Board

Gerhard Beinhauer

Chairman of the Supervisory Board

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

Vice Chairman of the Supervisory Board

President of AVIC International Beijing Co. Limited

Yqiong Zhang

Chief Financial Officer of AVIC International Beijing Co. Limited

Eliza Suk Ching Yuen

(Member of the Supervisory Board until May 23, 2017)

Director of HLM CPA Limited

Members of the Management Board

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

Chief Executive Officer of KHD

Member of the Board of Directors of HW India

Member of the Board of Directors of HW Inc.

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

Chief Financial Officer of KHD

Chairman of the Supervisory Board of KHD VV

Member of the Board of Directors of HW India

Member of the Board of Directors of KHD Beijing

Dian Xie, Engineer

Executive Vice President of KHD (since July 1, 2017)

Member of the Supervisory Board of KHD VV

Member of the Board of Directors of HW India

Member of the Board of Directors of HW Inc.

Chairman of the Board of Directors of KHD Beijing

Yizhen Zhu, Engineer

Executive Vice President of KHD (until June 30, 2017)

Vice Chairman of the Supervisory Board of KHD VV (until June 30, 2017)

Member of the Board of Directors of HW Inc. (until June 30, 2017)

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

The 2017 financial year total remuneration for the active members of the KHD Management Board for their work in the 2017 financial year was € 957 thousand (previous year: € 1,133 thousand). For work performed in the financial year, total compensation amounted to € 957 thousand (previous year: € 1,133 thousand). Total compensation for previous members of the Management Board came to € 0 thousand (previous year: € 0 thousand).

The total remuneration granted to members of the Supervisory Board for their work amounted to € 196 thousand in the 2016 financial year (previous year: € 242 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) 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 China¹, 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 China¹, Beijing, People's Republic of China,
- AVIC International Holding Corporation¹, Peking, People's Republic of China,
- AVIC International Shenzhen Company Limited¹, Shenzhen, People's Republic of China,
- AVIC International Holdings Limited¹, Shenzhen, People's Republic of China,
- AVIC International Beijing Co. Limited¹, Peking, People's Republic of China,
- AVIC International Kairong Limited¹, Hong Kong, Hong Kong,
- Kaihang Industrial Limited¹, Road Town, British Virgin Islands,
- Golden Prosperity Group Limited¹, Road Town, British Virgin Islands,
- Goldimax Group Limited¹, Road Town, British Virgin Islands,
- AVIC International Engineering Holdings Pte. Ltd.¹, Singapore, Singapore,
- Max Glory Industries Limited¹, Hong Kong, Hong Kong.

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

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

Mr. Peter Kellogg notified us that his voting rights share had exceeded the 3% and 5% thresholds of voting rights, and that as of June 16, 2010, 5.70% of the voting rights

(equivalent to 1,888,314 voting rights) were attributable to him via IAT Reinsurance Company Ltd., Hamilton, Bermuda.

4.9 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 23, 2018 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/declaration-of-compliance.html>).

4.11 Appropriation of Net Retained Profit

The annual financial statements for the 2017 financial year indicate a net profit of € 341 thousand and an accumulated loss of € 8,705 thousand. The Management Board and the Supervisory Board will propose to the Annual General Meeting to be held on May 29, 2018 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, March 19, 2018

The Management Board

(s) Gerold Keune

(s) Jürgen Luckas

(s) Dian Xie

5. Appendix to the Notes

Statement of Movements in Fixed Assets for the Period from January 1 to December 31, 2017

	Gross carrying amounts			Balance as of Dec. 31, 2017	Accumulated amortization, depreciation, and write-downs			Balance as of Dec. 31, 2017	Net book value		
	Balance as of Jan. 1, 2017	Additions	Disposals		Balance as of Jan. 1, 2017	Additions	Disposals		Balance as of Dec. 31, 2017	Balance as of Dec. 31, 2017	Dec. 31, 2016
	€ thousand	€ thousand	€ thousand		€ thousand	€ thousand	€ thousand		€ thousand	€ thousand	€ thousand
I. Property, plant, and equipment											
Other plant, operating, and office equipment	40	2	28	14	34	3	28	9	5	6	
	<u>40</u>	<u>2</u>	<u>28</u>	<u>14</u>	<u>34</u>	<u>3</u>	<u>28</u>	<u>9</u>	<u>5</u>	<u>6</u>	
II. Financial investments											
1 Shares in affiliated companies	63,410	0	0	63,410	0	0	0	0	63,410	63,410	
2 Long-term loans to affiliated companies	100,000	100,000	100,000	100,000	0	0	0	0	100,000	100,000	
	<u>163,410</u>	<u>100,000</u>	<u>100,000</u>	<u>163,410</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>163,410</u>	<u>163,410</u>	
	<u>163,450</u>	<u>100,002</u>	<u>100,028</u>	<u>163,424</u>	<u>34</u>	<u>3</u>	<u>28</u>	<u>9</u>	<u>163,415</u>	<u>163,416</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, March 19, 2018

The Management Board

(s) Gerold Keune

(s) Jürgen Luckas

(s) Dian Xie

7 Auditor's opinion

Independent Auditor's Report

To KHD Humboldt Wedag International AG, Cologne

REPORT ON THE AUDIT OF THE ANNUAL FINANCIAL STATEMENTS AND OF THE MANAGEMENT REPORT

Audit Opinions

We have audited the annual financial statements of KHD Humboldt Wedag International AG, Cologne, which comprise the balance sheet as at December 31, 2017, and the statement of profit and loss for the financial year from January 1 to December 31, 2017, and notes to the financial statements, including the recognition and measurement policies presented therein. In addition, we have audited the management report of KHD Humboldt Wedag International AG, which is combined with the group management report, for the financial year from January 1 to December 31, 2017. We have not audited the content of those parts of the management report listed in the "Other Information" section of our auditor's report in accordance with the German legal requirements.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law and give a true and fair view of the assets, liabilities and financial position of the Company as at December 31, 2017 and of its financial performance for the financial year from January 1 to December 31, 2017 in compliance with German Legally Required Accounting Principles, and
- the accompanying management report as a whole provides an appropriate view of the Company's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the management report does not cover the content of those parts of the management report listed in the "Other Information" section of our auditor's report.

Pursuant to [§ [Article] 322 Abs. [paragraph] 3 Satz [sentence] 1 HGB [Handelsgesetzbuch: German Commercial Code]], we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the management report.

Basis for the Audit Opinions

We conducted our audit of the annual financial statements and of the management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as “EU Audit Regulation”) and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the “Auditor’s Responsibilities for the Audit of the Annual Financial Statements and of the Management Report” section of our auditor’s report. We are independent of the Company in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the annual financial statements and on the management report.

Key Audit Matters in the Audit of the Annual Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual financial statements for the financial year from January 1 to December 31, 2017. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In our view, the matters of most significance in our audit were as follows:

- ① **Measurement of shares in affiliated companies**
- ② **Measurement of loans to affiliated companies**

Our presentation of these key audit matters has been structured in each case as follows:

- ① Matter and issue
- ② Audit approach and findings

- ③ Reference to further information

① Measurement of shares in affiliated companies

- ① In the Company's annual financial statements shares in affiliated companies amounting to EUR 63.4 million (32.7% of total assets) are reported under the "Financial assets" balance sheet item.

Shares in affiliated companies are measured in accordance with German commercial law at the lower of cost and fair value. The fair values are calculated using the standardized income approach as the present values of the expected future income according to the planning projections prepared by the executive directors. Expectations relating to future market developments and assumptions about the development of macroeconomic factors are also taken into account. The discount rate used is the individually determined cost of capital for the financial investment. On the basis of the values determined and supplementary documentation, no write-downs were required in the financial year.

The outcome of this valuation exercise is dependent to a large extent on the estimates made by the executive directors of the future cash flows, and on the respective discount rates and rates of growth used. The measurement is therefore subject to material uncertainty. Against this background and due to the highly complex nature of the measurement and its material significance for the Company's assets, liabilities, and financial performance, this matter was of particular significance in the context of our audit.

- ② As part of our audit, we assessed the methodology used for the purposes of the measurement, among other things.

In particular, we assessed whether the fair values of the investments had been appropriately determined using the standardized income approach in compliance with the relevant measurement standards. We based our assessment, among other things, on a comparison with general and sector-specific market expectations as well as on the executive directors' detailed explanations regarding the key value drivers underlying the expected cash flows. In the knowledge that even relatively small changes in the discount rate applied can have a material impact on the value of the entity calculated

using this method, we focused our testing in particular on the parameters used to determine the discount rate applied, and assessed the calculation model.

Taking into consideration the information available, we believe that the measurement parameters and underlying assumptions used by the executive directors are appropriate overall for the purpose of appropriately measuring shares in affiliated companies.

- ③ The Company's disclosures relating to the investments in affiliated companies are contained in section "4.2 Accounting policies" of the notes to the financial statements.

② Measurement of loans to affiliated companies

- ① In the Company's annual financial statements loans to affiliated companies amounting to EUR 100.0 million (51.6% of total assets) are reported under the "Financial investments" balance sheet item. The loans to affiliated companies include two loans, each in the amount of EUR 50 million, to AVIC International Kairong Limited, Hong Kong. In order to secure the loan receivables AVIC International Holding Corporation, Beijing/China, has issued respective guarantee statements to the Company covering the total amount of the loans of EUR 100.0 million, plus outstanding interest payments and any costs associated with the redemption of the guarantee. AVIC International Holding Corporation is an indirect parent company of KHD Humboldt Wedag International AG.

Loans to affiliated companies are measured in accordance with German commercial law at the lower of cost and fair value. A write-down is recognized in the case of likely permanent impairment. The executive directors assess the recoverability of the loans respectively the credit-worthiness of the borrower largely using available capital market information from external international ratings agencies, in particular credit ratings, as well as financial information from the AVIC International Holding Corporation Group. On the basis of the values determined and further documentation received, no write-downs were required in the financial year. Due to the estimates and assumptions required to be made by the executive directors for the purpose of measuring the loans, as well as their material significance for the Company's assets, liabilities, financial position, and financial performance, this matter was of particular significance in the context of our audit.

- ② As part of our audit, we initially inspected the underlying loan contracts and guarantee statements and obtained an understanding of the contractual provisions and the procedures used for monitoring the credit-worthiness. Furthermore, we examined and assessed the methods used by the Company for measurement purposes and for the assessment of whether there are indications that the loans are impaired, among other things. Within this context, we received information on the borrower, AVIC International Kairong Limited, Hong Kong, and also on the guarantor, AVIC International Holding Corporation, Beijing/China.

In addition, we evaluated the estimates and assumptions made by the executive directors regarding the loans respectively the credit-worthiness on the basis of the information made available to us and externally published information, such as credit ratings published by internationally rating agencies for the guarantor. As far as the borrower is concerned, we were provided with financial information from the AVIC International Holdings Limited Group. In our view, taking into consideration the information available, the measurement parameters and underlying assumptions used by the executive directors are appropriate overall for the purpose of appropriately measuring loans to affiliated companies.

- ③ The Company's disclosures on loans to affiliated companies are contained in sections "4.2 Accounting policies" and "4.3. Fixed assets" of the notes to the financial statements.

Other information

The executive directors are responsible for the other information. The other information comprises the following non-audited parts of the management report:

- the statement on corporate governance pursuant § 289f HGB and 315d HGB included in the management report
- the Corporate Governance Report under no. 3.10 of the German Corporate Governance Code,

The other information comprises further the remaining parts of the annual report, excluding cross-references to external information – with the exception of the audited annual financial statements, the audited management report and our auditor's report.

The separate non-financial report pursuant to § 315b Abs. 3 HGB is expected to be made available to us after the date of the auditor's report.

Our audit opinions on the annual financial statements and on the management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the annual financial statements, with the management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of the Executive Directors for the Annual Financial Statements and the Management Report

The executive directors are responsible for the preparation of the annual financial statements that comply, in all material respects, with the requirements of German commercial law, and that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles. In addition, the executive directors are responsible for such internal control as they, in accordance with German Legally Required Accounting Principles, have determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, the executive directors are responsible for assessing the Company's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict therewith.

Furthermore, the executive directors are responsible for the preparation of the management report that as a whole provides an appropriate view of the Company's

position and is, in all material respects, consistent with the annual financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the management report.

The supervisory board is responsible for overseeing the Company's financial reporting process for the preparation of the annual financial statements and of the management report.

Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Management Report

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the management report as a whole provides an appropriate view of the Company's position and, in all material respects, is consistent with the annual financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the annual financial statements and on the management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements and this management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also

- Identify and assess the risks of material misstatement of the annual financial statements and of the management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal control relevant to the audit of the annual financial statements and of arrangements and measures (systems) relevant to the audit of the management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems of the Company.
- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the annual financial statements and in the management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and

financial performance of the Company in compliance with German Legally Required Accounting Principles.

- Evaluate the consistency of the management report with the annual financial statements, its conformity with German law, and the view of the Company's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the annual financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

OTHER LEGAL AND REGULATORY REQUIREMENTS

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as auditor by the annual general meeting on May 23, 2017. We were engaged by the supervisory board on November 17, 2017. We have been the auditor of

KHD Humboldt Wedag International AG, Cologne, without interruption since the financial year 2015.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Bernd Boritzki.

Cologne, March 20, 2018

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

(sgd. Bernd Boritzki)
Wirtschaftsprüfer
(German Public Auditor)

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

8 Report of the Supervisory Board of the Fiscal Year 2017

Dear Shareholders,

In the 2017 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 at all times. The Chairman of the Supervisory Board was in regular contact with the Management Board and in particular with the Chief Executive Officer 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

Effective June 30, 2017 Mr. Yizhen Zhu resigned from his position as member of the Management Board. By resolution dated June 26, 2017 the Supervisory Board appointed Mr. Dian Xie as additional member of the Management Board effective July 1, 2017.

Ms. Eliza Suk Ching Yuen resigned from her position as member of the Supervisory Board with effect as of the end of the Annual General Meeting on May 23, 2017. The Annual General Meeting on May 23, 2017 resolved on an amendment of the articles of

association that led to a reduction in the number of Supervisory Board members from six to three persons.

Meetings and Resolutions of the Supervisory Board

In the 2017 financial year, the Supervisory Board held a total of four meetings that took place in person, in which all matters of fundamental importance for the KHD Group were comprehensively discussed. In addition, one meeting was held by telephone conference. Furthermore, 13 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 2016. At the meeting convened to approve the financial statements on March 14, 2017, 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, 2016. 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, August and October covered reports on business development, deviations of the actual business development from the budget and forecasts, the 2018 budget and the medium-term planning for 2019-22, 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 2017 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.

The meetings via telephone conference as well as the resolutions made by circulation procedure concerned transactions requiring approval by the Supervisory Board, the appointment and the prolongation of appointment of Management Board members, 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. For the audit of the financial year 2018, the Supervisory Board initiated a request for proposals in accordance with the EU Regulation on the statutory 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 2018. This has since been published and made permanently available to shareholders on the Company's web site at www.khd.com. Further information on corporate governance can be found in the Corporate Governance Report that is also available on the website.

Annual and Consolidated Financial Statements

The Management Board prepared the annual financial statements of KHD Humboldt Wedag International AG as of December 31, 2017 in a timely manner and in accordance with principles set out in the German Commercial Code (HGB), and the consolidated financial statements including the combined management report as of December 31, 2017, in accordance with IFRS as adopted by the European Union. The annual financial statements and the consolidated financial statements, which include the combined management report, were audited by PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Cologne office, who were appointed by the Annual General Meeting of shareholders on May 23, 2017. 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 April 17, 2018. 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 scope and the focal points of their audit as well as the audit results and in particular explained the key audit matters. The auditors were available to provide further information and to answer questions during the Supervisory Board meeting.

The Supervisory Board conducted its own examination of the annual financial statements for the 2017 financial year and of the consolidated financial statements including the combined management report for the 2017 financial year, as well as of the Management Board's proposal on the appropriation of net retained profit for the 2017 financial year, taking into account the auditors' reports. During its examination the Supervisory Board particularly dealt with the key audit matters. 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 GmbH Wirtschaftsprüfungsgesellschaft. The Supervisory Board approves the annual financial

statements and the consolidated financial statements as of December 31, 2017, 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, April 17, 2018

(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, 2017 the recommendations of the German Corporate Governance Code (the “Code”) as amended on February 7, 2017 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 of great advantage for the Company, since this provides for a better understanding in terms of the complexity of the business as well as expert knowledge regarding specifics of the Company. 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.

- The Company does not publish any information on the business development during the course of the year in addition to the half-year financial report as recommended by the Code (Code item 7.1.1 second sentence).

The Company is no longer obligated to publish interim reports. Due to the long-term nature of the business model as well as significant differences between individual quarters, quarterly information about the course of business does not appear to be expedient. However, the Company reports on the course of business in the first months of a financial year before a general meeting of shareholders.

- The consolidated financial statements and the combined management report for the 2017 financial year will not be made publicly accessible within 90 days from the end of the financial year (Code Item 7.1.2 third sentence 1st half-sentence).

The consolidated financial statements and the combined management report can only be published immediately after the Supervisory Board meeting convened to adopt the financial statements that is scheduled for April 10, 2018.

Cologne, February 23, 2018

For the Management Board

For the Supervisory Board

(s) Gerold Keune

(s) Jürgen Luckas

(s) Gerhard Beinhauer

(s) Dian Xie