2017
Annual Report

get more out of your plant.

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

Key Figures at a Glance

in € Mio.	2017	2016
Order Intake	182.5	83.0
Revenue	100.1	135.4
Adjusted Gross Profit	12.4	7.6
Adjusted Gross Profit margin (in %)	12.4	5.6
Adjusted EBIT	-19.5	-27.3
Adjusted EBIT-Margin (in %)	-19.5	-20.2
EBT	-16.9	-25.1
Group net loss for the year	-19.4	-29.2
EPS (in €)	-0.39	-0.59
Operating cash flow	5.3	-39.4
Cash flow from investing activities	3.7	4.9
Cash flow from financing activities	-0.5	-0.5

in € Mio.	Dec. 31, 2017	Dec. 31, 2016
Equity	149.8	172.2
Equity ratio (in %)	53.0	52.2
Cash and Intercompany loans *	184.1	178.1
Net working capital**	-9.0	13.4
Order Backlog	168.3	131.5
Employees	666	707

* Including intercompany loan of € 50 million with entitlement to call for early repayment by giving 30 days' notice.

** Balance of current assets (less cash equivalents and current loans granted) and current liabilities.

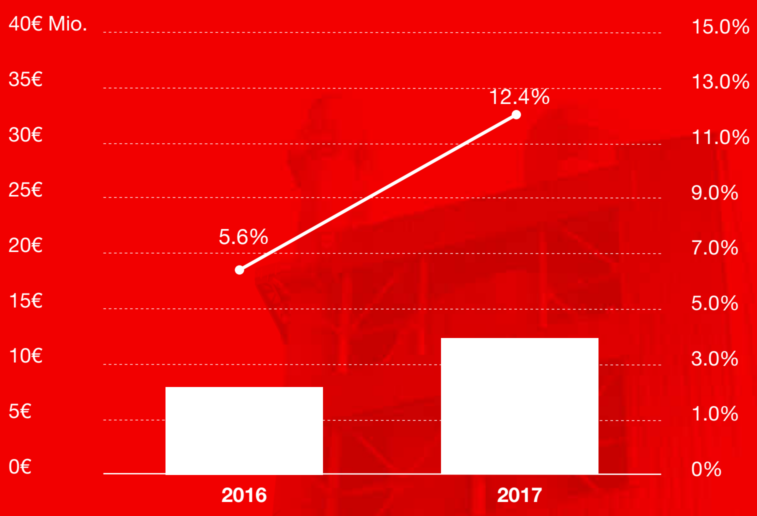
Facts & Figures

Despite continued tough market conditions in the industry, order intake and order backlog increased significantly.

€ 182.5 Mio.
Order Intake (+119.9%)

€ 168.3 Mio.
Order Backlog (+28.0%)

Adjusted Gross Profit Margin (%)



Foreword of the Management Board

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

The KHD Group set an important course for the future in the 2017 financial year:

- order intake more than doubled, although the markets in Russia, the USA, and India, which are important for us, remained below expectations,
- sales activities continued to gain strength and are aligned toward customized customer solutions,
- all of the “problem” projects that have had significant negative effects on earnings in past years have since been settled, so KHD can now focus completely on future tasks,
- significant savings were realized in general and administrative expenses as well as in structural costs in other areas,
- in product development, KHD is focusing on projects that are directly connected to customer needs and, at the same time, strengthen our technological position.

Nevertheless, due to the long-term nature of our business model, this positive development is not yet or is only partly reflected in the result of operations for the KHD Group. The order backlog at the beginning of the 2017 financial year, which was highly unsatisfactory, was having a strong effect here, resulting in considerably lower revenue in comparison to the previous year, accompanied by significant under-utilization of capacities for project execution.

Due to great advances in operations and a considerably improved order backlog at the beginning of the 2018 financial year as well as good order intake in the first quarter of 2018, the project execution capacities at the large KHD locations are currently fully utilized and we expect a significant increase in revenue combined with further significant improvement in earnings.

The strong net asset position of the KHD Group continues to result in an equity ratio of 53.0% (previous year: 52.2%) and a liquidity (including financial assets with affiliated companies) of € 184.1 million (previous year: € 178.1 million). For this reason, the KHD Group enjoys a good financial position for successfully coping with the difficult situation in the overall market for cement plants and, with a lean and flexible organization, to emerge from the market crisis as a leading technology company.

We would like to thank especially our customers, employees, business partners, shareholders and the Supervisory Board for their trust, great loyalty, and active support in the past financial year, and we would like to continue down the path of technological success and economic recovery that we have embarked upon together in 2018. We have created the basis for this in the past year with a lean, customer-oriented organization.

Please continue to offer your loyal support!

Management Board – KHD Humboldt Wedag International AG

Report of the Supervisory Board

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 Supervisory Board and the Management 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 decided 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 meeting 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 2018 financial year, the Supervisory Board initiated a request for proposals in accordance with the EU Regulation on 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 2018. This has since been published and made permanently available to shareholders on the Company's website at www.khd.com. Further information on corporate governance can be found in the Corporate Governance Report that is also available on the website.

Annual and Consolidated Financial Statements

The Management Board prepared the annual financial statements of KHD Humboldt Wedag International AG 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 the Supervisory Board meeting 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)

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 boards:

- 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

Yiqiong Zhang

Chief Financial Officer der AVIC International Beijing Co. Limited

Eliza Suk Ching Yuen

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

Director of HLM CPA Limited

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Combined Management Report

Group Financial Statements

Other Information

Please note that rounding differences can result from the use of rounded amounts and percentages in accordance with commercial rounding practices.

COMBINED MANAGEMENT REPORT

This management report comprises both the Group Management Report and the Management Report of KHD Humboldt Wedag International AG (“KHD AG”). This report addresses business development, including the business performance, as well as the position and expected development of the Group and of KHD AG. The information about KHD AG is presented in the economic report in a separate section, with disclosures pursuant to the German Commercial Code (HGB). The German Accounting Standard 20 (DRS 20) "Group Management Report" was applied.

The Guidelines Implementation Law concerning corporate social responsibility (CSR) became effective on April 19, 2017. This law governs the reporting on non-financial information for certain capital market-oriented companies. The KHD Group is subject to these non-financial reporting requirements and will meet its obligation by preparing a special non-financial report in accordance with Section 315b, Paragraph 3 of the German Commercial Code (HGB). The non-financial report for the 2017 financial year will be published on the KHD website within the first four months of 2018 and, in accordance with Section 315b Paragraph 3 HGB it is not integrated into this management report.

FUNDAMENTAL PRINCIPLES OF KHD GROUP

Business Model

Organizational Structure and Locations

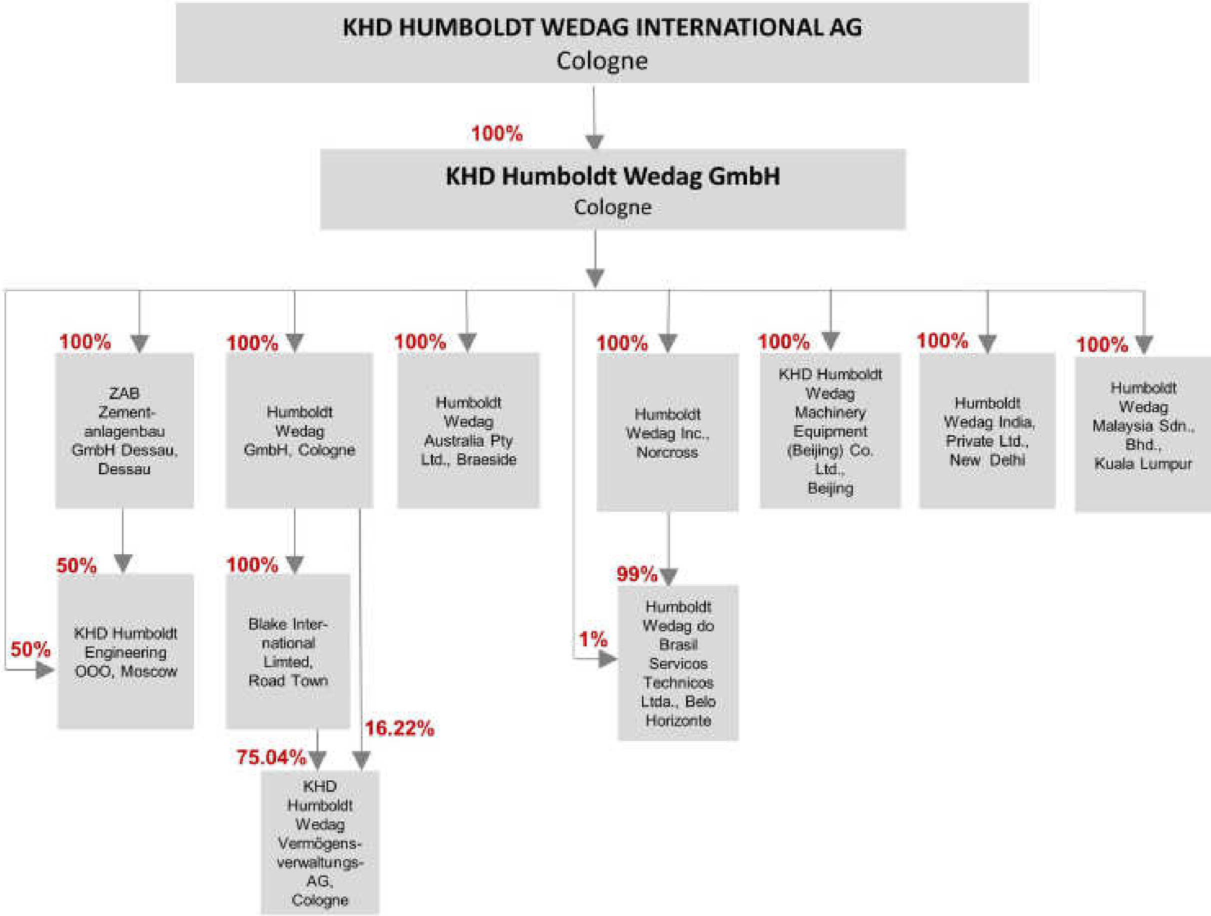
With its subsidiaries in Europe, the Americas, Asia, and Australia, KHD Humboldt Wedag International AG (hereafter also referred to as “KHD” or “Group”) based in Cologne, Germany, ranks as one of the world’s top equipment suppliers and service companies for the cement industry. The scope of services encompasses process know-how and design, engineering, project management, the supply of technology and equipment as well as supervising the erection and commissioning of cement plants and related equipment. It also includes customer services such as supplying spare parts, the optimization, maintenance and repair of cement plants (e.g. with our mobile welding system for maintaining roller presses), and training of plant personnel. KHD focuses mainly on knowledge-intensive areas. The manufacturing of plant equipment is predominantly outsourced to quality-certified, external manufacturers who work in accordance with KHD’s specifications. KHD invested in the expansion of its own production capacities in India in the 2017 financial year. As a result, in the future selected products will also be manufactured increasingly with the Group's own production capacities.

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

Within KHD, both the Group structure and the tasks of individual Group companies changed in the 2017 financial year. In this regard, KHD in October 2017 sold its shares in EKOF Mining & Water Solution GmbH ("EKOF"), Bochum, Germany, a company with operations outside those of KHD's core business. Furthermore, KHD Humboldt Wedag Industrial Services AG, Cologne, changed its company objective in the course of the financial year and changed its company name to KHD Humboldt Wedag Vermögensverwaltungs-AG ("KHD VV") The company no longer provides operational services in cement plant engineering since May 2017, but instead focuses exclusively on managing its own assets. The services previously provided by KHD VV are being provided by other KHD companies since May 2017.

KHD has been a group company of the Beijing-based AVIC International Beijing Co. Limited ("AVIC Beijing") since January 2014. AVIC Beijing is part of the Aviation Industry Corporation of China, a corporate group owned by the People's Republic of China. AVIC International Engineering Holdings Pte. Ltd. ("AVIC Engineering"), and Max Glory Industries Limited ("Max Glory"), directly hold a 69.02% stake and a 20.00% stake in KHD, respectively. The strategic collaboration of the groups since December 2010 has been further strengthened as a result of the takeover. KHD and AVIC work together especially on project tendering.

Group Structure



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

The advantage of our structure is the technological leadership by **Humboldt Wedag GmbH** ("HW GmbH") in Cologne, the operating company in the Group at the Cologne headquarters, combined with the proximity of the regional subsidiaries to the respective customers and their knowledge of the local market environment. In order to tap into markets in which the Group is not represented by its own sales force, the KHD Group also employs sales agents.

Within the KHD Group, in addition to technological leadership, HW GmbH assumes important central functions and serves as a contact for specialist and organizational matters.

The markets in Europe, the Middle East and Africa as well as the Asia-Pacific region (with the exception of China) are managed directly from Cologne by HW GmbH. The other regions – Russia/CIS, India, the Americas and China – are managed locally by the respective subsidiaries.

Humboldt Wedag India Private Ltd. ("HW India") in New Delhi is responsible for the important Indian market as well as the neighboring countries of Nepal, Bangladesh, Bhutan, and Sri Lanka. With over 190 engineers, HW India not only executes its own orders, but it also increasingly supports the other subsidiaries. HW India has its own facilities for producing some key components and for refurbishment of roller presses. Production capacities at the location in India were expanded starting in the 2017 financial year.

With a subsidiary in Moscow, **KHD Humboldt Engineering OOO** ("KHD OOO"), **ZAB – Zementanlagenbau GmbH Dessau** ("ZAB") in Dessau, Germany covers the 15 states of the former Soviet Union plus Mongolia. In addition to new plants, the focus is on taking advantage of the huge potential in the region for modernization and expansion investments. Large projects are executed in cooperation with HW GmbH.

Humboldt Wedag, Inc. ("HW Inc."), with its headquarters in Norcross, near Atlanta, Georgia, is responsible for both North and South America. For project execution, HW Inc. is supported by HW GmbH in Cologne.

Range of Products and Services

The range of KHD products and services is divided into the areas of Project Business (Capex) and Plant Services.

Capex (Project Business)

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

The core product range supplied by the KHD Group includes equipment for grinding and pyro processing, which represent essential elements of every cement plant. Our grinding technology is utilized in raw material, clinker and clinker substitute grinding, and comprises crushing, grinding, and separation equipment as well as fans. The KHD Group's pyro processing equipment covers all of the key components of the kiln line, such as preheaters, calciner systems, burners, process fans, rotary kilns, and clinker coolers. With the PYROROTOR®, a further development of traditional calciner technology, KHD is also providing technological solutions with which very coarse and poorly prepared secondary fuels can be used to manufacture cement. Moreover, the KHD Group has developed a number of system automation products, which are used together with process control systems to optimize plant performance.

Our products are characterized by their low energy consumption, low maintenance costs, reduced vibrations and noise emissions, as well as minimal wear.

Plant Services

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

Management and Supervision

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

Management Board

The rules of procedure implemented for the Management Board by the Supervisory Board govern the fundamental principles of the Management Board’s work. The assignment of functional responsibilities for individual Management Board members is laid out in the schedule of responsibilities. Mr. Yizhen Zhu, a member of the Management Board for many years, resigned this position effective June 30, 2017. The Supervisory Board appointed Mr. Dian Xie to the KHD Management Board, effective July 1, 2017. Mr. Xie has many years of management experience in the areas of business development, sales and project execution.

Supervisory Board

Ms. Eliza Suk Ching Yuen, after several years of service, resigned from the Supervisory Board effective at the end of the Annual General Meeting on May 23, 2017. Based on the change to the articles of association concluded at the Annual General Meeting, the Supervisory Board of KHD now consists of three people. Members of the Supervisory Board include the Chairman, Mr. Gerhard Beinhauer, the Deputy Chairman, Mr. Da Hua, and Ms. Yiqiong Zhang.

Corporate Governance

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

The corporate governance report (see Section 3.10 of the GCGC) provides further details concerning corporate governance. The declaration of compliance and the corporate governance report (including the declaration on corporate governance in accordance with Section 315d in connection with Section 289f of the German Commercial Code (HGB)) are available on KHD’s website (http://www.khd.com/corporate-governance-370.html).

Objectives and Strategy

KHD is a full service provider for cement plants and can offer all material key components of a cement plant or grinding facility with its own products.

This is how KHD has differentiated itself from its competitors since its establishment more than 160 years ago: with machines and plants developed in Germany with leading technology. In product development, KHD focuses strongly on energy efficiency, clean plants with minimal polluting emissions, long service life and very easy maintenance.

With our lean, quick organization we have flexibility in dealing with individual customer requirements and can create efficient solutions. Moreover, close cooperation with controlling shareholder AVIC makes inexpensive delivery from China possible.

Management and Control System

The strategy of KHD also manifests itself in the way the Group is managed. A uniform system of key financial targets across the Group ensures a common understanding of how to measure success. The primary financial indicators KHD uses to determine target achievement are calculated monthly on the basis of key figures. These performance indicators are determined consistently and continuously to ensure comparability across various periods. In part, these performance indicators are alternative performance measures, which are not defined according to the International Financial Reporting Standards (IFRS). The primary financial performance indicators are defined and derived as follows:

- Order intake and order backlog
  The approval for project execution is important for recording order intake. Here, in addition to the legally binding implementation of a customer contract, other conditions must also be routinely met. These conditions include, for example, submission of a payment or the effective opening of a letter of credit. If the respective prerequisites are met, the contract value is recorded in the order intake. With this recording in order intake, the order backlog increases accordingly. This means that the order backlog represents the total of the binding, concluded contracts, which are still to be executed by KHD. It changes continually based on the recorded order intake and progressing execution of the existing backlog (revenue recognition according to production process). Adjustments due to the reduction of order values or cancellation of orders as well as effects due to exchange rate fluctuations are shown as changes in the order backlog as of the 2017 financial year. Such adjustments were reported in the

order intake in the previous year. This change ensures better insight because the new business gained during the financial year is now immediately recognizable.

- Group revenue

  Group revenue is determined in accordance with generally accepted accounting principles as defined by IAS 11 and IAS 18. KHD will determine Group revenue according to the new regulations of IFRS 15 starting in the 2018 financial year. Regarding possible changes and effects, reference is made to the respective items in the notes.

- Group earnings before taxes and interest (EBIT) as well as the ratio to revenue (EBIT margin)

  EBIT provides information about the Group's operating profitability and includes all of the components of the income statement that refer to operating performance. It is determined as the Group net result for the year plus the net finance income and income tax expense. The EBIT margin is a relative indicator used to compare operational profitability. A ratio of EBIT to revenue is used to determine this figure. For Group management purposes, KHD adjusts EBIT as necessary with regard to special effects. Special effects are one-time-items or effects that are special in nature and/or magnitude, e.g. expenses for restructuring, reorganization or litigation as well as expenses related to under-utilization of capacity. The adjusted EBIT is more suitable for comparing the operating performance across several periods. For the 2017 financial year the adjusted EBIT is calculated as:

in € million	**2017**	**2016**
EBIT prior to adjustments	**-25.7**	**-33.2**
Idle capacity costs	4.9	5.9
Staff adjustment measures	1.3	-
Adjusted EBIT	**-19.5**	**-27.3**

- Operating cash flow
  Operating cash flow is determined in accordance with generally accepted accounting principles as defined by IAS 7 and includes all cash flows that are not associated with the investment and financing area.

Research and Development

In the 2017 financial year, the following trends have continued to define the industry:

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

Research and development activities at KHD are focused on the development of convincing responses to the trends listed above. KHD spent € 2.3 million on research and development in the 2017 financial year (previous year: € 3.8 million). This corresponds to 2.3% (previous year: 2.8%) of revenue, a high value in industry comparisons according to KHD research. A total of 13 patents (previous year: 18 patents) were applied for in the reporting year. At the end of the year, KHD owned the rights to a total of 1,071 items of intellectual property, of which 516 (previous year: 468) were patents, 544 (previous year: 552) were brands and 11 (previous year: 13) were registered designs.

To minimize the CO_2 footprint, KHD continues to invest in the development of new technologies. These include the complete grinding of clinker with energy-efficient roller press technology, highly efficient cooler solutions for clinker, and techniques for the calcination of alternative substances, such as clay, which are more advantageous with respect to CO_2.

With the market introduction of the PYROROTOR® burning chamber, KHD is meeting increasing market demand for using even very coarse and poorly prepared secondary fuels in great amounts in cement plants. This can reduce operating expenses in particular.

With numerous efficiency enhancing measures, modernization concepts, and improvements as well as services for plants, KHD continues to orient itself, based on customer requirements, toward environmentally sensitive solutions that simultaneously reduce operating expenses for its customers.

ECONOMIC REPORT

Macroeconomic and Sector-related Conditions

Economic Environment

In October 2017, the International Monetary Fund (IMF) predicted global growth of 3.6% for 2017 (previous year: 3.2%). This means that the growth forecast is 0.1 percent higher than predicted in April 2017. A broadly based upward trend was noted in the European region, Japan, the emerging countries in Asia, and in Russia in the first half-year 2017. This recovery was due to significant increases in investment, trade volume, and industrial production together with the increased trust of companies and consumers. While the fundamental prospects improved, growth remains weak in some countries and inflation is below target values in nearly every industrialized country. The growth prospects in many emerging and developing countries in sub-Saharan Africa, the Middle East, and Latin America remain at a low level.

Industry Environment

According to Global Cement Magazine, mergers of cement producers and efforts to implement synergies were important issues for the cement industry in 2017. The reason for the continuing wave of mergers is the worldwide overproduction of clinker, the primary product for cement, and the unfavorable situation in several markets for the construction industry. Government measures can have great influence in such market circumstances, and several significant markets were affected, both positively and negatively, by government decisions. According to Exane BNP Paribas, 2017 must be classified as a very weak year for the cement industry, with a global (except for China) decline in cement production of 0.1%.

The KHD Group depends indirectly on the development of global cement production and cement consumption. According to Exane BNP Paribas, KHD’s key markets demonstrated very different tendencies in relation to cement consumption:

- The Western European cement industry recovered slightly in 2017 with average growth of 2.0% (previous year: 0.7%).
- In Turkey, growth in cement consumption of 4.2% (previous year: 3.1%) was relatively high, due in part to government infrastructure projects.

- In the first six months of 2017, the overall production of the Russian cement industry totaled 30.7 million tons. In comparison with the same period in 2016, this indicates a decrease of 3.6%. Nevertheless, necessary adaptation and modernization measures are continuing in the cement sector in Russia. Production output over the entire year decreased by 2.0% (previous year: -11.5%).
- In India, after satisfying growth in cement consumption of 5.2% in the previous year, the current year saw a decrease of 2.6%.
- With an average growth in cement consumption of about 2.0% in comparison with the previous year, Southeast Asia demonstrated stable development.
- In China, the merger between the cement producer China National Building Material (CNBM) and the cement plant engineering firm China National Materials (Sinoma) is still in the implementation phase. At 1.0%, growth in cement consumption was below the previous year's figure (2.4%).
- In the USA, although the Portland Cement Association (PCA) lowered its prospects with regard to growth in cement consumption, the local economy developed well in contrast to this estimate. Growth in cement consumption increased from 1.7% to 3.0% in 2017.

Financial Market Environment

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

Compared with the closing rate for the previous year, as of December 31, 2017, the Indian rupee fell 6.8% with regard to the euro. At 73.94 rupees to the euro, the average rate was nearly at the level of the previous year (74.31 rupees to the euro). The closing rate of the US dollar also lost ground with respect to the euro (-13.6%) at 1.14 US dollars per euro, the average rate was also below that of the previous year (1.10 US dollars per euro). Although the year-end rate of the Russian ruble fell against the euro by -6.7%, the average rate moved to 66.31 rubles to the euro (previous year: 73.18 rubles to the euro). Due to converting local financial statements into euros, exchange rate changes over the reporting year have had an overall negative impact on the KHD Group.

Overall Assessment of the Results of Operations and Economic Position

Based on revenue development and adjusted earnings before taxes and interest (EBIT), business development in 2017 was unsatisfactory. The reasons for the markedly negative net result for the period include the difficult economic situation in the cement industry, unchanged worldwide, as well as low order intake in the previous periods. Encouragingly, order intake increased significantly during the financial year in comparison with the previous year – particularly in the second half-year – to € 182.5 million. After several periods with decreasing order intake, the measures introduced resulted in a turnaround in order intake and order backlog. The new projects won in a highly competitive environment with aggressive pricing offers are an important contribution to capacity utilization. While idle capacity costs in the 2017 financial year totaled € 4.9 million, starting in the fourth quarter of 2017, full capacity utilization was nearly reached again.

While accelerated growth in the cement markets was assumed in the outlook for the 2017 financial year, the development of cement consumption in KHD's core markets remained at a relatively low level. The continuing political and economic insecurity in markets important to KHD, such as Russia and parts of the EMEA region, together with difficulties of our customers with regard to project financing have resulted in further delays in awarding orders. Nevertheless, KHD increased overall order intake from € 83.0 million in the previous year to € 182.5 million, primarily in the markets assigned to HW India, but also in Africa and Central Europe. Therefore, the outlook provided for the 2017 financial year (considerably higher than the previous year) was achieved. The order backlog as of December 31, 2017 amounts to € 168.3 million, which is sufficient for the full utilization of existing capacities that was predicted by the end of 2017. Due to the low order backlog at the beginning of the financial year, however, idle capacity costs resulting from under-utilization during the 2017 financial year amounted to € 4.9 million (previous year: € 5.9 million). Despite the present full capacity utilization, the current order backlog is not sufficient to ensure complete capacity utilization for the entire 2018 financial year. Thus, the recovery of the cement markets and the sustainability of the turnaround that has begun are of significant importance to KHD.

Revenue totaled € 100.1 million, which was considerably below the figure provided in previous year's outlook (about € 135 million). The reason for this deviation was the low order intake in the first half of 2017. KHD updated the revenue outlook in the 2017 half-year financial report accordingly.

Overall, KHD achieved adjusted earnings before interest and taxes (EBIT) of € -19.5 million and thus a significantly negative adjusted EBIT margin of -19.5%. Although the adjusted EBIT and the adjusted EBIT margin are better than the previous year's figures and correspond with the outlook submitted (significantly negative EBIT and EBIT margin), they still remain at an unsatisfactory level in a multi-year comparison. The reasons for the negative adjusted EBIT are, in particular, insufficient business volume as well as unsatisfactory margins in the Capex segment. The solid increase in order intake did not yet have a significant effect on the revenue or, in turn, the EBIT in the 2017 financial year.

In the 2017 financial year KHD concluded two loan agreements, each worth € 50 million, with AVIC International Kairong Limited ("AVIC Kairong") as the borrower. The loan agreements were concluded at nearly the same conditions as the loan agreements entered into with AVIC HK in 2014. Due to the ongoing attractive interest rates for the loans, the net finance income of KHD will continue to make a significant contribution to the net period results in the future.

The cash flow from operating activities of € 5.3 million was in line with the guidance submitted (no further material cash outflows). Despite the significantly negative Group net loss, a positive cash flow from operating activities was achieved due to the considerable improvement in net working capital. As a result, the financial and net assets position remain good due to continuing adequate liquidity and a high equity ratio.

As indicated in the outlook submitted, the Capex segment achieved an order intake of € 140.7 million, which was significantly higher than the previous year's figure (€ 46.4 million). However, the satisfactory increase in order intake did not yet affect the revenue of the business unit in the same manner, so it failed to meet the guidance for the 2017 financial year (revenue at about the level of the previous year). With revenue of just € 62.2 million, KHD achieved an adjusted EBIT of € -22.8 million in the Capex segment (previous year: € -31.0 million). This is in line with the outlook provided for the business unit (significantly negative EBIT, considerable improvement in comparison with the 2016 financial year).

In the Plant Services business unit, the order intake of € 41.8 million is in line with the figure provided in the outlook. However, at € 37.9 million the revenue was about 4% below the figure of the 2016 financial year, which was slightly lower than planned. The Plant Services segment achieved positive EBIT in the amount of € 3.3 million in the 2017 financial year, which met the expectations.

Business and Earnings Position

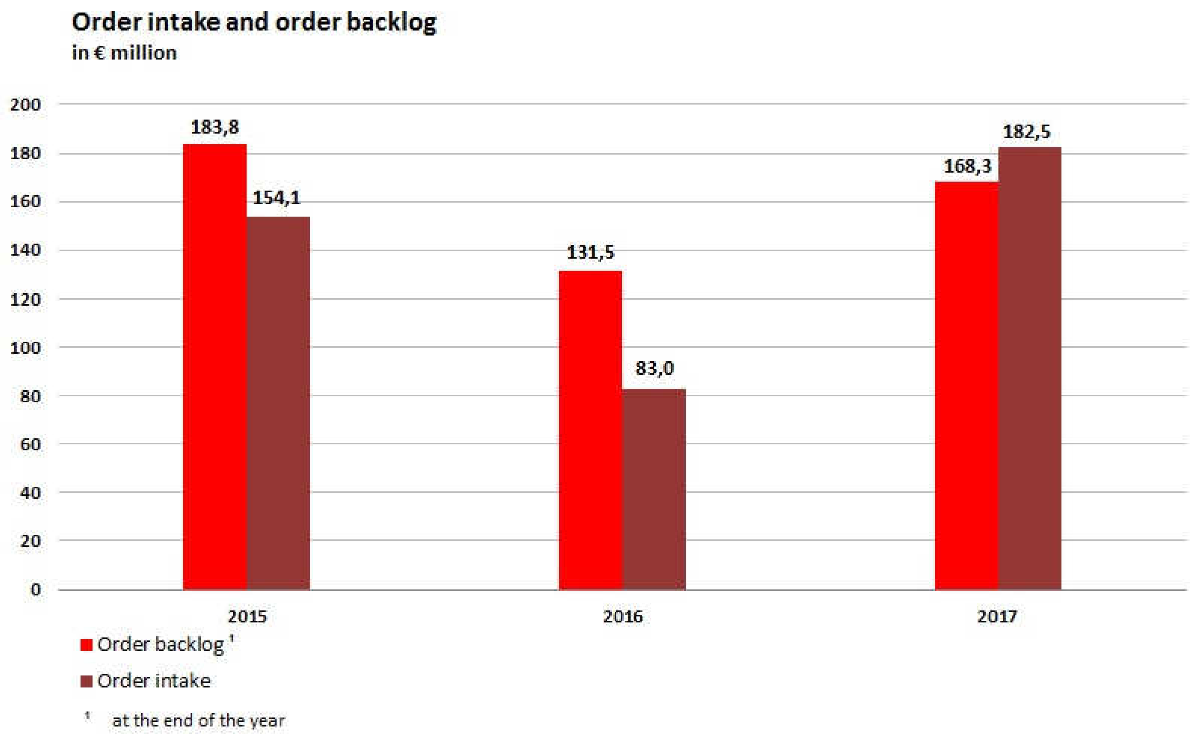
Order Intake and Order Backlog

Order intake was € 182.5 million in the 2017 financial year, considerably higher than the previous year's figure of € 83.0 million. After many years in which the order backlog decreased, a significant turnaround was achieved in the 2017 financial year. Due to more intense sales activities and competitive pricing, KHD was able to win important projects. Although order intake in the 2017 financial year is in line with the published outlook, there were also delays in the awarding of contracts and in customer decisions regarding investments during the financial year, which prevented an even better result in order intake.

In the Capex segment, KHD achieved a total order intake of € 140.7 million, which was considerably higher than the previous year’s figure for new business (€ 53.8 million). Significant contributions to order intake were made in the markets managed by HW India (India, Nepal, Bangladesh), the European region and, increasingly in sub-Saharan Africa, the important markets of the future.

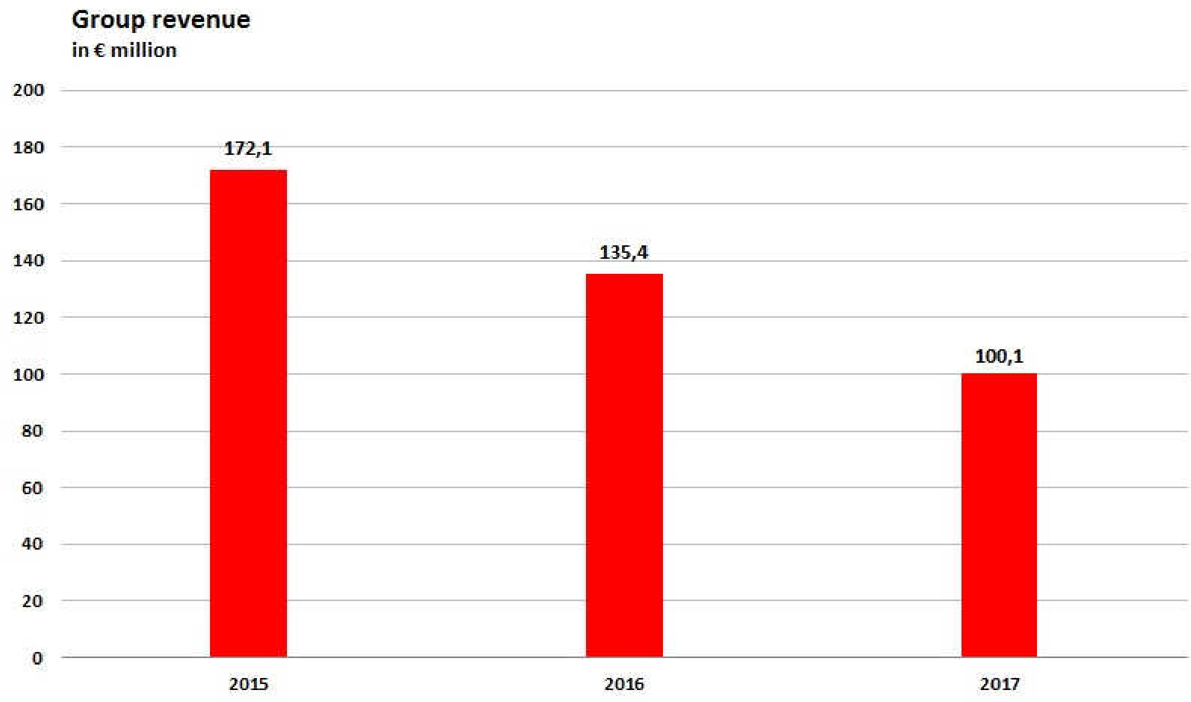
With € 41.8 million, the spare parts and service business (Plant Services) contributed a significant share (22.9%) to the total order intake. Plant Services exceeded the previous year's figure of € 36.6 million.

As a result of the higher order intake, order backlog as of December 31, 2017 also increased to a current total of € 168.3 million (previous year: € 131.5 million). Different from the previous year, adjustments due to the reduction of order values or cancellation of orders as well as adjustments dur to the suspension of project execution totaling € 42.0 million are no longer shown in order intake, but instead as adjustment to order backlog. This also applies for the effects of exchange rate fluctuations of € -3.5 million. While the order backlog decreased continually in previous periods and in 2016 reached a particularly low total of € 131.5 in terms of a multi-year comparison, the order backlog increased by € 36.8 million in the 2017 financial year. Starting in the fourth quarter of 2017,the existing order backlog was sufficient for an almost full utilization of existing capacities. However, full utilization of capacities in future – particularly in the second half of 2018 – depends on further order intake in 2018.



Group Revenue

In the 2017 financial year, KHD achieved revenue in the amount of € 100.1 million. The considerable decrease of 26.1% in comparison with the previous year's figure (€ 135.4 million) is mainly the result of the low order backlog at the beginning of the financial year and the comparably low order intake in the first half-year 2017. The considerable increase in order intake in the second half-year 2017, however, did not yet contribute significantly to the revenue for the financial year. Projects in India, Nepal, Turkey and Africa were the biggest contributors to revenue.



Group Earnings Position

The cost of sales comprise € 4.9 million (previous year: € 5.9 million) of idle capacity costs that resulted from under-utilization of existing capacities. As these costs are not directly related to the costs of the revenue recognized, they are adjusted in the determination of the adjusted gross profit as special effect. Despite the absolute decrease in turnover, the adjusted gross profit increased to € 12.4 million (previous year: € 7.6 million). In the previous year, the adjusted gross profit was negatively affected by high cost overruns due to difficulties in executing several large projects. Though there were specific cases of cost overruns in projects in the 2017 financial year, KHD still achieved improvements in gross profits based on negotiations on both the customer and supplier side that result in variation orders and agreements on backcharges. As a result, the adjusted gross profit margin increased over the previous year from 5.6% to 12.4%.

The other operating income decreased from € 3.4 million to € 2.8 million. The other operating income of the 2017 financial year includes mainly income from exchange rate fluctuations in the amount of € 2.5 million (previous year: € 2.3 million).

The increase in sales expenses by 6.0% to € 13.9 million (previous year: € 13.1 million) illustrates that the measures introduced in the previous periods for expanding and intensifying customer contacts and increasing the number of project tenders in which KHD participates are significant prerequisites for improving order intake. Sales expenses remained at a high level, even in industry comparisons.

In contrast to the increase in sales expenses, active cost management reduced general and administrative expenses by 17.6% to € 13.1 million (previous year: € 15.9 million). General and administrative costs include, in addition to the costs of general administration, legal and consulting costs, accounting costs, Management Board compensation, Supervisory Board remuneration, and costs related to the KHD's listing at the stock exchange.

Other operating expenses decreased slightly in comparison with the previous year to € 9.0 million (previous year: € 9.3 million). While currency exchange rate fluctuations and changes in market value of foreign exchange forward contracts for hedging exposure on foreign currency receivables increased from € 3.4 million to € 4.6 million, expenses for research and development decreased from € 3.8 million to € 2.3 million. Despite this reduction, the research and development activities remain at a high level in an industry comparison, illustrating the efforts of KHD to continue to expand its technological expertise. Other operating expenses in the financial year also include a one-time effect due to the adjustment of personnel capacities in the amount of € 1.2 million.

After deduction of the expenses, the unsatisfactory EBIT amounts to € -25.6 million (previous year: € -33.2 million). As a result, the EBIT margin is -25.6% (previous year: -24.5%). Without considering idle capacity costs and the one-time effect related to staff adjustment measures, the adjusted EBIT amounts to € -19.5 million and the adjusted EBIT margin to -19.5%.

The Group's net finance income of € 8.8 million (previous year: € 8.1 million) remains at a high level. In particular, it includes interest income in the amount of € 6.1 million from the two loans, each for € 50 million, which are granted to AVIC Kairong (respectively to AVIC HK at the beginning of the 2017 financial year). The largest items under finance expenses, which totaled € 1.0 million (previous year: € 1.2 million), are the interest related to pension benefit obligations, the interest expenses for a bank loan taken out in October 2015, and interest expenses resulting from the discounting of provisions and other non-current liabilities.

At € -16.9 million, earnings before tax (EBT) increased significantly (previous year: € -25.1 million), but still remains at an unsatisfactory level. Despite the negative earnings before tax, KHD accounted for income tax expenses of € 2.5 million (previous year: € 4.1 million) in the 2017 financial year. KHD Group's high tax expense is caused by differing profitability of KHD's subsidiaries. Some subsidiaries achieved positive EBT that resulted in income tax expenses, whereas other subsidiaries sustained significant losses. In addition, KHD capitalizes deferred tax assets on temporary differences and tax loss carry-forwards only to a limited extent, so that only a low compensation effect on the current income tax expenses could be recognized. The group net loss for the year amounted to € -19.4 million (previous year: € -29.2 million). Basic and diluted earnings per share improved to € -0.39 (previous year: € -0.59).

Segment Earnings Situation

At € 62.2 million, revenue for the Capex segment fell short of the previous year's amount (€ 96.2 million). The adjusted gross profit in the Capex business unit (adjusted by idle capacity costs of € 4.9 million, previous year: € 5.9 million) amounted to € 2.8 million (previous year: € -3.0 Mio.). The adjusted gross profit margin of 4.5% was also significantly above the previous year's figure of -3.1%. The positive, but still unsatisfactory adjusted gross profit margin is a result of the low margins in the order backlog at the beginning of the financial year and the conscious decision to give growth in business volume priority over margin quality in the current competitive situation in the cement industry.

Other operating income of € 2.8 million (previous year: € 3.4 million) were allocated to the Capex business unit. The segment's sales expenses were € 10.4 million (previous year: € 9.7 million) and the general and administrative expenses were € 10.5 million (previous year: € 12.8 million). KHD Group's other expenses are almost exclusively allocated to the Capex segment, i.e. for this segment other expenses of € 8.7 million (previous year: € 8.9 million) were recorded. Due to major challenges in the market environment and the overall unsatisfactory development, EBIT for the Capex segment amounted to € -28.9 million (previous year: € -36.9 million). The adjusted EBIT was also significantly negative and amounted to € -22.8 million (adjusted EBIT margin of -36.7%).

KHD Group revenue in the Plant Services segment totaled € 37.9 million (previous year: € 39.3 million) which reflects a decrease in comparison with the previous year. The gross profit of Plant Services was € 9.6 million (previous year: € 10.6 million) and decreased disproportionately with respect to the decline in revenue. Therefore, the gross profit margin in the 2017 financial year of 25.4% was slightly lower than the previous year’s figure.

The total of sales expenses, general and administrative expenses, other operating expenses and other income for the Plant Services segment amounted to € 6.3 million (previous year: € 6.9 million). EBIT for the business unit, € 3.3 million (previous year: € 3.7 million), is again significantly positive.

Financial Position and Net Assets

Fundamentals of the Financing Strategy

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

KHD Humboldt Wedag International AG controls the Group’s financial management and makes sufficient cash available to Group companies where required so that payment obligations can be met in full at all times. The major part of the excess liquidity which is not necessary for daily operations has been granted to AVIC Kairong as loans (€ 100 million in total). The two loans concluded in 2017, each worth € 50 million, incur interest at 6.0% and 5.7%, respectively. Two loans, each for € 50 million, were granted to AVIC HK at nearly the same conditions until July and November 2017, respectively.

In the 2015 financial year, KHD took out a bank loan in the amount of € 25 million. The interest rate is significantly lower than that obtained by KHD from the loans previously granted to AVIC HK and now to AVIC Kairong. The bank loan respectively the credit line granted by the bank is due for re-payment or prolongation, respectively in the 2018 financial year.

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

All operating companies in the KHD Group have access to bank guarantee credit facilities for various hedging instruments such as guarantees via bank guarantee credit facilities with Deutsche Bank AG (€ 40 million) and Austrian Raiffeisen Bank International AG (€ 38 million). Furthermore, the KHD Group has bank guarantee credit facilities with Bank of China, Frankfurt branch, and Zurich Insurance plc, with a total volume of approximately € 20 million. As of December 31, 2017 the bank guarantee credit facilities have been utilized in a total amount of € 33.2 million (previous year: € 33.6 million).

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

Financial Position

Total cash and cash equivalents increased from € 78.1 to € 84.1 million during the reporting year. The increase is directly linked with the improvement of the net working capital by € 22.4 million.

Besides the short-term liquidity in the form of cash and cash equivalents, KHD can, in case of additional need for liquidity, call in the € 50 million loan that was granted to AVIC Kairong in July 2017 for repayment by giving 30 days' notice.

The bank loan in the amount of € 25 million granted by the Bank of China is due and payable in the 2018 financial year. As the bank loan or the credit line, respectively, are planned to be extended, KHD does not expect an impact on its financial position..

Cash Flow

The cash flow from operating activities totaled € 5.3 million in the financial year (previous year: € -39.4 million). Following the significant cash outflows from operating business activities in the previous periods, a slightly positive cash flow from operating activities was achieved. The reason for this is the considerable improvement in the net working capital, primarily the very significant reduction in receivables due to receipt of payments as well as higher advance payments from customers as a result of the increased new business.

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

Cash flow effect from operating activities for the year 2017	**in € thousand**
Cash flow from construction contracts in progress (including progress billings)	10,673
Cash flow from current liabilities/ invoices from subcontractors	(8,758)
Cash flow from changes in receivables	39,642
Cash flow from utilization of provisions and long term liabilities	(8,420)
Cash outflow from result (EBITDA)	(24,227)
Cash flow from tax payments made/ received	(3,016)
Other cash inflows and outflows	(614)
Cash flow from operating activities	**5,280**

Cash flow from investing activities of € 3.7 million (previous year: € 4.9 million) mainly results from interest received (€ 6.1 million, previous year: € 6.1 million) on the loans granted to AVIC Kairong and AVIC HK, while cash outflow during the same period for investments in property, plant and equipment and intangible assets was relatively low (€ 2.5 million, previous year: € 1.2 million). The increase in payments for investments is related to the expansion of the workshop in India.

Cash flow from financing activities of € -0.5 million (previous year: € -0.5 million) resulted almost exclusively from interest payments from a bank loan taken out in 2015 in the amount of € 25.0 million.

Total Assets

The balance sheet total decreased considerably from the figure at the end of 2016 (€ 330.1 million) by € 47.5 million to € 282.6 million. Cash and cash equivalents made up 29.8% of the total assets (previous year: 23.7%).

The non-current assets, amounting to € 125.7 million, were considerably higher than the previous year's figure of € 32.5 million. The reason for this increase is the recognition of the two loans granted to AVIC Kairong in the 2017 financial year for a total amount of € 100 million. In the previous year, two loans granted to AVIC HK, each for € 50 million, were reported as current assets because they were due for repayment in the 2017 financial year. Each of the two loans granted to AVIC Kairong has a fixed term of three years. They are due for repayment in July and November 2020, respectively. Property, plant, and equipment also increased considerably from € 3.9 million to € 6.5 million in the financial year under review. In contrast to the increase in non-current financial assets, the non-current trade receivables and other receivables decreased by € 8.9 million to € 10.7 million. The non-current trade receivables and other receivables primarily include deferred trade receivables in the amount of € 6.5 million. The deferred receivables incur interest at usual market conditions. Overall, the proportion of non-current assets increased to 44.5% (previous year: 9.8%) of the balance sheet total.

In addition to cash and cash equivalents, current assets include the gross amount due from customers for contract work of € 3.8 million (previous year: € 16.4 million). As of the end of 2017, costs incurred for these contracts plus proportionate profits recognized exceeded progress billings. Due to the receipt of payments, trade receivables and other receivables decreased sharply to € 55.6 million (previous year: € 92.9 million). These balance sheet items include receivables due from companies of the AVIC Group (related companies) amounting to € 12.6 million (previous year: € 14.8 million). Due to the significantly greater volume of projects in execution, payments made in advance increased by € 2.4 million to € 7.7 million as of December 31, 2017.

Financing

Equity saw a decrease from € 172.2 million at the end of 2016 by € 22.4 million to € 149.8 million. The decrease was primarily caused by the net loss for the financial year. Despite the decrease in equity, the equity ratio as of December 31, 2017 amounted to 53.0%, and due to the decrease in the balance sheet total, it is nearly unchanged compared to the figure as of December 31, 2016 (52.2%).

The non-current liabilities at the end of 2017 were € 26.1 million (previous year: € 51.8 million) and primarily include pension benefit obligations (€ 21.0 million, previous year: € 22.4 million). In contrast to the previous year, the bank loan in the amount of € 25 million as of December 31, 2017 is presented under current liabilities as it is due for payment in the 2018 financial year.

On the liabilities side of the balance sheet, the current liabilities of € 106.8 million remained almost at the previous year's level (€ 106.1 million). The current operating liabilities decreased significantly due to the reduced business volume. For this reason, trade payables (primarily resulting from contract costs) and other liabilities, commitments under construction contracts, and current provisions decreased by a total of € 23.0 million. In contrast, the current financial liabilities increased by € 25.0 million as the bank loan that is due for repayment in the 2018 financial year is presented under current liabilities as of December 31, 2017.

Net working capital – the difference between current assets (less cash and cash equivalents) and current liabilities – improved significantly to € -9.0 million (end of 2016: € 13.4 million).

Non-financial Performance Indicators

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

KHD has a standard procedure for employee evaluation and development with which important competencies, such as performance and results orientation, assertiveness and communication are assessed. The results form the basis for a discussion of individual development activities as well as long-term personnel and succession planning. Target achievement in relation to non-financial performance indicators is measured with the help of various instruments, such as annual employee appraisal, the recording of customer satisfaction or the systematic measuring of emissions values and energy consumption of individual products. Value-oriented management in the KHD Group means that, for example, customer satisfaction and the minimization of our products' impact on the environment are more important than short-term profit maximization.

Employees

Personnel Development

As of the end of 2017, KHD employed 666 people, 41 fewer than the previous year's total of 707. This decline is due to measures for adapting capacities to the reduced business volume. Headcount reductions were made both by not filling vacant positions and by an active reduction in staff. As of the end of 2017, approximately 43% of employees in the Group worked in Germany and 47% in India.

KHD's personnel expenses decreased in the financial year by € 4.2 million to € 40.1 million (previous year: € 44.3 million). The decrease in personnel expenses by -9.5% was greater than the relative decrease in the number of employees (-5.8%) in the financial year. The reason for this was that the reduction in employees applied in particular to the German companies.

Development of Team and Leadership Skills

Our employees undergo a variety of internal and external training programs. This is intended to ensure that the knowledge, skills, and working practices are adapted to continuously changing conditions and to customers' growing expectations. Regular seminars for our managers have been part of internal training since the 2017 financial year. Internal feedback sessions for the evaluation and development of employees continued in 2017 as well.

ANNUAL FINANCIAL STATEMENTS OF KHD HUMBOLDT WEDAG INTERNATIONAL AG

KHD Humboldt Wedag International AG (KHD AG) is the controlling company of the KHD Group and functions as a holding company with no operating business activities. The Management Board of KHD AG is responsible for managing the company and the Group. This primarily includes determining and implementing the Group strategy and financial management. The annual financial statements of KHD AG were prepared pursuant to the German Commercial Code (HGB) and the German Stock Corporation Act (AktG); the management report is combined with the Group management report. The individual financial statement is used to determine the net retained profit and the dividend distribution rate.

Business Performance in 2017 and Expected Development in 2018 with Significant Risks and Opportunities

The business development and position of KHD AG is primarily determined by the development of business and the success of subsidiaries and, therefore, the development of the entire KHD Group. In this respect, reference is made to the corresponding sections of the combined management report.

Liquidity and earnings before tax (excluding the effect of income from investments) are the performance indicators with key relevance. As a management holding company, KHD AG – unlike the operating Group companies – is not additionally controlled based on non-financial performance indicators. KHD AG fully achieved the targets as submitted in the outlook for the 2017 financial year, resulting in a slightly positive result for earnings before tax (excluding the effect of income from investments). In addition to the income from services provided to subsidiaries, particularly the significantly positive net finance income contributed to achieving this target. The forecasted improvement in the liquidity situation was achieved as well, in consequence, the liquidity situation of KHD AG remains good.

The expected development of KHD AG in the 2018 financial year is also determined by the operating success and dividend policy of the direct and indirect subsidiaries and, therefore, the development of the KHD Group. To this extent, the statements in the outlook for the Group also apply indirectly to the future development of KHG AG. With respect to the significant performance indicators, KHD AG expects a slightly positive result for earnings before tax (excluding the effect of income from investments) in the 2018 financial year as well. This guidance is based on the assumption that the operating subsidiaries will continue to receive services from the bond arrangement agreement via KHD AG in the planned volume and that the Group charges for the services provided (management tasks of the Management Board members performed for KHD subsidiaries) and received do not change significantly. Furthermore, the outlook also assumes that from the available liquidity and the loans granted, interest income can be generated at a level equal to that of the previous year. In the 2018 financial year KHD again expects an improved liquidity position due to the planned extension of the existing bank loan and expected cash inflow from receivables due from affiliated companies. In addition, the liquidity and financing of KHD AG continue to be safeguarded due to the ongoing distribution potential of companies in the KHD Group.

The risks and opportunities for KHD AG essentially correspond to those of the Group. They are presented in the risk and opportunity report of the combined management report. In addition to the risks presented there, KHD AG is exposed to specific risks in its function as a management holding company. These include equity holding risks, particularly in the form of an impairment of the carrying amount of the investment, but also exposure from legal and contractual contingent liabilities as a result of relationships to the subsidiaries. KHD AG continuously monitors the Group companies' economic development through active controlling of the subsidiaries. The remaining risk will continue to be classified as “medium.”

Results of Operations

KHD AG reports revenue from internal Group services in the amount of € 2,515 thousand (previous year: € 2,842 thousand). The slight decline in comparison with the previous year is due to the decline in demand for Group services from the operating subsidiaries as a result of the low business volume in 2017.

Other operating income in the amount of € 1,244 (previous year: € 1,237 thousand) 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).

KHD AG 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.

Personnel expenses in the amount of € 1,369 thousand (previous year: € 1,275 thousand) primarily relate to the compensation of the members of the Company's Management Board.

Depreciation and amortization in the 2017 financial year includes only depreciation on other plant, operating, and office equipment in the amount of € 3 thousand (previous year: € 7 thousand). Depreciation and amortization in the previous year also included depreciation on current receivables. Valuation allowances of € 17,749 thousand were made on loans and interest receivables due from a subsidiary.

The increase in other operating expenses by € 483 thousand to € 4,039 thousand resulted from several disparate factors. The exchange rate losses increased by € 1,813 thousand to € 1,862 thousand, particularly due to the devaluation of the US dollar during the year. The exchange rate losses are financially related to both realized and unrealized income from foreign exchange forward contracts in the amount of € 465 thousand. In contrast to the increase in exchange rate losses, the 2017 financial year saw decreases in the losses from foreign exchange forward contracts by € 541 thousand, the expenses for Group charges by € 428 thousand, and expenses for other services and travel expenses by € 171 thousand. In addition, other operating expenses include legal and consulting costs, costs of preparing and auditing the annual financial statements, Supervisory Board compensation, costs related to the Annual General Meeting, investor relations costs, and other administrative costs.

The income from long-term loans of financial assets (€ 6,063 thousand; previous year: € 6,100 thousand) reflects the interest income from the loans granted to AVIC Kairong and AVIC HK for a total of € 100 million. Interest expenses of € 4,458 thousand (previous year: € 4,536 thousand) primarily result from interest for loans taken out from three operating subsidiaries (€ 3,646 thousand, previous year: € 3,437 thousand), bank guarantee fees and interest expenses from a bank loan for € 25 million.

After considering income taxes of € 279 thousand (previous year: € 953 thousand), net profit for the year is € 341 thousand (previous year: net loss of € 16,770 thousand), which resulted in an accumulated loss of € 8,705 thousand after taking into account the loss carried forward from the previous year of € 9,046 thousand.

Financial Position and Net Assets

The Company’s total assets decreased just slightly in this financial year by € 439 thousand from € 194,419 thousand to € 193,980 thousand.

The most significant assets of KHD AG, which functions as a management holding company, are the shares in KHD HW with a carrying amount of € 63 million (previous year: € 63 million) and the two loans granted in the 2017 financial year to AVIC Kairong, each in the amount of € 50 million. The loans, granted in July and November 2017, respectively, replaced two loans of the same value (€ 50 million each) paid out to AVIC HK in the 2014 financial year that were due for payment in July and November 2017. The total value of the financial investments is equal to 84.2% of the total assets (previous year: 84.1%).

The decrease in receivables due from affiliated companies is primarily due to the payment of receivables due from AVIC Beijing. The receivables decreased by € 12,100 thousand, from € 21,854 thousand in the previous year to € 9,754 thousand. The remaining receivables in the amount of € 9,754 thousand are due for payment in the 2018 financial year. The receivables incur interest at usual market conditions based on a deferred payment agreement in the 2016 financial year.

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

The Company’s equity increased slightly in the amount of the net profit generated by € 341 thousand from € 105,457 thousand to € 105,798 thousand. As a result, the equity ratio increased in the financial year to 54.5% (previous year: 54.2%).

Liabilities decreased just slightly in the financial year by € 36 thousand from € 86,461 thousand to € 86,425 thousand. Accordingly, the debt ratio of KHD AG (the ratio of total liabilities to equity) remained nearly unchanged at 83.3% (previous year: 84.4%).

The financing of KHD AG continues to be safeguarded due to the planned extension of the existing bank loan, the available liquidity at the end of 2017, the expected cash inflow from receivables due from affiliated companies, and the ongoing distribution potential of companies in the KHD Group.

Relations with Affiliated Companies

The Management Board of KHD AG has prepared a report on relations with affiliated companies – a dependent company report – in accordance with Section 312 of the German Stock Corporation Act (AktG) for the 2017 financial year. The KHD Management Board issued the following concluding declaration in the Company’s dependent company report:

"With respect to the legal transactions listed and in view of the facts known to us at the time at which the legal transactions were made, our Company received appropriate consideration for each legal transaction in the report for the 2017 financial year regarding relations with affiliated companies. There were no other legal transactions or measures at the request of or in the interest of the controlling companies or one of their affiliated companies in the 2017 financial year."

Accumulated loss

The annual financial statements of KHD Humboldt Wedag International AG 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) to the new account.

Balance Sheet and Income Statement of KHD Humboldt Wedag International AG

The balance sheet and income statement of KHD AG are given in a condensed form.

Assets	Dec. 31, 2017 € thousand	Dec. 31, 2016 € thousand
Fixed Assets	163,415	163,416
	163,415	**163,416**
Current Assets		
Receivables and other assets	11,266	23,067
Bank balances	18,986	7,882
	30,252	**30,949**
Prepayments and deferred expenses	**313**	**54**
Total assets	**193,980**	**194,419**

Equity and liabilities	Dec. 31, 2017 € thousand	Dec. 31, 2016 € thousand
Equity		
Subscribed capital	49,704	49,704
Reserves	64,799	64,799
Accumulated loss	-8,705	-9,046
	105,798	**105,457**
Provisions and Accruals		
Accruals for taxes	953	1,234
Other provisions and accruals	804	1,226
	1,757	**2,460**
Liabilities		
Liabilities due to banks	25,090	25,093
Liabilities due to affiliated companies	61,218	61,249
Other liabilities	117	119
	86,425	**86,461**
Deferred tax liabilities	**0**	**41**
Total equity and liabilities	**193,980**	**194,419**

Income Statement	2017	2016
	€ thousand	€ thousand
Revenue	2,515	2,842
Other operating income	1,244	1,237
Cost of purchased services	-339	-595
Depreciation on other plant, operating, and office equipment and on current assets	-3	-17,756
Personnel expenses	-1,369	-1,275
Other operating expenses	-4,039	-3,556
Interest income/expense	2,611	3,286
Income taxes	-279	-953
Profit / net loss for the year	341	-16,770
Loss/profit carried forward from previous year	-9,046	7,724
Net accumulated loss	**-8,705**	**-9,046**

DISCLOSURES PURSUANT TO SECTION 315a of the German Commercial Code (HGB)

Composition of Subscribed Capital

The Company's subscribed capital (share capital) amounted to € 49,703,573 as of December 31, 2017, and is divided into 49,703,573 no-par-value ordinary shares. All shares are ordinary bearer shares and grant the same rights. The rights and obligations arising from the shares are derived from statutory regulations.

Restrictions affecting Voting Rights or the Transfer of Shares

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

Direct or indirect Interests in the Share Capital exceeding 10% of Voting Rights

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

- AVIC International Engineering Holdings Pte. Ltd., Singapore, Singapore;
- Max Glory Industries Limited, Hong Kong, Hong Kong;
- AVIC International Beijing Company Limited, Beijing, China;
- AVIC International Holdings Limited, Shenzhen, China;
- AVIC International Shenzhen Company Limited, Shenzhen, China;
- AVIC International Holding Corporation, Beijing, China;
- Aviation Industry Corporation of China, Beijing, China;
- People's Republic of China, Beijing, China.

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

The Management Board was not informed of any other shareholders whose voting rights directly or indirectly exceeded 10% of the total voting rights as of the reporting date December 31, 2017, or at the time of the preparation of the financial statements.

Shares with Special Rights granting Control Authorizations

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

Method of Voting Right Control if Employees hold Shares and do not directly exercise their Controlling Rights

There are no shares owned by employees as defined by Section 315a Paragraph 1 Number 5 of the German Commercial Code (HGB).

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

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

The articles of association may be changed only by a resolution passed by the Annual General Meeting pursuant to Section 119 Paragraph 1 Number 5 and Section 179 AktG. Unless determined otherwise by mandatory statutory provisions, resolutions by the Annual General Meeting are passed with a simple majority of votes submitted and, if required, by a simple majority of the issued share capital represented, pursuant to Section 133 AktG and Section 18 Paragraph 2 of the articles of association. The Supervisory Board may pass resolutions to amend the articles of association which relate solely to their wording pursuant to Section 20 of the articles of association. Amendments to the articles of association take effect once they have been entered into the Commercial Register in accordance with Section 181 Paragraph 3 AktG.

Management Board Authorizations, notably with regard to the Possibility of issuing or repurchasing Shares

Until October 4, 2017 the Company was 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. This authorization, which became effective at the end of the Annual General Meeting on October 5, 2013, remained valid until October 4, 2017. The authorization to acquire treasury shares was not renewed.

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

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

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

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

COMPENSATION REPORT

The compensation report presents the principles, structure, and amount of both Management Board and Supervisory Board remuneration at KHD. The compensation report incorporates the recommendations made by the German Corporate Governance Code (GCGC). It also contains information required by Section 314 Paragraph 1 Number 6a Sentences 5–8 of the German Commercial Code (HGB); this information is therefore not provided additionally in the notes to the consolidated financial statements, in line with Section 315a Paragraph 2 Sentence 2 of the HGB.

Compensation System for Members of the Management Board

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

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

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

Management Board compensation consists of fixed (non-performance-based) and variable (earnings- and performance-related) components. Fixed compensation is paid out as a basic remuneration every month as a non-performance-based salary. The maximum variable compensation for the individual members of the Management Board is between 25% and 68% of the fixed compensation. In addition, Management Board members receive fringe benefits. These consist of the value of the use of a company car in accordance with tax regulations, insurance contributions, and other non-cash benefits as well as other fringe benefits. An allowance for a personal pension scheme is also provided for Mr. Keune and Mr. Luckas. This amount is shown, along with the non-cash benefits and other fringe benefits, in the compensation report under “fringe benefits”.

The variable compensation (bonus) – capped for each Management Board member – generally depends on the business performance of the KHD Group and on the personal performance of the respective Management Board members, determined on the basis of defined performance targets. When determining personal targets and assessing personal performance, the Supervisory Board takes special account of the direct responsibility of the respective Management Board member in accordance with the schedule of responsibilities and, in connection, the individual’s contribution to the medium and long-term development of the Group.

With respect to the system for variable compensation, the Supervisory Board agreed with the individual Management Board members on clearly defined and demanding targets. The target agreements are oriented toward sustainable growth of the KHD Group. According to the target agreements, personal targets account for 30% of the maximum bonus, while financial (quantitative, based on key performance indicators) targets account for 70% of the maximum bonus. The financial targets primarily correspond with the performance indicators of the KHD Group and are based on a multi-year assessment period.

The variable compensation components for the financial targets are determined using four defined levels (0% / 20% / 50% / 100%). When measuring the variable compensation, each quantitative target is considered separately, i.e. exceeding a target value (target achievement > 100%) cannot be used to compensate for other target values (target achievement < 100%). A lower threshold is set for every quantitative target. If the respective lower threshold is achieved, the bonus amounts to 20% of the corresponding bonus portion. If the targets are not achieved (failure to reach the lower target threshold – cumulative for the multi-year assessment period), the Management Board member’s entitlement to the corresponding portion of variable compensation is forfeited.

In order to gear the variable compensation components towards sustainable corporate growth and to create a long-term incentive effect, the financial targets are based on a two-year assessment period in relation to key performance indicators of the KHD Group. Only once the two-year assessment period has expired a final assessment on the target achievement is made. The achievement for the individual target is determined based on the average target achievement across the entire assessment period. The targets for the current assessment period (January 1, 2017 through December 31, 2018) were set at the beginning of the 2017 financial year.

For Gerold Keune, Chief Executive Officer, the Supervisory Board set a performance-related bonus limited to a specified maximum amount instead of using the rules applying to the other Management Board members with regard to the variable compensation component. This amount is linked in particular to achieving the financial goals of the KHD Group in the 2019 financial year. This performance-based bonus is accrued on a pro rata basis over time and is shown accordingly in the "Benefits granted" table.

For Dian Xie, appointed as a member of the Management Board effective July 1, 2017, the Supervisory Board also agreed upon variable compensation rules that differ from those of the compensation system. For Mr. Xie, the Supervisory Board can set only personal targets, only financial targets (quantitative, based on key performance indicators), or any combination of personal and financial targets. The achievement of the targets is evaluated based on three defined levels (0% / 50% / 100%). Each target is considered separately here, i.e. exceeding a target value (target achievement > 100%) cannot be used to compensate for other target values (target achievement < 100%). If the average target achievement does not reach at least 80%, no variable compensation will be paid. In order to gear the variable compensation components towards sustainable corporate growth and to create a long-term incentive effect, the targets are based on a two-year assessment period. Deviating from this rule, an assessment period from July 1 through December 31, 2017 was set for the 2017 financial year.

Commitments to Management Board Members in the Event of Termination of their Appointment

In the event that the appointment to the Management Board is revoked with good cause that entitles KHD to extraordinary termination of the management service contract, the service contract ends without notice. In case of revoking the appointment to the Management Board with other good cause, the Company has the right to terminate the management service contract with notice. The service contract will then end on expiry of the period of notice or rather at the end of the contractually agreed end date of the management service contract, if this is sooner. For current members of the Management Board, this period of notice is twelve months.

There are no severance payment arrangements in the service contracts with the Management Board members.

Compensation of Management Board Members

Overview of key data concerning the Management Board (in the 2017 financial year):

Name	Management Board member since:	Management Board member until:
Gerold Keune	Oct. 17, 2016	
Jürgen Luckas	April 10, 2015	
Dian Xie	July 1, 2017	
Yizhen Zhu	April 1, 2011	June 30, 2017

Mr. Yizhen Zhu resigned from the Management Board of KHD Humboldt Wedag International AG effective June 30, 2017. With a resolution of the Supervisory Board dated June 26, 2017, Mr. Dian Xie was appointed to the Management Board, effective July 1, 2017.

The total compensation for members of the KHD Management Board active in the financial year under review amounted to € 957 thousand in the 2017 financial year (previous year: € 1,133 thousand).

The total compensation for each member of the Management Board in accordance with the model tables recommended by the German Corporate Governance Code is detailed in the following tables, broken down according to the person and their fixed and variable remuneration components.

With respect to the benefits granted, it is especially important to consider that under the rules of the German Corporate Governance Code, a “target value” is shown for the both the one-year and multi-year variable compensation instead of the compensation actually earned. This target value can differ substantially from the compensation actually earned with regard to the variable compensation. At KHD, the target value is principally defined as 50% of the maximum achievable one-year and multi-year variable compensation. Due to the different rule in the contract, the target value for Mr. Xie is defined as 80% of the maximum achievable variable compensation. For Mr. Keune, the performance-based bonus which runs through December 31, 2019 is accrued on a pro rata basis and this value is shown as a benefit granted. As this bonus commitment was made under the condition precedent that certain performance objectives will be met, the additions to accruals for performance-based bonuses that are expensed in the income statement are not disclosed as part of the total remuneration in accordance with Section 314 Paragraph 1 Number 6a of the German Commercial Code (HGB).

The benefits granted to the Management Board members in the 2017 and 2016 financial years can be seen in the following overview:

Benefits granted (in €)	Gerold Keune Chief Executive Officer Management Board member since October 17, 2016				Jürgen Luckas Chief Financial Officer Management Board member since April 10, 2015			
	FY 2016	FY 2017	FY 2017 (Min)	FY 2017 (Max)	FY 2016	FY 2017	FY 2017 (Min)	FY 2017 (Max)
Fixed compensation	80,972	385,000	385,000	385,000	220,000	220,000	220,000	220,000
Fixed bonus	0	0	0	0	0	0	0	0
Signing Fee	0	0	0	0	0	0	0	0
Fringe benefits	12,850	46,318	46,318	46,318	22,996	23,445	23,445	23,445
Total	**93,822**	**431,318**	**431,318**	**431,318**	**242,996**	**243,445**	**243,445**	**243,445**
One-year variable compensation	0	0	0	0	22,500	22,500	0	45,000
Multi-year variable compensation								
Bonus for financial targets (Jan. 1, 2015 to Dec. 31, 2016)	0	0	0	0	52,500	0	0	0
Bonus for financial targets (Jan. 1, 2017 to Dec. 31, 2018)	0	0	0	0	0	52,500	0	105,000
Success bonus (Oct. 17, 2016 to Dec. 31, 2019)	32,000	156,000	0	156,000	0	0	0	0
Total	**125,822**	**587,318**	**431,318**	**587,318**	**317,996**	**318,445**	**243,445**	**393,445**
Service cost	0	0	0	0	0	0	0	0
Total compensation	**125,822**	**587,318**	**431,318**	**587,318**	**317,996**	**318,445**	**243,445**	**393,445**

Benefits granted (in €)	Dian Xie Executive Vice President Management Board member since July 1, 2017				Yizhen Zhu Executive Vice President Management Board member April 1, 2011 to June 30, 2017			
	FY 2016	FY 2017	FY 2017 (Min)	FY 2017 (Max)	FY 2016	FY 2017	FY 2017 (Min)	FY 2017 (Max)
Fixed compensation	0	100,000	100,000	100,000	200,000	100,000	100,000	100,000
Fringe benefits	0	19,525	19,525	19,525	18,352	7,378	7,378	7,378
Total	**0**	**119,525**	**119,525**	**119,525**	**218,352**	**107,378**	**107,378**	**107,378**
One-year variable compensation	0	20,000	0	25,000	22,500	11,250	0	22,500
Multi-year variable compensation								
Bonus for financial targets (Jan. 1, 2015 to Dec. 31, 2016)	0	0	0	0	52,500	0	0	0
Bonus for financial targets (Jan. 1, 2017 to Dec. 31, 2018)	0	0	0	0	0	26,250	0	52,500
Total	**0**	**139,525**	**119,525**	**144,525**	**293,352**	**144,878**	**107,378**	**182,378**
Service cost	0	0	0	0	0	0	0	0
Total compensation	**0**	**139,525**	**119,525**	**144,525**	**293,352**	**144,878**	**107,378**	**182,378**

In contrast to the benefits granted, the following table shows the Management Board compensation according to allocation for the 2017 and 2016 financial years:

Allocation (in €)	Gerold Keune Chief Executive Officer		Jürgen Luckas Chief Financial Officer		Dian Xie Executive Vice President	
	FY 2017	FY 2016	FY 2017	FY 2016	FY 2017	FY 2016
Fixed compensation	385,000	80,972	220,000	220,000	100,000	0
Fringe benefits	46,318	12,850	23,445	22,996	19,525	0
Total	**431,318**	**93,822**	**243,445**	**242,996**	**119,525**	**0**
One-year variable compensation	0	0	0	0	0	0
Multi-year variable compensation						
Bonus for financial targets (Jan. 1, 2017 to Dec. 31, 2018)	0	0	0	0	0	0
Success bonus (Oct. 17 2016 to Dec. 31, 2019)			0	0	0	0
Total	**431,318**	**93,822**	**243,445**	**242,996**	**119,525**	**0**
Service cost	0	0	0	0	0	0
Total compensation	**431,318**	**93,822**	**243,445**	**242,996**	**119,525**	**0**

Allocation (in €)	Yizhen Zhu Executive Vice President	
	FY 2017	FY 2016
Fixed compensation	100,000	200,000
Fringe benefits	7,378	18,352
Total	**107,378**	**218,352**
One-year variable compensation	0	0
Multi-year variable compensation	0	0
Bonus for financial targets (Jan. 1, 2017 to Dec. 31, 2018)	0	0
Total	**107,378**	**218,352**
Service cost	0	0
Total compensation	**107,378**	**218,352**

The figures shown in the table above are in line with the remuneration to be disclosed by name for each individual member of the Management Board in accordance with Section 285 Number 9a Sentence 5 and Section 314 Paragraph 1 Number 6a Sentence 5 of the German Commercial Code (HGB) with the following exceptions:

- One-year variable compensations for the 2017 financial year for Mr. Luckas in the amount of € 30,000;
- One-year variable compensations for the 2017 financial year for Mr. Xie in the amount of € 25,000.

The amounts listed above are reported as part of the total remuneration for Management Board members in the 2017 financial year; however, they are not shown in the "Allocation" table because the final payment amount has not yet been determined at the time the compensation report was prepared.

Compensation of Supervisory Board Members

The aggregate compensation for all members of the Supervisory Board is specified in Section 13 of the articles of association. The Supervisory Board members receive fixed compensation only. The Supervisory Board decides by resolution on the distribution of the aggregate compensation among the individual members of the Supervisory Board.

In addition to the roles of Chairman and Deputy Chairman of the Supervisory Board, the function of a Supervisory Board member with specific knowledge and experience in applying accounting principles and internal control procedures is also taken into account when distributing the Supervisory Board compensation.

The total compensation of each member of the Supervisory Board for the 2017 financial year is shown in the following table:

Fixed compensation	**in €**
Gerhard Beinhauer[1]	80,000
Da Hua[2]	60,000
Yiqiong Zhang[3]	30,000
Eliza Suk Ching Yuen[4]	19,589
not yet allocated[5]	6,082
Total	**195,672**

[1] Chairman of the Supervisory Board

[2]Vice Chairman of the Supervisory Board

[3] Member of the Supervisory Board

[4] Member of the Supervisory Board until May 23, 2017

[5] According to Section 13 Paragraph 1 of the articles of association, the Supervisory Board decides by resolution on the distribution of the aggregate compensation. A resolution has not yet been passed regarding the allocation of the remaining amount of € 6,082.

The total compensation of each member of the Supervisory Board for the 2016 financial year is shown in the following table:

Fixed compensation	in €
Gerhard Beinhauer[1]	49,836
Da Hua[2]	28,279
Eliza Suk Ching Yuen[3]	50,000
Yiqiong Zhang[4]	30,000
Hubert Keusch[5]	30,164
Xiaofeng Liu[6]	35,410
Kangning Zou[7]	17,869
Total	**241,558**

[1] Chairman of the Supervisory Board,
Member of the Supervisory Board since May 18, 2016

[2] Vice Chairman of the Supervisory Board since September 6, 2016,
Member of the Supervisory Board since May 18, 2016

[3] Member of the Supervisory Board

[4] Member of the Supervisory Board

[5] Member and Chairman of the Supervisory Board until May 17, 2016

[6] Member and Vice Chairman of the Supervisory Board until August 3, 2016

[7] Member of the Supervisory Board until August 5, 2016

REPORT ON EVENTS AFTER THE REPORTING PERIOD

Significant developments or events of particular importance have not taken place since the reporting date of December 31, 2017.

RISK AND OPPORTUNITIES REPORT

Risk Management

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

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

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

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

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

Risk Management Organization, Responsibilities, Instruments, and Reporting

The KHD Group makes a distinction between risks that affect the entire Group or that can only be managed at the Group level (Group risks), and risks that are managed by the operating business units (entity risks). Group risks are identified by the managers of central functions and members of the Management Board and are then managed by risk owners, who are appointed accordingly. The respective risk owners in the operating business units are responsible for handling entity risks in a systematic way.

The KHD Group has appointed employees responsible for risk management at the level of the operating business units in order to help ensure that risks are identified and assessed in the same way across the Group and to coordinate these activities. These risk managers are also in charge of monitoring and tracking how specific measures to mitigate risks are being implemented. Central risk management is directly taken care of by the Management Board that is supported by a risk management coordinator.

All material risks are recorded in risk registers. They also document assessments of the probability of a risk occurring and the extent of potential damage that would be caused by each significant risk, as well as record the risk response measures planned or in place, in a clear and compact format. The risk registers are updated regularly so that decision-makers are provided with an overview of the entire risk situation.

The particular requirements of the project business are accounted for via risk management measures integrated into the operational processes. As part of this, key points are reviewed by the experts in our specialist departments during the tendering phase before signing the respective contracts in order to avoid taking on unexpected or unmanageable risk. Project-related risk management continues in the project execution phase, where project management considers risks relating to exceeding budgeted cost or time, technical difficulties, and financial aspects.

Reporting plays a particularly important role in ensuring effective risk management. It ensures that all significant risks are depicted according to a uniform set of criteria and explained to managerment during the decision-making process.

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

Risk Assessment

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

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

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

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

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

Class	Impact	Description
1	Low	Insignificant negative impact
2	Moderate	Limited negative impact below the materiality threshold (€ 1.5 million)
3	Material	Significant negative impact that exceeds the materiality threshold (€ 1.5 million)
4	Very material	Negative impact that exceeds the level of the materiality threshold by two times (€ 3.0 million)
5	Catastrophic	Negative impact potentially threatening to business viability

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

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

Risk Management for Financial Instruments

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

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

Interest rate risks arise through market-related fluctuations in interest rates. As of the balance sheet date, the KHD Group is reporting a continuous high level of cash and cash equivalents and large loans granted to the AVIC Group, but also significant interest-bearing liabilities. In the fourth quarter of 2015, KHD took out a bank loan with a term of three years and a variable interest rate. Transactions for hedging the variable interest rate were not concluded because the KHD Group does not expect a significant increase in the interest rate until the maturity date of the bank loan. As the interest rate risk with regard to fluctuations in the interest rates for short-term and overnight deposits do have an offsetting impact to a certain extent, this can be regarded as a natural hedge of the interest rate risk from the variable interest rate of the bank loan. The interest rates for the loans to the AVIC Group have been firmly agreed for the applicable term. This means that there is no interest rate risk for the loans.

The risk of credit concentration with regard to receivables is generally diminished as receivables are spread out worldwide, reflecting the Group's customer structure. Long-term business relationships are maintained with important customers. In the past, these customers have not been involved in bad debt losses based on credit rating. In addition, there are no current indications of increase credit rating risks. Credit risk is also mitigated through the payment terms the Group agrees with its customers, notably progress billings and advance payments, to avoid excessively high levels of outstanding receivables. Internal guidelines ensure that products are generally only sold to customers with appropriate credit ratings. The risk of counterparty default is managed through regular analyses of the trade receivables and the structure of receivables. At the KHD Group, receivables from export contracts are to a large extent secured against default risks by confirmed and unconfirmed letters of credit, as well as through letters of comfort, guarantees, and cover notes, which also include export credit agencies (e.g. Hermes).

The KHD Group has been pursuing a conservative, forward-looking policy of liquidity hedging for many years and has a solid level of cash and cash equivalents. By means of financial and liquidity planning, cash and cash equivalents are available in such a way that the KHD Group is at all times able to fully meet its payment obligations. In order to ensure future growth, bank guarantee credit facilities were arranged with banks, which allow individual KHD Group companies to provide bank guarantees for its customers worldwide.

Accounting-related Internal Control System

Along with the risk management system, the KHD Group's internal control system (ICS) also includes, in particular, extensive control activities to secure proper and reliable accounting and financial reporting. The ICS is oriented toward ensuring compliance with relevant laws and standards, as well as the commercial efficiency of operating processes. Both KHD Group's internal control system and risk management is based on the COSO-ERM concept.

The Management Board is responsible for the establishment, monitoring, and further development of the ICS, as well as for ensuring its effectiveness. All consolidated subsidiaries are included in KHD's ICS.

The control activities to ensure proper and reliable accounting primarily comprise both automated control processes, such as system access controls based on a user authorization concept, or programmed plausibility checks for financial figures, and manual control processes such as deviation and trend analyses on the basis of defined key performance indicators and comparisons with budget figures.

The entire accounting-related ICS is documented both at KHD and in the significant subsidiaries by means of process descriptions (narratives). In this context, key controls are identified for each process and summarized in a risk control matrix (RCM). The responsible process owners monitor the operating effectiveness of all key control activities on an ongoing basis and ensure that appropriate documentation is prepared.

KHD and its subsidiaries are responsible for recording accounting transactions. The ICS measures focusing on proper and reliable Group accounting practices ensure that business transactions are recorded completely and in a timely manner in compliance with legal and other regulatory requirements. Furthermore, care is taken to ensure that assets and liabilities are recognized, measured, and presented appropriately. Other core principles of the ICS in the KHD Group are the dual control principle and the segregation of duties; in this way, the possibility of fraudulent behavior is also reduced.

The locally prepared monthly financial reporting is combined with supplementary information in order to produce a Group reporting package, which is then submitted to the central consolidation department using a Group-wide standardized reporting system. The process for preparing the Group financial statements is performed and monitored centrally. Uniform Group guidelines for accounting, measurement, and reporting ensure compliance with legal regulations.

Summary of KHD Group’s Risk Position

In summary, it may be concluded that the risks identified do not pose a threat to the KHD Group as a going concern, either individually or in combination. From an organizational standpoint, the foundations have been laid to ensure that changes in the risk position are recognized in good time. Overall the risk position has not changed significantly compared with the previous year. For measurable specific risks provisions on the face of the balance sheet have been set up to the extent required in the 2017 financial year.

Risk Areas

The following section describes the key risk areas, the strategy for risk mitigation and the summarized risk assessment (“high”, “medium”, and “low”) taking into account the measures and controls for risk mitigation (net risks). The risk areas bundle a large number of individual risks. The risk mitigation strategy presented below comprises a large number of specific individual measures and activities. The risk areas principally cover the Capex and Plant Services segments, although the procurement, innovation, and project risks are of much higher significance for the Capex business unit. As long as there is no explicit reference within the relevant risk areas, the net risks remain unchanged in comparison to prior year.

Risks from Underlying Economic Conditions

In its position as a globally active group, the KHD Group is affected by changes in the economic cycle. As a supplier of technical equipment for cement plants, the Group is particularly dependent on cyclical trends in the demand for cement. Moreover, there is also a risk of losing market share and of decreasing margins as a result of tough competition.

The KHD Group operates as a plant engineering company in many countries and regions, meaning that risks are balanced to a certain extent due to geographic diversification. Risks are to be mitigated by concentrating on expanding our service business (including spare parts) as well as systematically developing our position in growth markets and in markets where we have had a low presence up until now. We counter the risk posed by the competition by analyzing our market environment and the situation of our competitors on an ongoing basis. Maintaining constant customer contact, together with enhancing our sales area and the resulting proximity to the market, provides us with important information about the needs of our customers. The information gathered here enables us to develop and offer suitable products as well as to strengthen our competitive position. The remaining risk is classified as "medium".

Country Risks

As a globally operating group, the KHD Group is exposed to country risks. These include legal risks, capital transaction prohibitions, other regulatory restrictions, defaults on trade receivables, war, and other social unrest. Country risks affect the KHD Group due to the continuing high degree of political risks.

From as early as the tendering phase, individual projects are assessed, taking such country risks into consideration. Risks of defaults on export business are assessed and, if necessary, limited by covenants provided by cover notes from export credit agencies (e.g. Hermes guarantees). Remaining country risks are principally classified as “low”. With regard to Russia, the KHD Group remains in close contact with its customers and supports them in project financing. In view of the KHD Group’s minimal ability to influence future developments and given the significance of the Russian market for the KHD Group’s order intake, the remaining risk for Russia is classified as “high” since the 2014 financial year.

Procurement Risks

The reliable availability of products and services in an appropriate quality, quantity, and at competitive prices is a decisive factor for success. Disruptions in the procurement process therefore represent a significant risk to the KHD Group.

In order to minimize this risk, purchasing follows a global strategy based on the systematic analysis of the quality, delivery performance, and pricing structure of existing and potential new suppliers. The purchasing organizations of the operating business units are integrated into a Global Supply Chain Management in order to utilize available knowledge about local markets when developing the purchasing strategy. This is supported by strategic procurement elements that are applied across the Group. The remaining risk is classified as "medium".

Innovation Risks

Excellence in innovation is a crucial factor of success for a technology-focused group such as the KHD Group. Besides customer requirements, it is important in this context to also take into account growing environmental protection requirements in the development of our products. Furthermore, our research and development activities focus particularly on improving and reducing the cost of existing products that can be used for customer-specific solutions.

Research and development activities are linked to the market as closely as possible by maintaining constant communication with the sales department and by setting up cross-departmental teams. A development process with defined milestones and a given budget for individual research and development projects allow potential deviations from targets to be identified as early as possible and trigger corresponding corrective measures. The remaining risk is classified as "medium".

Project Risks

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

It is especially important for risk management to identify possible cost variances in an early stage in order to estimate the effect on the costs to complete and to take countermeasures in a timely manner. From as early as the tendering phase, we employ proven methods to manage such project risks, in order to prevent entering into uncalculated or unmanageable risks. In the project execution phase, the risk factors identified and assessed before the contract is signed are systematically processed and minimized. Together with organizational and procedural provisions, the methods used in project management and project controlling to identify, assess and minimize risks are subject to a continuous improvement process. Provisions are set up on the face of the balance sheet to cover any defects that might arise during the warranty phase. The risk remaining after risk mitigation is classified as "medium".

Personnel Risks

The KHD Group is distinguished by a corporate culture based on trust. At the forefront of this culture is the responsible and entrepreneurial way of thinking and acting demonstrated by our employees. The success of the KHD Group is directly dependent on the dedication, motivation, and capabilities of its employees, as well as on efficient and effective leadership. Risk also exists if management positions cannot be filled promptly and with qualified candidates.

We mitigate personnel risks through identification and promotion, especially of high-performing individuals. The KHD Group aims to ensure that its managers and employees remain committed and loyal to the Group over the long term. We derive individual personal development measures on the basis of systematic competency assessment. The risk remaining after risk mitigation is classified as "medium".

Legal Risks

As an internationally active company, the KHD Group is exposed to a large number of legal risks. These may include risks concerning warranties, breach of contractual terms, competition and patent law, and tax law. The outcome of currently pending or future legal proceedings in most cases cannot be predicted with a reasonable degree of security.

Existing and pending litigation is identified and analyzed continuously, and potential juridical and financial consequences are qualitatively and/or quantitatively assessed. Based on this assessment, management implements appropriate measures in good time and establishes balance sheet provisions for such risks if necessary. The remaining risk is classified as "medium".

Tax Risks

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

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

IT Risks

All key business processes (accounting and controlling, project management, purchasing, engineering, sales, etc.) within the KHD Group depend on the functionality and availability of the IT systems used. Thus, disruptions of system operations entail disruptions to the workflow as well as to business and operational processes. In addition, the number of attacks on the IT infrastructure (“cyber threats”) continues to increase.

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

Default Risks on Loans Extended

In the 2017 financial year, the KHD Group concluded two loan agreements, each for € 50 million and with a term of three years, with AVIC Kairong as borrower.

Possible default risks are effectively minimized by continuous monitoring of the credit worthiness of the borrower and by a Group guarantee issued to the KHD Group by AVIC. The remaining risk after effective risk mitigation is classified as “low”.

Opportunities

Generally speaking, the risks indicated here represent opportunities for the future growth of the KHD Group if the appropriate measures are implemented successfully. These opportunities arise from an improvement in the market and competitive position owing to the development of more cost-effective products, the optimization of procurement activities or our project execution, for instance. By the same token, the expansion of our service business (including the spare parts business) as well as systematically developing our position in growth markets and in markets where we have had a low presence up to now represent key opportunities. In the section below, we will examine the significant opportunities and potential for future development.

With the typical time delay, the global economic recovery should exert an impact on the markets for long-term capital goods. There is a growing demand for cement, especially in emerging economies, due to advancing urbanization and efforts to promote infrastructure development. Production capacities are increased and cement plants modernized and/or expanded. Thanks to our strong market position, the KHD Group sees opportunities for additional growth, particularly in Russia and India as well as in neighboring countries. We also expect positive effects for our future growth from the expansion of our activities in the emerging countries in the Asia-Pacific region as well as from the expansion of our market activities in China, sub-Saharan Africa, and South American countries.

The KHD Group can also expect significant opportunities in the Middle East. KHD hopes that as previously existing sanctions are lifted, the substantial investment bottleneck will be resolved. The Group wants to capitalize on its traditionally strong market position and sees opportunities both for new orders and for modernization projects for cement plants.

Furthermore, we regard rising regulatory requirements to reduce the environmental impact of cement plants, such as the focus on environmental aspects in China's current five-year plan, as opportunities. The KHD Group offers its customers environmentally friendly solutions by considering the environmental impact of the cement production process as early as in the tendering phase. We are also constantly developing our products with regard to environmental aspects. In this context, we concentrate on achieving lower emission levels as well as the efficient use of resources, materials, and energy.

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

In addition, better opportunities for cooperation with manufacturing facilities in China are in progress. Over and above the cost advantages of manufacturing of existing products, further opportunities result from adapting KHD Group products to local manufacturing materials and standards.

The KHD Group constantly endeavors to strengthen its position as technically leading company, develop additional market potential, and expand its portfolio of products and services. We monitor our current and future markets in order to identify opportunities for strategic acquisition or cooperation, which may complement our organic growth.

The KHD Group continually invests in the development of new and the improvement of existing technologies, products, and services which, in our view, meet the current and future needs of our customers to the fullest extent possible. By taking efficiency, reliability and availability of equipment, environment and climate protection, standardization, and user-friendliness into account, the KHD Group generates significant opportunities as early as in the development phase.

OUTLOOK

Projected Market Environment

The recovery of the global economy is expected to continue in 2018. The International Monetary Fund (IMF) expects a growth rate of 3.7% in 2018 (3.6% in 2017). The expectations for the intensity of the predicted recovery in specific regions have changed just slightly in comparison with the previous year.

According to HSBC Global Research, the forecasted increase in global cement consumption (without China) is rooted in the expectation of a continuing upswing in the USA, a broad recovery in Europe, and improved demand in emerging and developing countries benefitting from inflow of capital and better raw materials prices. With regard to global (without China) cement production in 2018, Exane BNP Paribas expects an increase of 2.6% (previous year: -0.1%).

Expected Business Development

KHD expects that the turnaround initiated in 2017 will continue in the 2018 financial year and that positive results can be achieved again in the medium term. However, due to ongoing general uncertainty, the sensitivity of the cement markets and restraint among cement producers when it comes to larger investments, significant risks still exist – particularly for the Capex segment. This may lead to further delays in awarding projects in fulfilling the pre-conditions for commencing project execution for contracts that have already been effectively concluded and may even result in the suspension of projects. In addition to continued pressure on margins due to tough competition, technical and economic risks from project execution continue to demand our attention.

The KHD Group will continue to expand its sales activities and utilize its resources to target business opportunities in growth markets. In turn, we are expecting an order intake for the 2018 financial year that should be significantly higher as compared to 2017 and exceed € 200 million. As a result, the order backlog at the end of 2018 should also be greater than the previous year's figure. Taking the planning of order intake into consideration, KHD expects that the utilization of existing capacities can be ensured for the most part in the 2018 financial year.

Following the solid increase in order intake, particularly in the second half of 2017, the turnover in the 2018 financial year will be considerably higher than the previous year's level. Since revenue in the 2018 financial year will also be generated through projects awarded, or to be awarded, in a highly competitive environment with strong margin pressure, we expect a still very low adjusted gross profit margin that will be below the margin for the 2017 financial year. However, due to the highly significant increase in business volume, the expected adjusted gross profit will be considerably higher than the previous year's figure.

As a result of the measures initiated and continually advanced in previous years, a significant improvement is expected for the results of operations in comparison with the 2017 financial year. However, taken together with the unsatisfactory gross profit margins of projects the expected sales volume in the 2018 financial year will not yet be sufficient to cover all of the costs of the KHD Group. For this reason, KHD still expects a considerably negative figure for the adjusted EBIT and, accordingly, a considerably negative EBIT margin in the current 2018 financial year. Both figures, however, will improve significantly in comparison with the 2017 financial year. We aim to counter the continued margin pressure caused by ever tougher competition in cement plant engineering through increased realization of cost advantages available through our Global Supply Chain Management, improvement in project execution, and strict cost discipline. In conjunction with the sustainable strengthening of sales activities, improvements in tendering and expansion of service activities, these measures are intended to guarantee a return to profitability in the medium term.

Due to a distinctly positive financial result, somewhat below the level of the 2017 financial year, KHD is also expecting considerable improvements in earnings before tax (EBT) in comparison with the 2017 financial year.

We expect a balanced figure for operating cash flow in 2018. Particularly down payments from customers linked with a further increase in order intake and planned cash inflows from progress billings will result in further improvements in the net working capital.

Overall, KHD again expects an unsatisfactory earnings situation for the 2018 financial year. This is due in particular to continued difficult market conditions. In order to achieve positive results again in the medium term, both sustaining the turnaround that has started and, in particular, improving the margins for newly awarded contracts are crucial. We forecast that the KHD Group's financial and net assets position will remain good and will probably not change significantly in the 2018 financial year (compared to the previous year). This, combined with our high equity ratio, gives us the flexibility we need to successfully master difficult market phases. It enables us to continuously develop our portfolio of products and services and to make the most of opportunities for internal and external growth.

Expected Economic Development of the Capex Segment

Following the positive development in order intake in the 2017 financial year, we expect another significant increase in order intake in the Capex segment in the 2018 financial year. However, customers' investment decisions remain subject to considerable uncertainty due to economic, financial and political unpredictability. According to the budget planning, order backlog for the Capex business unit as of the end of 2018 will be significantly above previous year’s figure and will ensure full capacity utilization for the most part.

The current order backlog leads the KHD Group to expect significant growth in revenue in the Capex segment for the 2018 financial year and, as a result, turnover is budgeted to be significantly above € 100 million.

Despite the measures introduced in previous years toward cost optimization, our planning in the Capex segment once again shows significantly negative adjusted EBIT and a significantly negative adjusted EBIT margin. This is, in particular, due to the low margins in the current order backlog and a business volume that is still not sufficient for achieving the profit threshold. However, these figures are expected to improve significantly in comparison with the 2017 financial year.

Expected Economic Development of the Plant Services Segment

Due to the good potential in the Plant Services segment, the expansion of our market position in this business unit remains an important goal for the 2018 financial year. In accordance with our planning for the 2018 financial year, we are again expecting a material increase in order intake compared to the 2017 financial year (€ 41.8 million).

On the revenue side, the planned growth in the Plant Services segment should result in revenues in the 2018 financial year that will be significantly above the previous year’s figure. In turn, a significantly positive EBIT result is expected in the Plant Services business unit.

Opportunities and Risks Relating to the Outlook for the 2018 Financial Year

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

Significant risks and opportunities regarding the budget figures exist for order intake, particularly in the Capex segment. The awarding of individual large contracts to the KHD Group can significantly affect the order intake in the 2018 financial year. Despite close collaboration with customers during the tendering process, customers’ investment decision and the awarding of individual projects to the KHD Group can only be forecast with substantial uncertainty, possibly leading to either a significantly higher or significantly lower order intake.

The revenue outlook is mainly based on the order backlog as of December 31, 2017 and expected order intake for the initial months of the 2018 financial year in the Capex segment and on the planning of the relatively stable business in the Plant Services segment. Despite an order backlog that is considerably higher than in the previous year, there are substantial risks and opportunities relating to the planned revenue figure. . It has to be considered that the risk that projects reflected in planned order intake do not materialize or are postponed or chances for additional projects that are not included in the budget are awarded to KHD, in addition to delays or accelerations in project execution can directly affect the planned revenue figure for the financial year.

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

Cologne, March 19, 2018

The Management Board

(s) Gerold Keune (s) Jürgen Luckas (s) Dian Xie

Group Financial Statements

Other Information

1 Group Income Statement for KHD Humboldt Wedag International AG for the Financial Year 2017

in € thousand	Note	2017	2016
Revenue	4	100,098	135,431
Cost of sales	20	(92,564)	(133,719)
Gross profit		**7,534**	**1,712**
Other operating income	21	2,821	3,360
Sales expenses	22	(13,934)	(13,148)
General and administrative expenses	23	(13,076)	(15,850)
Other expenses	24	(8,965)	(9,273)
Profit before interest and taxes (EBIT)		**(25,620)**	**(33,199)**
Finance income	25	9,799	9,340
Finance expenses	25	(1,049)	(1,233)
Net finance income		**8,750**	**8,107**
Profit before tax (EBT)		**(16,870)**	**(25,092)**
Income tax expense	26	(2,499)	(4,072)
Group net loss for the year		**(19,369)**	**(29,164)**
Of which are attributable to:			
Parent company shareholders		(19,292)	(29,196)
Non-controlling interests		(77)	32
		(19,369)	**(29,164)**

EARNINGS PER SHARE

		2017	2016
Net profit attributable to shareholders (in € thousand)		(19,292)	-29,196
Weighted average number of shares outstanding		49,703,573	49,703,573
Basic (undiluted) and diluted earnings per share in €	27	(0.39)	(0.59)

2 Group Statement of Comprehensive Income for KHD Humboldt Wedag International AG for the Financial Year 2017

in € thousand	**2017**	**2016**
Group net loss for the year	(19,369)	(29,164)
Items that will be reclassified subsequently to profit or loss when specific conditions are met		
Currency translation differences	(3,266)	971
Items that will not be reclassified subsequently to profit or loss		
Actuarial gains and losses related to defined benefit obligations less - deferred taxes related thereto	176	(2,942)
Other comprehensive income	**(3,090)**	**(1,971)**
Group comprehensive income	**(22,459)**	**(31,135)**
Of which attributable to:		
Parent company shareholders	(22,380)	(31,167)
Non-controlling interests	(79)	32
	(22,459)	**(31,135)**

As in the previous year, no income taxes on currency translation differences were applicable.

The actuarial gains and losses recognized in other comprehensive income are reduced in principle to the related deferred tax assets and deferred tax liabilities, which are also recognized in other comprehensive income in their entirety, without affecting profit and loss. Actuarial gains and losses include deferred tax liabilities in the amount of € 68 thousand (previous year: deferred tax liabilities in the amount of € 29 thousand). In addition to the derecognition of actuarial losses in the amount of € -963 thousand, the derecognition of the deferred tax assets based on actuarial losses recognized in previous years in the amount of € -1,979 thousand was also reported in other comprehensive income in the previous financial year.

3 Group Balance Sheet for KHD Humboldt Wedag International AG as of December 31, 2017

ASSETS	Note	Dec. 31, 2017	Dec. 31, 2016
in € thousand			
Non-current assets			
Property, plant and equipment	5	6,513	3,905
Goodwill	6	5,162	5,162
Other intangible assets	6	897	805
Trade and other receivables	7	10,650	19,641
Other financial assets	11	100,005	6
Deferred tax assets	8	2,474	3,023
Total non-current assets		**125,701**	**32,542**
Current assets			
Inventories	9	3,935	3,696
Gross amount due from customers for contract work	10	3,822	16,354
Trade and other receivables	7	55,553	92,925
Payments made in advance		7,719	5,261
Other intangible assets	11	1,367	100,789
Income tax assets		414	504
Cash and cash equivalents	12	84,127	78,075
Total current assets		**156,937**	**297,604**
Total assets		**282,638**	**330,146**

EQUITY AND LIABILITIES	Note	Dec. 31, 2017	Dec. 31, 2016
in € thousand			
Equity			
Subscribed capital		49,704	49,704
Capital reserves		61,097	61,097
Currency translation differences recognized in equity		(6,636)	(3,370)
Retained earnings		44,296	63,411
Shares of equity attributable to shareholders of the parent company		148,461	170,842
Non-controlling interests		1,300	1,379
Total equity	13	**149,761**	**172,221**
Non-current liabilities			
Other liabilities	16	3,183	2,744
Loan	16	-	25,000
Pension benefit obligations	14	20,960	22,421
Deferred tax liabilities	8	199	277
Provisions	15	1,716	1,335
Total non-current liabilities		**26,058**	**51,777**
Non-current liabilities			
Trade and other payables	16	35,538	45,022
Borrowings		25,000	-
Commitments under construction contracts	17	30,968	35,252
Income tax liabilities	16	1,461	2,782
Provisions	15	13,852	23,092
Total current liabilities		**106,819**	**106,148**
Total equity and liabilities		**282,638**	**330,146**

4 Group Statement of Cash Flows for KHD Humboldt Wedag International AG for the Financial Year 2017

in € thousand	2017	2016
Cash flow from operating activities		
Group net profit for the year	(19,369)	(29,164)
Income tax expense recognized in the income statement	2,499	4,072
Net finance income recognized in the income statement	(8,750)	(8,107)
Earnings before interest and taxes (EBIT)	**(25,620)**	**(33,199)**
Amortization and depreciation of non-current assets	1,393	1,754
Book gain (-)/loss on disposal of fixed assets	(15)	(9)
Book gain (-)/loss on disposal of consolidated companies	(73)	-
Increase(-)/decrease in trade receivables and financial assets	44,566	(9,929)
Increase (-)/decrease in inventories and gross amount due from customers for contract work	12,293	28,052
Increase (-)/decrease in payments made in advance and other financial assets	(2,458)	6,633
Increase (+)/decrease in trade and other payables and in commitments under construction contracts	(14,070)	(28,453)
Increase (+)/decrease in pension benefit obligations	(1,461)	(1,536)
Increase (+)/decrease in provisions and non-current liabilities	(8,420)	(2,346)
Other non-cash-transactions	(49)	1
Other translation differences	(253)	551
Interest received	2,612	3,068
Interest paid	(149)	(108)
Income tax received	288	1,913
Income tax paid	(3,304)	(5,766)
Cash flow from operating activities	**5,280**	**(39,374)**
Cash flow from investing activities		
Cash outflow for intangible assets	(629)	(171)
Cash outflow for property, plant and equipment	(1,834)	(1,058)
Cash inflow from the disposal of property, plant and equipment	28	22
Interest received from Intercompany loans	6,063	6,100
Gain on disposal of consolidated companies and other business units less funds transferred	123	-
Cash flow from investing activities	**3,751**	**4,893**

in € thousand	2017	2016
Cash flow from financing activities		
Payment for purchase of shares from non-controlling interests	-	(1)
Interest paid for loans	(532)	(536)
Cash flow from financing activities	**(532)**	**(537)**
Change in unrestricted cash and cash equivalents	**8,499**	**(35,018)**
Opening balance of unrestricted cash and cash equivalents	77,989	112,587
Exchange rate effects	(2,447)	420
Closing balance of unrestricted cash and cash equivalents	**84,041**	**77,989**

in € thousand	Dec.31, 2017	Dec.31, 2016
Composition of unrestricted cash and cash equivalents		
Current bank accounts and cash	62,833	44,176
Short-term bank deposits and restricted cash	21,294	33,899
Total cash and cash equivalents	**84,127**	**78,075**
Restricted cash (collateral for bank guarantees)	(86)	(86)
Closing balance of unrestricted cash and cash equivalents	**84,041**	**77,989**

Cash and cash equivalents increased in the financial year by € 6,052 thousand to € 84,127 thousand (previous year: € 78,075 thousand). The reason for this is particularly the significant cash inflow from operating activities of € 5,280 thousand (previous year: € 39,374 thousand). The cash inflows from investment activities of € 3,751 thousand (previous year: € 4,893) are offset by cash outflows from financing activities in the amount of € 532 thousand (previous year: € 537 thousand). The cash and cash equivalents were affected by negative exchange rates in the amount of € 2,447 thousand in the 2017 financial year (previous year: positive exchange rates in the amount of € 420 thousand). At the end of the year, unrestricted cash and cash equivalents had increased by € 6,052 thousand (the previous year's change: € -34,598 thousand) to € 84,041 thousand (previous year: € 77,989 thousand).

5 Group Statement of Changes in Equity for KHD Humboldt Wedag International AG for the 2017 Financial Year

in € thousand	Subscribed capital	Capital reserves	Treasury shares	Currency translation differences recognized in equity	Retained earnings	Equity attributable to shareholders of the parent company	Non-controlling interests	Total
Dec.31, 2015 / Jan. 1, 2016	**49,704**	**61,097**	**-**	**(4,341)**	**95,548**	**202,008**	**1,348**	**203,356**
Group net loss for the year	-	-	-	-	(29,196)	(29,196)	32	**(29,164)**
Actuarial gains and losses*	-	-	-	-	(2,942)	(2,942)	-	**(2,942)**
Currency translation differences	-	-	-	971	-	971	-	**971**
Group comprehensive income	**-**	**-**	**-**	**971**	**(32,138)**	**(31,167)**	**32**	**(31,135)**
Other changes	-	-	-	-	1	1	-	**1**
Purchase of non-controlling interests	-	-	-	-	-	-	(1)	**(1)**
Dec.31, 2016 / Jan. 1, 2017	**49,704**	**61,097**	**-**	**(3,370)**	**63,411**	**170,842**	**1,379**	**172,221**
Group net loss for the year	-	-	-	-	(19,292)	(19,292)	(77)	**(19,369)**
Actuarial gains and losses*	-	-	-	-	178	178	(2)	**176**
Currency translation differences	-	-	-	(3,266)	-	(3,266)	-	**(3,266)**
Group comprehensive income	**-**	**-**	**-**	**(3,266)**	**(19,114)**	**(22,380)**	**(79)**	**(22,459)**
Other changes	-	-	-	-	(1)	(1)	-	**(1)**
Dec. 31, 2017	**49,704**	**61,097**	**-**	**(6,636)**	**44,296**	**148,461**	**1,300**	**149,761**

*Actuarial gains and losses are recorded in other comprehensive income while taking the related deferred tax assets and deferred tax liabilities into consideration. In addition to the actuarial gains in the amount of € -963 thousand, the derecognition of the deferred tax assets based on actuarial losses recognized in previous years in the amount of € -1,979 thousand was also reported in other comprehensive income in the previous financial year.

6 Notes to the Group Financial Statements of KHD Humboldt Wedag International AG for the Financial Year 2017

1. Summary of Major Accounting and Measurement Principles

Basis of Preparation and Other Notes

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

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

KHD's group financial statements have been prepared according to uniform accounting and measurement principles. The group financial statements have been prepared in accordance with prevailing International Financial Reporting Standards (IFRS) and their related interpretations as applicable in the EU, and are in line with the statutory obligations that are applicable to companies which are required to submit mandatory reports to the capital markets pursuant to Section 315e Paragraph 1 of the German Commercial Code (HGB) (in the version of the CSR-directive implementation act dated April 11, 2017) together with Article 4 of the Regulation (EC) No. 1606/2002 of the European Parliament and Council of July 19, 2002, relating to the application of current international accounting standards in their current version (IAS-Regulation). These group financial statements have been prepared in euros. All amounts, including figures used for comparison from the previous year, are generally stated in thousands of euros (€ thousand). All amounts have been rounded according to normal commercial practice. The Group income statement has been prepared using the nature of expense method. The financial year of KHD and of its subsidiaries and joint ventures included in the group financial statements corresponds to the calendar year.

Consolidation

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

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

Currency Translation

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

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

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

		Closing rate	Average rate
	currency	As of Dec.31, 2017	Jan. 1 to Dec.31, 2017
	1 Euro =		
Australia	**AUD**	1.5378	1.4808
India	**INR**	76.7139	73.9432
USA	**USD**	1.2010	1.1389
Malaysia	**MYR**	4.8604	4.8686
Brazil	**BRL**	3.9783	3.6532
Russia	**RUB**	69.1006	66.3055

Exchange rates used in the preceding financial year:

		Closing rate	Average rate
	currency	As of Dec.31, 2016	Jan. 1 to Dec.31, 2016
	1 Euro =		
Australia	**AUD**	1.4617	1.4852
India	**INR**	71.8220	74.3119
USA	**USD**	1.0568	1.1040
Malaysia	**MYR**	4.7406	4.5736
Brazil	**BRL**	3.4394	3.8003
Russia	**RUB**	64.7667	73.1804

Intangible Assets

Goodwill

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

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

Other intangible assets

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

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

Property, Plant, and Equipment

Property, plant, and equipment is measured at cost less scheduled, straight-line depreciation. In addition to the purchase price, acquisition costs also include costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. The useful life of operating and office equipment and of other plants is generally between three and ten years. Land is not subject to scheduled amortization Leasehold improvements are depreciated over the term of the lease. Gains and losses on the disposal of property, plant, and equipment are measured by reference to their carrying amount and are recognized in the income statement.

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

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

Borrowing Costs

Borrowing costs are capitalized in the KHD Group to the extent that they are attributable to the purchase or production of qualifying assets. Borrowing costs are otherwise expensed through the income statement under net finance income. As in the previous year, no borrowing costs were capitalized in the 2017 financial year.

Impairment Test on Non-current Assets

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

Financial Investments, Other Financial Assets, and Financial Liabilities

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

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

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

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

Financial Assets Measured at Fair Value through Profit or Loss

In the KHD Group, the group of financial assets measured at fair value through profit or loss comprises financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of disposal in the near term. Derivatives are always classified as held for trading.

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

Loans and Receivables

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

Impairment of Financial Assets

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

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

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

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

Impairments of other financial assets are taken into account by directly writing down the respective carrying amount.

Cash and Cash Equivalents

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

Financial Liabilities

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

Financial liabilities in the KHD Group largely consist of:

- Financial liabilities,
- Trade and other payables.

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

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

Derivative Financial Instruments and Hedges

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

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

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

Inventories

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

Construction Contracts

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

Pension Benefit Obligations and Retirement Benefit Plans

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

Personnel expenses of some subsidiaries include contributions for defined contribution plans. Payments are made to pension insurance funds on a contractual basis. The Group companies do not enter into any obligations beyond the rendering of contribution payments.

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

Provisions and Accruals

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

Provisions for onerous contracts are recogniezd, if the expected economic benefit resulting from the contract is less than the costs unavoidable for the fulfillment of the contract.

Provisions are measured at the expected settlement value, taking into consideration all recognizable risks. The settlement value is determined based on the best possible estimate. The expected outflow of resources embodying economic benefits for all products covered by warranty terms is estimated by the Group as of the balance sheet date. While recognizing provisions, individual warranty obligations with a probability of occurrence that is more than

50% are considered. In addition, provisions are measured on the basis of expenses incurred in the past combined with current estimates of the warranty risk.

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

Income Tax Expenses

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

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

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

Recognition of Income and Expenses

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

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

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

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

Estimates and Assumptions

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

Measurement of Construction Contracts

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

Impairment of goodwill

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

Income Tax Expenses

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

Accounting for employee benefits

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

Provisions and Accruals

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

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

Applying New or Revised “International Financial Reporting Standards”

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

The changes in IAS 7, "Disclosure Initiatives", are to be applied for the first time in this financial year. The objective of the amendment to IAS 7 is to improve the presentation of changes in liabilities from financing activities. The cash and non-cash items from financing activities between the balance sheet dates are to be considered here. It was published in January 2016 and endorsed by the EU in November 2017. With regard to the additional disclosure requirements, reference is made to the explanations of the cash flow statement.

In addition, the amendments to IAS 12, "Recognition of deferred tax assets for unrealized losses”, are to be applied for the first time in this financial year. It was published in January 2016 and endorsed by the EU in November 2017. The amendments include clarifications with respect to the reporting of deferred tax assets for unrealized losses. The initial application will occur in the 2017 financial year.

The changes to the standards listed above primarily include clarifications and additions regarding detailed issues in reporting and the information in the notes. The effects on these Group financial statements are primarily of minor significance.

In addition, further standards, interpretations and changes to standards and interpretations are to be applied for the first time in this financial year. The list appended below is limited to the standards, interpretations and changes to standards and interpretations that are of fundamental importance to KHD:

- The annual improvement process for the IFRS in the 2014 - 2016 cycle was published in December 2016. The changes from the improvement process take effect in various financial years. For example, the amendments to IFRS 12 already apply for reporting periods that begin as of or after January 1, 2017. The other changes from the improvement process, however, must be applied for the first time in the 2018 financial year. None of the changes have a significant effect on the KHD Group financial statements.

In addition, other new accounting announcements in form of additional relevant standards were issued by the IASB, which do not yet have to be applied and in some cases have not yet been endorsed by the EU:

The IASB published IFRS 15, “Revenue from Contracts with Customers”, in May 2014. The new standard summarizes the previous regulations on revenue recognition and transfers these into a uniform model of revenue recognition, which is applicable for all industries and all types of revenue transactions. The new standard therefore also encompasses the rules of IAS 18 in addition to the reporting of construction contracts previously regulated in IAS 11. The new, uniform model for revenue recognition in IFRS 15 introduces a five step model, on the basis of which the amount of revenue and the time, or period, of the recognition of the revenue are determined:

- Identify the contract(s) with a customer;
- Identify the separate performance obligations;
- Determine the transaction price;

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

In addition, the standard includes a series of further regulations regarding detailed issues and an expansion of the required notes disclosures. The amendment to IFRS 15 published in September 2015 postponed the required initial application date from January 1, 2017 to financial years that begin on or after January 1, 2018. It is permissible to use the rules earlier. The first application will be done retrospectively, although various reliefs are permitted under IFRS 15. Some clarifications regarding IFRS 15 were published in April 2016. These explanations do not include any changes to the basic principles of the standard; instead, they are merely clarifications and additional measures to ease transition.

The Group concluded an analysis in 2017 with regard to introducing IFRS 15 and looked into possible system effects. Based on the analysis, KHD does not expect any significant differences from the previous revenue recognition in accordance with IAS 11 and IAS 18 for the Plant Services segment, which comprises spare parts supply and services for cement plants. The analysis focused on the Capex segment, in which revenue recognition for plant engineering projects has been previously and routinely carried out based on the percentage of completion method in accordance with IAS 11. The detailed analysis identified both commonalities and differences between the previous application of IAS 11 and the new regulations of IFRS 15. The results of this analysis were the basis for implementation measures in a second project phase. Though the introduction of IFRS 15 resulted in a partial change in the accounting-related processes – in particular, the accounting-related contract analysis must be itemized in the context of the specific requirements of IFRS 15 – extensive changes to the system were not required.

The following changes were established with regard to the introduction of IFRS 15 based on the analysis.

- The separation of performance obligations required in IFRS 15 is of minor importance for the contracts of KHD (Capex segment). For the customer-specific plants engineered by KHD, it will be routinely assumed that the individual components of a plant cannot be identified separately as goods and services as defined by IFRS 15. KHD's primary service is the integration of the individual components within the context of a functional plant. And because, generally speaking, the functionality of the equipment supplied with regard to the guaranteed service parameters when the cement plant is operating is considered an entire service with respect to the debt owed, the individual components are to be viewed as highly integrated with each other. The relevant group of services, therefore, is the functioning package of equipment. For KHD, this means that in a contract, separation into various groups of services will not be routinely offered. The contract as a whole is the respective group of services. This understanding corresponds with the previous procedure according to IAS 11.

- The criteria for recognizing revenue over time in accordance with IFRS 15.35 are routinely in place in the contracts in the Capex segment. In this way, either the requirements of IFRS 15.35b or IFRS 15.35c or even both regulations are met. KHD creates or improves an asset in accordance with IFRS 15.35b which the customer controls even during its establishment. Due to the high degree of customer individuality, the customer controls this asset in an economic sense as soon as the project begins. Customer contracts also include an enforceable claim for payment for the service provided as defined by IFRS 15.35c. In addition to the reimbursement of incurred costs, this claim for payment also regularly includes compensation for lost profit. For this reason, the result includes the requirements for recognizing revenue over time for the contracts in the Capex segment.
- When the requirements for recognizing revenue over time have been met, revenue recognition must also be carried out in the future over time, based on the previous procedure. In this case, KHD will apply the cost to cost method, an input-oriented process. The prospective procedure then continues to comply – from an economic perspective – with the previous revenue recognition system in accordance with IAS 11. However, it should be noted that due to the conceptual switch to the controlling principle and the requirements of IFRS 15.35, which are more strongly oriented toward contract law, revenue recognition could be delayed in some cases when compared with the previous procedure. The effects on the result of these individual cases, however, are insignificant and will be determined in the future in the context of an accounting-related contract analysis.
- The recognition of costs of obtaining a contract required under certain circumstances in accordance with IFRS 15 results in a separate disclosure of assets to be depreciated over the respective term of the project. At KHD, costs of obtaining a contract affect commissions. While these costs were previously recorded as part of the order costs at the beginning of a project, in the future, commissions will be recognized

separately as assets. This asset amounts to a value between € 0.1 and € 0.2 million as of January 1, 2018. The recognized amount from construction contracts will be reduced to the corresponding extent. The effect on the gross margin as a result of the recognition and depreciation of the asset in comparison with the previous system is insignificant.

- While IAS 11 includes explicit regulations regarding potential losses due to onerous contracts, IFRS 15 does not. As a result, in the future any potential losses will be handled according to IAS 37 only. This change affects the disclosure of the KHD balance sheet. Previously, expected losses for ongoing projects were not disclosed separately in the balance sheet; instead, they were offset within gross amount due from customers for contract work or commitments under construction contracts. In the future, however, the disclosure of expected losses will not include offsetting, so they will not be reported as part of project-specific, contract net positions. This separate presentation results in provisions for onerous contracts in the amount of approx. € 2.3 million as of January 1, 2018.

In addition to a completely retrospective initial application, the transitional requirements of IFRS 15 also allow a modified retrospective application. KHD will implement the modified retrospective initial application with a cumulative effect adjustment (cumulative catch-up method) on January 1, 2018. The effect of this adjustment in equity as of January 1, 2018 is insignificant, however.

In July 2014 the IASB published the final version of IFRS 9, "Financial instruments", after publishing the three phases of the new standard over the last few years. The new standard notably introduces major changes relating to the classification and measurement of financial assets, with classification to be based on the type of business model and on contractual cash flows. In this context, impairment assessment is changed from an incurred loss model to an expected loss model. In general, this results in an earlier assessment of impairment losses than under IAS 39. A new hedge accounting model is also introduced to bring hedge accounting more closely into line with the risk management activities of the entity in the future. The complete overhaul of IAS 39 with the publication of IFRS 9 results in additional disclosures. The standard is applicable for annual periods beginning on or after January 1, 2018. Initial application is retrospective, although transitional provisions apply. KHD evaluated the effects of IFRS 9 in an analysis in 2017. According to the analysis, KHD does not expect any significant effects despite the changed classification and measurement model. The future impairment methodology based on the expected loss model will not result in any significant effects as of January 1, 2018 either. In the future, KHD will continually monitor the expected credit default risk for the affected financial assets. The accounting-related processes were augmented accordingly. Furthermore, KHD is not planning to make use of the right to apply hedge accounting, which remains in IFRS 9. Ultimately, the effects of IFRS 9 on the KHD Group financial statements are insignificant, both qualitatively and quantitatively.

The IASB published IFRS 16, "Leases", in January 2016. After its endorsement by the European Union (EU) in October 2017, it must be applied for the first time starting on January 1, 2019. Due to the fundamentally new redefinition of lease reporting based on the right of use model, KHD will report leases previously reported as off-balance leases as on-balance in the future. This means that, in the future, the difference between financing and operating leasing contracts as previously required under IAS 17 is eliminated for the lessee. In accordance with IFRS 16, in the future the lessee shall report, for all leases, a lease liability on the balance sheet in the amount of the cash value of future lease payments in addition to the directly attributable costs and, at the same time, capitalize an corresponding right of use on the underlying asset. During the term of the lease contract, the lease liability shall be mathematically projected, similar to the regulations of the previous IAS 17 for finance leases, while the right of use shall be systematically depreciated. There are simplifications for short-term leases and low value leased items. In contrast, for lessors the regulations remain nearly unchanged with respect to the previous rules of IAS 17.

KHD analyzed the effects on the presentation of the net assets, financial position and result of operations. In particular, effects of the application of IFRS 16 are expected with regard to contracts for long-term real estate rentals. Because a relatively low number of contractual relationships are affected, KHD does not expect that the introduction of IFRS 16 will result in significant system effects. The operational implementation of the new standard is currently underway in a project. The future reporting of leases that were previously reported off-balance will increase the balance sheet total and will therefore result in a decrease in the equity ratio. While ongoing leasing payments were previously reported as rental expenses, in the future both depreciation from the pro rata amortization of the right of use and interest expenses from the compounding of the lease liabilities will be reported. In this respect, the operating result will improve at the expense of the financial result. The Group is currently planning to implement the modified retrospective initial application with a cumulative effect adjustment on January 1, 2019.

In addition to the standards described in detail above, the IASB has published even more standards, interpretations and changes to standards and interpretations, the application of which is also not yet mandatory and which, in part, still requires their endorsement into EU law. The list appended below is limited to the standards, interpretations and changes to standards and interpretations that are of fundamental importance to the Group. Currently KHD does not surmise that the applications of these standards, interpretations and changes will have a significant influence on the presentation of the financial statements.

- IFRIC 22, “Foreign Currency Transactions and Advance Consideration”: Published in December 2016, initial application in the 2018 financial year, endorsement into EU law still pending.
- IFRIC 23, “Uncertainty over Income Tax Treatments”: Published in June 2017, initial application in the 2019 financial year, endorsement into EU law still pending.
- Amendment to IFRS 9, “Prepayment features with negative compensation”: Published in October 2017, initial application in the 2019 financial year, endorsement into EU law still pending.
- Amendment to IAS 28: “Long-term Interests in Associates and Joint Ventures”, published in October 2017, initial application in the 2019 financial year, endorsement into EU law still pending.
- Amendment to IAS 19: „Plan Amendment, Curtailment or Settlement“: Published in February 2018, initial application in the 2019 financial year, endorsement into EU law still pending.
- Annual improvement process 2015 - 2017: Published in December 2017, initial application in the 2019 financial year, endorsement into EU law still pending.

2. Subsidiaries of KHD Humboldt Wedag International AG as of December 31, 2017

Name of company	Registered office	Main Business	Capital and voting rights in % Dec. 31, 2017	Capital and voting rights in % Dec. 31, 2016		Currency	Subscribed capital Dec. 31, 2017	Subscribed capital Dec. 31, 2016
KHD Humboldt Wedag GmbH	Cologne, Germany	Holding function	100.00	100.00	D	€	15,339,300	15,339,300
Humboldt Wedag GmbH	Cologne, Germany	Plant engineering	100.00	100.00	I	€	7,000,000	7,000,000
ZAB Zementanlagenbau GmbH Dessau	Dessau, Germany	Plant engineering	100.00	100.00	I	€	2,000,000	2,000,000
Blake International Ltd.	Road Town, British Virgin Islands	Holding function	100.00	100.00	I	USD	1,000	1,000
KHD Humboldt Wedag Vermögensverwaltungs-AG	Cologne, Germany	asset management	91.26	91.26	I	€	3,600,000	3,600,000
Humboldt Wedag Australia Pty Ltd.	Braeside, Australia	Sales	100.00	100.00	I	AUD	200,002	200,002
Humboldt Wedag Inc.	Norcross, USA	Plant engineering	100.00	100.00	I	USD	1,000	1,000
Humboldt Wedag India Private Ltd.	New Delhi, India	Plant engineering	100.00	100.00	I	INR	19,200,000	19,200,000
KHD Humboldt Wedag Machinery Equipment (Beijing) Co. Ltd	Beijing, China	Sales	100.00	100.00	I	USD	2,100,000	1,050,000
KHD Humboldt Engineering OOO	Moscow, Russia	Plant engineering	100.00	100.00	I	RUB	3,350,000	3,350,000
Humboldt Wedag Malaysia Sdn. Bhd.	Kuala Lumpur, Malaysia	Plant engineering	100.00	100.00	I	MYR	500,000	500,000
Humboldt Wedag Do Brasil Servicos Technicos Ltda	Belo Horizonte, Brazil	Sales	100.00	100.00	I	BRL	801,847	801,847

D = directly owned
I = indirectly owned

As of December 31, 2017, the scope of consolidation included four (December 31, 2016: five) domestic and eight (December 31, 2016: eight) foreign subsidiaries in addition to KHD.

KHD sold its 100% share in EKOF Mining & Water Solution GmbH (EKOF), Bochum, Germany, a company with business activities outside those of KHD’s core business, in the 2017 financial year. The final consolidation of EKOF resulted in income from the final consolidation of € 73 thousand. The final consolidation income is disclosed under other operating income. The cash received in connection with the sale amounts to € 123 thousand. The assets and liabilities disposed essentially relate to property, plant and equipment and pension obligations as well as other short-term assets and liabilities, which represent the net value of the disposed assets.

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

Name of the company	Registered office	Interest and voting rights share of non-controlling interests		Gain or loss attributable to non-controlling interests		Accumulated attributable to non-controlling interests	
		Dec. 31, 2017 in %	Dec. 31, 2016 in %	Dec. 31, 2017 in € thousand	Dec. 31, 2016 in € thousand	Dec. 31, 2017 in € thousand	Dec. 31, 2016 in € thousand
KHD Humboldt Wedag Vermögensverwaltungs-AG	Cologne, Germany	8.74	8.74	(77)	32	1,300	1,379

The Group did not acquire any further shares in KHD VV during the 2017 financial year. The Group’s share as of Dec. 31, 2017 amounted to 91.26% as in the previous year. Changes in 2017 to KHD VV equity attributable to KHD are as follows:

	€ thousand
Equity of shareholders of the parent company as of January 1, 2017	**14,397**
Increase in equity caused by acquisition of additional capital respectively voting rights attributable to shareholders of the parent company in 2017	-
Change in comprehensive income attributable to shareholders of the parent company in 2017	(822)
Equity of shareholders of the parent company as of December 31, 2017	**13,575**

Following is the summarized financial information for KHD VV. The summary of financial information corresponds to the amounts before intragroup eliminations:

KHD Humboldt Wedag Vermögensverwaltungs- AG	**Dec. 31, 2017**	**Dec. 31, 2016**
	in € thousand	**in € thousand**
Current assets	14,965	15,113
Non-current assets	-	1,324
Current liabilities	(13)	(584)
Non-current Liabilities	(77)	(77)
Share of equity attributable to shareholders of the parent company	13,575	14,397
Share of equity attributable to non-controlling interests	1,300	1,379

	2017	**2016**
	in € thousand	**in € thousand**
Revenue	1,604	6,333
Expenses	(2,489)	(5,965)
Net loss / profit for the year	**(885)**	**368**
Net profit for the year attributable to shareholders of the parent company	(808)	336
Net profit for the year attributable to the non-controlling shareholders	(77)	32
Total net loss/ profit for the year	**(885)**	**368**
Other comprehensive income attributable to shareholders of the parent company	(14)	3
Other comprehensive income attributable to non-controlling shareholders	(2)	-
Total other comprehensive income	**(16)**	**3**
Comprehensive income attributable to shareholders of the parent company	(822)	339
Comprehensive income attributable to non-controlling shareholders	(79)	32
Comprehensive income	**(901)**	**371**
Dividends paid to non-controlling interests	**-**	**-**
Net cash flow from operating activities	2,203	3,471
Net cash flow from investment activities	402	(4,226)
Net cash flow from financing activities	-	-
Total net cash flow	**2,605**	**(755)**

3. Changes to the Scope of Consolidation

KHD sold its 100% share in EKOF Mining & Water Solution GmbH (EKOF), Bochum, Germany in the 2017 financial year.

4. Segment Reporting

For KHD, reporting is done in two separate segments. The Capex segment (project business) is differentiated from the Plant Services segment. Segment reporting is oriented towards internal Group management control and internal financial reporting and is based on the management approach.

The business activities of the two reportable segments as of December 31, 2017 include the following activities and services:

- **Capex (Project Business)**
  In the Capex segment, KHD reports all revenues and expenses resulting from supplying equipment for cement plants and providing services directly linked to the equipment supply. This encompasses process technology, design, engineering, project management and the supply of technology and equipment. In addition, supervision of erection and commissioning of cement plants are allocated to this segment. General and administrative expenses, sales expenses and other expenses (in particular research and development costs) are allocated to this segment, accordingly.
- **Plant Services**
  The Plant Services segment comprises all revenues and expenses resulting from supplying spare parts and providing services to existing cement plants. Services include optimizing cement plants, maintenance services, carrying out plant audits, creating optimization concepts and training plant personnel. General and administrative expenses, sales expenses and other expenses are allocated to the segment accordingly.

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

The following table provides an overview of the business for the 2017 and 2016 financial years:

in € thousand	**Capex** Jan. 1-Dec. 31, 2017	**Plant Services** Jan. 1-Dec. 31, 2017	**Total Group** Jan. 1-Dec. 31, 2017	**Capex** Jan. 1-Dec. 31, 2016	**Plant Services** Jan. 1-Dec. 31, 2016	**Total Group** Jan. 1-Dec. 31, 2016
Order intake	140.753	41.791	182.544	46.437	36.611	83.048
Revenue	62.188	37.910	100.098	96.176	39.255	135.431
Cost of sales	(64.275)	(28.289)	(92.564)	(105.039)	(28.680)	(133.719)
Gross profit	(2.087)	9.621	7.534	(8.863)	10.575	1.712
Other income	2.821	-	2.821	3.360	-	3.360
Sales expenses	(10.434)	(3.500)	(13.934)	(9.700)	(3.448)	(13.148)
General and administrative expenses	(10.495)	(2.581)	(13.076)	(12.799)	(3.051)	(15.850)
Other expenses	(8.724)	(241)	(8.965)	(8.863)	(410)	(9.273)
Earnings before interest and taxes (EBIT)	(28.919)	3.299	(25.620)	(36.865)	3.666	(33.199)
Net finance income			8.750			8.107
Profit before tax			(16.870)			(25.092)
for information:						
depreciation and amortization	-		*(1.394)*	-		*(1.754)*

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

KHD only reports revenue from external customers in its segment reports, i.e. revenue between the two segments is already eliminated. Due to the segment structure, as in the previous year, the Plant Services segment did not recognize any revenue with the Capex segment in this financial year. And as in the previous year, the Capex segment did not recognize any revenue with the Plant Services segment. Transactions between the two segments are in line with market conditions.

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

in € thousand	Revenue 2017	Revenue 2016	Non-current assets 2017	Non-current assets 2016
India	36,049	48,302	4,054	1,039
Middle East	16,332	18,840	-	-
Rest Asia	14,493	17,536	7	14
Africa	8,742	2,872	-	-
North America	8,450	22,765	69	166
Rest of Europe	5,201	2,216	-	-
Russia	4,775	11,032	3,037	3,035
South America	2,696	5,998	10	19
Germany	2,500	5,084	5,387	5,588
China	618	634	8	11
Other	242	152	-	-
	100,098	**135,431**	**12,572**	**9,872**

in € thousand	Order Intake 2017	Order Intake 2016	Order Backlog 2017	Order Backlog 2016
Rest of Asia	47,189	9,673	40,317	7,621
India	45,044	24,913	39,296	64,748
Africa	32,383	12,947	34,963	11,322
Rest of Europe	28,902	4,274	24,582	8,918
Russia	10,028	2,902	12,719	7,466
Middle East	6,716	16,102	6,303	15,919
South America	4,003	657	360	1,044
North America	3,883	6,584	6,418	12,073
Germany	2,276	2,753	298	522
China	2,035	2,045	2,797	1,429
Other	85	198	242	399
	182,544	**83,048**	**168,295**	**131,461**

Information about Key Customers

In the financial year, no revenue was attributable to individual customers (previous year: € 63.0 million, three individual customers), with which at least 10% of the Group's revenue was achieved. Revenue with the key customers was generated in both segments in the previous financial year.

5. Property, plant, and equipment

in € thousand	Land and building	Leasehold improvements	Property, plant and equipment	Total
COST				
Dec. 31, 2015 / Jan. 1, 2016	**-**	**501**	**10,351**	**10,852**
Additions	-	4	1,054	1,058
Additions due to changes in consolidated group	-	-	-	-
Disposals	**-**	**-**	(303)	(303)
Foreign currency translation and reclassification	-	-	**(218)**	(218)
Dec. 31, 2016 / Jan. 1, 2017	**-**	**505**	**10,884**	**11,389**
Additions	1,865	1,174	570	3,609
Disposals	-	(2)	(176)	(178)
Disposal due to changes in consolidated group	-	(27)	(964)	(991)
Foreign currency translation and reclassification	-	-	**(76)**	(76)
Dec. 31, 2017	**1,865**	**1,650**	**10,238**	**13,753**
Accumulated depreciation				
Dec. 31, 2015 / Jan. 1, 2016	**-**	**305**	**6,601**	**6,906**
Additions	-	36	832	868
Disposals	-	-	(290)	(290)
Currency differences	-	-	-	-
Dec. 31, 2016 / Jan. 1, 2017	**-**	**341**	**7,143**	**7,484**
Additions	-	42	820	862
Disposals	-	-	(165)	(165)
Disposal due to changes in consolidated group	-	(27)	(914)	(941)
Currency differences	-	-	-	-
Dec. 31, 2017	**-**	**356**	**6,884**	**7,240**
Carrying amount				
Dec. 31, 2016	**-**	**164**	**3,741**	**3,905**
Dec. 31, 2017	**1,865**	**1,294**	**3,354**	**6,513**

The additions with respect to properties and buildings in the amount of € 1,865 thousand relate to investments in constructing a production facility in India. The additions to remaining property, plant, and equipment in the financial year primarily result from investments in the production facility in India in the amount of € 1,127 thousand and, as in financial years past, replacement investments in IT hardware. Total depreciation in the financial year amounted to € 862 thousand (previous year: € 868 thousand).

6. Goodwill and Other Intangible Assets

in € thousand	Goodwill	Licences and other intangible assets	Total
Cost			
Dec. 31, 2015 / Jan. 1, 2016	**5,162**	**9,002**	**14,164**
Additions	-	171	171
Disposals	-	-	-
Currency differences and reclassification	-	183	183
Dec. 31, 2016 / Jan. 1, 2017	**5,162**	**9,356**	**14,518**
Additions	-	629	629
Disposals	-	(2)	(2)
Currency differences and reclassification	-	(5)	(5)
Dec. 31, 2017	**5,162**	**9,978**	**15,140**
Accumulated amortization			
Dec. 31, 2015 / Jan. 1, 2016	**-**	**7,665**	**7,665**
Additions	-	886	886
Disposals	-	-	-
Currency differences	-	-	-
Dec. 31, 2016 / Jan. 1, 2017	**-**	**8,551**	**8,551**
Additions	-	532	532
Disposals	-	(2)	(2)
Currency differences	-	-	-
Dec. 31, 2017	**-**	**9,081**	**9,081**
Carrying amount			
Dec. 31, 2016	**5,162**	**805**	**5,967**
Dec. 31, 2017	**5,162**	**897**	**6,059**

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

Goodwill

Goodwill as reported as of December 31, 2017 arises from acquisitions and was allocated to the respective cash generating units (CGU). Overall, the carrying amount of goodwill of € 5,162 thousand remained unchanged compared with the previous year. As of December 31, 2017, the goodwill is attributable to the following cash generating units:

CGU	Carrying amount of goodwill allocated to CGU in € thousand	Proportion of total goodwill	Discounting interest rate (before tax) in %	Growth rate in %	Description of key assumptions of company valuation	Procedure used to determine key assumptions
Plant Services HWG	2,127	41.2%	6.9%	1.0%	- Growth rates of the respective markets - Industry-specific cycles - Selling prices - Procurement prices	- Intercompany estimate of the responsible sales and purchasing departments - Economic conditions expected by KHD AG and external market research
Plant Services KHD OOO	1,605	31.1%	10.6%	1.0%	- Growth rates of the respective markets - Industry-specific cycles - Selling prices - Procurement prices	- Intercompany estimate of the responsible sales and purchasing departments - Economic conditions expected by KHD AG and external market research
Capex KHD OOO	1,43	27.7%	10.6%	1.0%	- Growth rates of the respective markets - Industry-specific cycles - Selling prices - Procurement prices	- Intercompany estimate of the responsible sales and purchasing departments - Economic conditions expected by KHD AG and external market research

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

The (pre-tax) cash flows accounted for are based on the management-approved medium-term planning, which includes a 5 year period. The discount rate was developed on the basis of market data, taking into account the risk situation of the respective cash-generating unit, including various country risk surcharges. Because the calculated value in use exceeds the carrying amount of the respective cash generating unit (including goodwill), there was no need to recognize an impairment loss pursuant to IAS 36.

A change to the key measurement parameters, such as a reduction in the expected cash flows by 10% or an increase of the capitalization rate by 20% would not affect the measurement as of December 31, 2017. For this reason, there is no additional need to recognize an impairment loss.

7. Receivables and Financial Assets

in € thousand	**Dec. 31, 2017**	**Dec. 31, 2016**
Current financial assets		
Trade receivables	38,674	77,061
Less valuation allowances for impairment of receivables	(3,328)	(4,140)
Trade receivables - net	35,346	72,921
Intercompany receivables	12,626	14,298
Other intangible assets	1,367	100,789
Financial receivables	4,673	3,763
Current financial assets	**54,012**	**191,771**
Other receivables	2,908	1,943
Current financial assets and other receivables	**56,920**	**193,714**
Non-current financial assets		
Trade receivables	10,650	19,641
Other non-current financial assets	100,005	6
Non-current financial assets	**110,655**	**19,647**

Trade receivables (gross amount – before deducting valuation allowances) decreased in the financial year by € 38,387 thousand from € 77,061 thousand to € 38,674 thousand. Intercompany receivables decreased slightly by € 1,672 thousand from €14,298 thousand to € 12,626 thousand due to receipt of payments from companies of the AVIC Group.

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

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

Financial receivables increased by € 910 thousand, from € 3,763 thousand to € 4,673 thousand. Financial receivables as of December 31, 2017 mainly comprise costs backcharged to subcontractors, interest receivables, securities, insurance claims and other financial receivables totaling € 1761 thousand (previous year: € 1,687 thousand).

Other receivables in the amount of € 2,908 thousand (previous year: € 1,943 thousand) arise from reimbursement claims for value added tax.

For trade receivables in the amount of € 1,457 thousand (previous year: € 19,856 thousand), which were overdue more than 61 days, no valuation allowances were made, because no material change in the credit standing of these debtors was identified and the outstanding amounts are expected to be recoverable.

Other non-current financial assets include two trade receivables against customers in an amount of € 6,467 thousand (previous year: € 11,965 thousand), with whom deferral agreements were agreed. In addition, a deferred receivable due from AVIC Beijing in the amount of € 7,676 thousand was reported in the previous financial year. The deferred receivables incur interest at usual market conditions.

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

in € thousand	**Dec. 31, 2017**	**Dec. 31, 2016**
61 to 90 days	138	7,367
91 to 180 days	430	2,614
181 to 365 days	264	5,205
Over 365 days	625	4,670
Total	**1,457**	**19,856**

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

The overdue receivables for which no valuation allowance was recognized decreased considerably in comparison with the previous year by € 18,399 thousand, from € 19,856 thousand to € 1,457 thousand. Based on internal analysis, KHD expects that the overdue receivables are still recoverable and will be paid by the customers.

Movement in valuation allowances on trade receivables

in € thousand	2017	2016
Valuation allowances as of Jan. 1	4,140	3,724
Addition	1,563	2,646
Utilization	(327)	(1,357)
Currency translation differences	(176)	136
Reversal	(1,872)	(1,009)
Valuation allowances as of Dec. 31	**3,328**	**4,140**

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

The current and non-current trade receivables include significant foreign currency receivables in USD of € 15,169 thousand (previous year: in USD of € 26,107 thousand).

8. Deferred Tax Assets and Liabilities

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

As of December 31, 2017, KHD has a total amount of tax loss carry-forwards of € 100.6 million (previous year: € 78.2 million) for corporate income tax and comparable foreign income taxes. For trade tax, the total amount of tax loss carry-forwards is € 49.0 million (previous year: € 38.8 million). In the reporting of deferred tax assets as of December 31, 2017, tax loss carry-forwards of € 4.1 million (previous year: € 11.7 million) for corporate income tax and comparable foreign income taxes as well as € 2.0 million (previous year: € 10.9 million) for trade tax were recognized. Deferred tax assets are only recognized to the extent that, based on the 5-year business planning, future taxable profit will be available or corresponding deferred tax liabilities will be recognized, respectively. The basis for the expected future taxable profit is KHD's estimation in relation to the future development of its subsidiaries. KHD expects that the respective subsidiaries generate positive results and ultimately taxable profit, both in the Capex segment and in the Plant Services segment within the business planning period.

The probable taxable profit in the future are determined for the respective subsidiary based on business planning done for Group purposes. No deferred tax assets were recognized based on temporary differences in the amount of € 2.2 million (previous year: € 2.9 million) and tax loss carry-forwards shown above for which the future utilization is not reasonably assured. In principle, the tax loss carry-forwards of the German companies can be carried forward with no time limit. The utilization of tax loss carry-forwards for foreign companies is subject to some time limits. Unutilized loss carry-forwards for foreign companies in the amount of € 47,205 thousand (previous year: € 37,920 thousand) will expire during the time period from 2029 through 2037.

The derecognition of deferred tax assets based on actuarial losses from previous years in the amount of € 1,979 thousand was recorded in other comprehensive income in the financial year. The total amount of deferred taxes assets not recognized in profit and loss amounts to € 307 thousand (previous year: € 379 thousand) as of December 31, 2017.

For temporary differences amounting to € 67.9 million (previous year: € 87.6 million) which are linked to shares in subsidiaries and which will not reverse in the foreseeable future, no deferred tax assets or liabilities were recognized.

Deferred tax assets and liabilities arise from the following items:

in € thousand	Dec. 31, 2017	Dec. 31, 2016
Deferred tax assets		
Provisions	3,751	2,196
Resulting from tax loss carry-forwards	986	3,703
Offset with deferred tax liabilities	(2,263)	(2,876)
	2,474	**3,023**

in € thousand	Dec. 31, 2017	Dec. 31, 2016
Deferred tax liabilities		
Construction contracts / PoC method	(2,462)	(3,153)
Offset with deferred tax assets	2,263	2,876
	(199)	**(277)**

Of the reported deferred tax assets based on provisions in the amount of € 3,751 thousand, € 307 thousand are related to deferred tax assets for pension benefit obligations.

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

9. Inventories

in € thousand	Dec. 31, 2017	Dec. 31, 2016
Raw materials, consumables, and supplies	4,767	3,611
Work in progress	-	54
Finished goods and merchandise	820	1,425
Write-down to net realizable value	(1,652)	(1,394)
	3,935	3,696

In the financial year, inventories in the amount of € 6,869 thousand (previous year: € 6,268 thousand) were recorded as part of cost of sales. The manufactured products and services are mainly spare parts stocked by customers, but for which transfer of ownership to the customer occurs only when the customer retrieves a part. Write-downs to net realizable value amounted to € 1,652 thousand as of December 31, 2017 (previous year: € 1,394 thousand). These write-downs relate to raw materials, consumables, and supplies, the gross carrying amount of which is € 1,848 thousand (previous year: € 1,717 thousand).

10. Construction Contracts

in € thousand	Dec. 31, 2017	Dec. 31, 2016
Costs incurred to date for construction contracts	72,319	214,506
Proportionate results under these contracts recognized to date	8,284	22,014
Total costs incurred and profits recognized	80,603	236,520
Less recognized contract losses	(8,290)	(12,128)
Less progress billings	(95,066)	(237,303)
Balance of construction contracts account	**(22,753)**	**(12,911)**

This amount is comprised as follows:

Gross amount due from customers for contract work	3,822	16,354
Gross amount due to customers for contract work	(26,575)	(29,265)
	(22,753)	**(12,911)**

Gross amount due to customers for contract work	(26,575)	(29,265)
Advances received under construction contracts (before related work is performed)	(4,393)	(5,987)
Commitments under construction contracts	**(30,968)**	**(35,252)**

Of the revenue recognized in the 2017 financial year in the amount of € 100,098 thousand (previous year: € 135,431 thousand), € 68,565 thousand (previous year: € 109,463 thousand) is attributable to construction contracts for which revenue was recognized based on stage of completion.

The measurement of construction contracts is affected by estimations with respect to project revenue and project costs. Here, particularly costs to complete and, therefore, total estimated costs are subject to changes in estimates. Changes in estimates for projects are considered while calculating the amount of revenue and expenses recognized in profit or loss for the period in which the change in estimate was made as well as in the following periods. In this way, changes in estimates have a direct effect on the recognized result from construction contracts. There were no significant effects from changes in estimates in the 2017 financial year.

11. Other financial assets

KHD granted two loans to AVIC International Kairong Limited (AVIC Kairong), Hong Kong, each for € 50,000 thousand, in the 2017 financial year. Up to the time when the loans were granted to AVIC Kairong in July and November 2017, respectively, there were loans of the same amount and nearly the same conditions granted to AVIC International (HK) Group Ltd. (AVIC HK), Hong Kong. The loans bear interest of 6.0% and 5.7% p.a., respectively, and both have a term of three years. For the loan granted 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 granting 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. Both loans are secured by a corporate guarantee from AVIC.

Based on the fixed term of three years, both loans are due for repayment in the 2020 financial year. They are reported as of December 31, 2017 under the other non-current financial assets because the remaining term of the loans is greater than 12 months.

12. Cash and Cash Equivalents

The Group reports cash and cash equivalents in the amount of € 84,127 thousand (previous year: € 78,075 thousand).

in € thousand	**Dec. 31, 2017**	**Dec. 31, 2016**
Bank balances and cash on hand	62,833	44,176
Short-term bank deposits	21,208	33,813
Restricted Cash (collateral for guarantees)	86	86
	84,127	**78,075**

13. Equity

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

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

The Company was 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 remained valid until October 4, 2017. The authorization to acquire treasury shares was not renewed.

Retained earnings amounting to € 44,296 thousand comprise revenue reserves, profits carried forward from previous years as well as items of other comprehensive income from remeasuring defined benefit plans that will not be reclassified subsequently to profit or loss. Other items of other comprehensive income relate to currency translation differences from the translation of foreign currency financial statements. This is presented as separate item within equity.

The non-controlling interests of 8.74% (previous year: 8.74%) relate solely to the minority shareholders of KHD Humboldt Wedag Vermögensverwaltungs-AG.

14. Pension Benefit Obligations

The pension scheme granted to employees in the Group as of December 31, 2017 relates exclusively to two Group companies in Germany (previous year: three Group companies in Germany). The pension scheme is granted under defined benefit plans, which are covered by setting up pension benefit obligations. After the pension plans were frozen in 1996, it is no longer possible for employees to acquire additional vested rights to future pensions. The claims to payment of committed, non-forfeitable pension benefit obligations under the pension plans arise upon application by the beneficiaries, and through the provision of supporting evidence that the statutory pension may be drawn. The pension plans of the three Group companies are identical. They are designed as benefits for old-age pension, early retirement pension, and pension benefits to widows and orphans. Benefits to respective employees are dependent on date of entry, length of service, and income.

As of December 31, 2017, the Group's pension benefit obligations amounted to € 22,480 thousand (previous year: € 24,004 thousand).

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

Inflation risk: An increase in inflation in the medium term leads to an increase in the plan obligation

Interest rate change risk: A decrease in the loan rate will lead to an increase in the plan obligation.

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

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

The most important actuarial assumptions made are as follows:

in %	**Dec. 31, 2017**	**Dec. 31, 2016**
Discount rate	1.40	1.45
Pension trend	1.50	1.50
Employee turnover rate	0	0

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

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

- If the discount rate increases by 0.5%, the pension benefit obligations decrease by € 1,078 thousand (previous year: € 1,178 thousand). If, however, the discount rate instead falls by 0.5%, the pension benefit obligations increase by € 1.175 thousand (previous year: € 1,287 thousand).

- If the pension trend increases by 0.25%, the pension benefit obligations rise by € 552 thousand (previous year: € 607 thousand). If the pension trend decreases by 0.25%, the pension benefit obligations are reduced by € 532 thousand (previous year: € 584 thousand).
- If life expectancy increases by one year for both men and women, the benefit obligation increases by € 1,276 thousand (previous year: € 1,337 thousand).

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

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

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

in € thousand	**Dec. 31, 2017**	**Dec. 31, 2016**
Defined benefit obligation on Jan. 1	24,004	24,111
Interest cost	332	465
Benefits actually paid (total)	(1,479)	(1,535)
Losses / (gains) due to experience adjustments	(100)	(329)
Actuarial (gains) / losses due to change in actuarial assumptions	112	1,292
Changes in consolidation scope	(389)	-
Defined benefit obligation on Dec. 31	**22,480**	**24,004**

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

As of December 31, 2017, of the total obligations of € 22,480 thousand (previous year: € 24,004 thousand), an amount of € 603 thousand is attributable to active employees (previous year: € 749 thousand), € 2,184 thousand to former employees (previous year: € 2,687 thousand), and € 19,693 thousand to pensioners and surviving dependents (previous year: € 20,568 thousand).

As of December 31, 2017, the average term of the defined benefit obligation was 10.1 years (previous year: 10.3 years).

Cumulative remeasurement recorded in comprehensive income:

in € thousand	**Dec. 31, 2017**	**Dec. 31, 2016**
Opening balance - cumulative remeasurement gains (-) / losses	8,256	7,293
Actuarial gains (-) / losses	12	963
Changes in consolidation scope	(266)	-
Closing balance - cumulative remeasurement gains (-) / losses	**8,002**	**8,256**

in € thousand	**Dec. 31, 2017**	**Dec. 31, 2016**
Defined benefit costs		
Current service cost	-	-
Net interest expense	**332**	**465**
Actuarial (gains) / losses due to experience adjustments	(100)	(329)
Actuarial (gains) / losses due to change in actuarial assumptions	112	1,292
Changes in consolidation scope	(266)	-
Actuarial (gains) / losses recognized in other comprehensive income	**(254)**	**963**
Defined benefit costs	**78**	**1,428**

In the financial year under review, interest expenses on pensions of € 332 thousand (previous year: € 465 thousand) were recognized under finance expenses.

Expected benefit payments

in € thousand	**2017**	**2016**
in 2017		1,583
in 2018	1,520	1,562
in 2019	1,506	1,538
in 2020	1,491	1,519
in 2021	1,462	17,802
in 2022	1,425	-
2023 onwards (prior year: 2022 onwards)	15,076	-

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

The portion of pension benefit obligations expected to be paid out in the following financial year are reported in the current provisions in the amount of € 1,520 thousand.

15. Provisions and Accruals

in € thousand	Warranty	Tax and litigation risks	Impending losses	Pension benefit obligations	Total
Provisions as of Jan. 1, 2017	18,247	3,916	681	1,583	24,427
Additions	7,446	391	-	-	7,837
Release	(748)	(71)	-	-	(819)
Interest accrual	5	-	-	-	5
Currency translation effects	(1,310)	(264)	(82)	-	(1,656)
Utilization / reclassification	(10,374)	(3,349)	(440)	(63)	(14,226)
Provisions as of Dec. 31, 2017	**13,266**	**623**	**159**	**1,520**	**15,568**

-

in € thousand	Dec. 31, 2016	Dec. 31, 2015
Non-current (warranty)	1,716	1,335
Current	13,852	23,092
	15,568	**24,427**

The provisions for warranties cover all identifiable risks which relate to guarantee or warranty commitments. The provisions are measured on a contract-by-contract basis according to the best estimate. The considerable increase in provisions for guarantee and warranty commitments reflects both agreed upon reworking following approval and risk provisions for claims reported by customers and chargebacks of costs. The amounts reported as non-current incorporate warranty commitments for a term of more than one year. The remaining expected maturities are between one and four years.

The provisions for tax and litigation risks primarily involve risks of litigation. The provisions were used for the most part in the financial year.

The effects from currency translation of € 1,656 thousand (previous year: € 601 thousand) are mainly attributable to the translation of the local currencies of HW India and HW Inc.

16. Liabilities

in € thousand	**Dec. 31, 2017**	**Dec. 31, 2016**
Current financial liabilities		
Trade payables	28,624	37,795
Liabilities due to affiliated companies	1,376	963
Current financial liabilities	90	93
Other current liabilities	4,901	5,703
Loan	25,000	-
Current financial liabilities	**59,991**	**44,554**
Other liabilities		
Tax and social security	547	468
Income tax liabilities	1,461	2,782
Other liabilities	**2,008**	**3,250**
Current liabilities	**61,999**	**47,804**
Other non-current liabilities		
Other non-current liabilities	3,183	2,744
Loan	-	25,000
Other non-current liabilities	**3,183**	**27,744**

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

Other non-current liabilities of the previous year comprise a bank loan taken out in the 2015 financial year, which was reported at the end of the financial year under the current liabilities. In addition, warranty commitments are reported under the other non-current liabilities.

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

17. Commitments under construction contracts

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

18. Personnel Expenses

in € thousand	**2017**	**2016**
Wages and salaries	33,946	37,908
Social security contributions and costs, including pension costs	6,160	6,367
	40,106	**44,275**

No. of employees

	As of Mar. 31, 2017	**As of Jun. 30, 2017**	**As of Sept. 30, 2017**	**As of Dec. 31, 2017**
Salaried employees	627	633	626	617
Industrial employees	54	48	48	49
Total	**681**	**681**	**674**	**666**

As of December 31, 2017, the number of employees was 666 (previous year: 707). In the year under review, the average number of employees was 676, of whom 50 were industrial employees (previous year: 733 employees, of whom 53 were industrial).

Personnel expenses include employer contributions to statutory pension insurance in Germany in the amount of € 1,547 thousand (previous year: € 1,704 thousand) and expenses for contractually defined contribution plans of € 772 thousand (previous year: € 804 thousand).

19. Compensation of Current and Former Members of the Management Board and the Supervisory Board (Key Management Personnel Compensation in Accordance with IAS 24)

The compensation for key management personnel amounted to € 1,308 thousand in the 2017 financial year (previous year: € 1,407 thousand).

The compensation for members of the KHD Management Board in the financial year 2017 amounted to € 1,113 thousand (previous year: € 1,165 thousand). It can be attributed to the following categories in accordance with IAS 24.17:

- € 957 thousand (previous year: € 1,133) – short-term benefits,
- € 0 thousand (previous year: € 0 thousand) – post-employment benefits,
- € 156 thousand (previous year: € 32 thousand) – other long-term benefits,
- € 0 thousand (previous year: € 0 thousand) – termination benefits,
- € 0 thousand (previous year: € 0 thousand) – share-based payment.

The total remuneration in accordance with Section 314 Paragraph 1 Number 6a of the German Commercial Code (HGB) for members of the Management Board in the financial year 2017 amounted to € 957 thousand (previous year: € 1,113 thousand).

As of December 31, 2017 balances amounting to € 243 thousand (previous year: € 32 thousand) of the remuneration of the Management Board are outstanding for payment. The balances outstanding for payment comprise € 55 thousand (previous year: € 0 thousand) in short-term benefits and € 188 thousand (previous year: € 32 thousand) in other long-term benefits.

The remuneration granted to members of the Supervisory Board for performing their duties in the 2017 financial year amounted to € 196 thousand (previous year: € 242 thousand). The remuneration of the Supervisory Board members in the 2017 financial year relate in full (€ 196 thousand, previous year: € 242 thousand) to short-term benefits. As of December 31, 2017, balances amounting to € 273 thousand (previous year: € 257 thousand) of the remuneration of members of the Supervisory Board are outstanding for payment.

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

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

20. Cost of Sales

Costs of idle capacity are not directly linked to the revenue recognized in the financial year.

in € thousand	**2017**	**2016**
Normal cost of sales	87,710	127,826
Cost of idle capacity	4,854	5,893
	92,564	**133,719**

21. Other Operating Income

in € thousand	**2017**	**2016**
Exchange gains	2,477	2,857
Other income	344	503
	2,821	**3,360**

Other operating income includes exchange gains and gains on forward exchange transactions in the amount of € 2,477 thousand (previous year: € 2,857 thousand). The exchange gains are mainly the result of exchange rate fluctuations between the US dollar and the euro. Exchange gains include both realized and unrealized exchange rate effects. Regarding exchange gains it should be considered that from an economic perspective, due to the foreign currency hedging performed, the expenses from foreign exchange forward contracts that are presented under other expenses and a portion of exchange rate losses should be offset against the income from exchange rate fluctuations.

22. Sales Expenses

Sales expenses increased slightly over the previous year by € 786 thousand, from € 13,148 thousand to € 13,934 thousand. The expenses for tendering included in sales expenses are nearly at the same level of the previous year. They decreased by € 316 thousand, from € 6,901 thousand in the previous year to € 6,585 thousand in the current financial year. In addition, sales expenses include costs for trade fairs and customer events as well as other sales-related expenses.

23. General and Administrative Expenses

Due to ongoing measures with regard to cost reduction, general and administrative expenses of € 13,076 decreased again by € 2,774 thousand in comparison with the previous year (€ 15,850 thousand). Aside from the costs of general administration, general and administrative expenses include in particular costs for Management Board compensation, legal and consulting costs, costs of preparing and auditing financial statements, Supervisory Board remuneration and investor relations costs.

24. Other Expenses

in € thousand	**2017**	**2016**
Research and development	2,339	3,775
Exchange rate losses and expenses from derivatives	4,555	3,368
Miscellaneous expenses	2,071	2,130
	8,965	**9,273**

Other expenses decreased slightly with respect to the previous year by € 308 thousand, from € 9,273 thousand to € 8,965 thousand. This includes the expenses from foreign exchange forward contracts and exchange rate losses, which increased by € 1,187 thousand, from € 3,368 thousand in the previous year to € 4,555 thousand. The foreign exchange forward contracts were used exclusively to hedge foreign currency receivables. Therefore, expenses arising from exchange rate forwards contracts have to be compared against income from exchange rate effects. Since the derivative financial instruments used by the KHD Group do not meet the strict requirements of hedge accounting, the economic hedge relationship is not reflected by using hedge accounting in the consolidated financial statements.

Expenses for research and development decreased considerably, by € 1,436 thousand, from € 3,775 thousand in the previous year to € 2,339 thousand. A clearer focus on promising development projects was already established in the 2016 financial year, while external research and development expenses were reduced as well.

Miscellaneous expenses include, among other items, expenses for consultancy services, fees, and insurance premiums. Other miscellaneous expenses decreased by € 59 thousand, from € 2,130 thousand to € 2,071 thousand.

25. Net Finance Income

Net finance income is composed as follows:

in € thousand	2017	2016
Interest income	9,219	9,168
Total interest income	**9,219**	**9,168**
Gains on securities	578	172
Interest related to non current assets	2	-
Finance income	**9,799**	**9,340**
Other finance expenses	-	(58)
Interest related to pension benefit obligations, provisions and other non-current liabilities	(368)	(531)
Interest expense	(681)	(644)
Finance expenses	**(1,049)**	**(1,233)**
Net finance income	**8,750**	**8,107**

Interest income mainly includes interest income from bank deposits and cash equivalents as well as interest income from related companies from deferred payment agreements of € 3,156 thousand (previous year: € 3,068 thousand). Interest income from loans to a related company amounted to € 6,063 thousand (previous year: € 6,100 thousand). Interest income increased by € 51 thousand, from € 9,168 thousand to € 9,219 thousand. Interest income results from financial assets that are measured at amortized cost. Due to the exchange rate, the fair value measurement of listed shares held as financial assets gains on securities resulted in a profit of € 578 thousand (previous year: € 172 thousand) in the financial year.

Finance expenses include interest related to pension benefit obligations in the amount of € 332 thousand (previous year: € 465 thousand). In the financial year, interest expenses of € 36 thousand (previous year: € 66 thousand) were incurred due to interest on provisions and other non-current liabilities. Interest expenses in the amount of € 532 thousand were incurred for a bank loan.

26. Income Tax Expenses

The income tax expense of € 2,499 thousand incurred in the 2017 financial year (previous year: € 4,072 thousand) is composed as follows:

in € thousand	**2017**	**2016**
Current tax expense	(2,176)	(4,949)
Deferred tax expense / income	(323)	877
Tax expense for the year	**(2,499)**	**(4,072)**

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

in € thousand	**2017**	**2016**
Earnings before income tax	(16,870)	(25,092)
Expected tax result while applying an average tax rate of 32.45 % (Previous year: 32.45%)	5,474	8,142
Effects of tax-free income	128	73
Effects of non-tax-deductible expenses	(1,624)	(350)
Effects of unutilized deferred tax losses not recognized as deferred assets recognized tax losses and offset possibilities	(4,409)	(8,379)
Effects of originally unrecognized unutilized tax losses and offset possibilities, which are now reported as deferred tax assets and effects arising from changes to tax loss carryforwards	(1,118)	(3,007)
Effects of subsidiaries' divergent tax rates	(623)	(657)
Adjustments for previous years' taxes recognized in the current period	(169)	(25)
Other non-tax-effective additions and deductions	(158)	131
Tax expense for the year	**(2,499)**	**(4,072)**

Tax rates that differ from the average Group tax rate primarily relate to the subsidiaries in the USA and India as in the previous year.

The effective Group taxation rate is -14.8% (previous year: -16.2%).

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

27. Earnings and Dividends per Share

Earnings per Share

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

	2017	2016
Group net loss for the year attributable to shareholders (in € thousand)	(19,292)	(29,196)
Weighted average number of shares outstanding	49,703,573	49,703,573
Basic (undiluted) and diluted earnings per share (in €)	(0.39)	(0.59)

Dividend per Share

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

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

PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft functioned as the independent auditor for the 2017 financial year and the previous year.

The total fees charged by PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft for the 2017 financial year as well as the fees charged for the previous year are comprised as follows:

in € thousand	**2017**	**2016**
Financial statement audit services	305	384
	305	**384**

The total remuneration for the auditor for the 2017 financial year is € 305 thousand (previous year: € 384 thousand).. The audit services mainly include fees for the audit of the annual and consolidated financial statements of KHD AG as well as the legally required audit of the annual financial statements of two other German subsidiaries. Due to the application of the revised statement of the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW RS HFA 36, revised version), there are changes in the content of the reporting categories. The previous year's figures were adjusted accordingly. As a result, € 14 thousand, which were reported under other benefits in 2016, are reported under the category "financial statement audit services" in the 2017 financial year.

29. Commitments and Contingent Liabilities and Assets

COMMITMENTS FOR OPERATING LEASES

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

in € thousand	**Dec. 31, 2017**	**Dec. 31, 2016**
Within one year	2,680	2,447
Between two and five years	5,212	6,608
After five years	-	422
Total lease and rental commitments	**7,892**	**9,477**

Other contingent liabilities from current contracts amount to € 363 thousand (previous year: € 190 thousand).

Expenses for leased and rented office space and office equipment recognized in the Group income statement amount to € 3,261 thousand in the year under review (previous year: € 3,693 thousand).

CONTINGENT LIABILITIES

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

As of the reporting date, contingent liabilities result from a possible calling of guarantees or from other claims against KHD that exceed the amounts covered by provisions. Considering the current stage of negotiations, a more precise quantification is neither practical nor possible. For further information on contingent liabilities, please refer to the comments in section 30, liquidity risk.

CONTINGENT ASSETS

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

Contingent assets arise from claims against customers due to subsequent scope changes of projects and cost overruns caused by customers as well as from claims for backcharges against subcontractors.

Both the development of contingent assets and contingent liabilities are monitored continuously. As soon as the corresponding claims and obligations are substantiated, they are recorded in profit and loss for the period. For reasons of practicability, no amount is stated here.

30. Additional Notes on Financial Instruments

FINANCIAL RISK FACTORS

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

CAPITAL MANAGEMENT

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

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

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

KHD is subject to the minimum capital requirements applicable to German stock corporations. Compliance with these requirements is monitored continuously. KHD was in compliance with these requirements in 2017.

in € thousand	**Dec. 31, 2017**	**Dec. 31, 2016**
Equity	149,761	172,221
Total assets	282,638	330,146
Equity ratio (in %)	52.99	52.17

The equity ratio increased slightly by 0.8 percentage points compared with the previous year from 52.2% to 53.0%.

MARKET RISK

Currency Risk

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

The Group recognized assets and liabilities denominated in foreign currencies translated to a carrying amount of € 10,559 thousand (previous year: € 28,465 thousand). In this context, foreign currency denotes that a company of the KHD Group holds assets and liabilities in a currency that is not the functional currency of the subsidiary. Without taking any exchange rate forward contracts into account that may be in place, a 10% variance in exchange rates would change Group earnings / comprehensive income by € 713 thousand (previous year: € 1,923 thousand).

The individual financial statements prepared by the foreign subsidiaries are translated into euros in line with the functional currency principle. The Group's functional currency is the euro. Assets and liabilities are translated at the balance sheet closing rate. Currency translation differences resulting from translating the assets and liabilities of foreign subsidiaries denominated in local currencies into the Group's functional currency may have an impact on Group equity. A 10% change in foreign currency exchange rates would change Group equity by € 4,028 thousand (previous year: € 4,663 thousand).

PRICE RISK

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

CREDIT AND DEFAULT RISK

The risk of credit concentration with regard to trade receivables is generally diminished as receivables are spread out worldwide, reflecting the Group’s customer structure. Long-term business relationships are maintained with important customers. In the past, these customers have not been involved in bad debt losses based on credit rating. In addition, there are no current indications of increase credit rating risks. Credit risk is also mitigated through the payment terms the Group agrees with its customers, notably progress billings and advance payments, to avoid excessively high levels of outstanding receivables. Internal guidelines ensure that products are only sold to customers with appropriate credit ratings. The risk of counterparty default is managed through regular monitoring and analysis of the trade receivables and the structure of receivables. The risk of counterparty default is managed through regular monitoring and reviews of the trade receivables and the structure of receivables. At the KHD Group, receivables from export contracts are to a large extent secured against default risks by letters of credit, as well as through letters of comfort, guarantees, and cover notes, which also include export credit agencies (e.g. Hermes).

Securities for receivables in the financial year amounted to € 3,366 thousand (previous year: € 3,884 thousand).

In the 2017 financial year, the KHD Group concluded two loan agreements totaling € 100 million, each with a term of three years, with AVIC International Kairong Limited as borrower. Possible default risks are effectively minimized by continuous monitoring of the credit worthiness of the borrower and by a Group guarantee issued to the KHD Group. The KHD Group is also entitled to call the first loan of € 50 million for repayment at any time prior to its maturity by giving 30 days’ notice.

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

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

LIQUIDITY RISK

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

In order to avoid financial risks from the plant engineering business, construction contracts are executed through progress billings and customer payments made in advance, which largely financed projects in progress as of the balance sheet date. By means of financial and liquidity planning, cash and cash equivalents are available in such a way that the KHD Group is at all times able to fully meet its payment obligations. The majority of current trade and other payables reported as of the balance sheet date in the amount of € 28,624 thousand (previous year: € 37,795 thousand) are payable within 60 days. The other current financial liabilities are due within the next twelve months. The bank loan obtained in the amount of € 25,000 thousand is due for repayment in October 2018. Assuming that the interest rate does not change, the loan-related variable interest in the amount of € 532 thousand was due for payment in the 2017 financial year and € 415 thousand is due in the 2018 financial year.

With regard to the maturity of the pension benefit obligations reference is made to chapter 14 and, for foreign exchange forward contracts, to the derivatives section in this chapter. Other liabilities and provisions that are recorded within non-current liabilities have residual terms of up to five years. The terms of these liabilities are substantially determined by the warranty periods.

Within the scope of its normal business transactions, the Group has commitments due to advance guarantees, performance bonds, and guarantees for warranty obligations. The Group does not anticipate any material liabilities due to these commitments. The arranged bank guarantee credit facilities allow individual KHD Group companies to provide bank guarantees for its customers worldwide. As part of these guarantee facilities, the Group has provided bank guarantees within the scope of its normal business activities in the amount of € 33.2 million (previous year: € 33.6 million).

INTEREST RATE RISK

The Group holds assets that are affected by changes in market interest rates over the course of time. In the event that market interest rates had risen or fallen by 50 basis points, Group earnings as of December 31, 2017, would have been € 284 thousand (previous year: € 264 thousand) higher or lower, respectively. As of December 31, 2017, KHD reports interest-bearing debt in the form of a bank loan. The loan has a variable interest rate, so it is subject to interest risk due to changes in market interest rates. If market interest rates had risen by 50 basis points, Group earnings as of December 31, 2017 would have been € 125 thousand (previous year: € 125 thousand) lower, and if market interest rates had fallen by 50 basis points, Group earnings as of December 31, 2017 would have remained unchanged (previous year: unchanged Group earnings). A fixed interest rate has been agreed for each of the three-year loans extended to AVIC Kairong, so there is no risk from interest rate changes with regard to these loans.

NET EARNINGS PER CATEGORY

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

2017		Financial assets		Financial liabilities		Total
in € thousand	Available for sale	Held for trading	Loans and receivables	Held for trading	Amortized cost	
Expenses due to valuation allowances on financial assets	-	-	(1,563)	-	-	(1,563)
Interest Income / expense	-	-	9,219	-	(532)	8,687
Other net earnings	-	1,805	(1,417)	-	-	388
Net earnings	**-**	**1,805**	**6,239**	**-**	**(532)**	**7,512**

2016		Financial assets		Financial liabilities		Total
in € thousand	Available for sale	Held for trading	Loans and receivables	Held for trading	Amortized cost	
Expenses due to valuation allowances on financial assets	-	-	(2,646)	-	-	(2,646)
Interest Income / expense	-	-	9,168	-	(536)	8,632
Other net earnings	-	(418)	1,097	-	-	679
Net earnings	**-**	**(418)**	**7,619**	**-**	**(536)**	**6,665**

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

LIST OF THE FINANCIAL ASSETS AND LIABILITIES BY CATEGORY

The following table shows the carrying amounts of the individual financial assets and liabilities for each individual category of financial instruments and transfers these to the corresponding balance sheet items. In addition, the table also shows the fair values of financial assets and financial liabilities.

Dec.31, 2017	**Financial assets**				**Financial liabilities**				
in € thousand	Available for sale	Held for trading	Loans and receivables	Not in IFRS 7 application area	Held for trading	Amortized cost	Not in IFRS 7 application area	Carrying amount Dec. 31, 2017	Fair value Dec. 31, 2017
Non-current financial assets	-	-	110,655	-		-	-	110,655	110,442
Trade receivables	-	-	35,346	-		-	-	35,346	-
Related party receivables	-	-	12,626	-		-	-	12,626	-
Gross amount due from customers for contract work	-	-	3,822	-	-	-	-	3,822	-
Other financial assets	-	1,367	-	-		-	-	1,367	1,367
Derivatives	-	747	-	-		-	-	747	747
Other receivables	-	-	3,926	2,908		-	-	6,834	-
Cash and cash equivalents	-	-	84,127	-		-	-	84,127	-
Total financial assets	**-**	**2,114**	**250,502**	**2,908**		**-**	**-**	**255,524**	**112,556**
Financial liabilities		-	-	-		90	-	90	-
Loan	-	-	-	-		25,000	-	25,000	-
Gross amount due to customers for contract work	-	-	-	-	-	26,575	-	26,575	-
Other liabilities	-	-	-	-		4,757	3,183	7,940	-
Derivatives	-	-		-	144	-		144	144
Trade payables	-	-	-	-		30,000	-	30,000	-
Total financial liabilities	**-**	**-**	**-**	**-**	**144**	**86,422**	**3,183**	**89,749**	**144**

Dec.31, 2016	**Financial assets**				**Financial liabilities**				
in € thousand	Available for sale	Held for trading	Loans and receivables	Not in IFRS 7 application area	Held for trading	Amortized cost	Not in IFRS 7 application area	Carrying amount Dec. 31, 2016	Fair value Dec. 31, 2016
Non-current financial assets	-	-	19,647	-		-	-	19,647	-
Trade receivables	-	-	72,921	-		-	-	72,921	-
Related party receivables	-	-	14,298	-		-	-	14,298	-
Gross amount due from customers for contract work	-	-	16,354	-	-	-	-	16,354	-
Other financial assets	-	789	100,000	-		-	-	100,789	101,411
Derivatives	-	-	-	-		-	-	-	-
Other receivables	-	-	3,763	1,943		-	-	5,706	-
Cash and cash equivalents	-	-	78,075	-		-	-	78,075	-
Total financial assets	**-**	**789**	**305,058**	**1,943**		**-**	**-**	**307,790**	**101,411**
Financial liabilities		-	-	-		93	-	93	-
Loan	-	-	-	-		25,000	-	25,000	25,000
Gross amount due to customers for contract work	-	-	-	-	-	29,265	-	29,265	-
Other liabilities	-	-	-	-		5,311	2,744	8,055	-
Derivatives	-	-			392			392	392
Trade payables	-	-	-	-		38,758	-	38,758	-
Total financial liabilities	**-**	**-**	**-**	**-**	**392**	**98,427**	**2,744**	**101,563**	**25,392**

The carrying amounts reported as of the reporting date in general correspond to the fair values – as long as there is no explicit disclosure.

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

- The fair values of the listed securities that are held for trading are determined by reference to quoted market prices.
- The fair value of derivatives is calculated on the basis of discounted cash flow analyses, using corresponding yield curves for the term to maturity of the instruments concerned.
- The fair value for the loan receivables from AVIC Kairong and the loan liability from the Bank of China is calculated based on the present value method. The future cash flows

from the loan are discounted using a risk-adjusted market interest rate that takes the specific country, credit rating and guarantee risks into consideration.

Financial assets and financial liabilities	Fair value		Level	Measurement method	Significant unobservable input(s)
	Dec. 31, 2017	Dec. 31, 2016			
Derivatives	Financial assets: € 747 thousand Financial liabilities: € 144 thousand	Financial assets: € 0 thousand Financial liabilities: € 392 thousand	Level 2	Discounted cash flow	N/A
Securities	Financial assets: € 1,367 thousand	Financial assets: € 789 thousand	Level 1	Listed price on active market	N/A
Loan	Financial assets: € 99,787 thousand Financial liabilities: € 25,000 thousand	Financial assets: € 100,622 thousand Financial liabilities: € 25,000 thousand	Level 3	Discounted cash flow	Credit risk of the borrower

SECURITIES HELD FOR TRADING

Securities held for trading amounted to € 1,367 thousand (previous year: € 789 thousand). A 10% variance in the market price would change Group earnings by € 130 thousand (previous year: € 79 thousand).

RECEIVABLES

Overdue Group receivables, including receivables for which valuation allowances were made, amounted to € 4,838 thousand (previous year: € 23,999 thousand). After deducting securities (letters of credit and Hermes coverage), the Group values the resulting risk at € 3,328 thousand (previous year: € 20,115 thousand). The receivables for which valuation allowances have been made are generally more than 90 days overdue.

DERIVATIVES

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

The net balance of the derivatives carries a fair value of € 603 thousand (previous year: € -392 thousand). A 10% change in the exchange rate hedged by the derivative would affect earnings by € 1,733 thousand (previous year: € 1,229 thousand). The total amount of underlying transactions allocated to foreign exchange forward contracts amounts to € 25.6 million (previous year: € 18.2 million).

Foreign exchange forward contracts amounting to € 25.6 million (previous year: € 10.9 million) are due within one year. In the previous financial year, foreign exchange forward contracts in the amount of € 7.3 million were due for payment after one year.

OFFSETTING

In the KHD Group there are offsetting agreements with the corresponding banks for derivative financial instruments. In accordance with these framework agreements, the amounts owed by each respective party with respect to transactions in the same currency that are still outstanding on a specific date of maturity are offset to reach a net amount. The derivative financial instruments concluded as of the reporting date and as of the previous year's reporting date have a fair value of € 603 thousand (previous year: negative value of € 392 thousand). In this respect, no offsetting based on the offsetting agreement is done.

31. Related Party Disclosures

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

Relations with affiliated companies

There has been a cooperation agreement with AVIC Beijing since 2010, reinforced since February 2011 by the capital interests in KHD amounting to 20% held by Max Glory Industries Limited (Max Glory), an AVIC Beijing group company. As a consequence of a public takeover offer, AVIC Beijing further increased its indirect share in KHD in the 2014 financial year. As of December 31, 2017, AVIC Beijing indirectly holds the majority of KHD shares with 89.02% (unchanged from the previous year). Among others, the strategic partnership between AVIC and KHD resulted in joint projects in Malaysia, Venezuela, and Turkey.

Other transactions with related parties

KHD granted two loans to AVIC International Kairong Limited (AVIC Kairong), Hong Kong, each for € 50,000 thousand, in the 2017 financial year. The loans bear interest of 6.0% and 5.7% p.a., respectively, and both have a term of three years. For the loan granted 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 granting 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. Both loans are secured by a corporate guarantee from AVIC.

Based on the fixed term of three years, both loans are due for repayment in the 2020 financial year. They are reported as of December 31, 2017 under the other non-current financial assets because the remaining term of the loans is greater than 12 months.

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

Income

Income with indirect parent companies amounted to € 2,984 thousand (previous year: € 3,128 thousand). Income in the current year largely relates to income generated from projects in South America in which our cooperation partner AVIC Beijing was KHD's customer.

Interest income from the loans extended to AVIC HK and AVIC Kairong in the amount of € 6,063 thousand (previous year: € 6,100 thousand) is reported under income with other affiliated companies.

in € thousand	**2017**	**2016**
Indirect parent company	2,984	3,128
Other related companies	6,063	6,100
	9,047	9,228

Expenses

No expenses arising from transactions with indirect parent companies or other affiliated companies were recorded in this financial year.

Expenses arising from transactions with indirect parent companies amounted to € 9,609 thousand in the previous year. Expenses arising from transactions with other affiliated companies amounted to € 10,765 thousand in the previous year. Both the expenses with indirect parent companies and the expenses with other affiliated companies primarily had to do with project costs for a large project in which AVIC was KHD's customer.

in € thousand	**2017**	**2016**
Indirect parent company	-	9,609
Other related companies	-	10,765
	-	20,374

Current assets

In the financial year under review, there were current assets due from companies of the AVIC Group in the amount of € 13,856 thousand (previous year: € 115,032 thousand). These resulted exclusively from project receivables and refund claims (previous year: € 14,802 thousand). In the previous year two loans to AVIC HK were reported under current assets.

in € thousand	**2017**	**2016**
Indirect parent company	11,047	14,802
Other related companies	2,809	100,230
	13,856	115,032

Non-current assets

Loans to other related companies amounting to a total of € 100,000 thousand are reported under non-current assets as of the balance sheet date. A non-current receivable due from an indirect parent company in the amount of € 7,676 thousand is recognized under non-current assets in the previous financial year.

Liabilities

No liabilities due from other related companies are reported under liabilities from project contracts (previous year: € 396 thousand). Liabilities due from indirect parent companies in the amount of € 2,025 thousand are reported (previous year: € 1,745 thousand).

in € thousand	**2017**	**2016**
Indirect parent company	2,025	1,745
Other related companies	-	396
	2,025	2,141

Relations with associated persons

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

The remuneration for key management personnel in accordance with IAS 24 includes the compensation of the active members of the Management Board and Supervisory Board. With regard to the current remuneration of members of the Management Board and Supervisory Board and with respect to termination benefits for former Management Board members, reference is made to note 19.

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

Furthermore, the Management Board and Supervisory Board of the publicly listed Group company KHD VV issued the statement required pursuant to Section 161 of the German Stock Corporation Act (AktG) on January 30, 2018, and also made it permanently publicly available to shareholders on this company's website (www.khdis.de).

33. Events after the Reporting Period

Significant developments or events of particular importance have not taken place since the reporting date of December 31, 2017.

34. Release for Publication by the Management Board

These group financial statements were released for publication by the Management Board resolution of March 19, 2018. The Supervisory Board approval is due to be issued at the Supervisory Board meeting on April 17, 2018.

Cologne, Germany, March 19, 2018

The Management Board

(s) Gerold Keune (s) Jürgen Luckas (s) Dian Xie

Responsibility Statement

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

Cologne, Germany, March 19, 2018

The Management Board

(s) Gerold Keune (s) Jürgen Luckas (s) Dian Xie

Independent Auditor‘s Report

INDEPENDENT AUDITOR'S REPORT

To KHD Humboldt Wedag International AG, Cologne

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

Audit Opinions

We have audited the consolidated financial statements of KHD Humboldt Wedag International AG, Cologne, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2017, and the consolidated statement of comprehensive income, consolidated statement of profit or loss, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from January 1 to December 31, 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of KHD Humboldt Wedag International AG, which is combined with the Company's management report, for the financial year from January 1 to December 31, 2017. We have not audited the content of those parts of the group 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 consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § [Article] 315e Abs. [paragraph] 1 HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at December 31, 2017, and of its financial performance for the financial year from January 1 to December 31, 2017, and

- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the group management report does not cover the content of those parts of the group management report listed in the "Other

Information" section of our auditor's report.

Pursuant to § 322 Abs. 3 Satz [sentence] 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and of the group 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 Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities 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 consolidated financial statements and on the group management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated 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 consolidated financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

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

❶ Revenue - revenue and profits from construction contracts

❷ Provisions for risks resulting from guarantee and warranty obligations

❸ Measurement of other financial assets

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

Hereinafter we present the key audit matters:

❶ Revenue - revenue and profits from construction contracts

① In the Company's consolidated financial statements revenue from construction contracts amounting to EUR 68.6 million (68.5% of total revenue) is reported in the consolidated income statement. For the purposes of this significant item in terms of its amount, the revenue is recognized – provided that the criteria of IAS 11 have been met – in accordance with the percentage-of-completion method, with the estimate of the stage of completion being based on the ratio of contract costs actually incurred to the planned total costs ("cost-to-cost method"). In particular, the calculation of the total costs requires estimates and assumptions to be made by the executive directors.

Due to the complexity of the applicable accounting standard, the long-term nature of the contracts and the requirement for estimates regarding contract revenue and contract costs, as well as the resulting uncertainties with regard to estimates from an accounting point of view, this matter was of particular significance in the context of our audit.

② As part of our audit, we initially assessed the processes and controls established by the Group for the purposes of recognizing revenue for construction contracts taking into account the relevant stage of completion. Moreover, we evaluated the determination of the stage of completion of customer-specific contracts on the basis of the cost-to-cost method and the resulting proportion of revenue recognized, considering that a prospective loss has to be recognized immediately. In this connection we assessed the calculation of the planned total costs as well as the costs actually incurred. In addition, we assessed the consistency of the methods used to calculate the costs incurred.

We assessed the stage of completion of the particular project, among other things, by inquiries of project managers and inspection of the project documentation. We were able to satisfy ourselves that overall the established systems and processes as well as controls in place are appropriate and that the estimates and assumptions made by the executive directors concerning the recognition and measurement of revenue according to the stage of completion are sufficiently documented and substantiated to ensure that revenue is appropriately recognized.

③ The Company's disclosures on customer-specific construction contracts are contained in sections “1. Accounting policies” of the notes to the consolidated financial statements under “Construction Contracts” and “10. Construction Contracts”.

❷ Provisions for risks resulting from guarantee and warranty obligations

① As at December 31, 2017, provisions for guarantee and warranty obligations at an amount of EUR 13.3 million are reported in the Company’s consolidated financial statements. The provisions result from potential risks resulting from guarantee and warranty obligations and are measured for each contract based on the best possible estimate of the executive directors. The calculation of the amount of the provisions based on the expected costs requires estimates to be made by the executive directors.

The provisions include costs for agreed reworking, further claims reported by contractual partners and other estimated expenses. Due to the significance of the provisions in terms of their amount, the long-term nature of the processing onto several financial years and the resulting uncertainties relating to the estimates over several periods, this matter was of particular significance during our audit.

② As part of our audit, we assessed the internal processes and controls established by the Group for the purposes of recognizing and assessing guarantee and warranty obligations. In the knowledge that estimated values result in an increased risk of accounting misstatements and that the measurement decisions made by the executive directors have a direct and material impact on consolidated net profit/loss, we assessed the appropriateness of the carrying amounts. As part of our audit, we also assessed the appropriateness of the measurement models and assumptions used. We evaluated the calculation of the expected obligations by inquiries of project managers, the central Controlling department and the executive directors, and by inspecting the project documentation. We were able to satisfy ourselves that the estimates applied and the assumptions made by the executive directors were sufficiently documented and substantiated to justify the recognition and measurement of the provisions which are significant in terms of their amount.

③ The Company's disclosures on provisions for guarantees are contained in sections “1. Accounting policies” of the notes to the consolidated financial statements under “15. Provisions”.

❸ Measurement of other financial assets

① In the Company's consolidated financial statements other financial assets amounting to EUR 100.0 million (30.2% of consolidated total assets) are reported in the consolidated statement of financial position. These include two loans, each in the amount of EUR 50.0 million, to AVIC International Kairong Limited, Hong Kong. In order to secure these loans, AVIC International Holding Corporation, Beijing/China, has issued respective guarantee statements to KHD Humboldt Wedag International AG 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.

The financial assets mentioned above are classified and measured in accordance with IAS 39. Following their initial recognition, loans and receivables are measured at amortized cost, less any impairment losses. 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 by the executive directors and further documentation received, there was no need to recognize impairment losses in the financial year. Due to the estimates and assumptions required to be made by the executive directors for the purpose of measuring the other financial assets, as well as their material significance for the Group’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 n 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 the other financial assets.

③ The Company's disclosures on other financial assets are contained in sections “1. Summary of Major Accounting and Measurement Principles”, “11. Other financial assets” and “31. Related Party Disclosures” of the notes to the consolidated financial statements.

Other Information

The executive directors are responsible for the other information. The other information comprises the following non-audited parts of the group 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 consolidated financial statements, the audited group management report and our auditor's report.

Our audit opinions on the consolidated financial statements and on the group 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.

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.

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 consolidated financial statements, with the group management report or our knowledge obtained in the audit, or

- otherwise appears to be materially misstated

Responsibilities of the Executive Directors and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group'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 unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated 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 group 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 group management report.

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated 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 consolidated financial statements and on the group 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 consolidated financial statements and this group 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 consolidated financial statements and of the group 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 consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group 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.

- 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 Group'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 consolidated financial statements and in the group 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 Group to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.

- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.

- Perform audit procedures on the prospective information presented by the executive directors in the group 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 consolidated 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 group 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 group 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)	(sgd. ppa. Gerd Tolls)
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

List of Abbreviations

AVIC Beijing	AVIC International Beijing Company Limited, Beijing, China
AVIC Kairong	AVIC International Kairong Limited, Hong Kong, Hong Kong
AVIC Engineering	AVIC International Engineering Holding Pte. Ltd., Singapore, Singapore
AVIC HK	AVIC International Holdings (HK) Limited, Hong Kong
AVIC International	AVIC International Holdings Limited, Hong Kong, Hong Kong
AVIC Malaysia	AVIC Cement Sdn. Bhd., Kuala Lumpur, Malaysia
EPC	Engineering, Procurement and Construction
HWG	Humboldt Wedag GmbH, Cologne
HW India	Humboldt Wedag India Private Ltd., New Delhi, India
HW Malaysia	Humboldt Wedag Malaysia Sdn. Bhd., Kuala Lumpur, Malaysia
HW Inc.	Humboldt Wedag, Inc., Norcross (Georgia), USA
KHD	KHD Humboldt Wedag International AG, Cologne, Germany
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
Max Glory	Max Glory Industries Limited, Hong Kong, Hong Kong