KHD | HUMBOLDT WEDAG

Half-Year Financial Report 2018

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KHD Humboldt Wedag International AG, Cologne, Germany

Half-year Financial Report 2018

ISIN: DE0006578008

GERMAN SECURITIES IDENTIFICATION NUMBER (WKN): 657800

Stock Exchange Symbol: KWG

www.khd.com

Summary of the First Half Year 2018

- Increase in order intake to € 86.2 million; continuing trend with regard to growth in order backlog
- Significant revenue increase of 31.6% to € 64.1 million due to the higher order backlog at the beginning of the year
- Adjusted gross profit in the amount of € 8.1 million (previous year: € 8.0 million) nearly unchanged
- Significant improvement of adjusted EBIT to € -5.5 million (previous year: € -9.8 million) primarily due to further optimization of structural costs
- Considerable decrease in idle capacity costs to € 1.0 million (previous year: € 3.0 million)

Key Figures at a Glance

in € million	Jan.1 - June 30, 2018	Jan. 1 - June 30, 2017	Variance in %
Order Intake	86.2	79.3	8.7
Revenue	64.1	48.7	31.6
Adjusted Gross Profit	8.1	8	1.3
Adjusted Gross Profit margin (in %)	*12.6*	*16.4*	*-23.1*
Adjusted EBIT	-5.5	-9.8	43.9
Adjusted EBIT-Margin (in %)	*-8.6*	*-20.1*	*57.4*
EBT	-3	-9.7	69.1
Group net loss for the period	-4.6	-10.8	57.4
EPS (in €)	-0.09	-0.22	59.1
Operating cash flow	-4.6	-2.1	-119.0
Cash flow from investing activities	0.1	2.3	-95.7
Cash flow from financing activities	-0.3	-0.3	0.0
in € million	**June 30, 2018**	**Dec. 31, 2017**	**Variance in %**
Equity	143.7	149.8	-4.1
Equity ratio (in %)	*50.6*	*53.0*	*-4.5*
Cash and Intercompany loans *	178.5	184.1	-3.0
Net working capital **	-9.8	-9.0	-8.9
Order Backlog	185.7	168.3	10.3
Employees	682	666	2.4

* 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.

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

MANAGEMENT REPORT TO THE INTERIM GROUP FINANCIAL STATEMENTS AS OF JUNE 30, 2018

Fundamental Group Principles

KHD Humboldt Wedag International AG (hereinafter also referred to as “KHD” or the “Group”) made no fundamental changes to its business model, strategy or management system (see combined management report of December 31, 2017, pp. 13-21) during the first half-year 2018. In addition to continued expansion of business activities in the Plant Services segment, the focus is on strengthening the Capex segment by further expansion of sales activities, increasing competitiveness, supporting a culture of excellence and performance, and targeted research and development activities.

Management, monitoring and reporting within the Group continue to be based on financial indicators listed below. With respect to the basic determination and calculation of these financial performance indicators, reference is made to the combined management report of December 31, 2017, page 19 et seq. The significant performance indicators of the Group are:

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

For Group management purposes, KHD adjusts the EBIT as necessary with regard to special effects. The adjusted EBIT as of June 30, 2018 is determined as follows:

in € million	**June 30, 2018**	**June 30, 2017**
EBIT prior to adjustments	**-6.5**	**-14.1**
Idle capacity costs	1.0	3.0
staff adjustment measures	-	1.3
Adjusted EBIT	**-5.5**	**-9.8**

The adjustments include idle capacity costs of € 1.0 million (previous year: € 3.0 million) due to under-utilization of existing capacities. In the previous year the one-time impact related to expenses for headcount reduction measures in the amount of € 1.3 million was also considered while determining the adjusted EBIT.

Economic Report

Market Environment

The International Monetary Fund (IMF) has increased the global growth forecast for 2018 to 3.9% (previous year: 3.8%). In developed industrial nations, growth is expected to be stronger this year and next year than in previous years. The economies in the Eurozone will make use of available production capacities as this is also supported by the monetary policy environment. At the same time the U.S. economy is moving toward full employment. Another increase in growth in the developing and emerging countries is to be expected, particularly in the emerging countries in Asia. After three weak years raw materials exports are expected to increase moderately. In general, however, one has to take into account that the increasingly protectionist economic policy of the United States is a risk factor for global economic growth.

According to an analysis by HSBC Global Research, 2017 was another year of weak growth in global cement consumption (not including the People's Republic of China), with an increase of just 1.4%. Growth of 2.2% is expected for 2018 because demand in the emerging countries is gaining momentum and cement consumption in the USA is undergoing robust growth.

According to CW Research, KHD’s important core markets demonstrated differing tendencies with respect to cement consumption in the first half-year 2018:

- In India, the cement industry showed general improvement in the first half-year 2018, because demand and prices increased significantly in comparison with the previous months. Cement demand continues to be positively affected by a continuing recovery in infrastructure and real estate activity. This resulted in an increase of approx. 3% in the average price of cement.
- In Russia, based on data from the State Statistics Service regarding the period from January through May 2018, cement consumption amounted to 18 million tons which was 4.7% less than compared with the same period in the previous year.
- In Turkey, according to the Turkish cement manufacturers’ association, cement demand in the period from January through April 2018 increased by 15.4% compared with the previous year. The surprisingly good weather conditions during these months had a positive effect.

- In the USA, deliveries of Portland cement and blended cement (including imports) totaled 27.2 million tons in the first four months of 2018, a 2.6% increase in comparison with the same period last year.

Overall Assessment of the Economic Situation

Economic development as measured by revenue and also with respect to profitability has much improved over that in the corresponding period in the previous year, but despite the positive tendencies, it remains at an unsatisfactory level for the first half-year 2018. Development within the reporting period corresponds with the planning with regard to all significant performance indicators.

Revenue of € 64.1 million was significantly higher than the previous year's value. The reason for the considerable increase in revenue was primarily the order backlog at the beginning of the financial year, which was relatively high in comparison with previous periods.

In the current reporting period, KHD's adjusted gross profit is € 8.1 million which, despite the considerable increase in revenue, remained at last year's level and is in line with the figure budgeted for the first half-year 2018. The decrease in adjusted gross profit margin from 16.4% in the first half-year 2017 to 12.6% currently is primarily the result of the relatively high percentage of revenue from project business. In cement plant engineering, tough competition continues in the Capex segment. For this reason, the order intake of the previous year – orders that are currently being executed – was achieved only with price concessions and low margins. Despite the difficult situation in the industry, the adjusted EBIT in the reporting period improved significantly from € -9.8 million to € -5.5 million and is slightly above the budget figure. Unadjusted EBIT improved even more considerably in comparison with the previous year's value by € 7.6 million from € -14.1 million to € -6.5 million. With a nearly unchanged adjusted gross profit, primarily sustainable cost optimization and savings in the area of general and administrative expenses contributed to the significant improvement of EBIT.

Cash flow from operating activities reached a slightly negative value of € -4.6 million (previous year: € -2.1 million), essentially in line with the submitted outlook.

In spite of the continuing unfavorable market conditions and margin situation, the KHD Group is convinced that, particularly due to considerable growth in business volume, a successful economic turnaround will be achieved in the medium term.

Business Development

In the first half-year 2018, order intake was € 86.2 million. This is higher than the figure reached in the previous year (€ 79.3 million). Yet another increase with respect to the previous year's value was achieved due to more intense sales activities and competitive pricing. Order intake volume is in line with the budget figure. A significant contribution was provided by order intake in the first quarter of 2018.

Orders of € 60.8 million were placed in the Capex segment in the first half-year (previous year: € 60.8 million). This value corresponds to the figure published in the outlook. Order intake in India and the neighboring countries, in South America and in Turkey provided the most signification contribution to order intake. In the Plant Services segment, order intake of € 25.4 million (previous year: € 18.5 million) significantly exceeded the previous year's value and also met the budget target. In comparison with the Capex segment, the business with spare parts and services is less cyclical and contributed 29.5% to order intake.

Based on the order intake volume and taking the progress in execution of existing projects into consideration, order backlog as of June 30, 2018 increased – compared with the figure of December 31, 2017 – by € 17.4 million to € 185.7 million. As in the previous year, in this reporting year adjustments caused by the reduction or cancellation of order values (€ -1.8 million; previous year: € -9.7 million) and effects of exchange rate fluctuations (€ -2.8 million; previous year: € -1.6 million) were reported as changes to order backlog. In spite of increased order intake the current order backlog does not yet ensure the full utilization of existing capacities at all KHD locations as the order backlog shows a highly varied regional distribution. Consequently, idle capacity costs in the first half-year 2018 were € 1.0 million; however, these costs were significantly lower than the previous year's value of € 3.0 million.

Group Earning Situation

KHD's revenue, amounting to € 64.1 million, significantly exceeded the figure for the previous year (€ 48.7 million). Significant contributions to revenue in the Capex segment came primarily from projects in India and the neighboring countries. The main reason for the considerable increase in revenue of 31.6% is the order backlog at the beginning of the financial year, which was higher than in the previous year.

The gross profit for the first half-year 2018 was € 7.1 million (previous year: € 5.0 million). The costs of sales comprise € 1.0 million (previous year: € 3.0 million) in idle capacity costs that resulted from under-utilization of existing capacities. Because these costs are not directly associated with the revenues recognized, they were corrected when determining adjusted gross profit. Adjusted gross profit for the first half-year 2018 was € 8.1 million (previous year: € 8.0 million). With a nearly unchanged adjusted gross profit and increased revenue, the adjusted gross profit margin decreased from 16.4% to 12.6%. The primary reasons for the decrease in the adjusted gross profit margin are the relatively high portion of project business with low margins and the very competitive industry situation, which has not changed. Current order backlog is characterized by projects won in a highly competitive environment with strong margin pressure. This also influenced the gross profit margin.

In comparison with the first six months of the 2017 financial year, sales expenses decreased by 14.7%, from € 7.5 million to € 6.4 million. Despite this decrease, sales expenses remained at a high level, even in industry comparisons. KHD consciously continued to invest in the expansion of sales activities in the 2018 financial year as well, particularly in the future-oriented markets in Sub-Saharan African. In comparison with the previous year, general and administrative expenses of € 6.4 million (previous year: € 7.2 million) have decreased by 11.1%. The further substantial decrease of these expenses points to the success of sustainable, active cost management. Other expenses also decreased from € 5.8 million to € 2.7 million. Besides € 0.9 million of expenses for research and development (previous year: € 1.2 million), other expenses also include exchange rate effects of € 1.3 million (previous year: € 2.8 million). From an economic perspective, other income resulting from exchange rate effects on foreign currency receivables (€ 0.9 million, previous year: € 0.5 million) and income from fair value adjustments of foreign exchange forward contracts (€ 0.1 million; previous year: € 0.7 million) should be offset against the expenses from exchange rate effects. Other expenses in the previous year also included expenses related to headcount reduction measures in the amount of € 1.3 million, which were eliminated as a one-time effect while determining the adjusted EBIT.

Earnings before interest and taxes (EBIT) improved considerably from € -14.1 million in the previous year to € -6.5 million, but the figure remains at an unsatisfactory level. Due to the increased revenue volume, the gross profit increased, in particular because of a better utilization of capacities. However, sustainable reduction of structural costs makes the most significant contribution to improving EBIT. In addition to the improvement in the absolute EBIT figure, the EBIT margin also increased from -29.0% in the previous year to -10.1%. Adjusted EBIT (after eliminating idle capacity costs and expenses related to headcount reduction) improved from € -9.8 million to € -5.5 million.

The net finance income of the Group decreased by € 0.9 million from € 4.4 million to € 3.5 million. Finance income of € 4.1 million (previous year: € 4.9 million), which includes interest received in the amount of € 2.9 million from two loans extended in the 2017 financial year to AVIC Kairong for a total amount of € 100.0 million, is offset by finance expenses of € 0.7 million (previous year: € 0.5 million). For the most part, the decrease of € 0.8 million in finance income results from repayments of interest-bearing receivables due from AVIC Beijing in the second half-year 2017. The reason for the increase in finance expense by € 0.2 million is primarily due to share price losses on securities held for trading.

The Group net result for the period was € -4.6 million (previous year: € -10.8 million), which translates into diluted and basic earnings per share of € -0.09 (previous year: € -0.22).

Segment Earnings Situation

Revenue in the Capex segment in the six-month period reached € 39.4 million (previous year: € 29.9 million). The considerable increase in revenue in the Capex segment is the result of increased order backlog in comparison with the same period in the previous year. The Plant Services segment also achieved a significant increase in revenue of € 6.0 million to € 24.8 million (previous year: € 18.8 million). This is equivalent to an increase of 31.9%.

In the reporting period, the Capex segment achieved nearly a zero gross profit – slightly less than the previous year's value. The reason that the gross profit margin remains unsatisfactory is primarily the orders with low margins due to intense competition in the industry. In the Plant Services segment, a gross profit of € 7.5 million was achieved (previous year: € 5.0 million). Idle capacity costs apply only to the Capex segment, so the adjusted gross profit for this segment is € 0.6 million (previous year: € 3.1 million). As a result, the adjusted gross profit margin in the Capex segment was 1.5% (previous year: 10.0%). Although the adjusted gross profit margin decreased in comparison with the previous year's value, it still remains in positive territory. The Plant Services segment achieved a pleasant increase in gross profit margin to 30.2% (previous year: 26.5%).

In the reporting period, the EBIT in the Capex segment was € -10.8 million, a considerable improvement with respect to the previous year's value (€ -15.5 million), but it remains at an unsatisfactory level and reflects the difficult economic conditions in the industry. The EBIT in the Plant Services segment of € 4.3 million also increased significantly in comparison with the previous year's value (€ 1.4 million), but it can offset the significantly negative result of the Capex segment only to a certain degree.

Financial Position and Net Assets

Liquidity

Total cash and cash equivalents fell slightly in the first half-year 2018. As of June 30, 2018, cash and cash equivalents amounted to € 78.5 million (end of 2017: € 84.1 million). Cash flow from operating activities in the amount of € -4.5 million is at about the previous year's level (€ -2.1 million).

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

Cash flow effect from operating activities for the half year 2018	in € thousand
Cash flow from customer contracts with revenue recognition over time	(11,503)
Cash flow from current liabilities/ invoices from subcontractors	4,093
Cash flow from changes in trade receivables	9,384
Cash flow from utilization of provisions and long term liabilities	856
Cash outflow from result (EBITDA)	(5,967)
Cash flow from tax payments made/ received	(2,263)
Other cash inflows and outflows	826
Cash flow from operating activities	**(4,574)**

Cash flow from investment activities of € 0.1 million (previous year: € 2.3 million) is below than the previous year's figure and primarily includes interest payments received for the loans extended to AVIC Kairong (€ 1.5 million) and cash outflow for investments in property, plant and equipment (€ 1.1 million). Cash outflow for investments in fixed assets applies primarily to the new production capacities in India. Cash flow from financing activities is the same as in the previous year, € -0.3 million, and can be attributed to the interest payments for a bank loan. Taking the effects of currency exchange rates in the amount of € -0.8 million into consideration, cash and cash equivalents as of June 30, 2018 amount to € 78.5 million (December 31, 2017: € 84.1 million).

Total Assets

The balance sheet total increased to € 284.1 million, a slight increase of € 1.5 million over that at the end of 2017 (€ 282.6 million). Due to the progressing execution for some projects, contract assets increased by € 5.6 million and advance payments to suppliers by € 7.6 million. However, this increase is offset in particular by the reduction in trade and other receivables (€ -6.4 million) as well as the bank balances (€ -5.6 million). Other current and non-current assets differed only slightly.

Financing

On the liabilities side, non-current liabilities remained unchanged for the most part in comparison with December 31, 2017, but current liabilities increased with respect to the end of 2017 (€ 106.8 million) by € 7.0 million to € 113.8 million. Trade and other payables increased by € 7.8 million to € 43.3 million as did current provisions, by € 4.8 million to € 18.7 million. In contrast, contract liabilities and advance payments received for customer contracts decreased by € 4.9 million to € 26.1 million.

At € -9.8 million the net working capital – the difference between current assets (less cash and cash equivalents and short-term loans) and current liabilities – remained nearly unchanged from the figure reported on December 31, 2017 (€ -9.0 million). On the one hand the reduction in current receivables and the increase in current liabilities freed up a total of € 14.2 million in the reporting period, on the other hand the contract assets and the advance payments increased by a total of € 13.2 million. As a result, these two opposing effects on the net working capital nearly balanced out.

Equity decreased by € 6.1 million from € 149.8 million to € 143.7 million. The reasons for this decrease were currency translation differences directly booked within equity of € -1.4 million and, in particular, the negative group net result for the period in the amount of € -4.6 million. Despite the reduction in equity, at 50.6% the equity ratio remains at a very good level.

Non-Financial Performance Indicators

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

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

The expenses for research and development in the KHD Group were € 0.9 million in the first half-year 2018 (previous year: € 1.2 million). Despite the current unsatisfactory result situation, KHD invested in targeted further development of its technology for cement plants. In addition to improving major plant components, the primary focus of research and development (R&D) is improving the efficiency of cement plants. Other crucial R&D topics include developing environmentally friendly products and solution concepts, with a particular emphasis on energy efficiency and emissions reduction, as well as using alternative fuels in cement plants. An important goal is to continue to minimize the CO_2 footprint associated with cement production in addition to reducing nitrogen oxide emissions (NO_X).

The KHD Group had 682 employees (excluding trainees) at the end of June 2018 (end of 2017: 666). The increase was primarily due to new recruitments in India, which resulted in a net increase in headcount in India (18 employees).

Report on Events after the Reporting Period

There were no substantial developments or events of particular significance after the balance sheet date June 30, 2018.

Risk and Opportunities Report

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

In comparison with the balance sheet date in 2017, there has been no significant change as of the date of this Half-Year Report in the assessment of risks and opportunities.

For a detailed description of the risks and opportunities, please refer to the relevant section in the KHD Group’s combined management report as of December 31, 2017 (page 53 et seq. of the Group Annual Report).

Outlook

According to the market research institute CW Research, global cement consumption is expected to increase in the years from 2018 to 2022 as a result of the ongoing worldwide macroeconomic recovery.

According to an analysis by HSBC Global Research, global demand for the cement is expected to gain momentum in 2018, with considerable growth in the USA and improved demand in the emerging countries. Information from the World Cement Association indicates that global cement consumption, not including China, will also increase by an expected 3.3% in 2018 due to the recovery in the industrialized countries of Europe and the USA. Despite the upturn, some markets such as Saudi Arabia and Russia will remain challenging. The perspectives for cement consumption in 2018 are also unfavorable in China because the construction boom has cooled off and the country is trying to reduce excess cement production.

The KHD Group confirms the outlook for the 2018 financial year provided in the 2017 annual report. This means that KHD continues to expect order intake and order backlog for the 2018 financial year that both will be higher than the previous year’s values (€ 182.5 million and € 168.3 million, respectively). Expected order intake in the 2018 financial year is nevertheless highly dependent on geopolitical factors as well as the financial options available to our customers for investment projects. As the recording of order intake, even for contracts already signed, is often based on the fulfillment of further conditions, there may well be shifts of order intake to the 2019 financial year.

The KHD Group also confirms the outlook for revenue, the adjusted EBIT and adjusted EBIT margin, i.e. these key figures will improve significantly over those for the 2017 financial year. The KHD Group expects that the currently negative earnings situation and expected cash outflows from projects will affect the operating cash flow, i.e. compared with the first half-year the entire 2018 financial year will show significant cash outflows.

Despite the considerably negative impacts resulting from the profit situation in the 2018 financial year, our outlook shows that KHD's financial and net asset position will remain stable. As the liquidity situation and the high equity ratio remain at a comfortable level, this provides us with the flexibility to successfully cope with difficult market phases as well as the current, unsatisfactory earnings situation. In spite of the unfavorable market and margin situation, KHD is convinced that the initiated reversal of the trend will continue successfully and that a break-even result will be achieved again in the medium term. Particularly critical for achieving this goal is improving the margins for newly awarded contracts, which shall be accomplished in particular by optimizing our project costs. We will continue to develop our service and product portfolio and use opportunities for internal and external growth.

Opportunities and Risks Relating to the Outlook for the Second Half-Year 2018

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

Significant risks and opportunities regarding the forecast values exist for order intake, particularly in the Capex segment. The awarding of individual large contracts to the KHD Group can significantly affect the order intake in the second half of the 2018 financial year. Despite close collaboration with customers during the tendering process, customer investment decisions and the awarding of individual projects to the KHD Group can only be forecast with substantial uncertainty, which can lead to either higher or lower order intake.

The revenue and earnings forecast is mainly based on order backlog in the Capex segment and on planning of the business in the Plant Services segment, which is significantly less cyclical. The risks and opportunities relating to the planned revenue and earnings figures are nevertheless significant in the second half-year of the 2018 financial year as well, since delays or accelerations in project execution, postponement of awarding projects included in the planned order intake and unexpected changes in the results of specific projects can affect these figures.

Cologne, Germany, August 14, 2018

The Management Board

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

INTERIM GROUP FINANCIAL STATEMENT

1 GROUP INCOME STATEMENT of KHD Humboldt Wedag International AG for the Period from January 1 to June 30, 2018

in € thousand	Jan. 1 - June 30, 2018	Jan. 1 - June 30, 2017
Revenue	64,122	48,747
Cost of sales	(57,035)	(43,717)
Gross profit	**7,087**	**5,030**
Other operating income	1,979	1,353
Sales expenses	(6,446)	(7,512)
General and administrative expenses	(6,369)	(7,248)
Other expenses	(2,736)	(5,766)
Profit before interest and taxes (EBIT)	**(6,485)**	**(14,143)**
Finance income	4,135	4,961
Finance expenses	(680)	(519)
Net finance income	**3,455**	**4,442**
Profit before tax (EBT)	**(3,030)**	**(9,701)**
Income tax expense	(1,561)	(1,147)
Group net result for the period	**(4,591)**	**(10,848)**
Of which are attributable to:		
Parent company shareholders	(4,598)	(10,835)
Non-controlling interests	7	(13)
	(4,591)	**(10,848)**

Earnings per Share

	Jan. 1 - June 30, 2018	Jan. 1 - June 30, 2017
Net profit attributable to shareholders (in € thousand)	(4,598)	(10,835)
Weighted average number of shares outstanding	49,703,573	49,703,573
Basic (undiluted) and diluted earnings per share (in €)	(0.09)	(0.22)

2 GROUP STATEMENT OF COMPREHENSIVE INCOME for KHD Humboldt Wedag International AG for the Period from January 1 to June 30, 2018

in € thousand	Jan. 1 - June 30, 2018	Jan. 1 - June 30, 2017
Group net result for the period	(4,591)	(10,848)
Items that will be reclassified subsequently to profit or loss when specific conditions are met		
Currency translation differences	(1,396)	(1,652)
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	(117)	-
Other comprehensive income	**(1,513)**	**(1,652)**
Group comprehensive income	**(6,104)**	**(12,500)**
Of which attributable to:		
Parent company shareholders	(6,111)	(12,487)
Non-controlling interests	7	(13)
	(6,104)	**(12,500)**

As in the previous year, no income taxes on currency translation differences were applicable. There are also, as in the previous year, no deferred tax assets or liabilities related to actuarial gains and losses.

3 GROUP BALANCE SHEET of KHD Humboldt Wedag International AG as of June 30, 2018

ASSETS	June 30, 2018	Dec. 31, 2017
in € thousand		
Non-current assets		
Property, plant and equipment	8,812	6,513
Goodwill	5,162	5,162
Other intangible assets	1,085	897
Trade and other receivables	9,239	10,650
Other financial assets	100,005	100,005
Deferred tax assets	2,270	2,474
Total non-current assets	**126,573**	**125,701**
Current assets		
Inventories	3,411	3,935
Contract assets	9,458	3,822
Trade and other receivables	49,215	55,553
Payments made in advance	15,328	7,719
Other financial assets	1,280	1,367
Income tax assets	311	414
Cash and cash equivalents	78,513	84,127
Total current assets	**157,516**	**156,937**
Total assets	**284,089**	**282,638**

EQUITY AND LIABILITIES	June 30, 2018	Dec. 31, 2017
in € thousand		
Equity		
Subscribed capital	49,704	49,704
Capital reserves	61,097	61,097
Currency translation differences recognized in equity	(8,032)	(6,636)
Retained earnings	39,582	44,296
Shares of equity attributable to shareholders of the parent company	142,351	148,461
Non-controlling interests	1,307	1,300
Total equity	**143,658**	**149,761**
Non-current liabilities		
Other liabilities	3,356	3,183
Pension benefit obligations	20,537	20,960
Deferred tax liabilities	-	199
Provisions	2,763	1,716
Total non-current liabilities	**26,656**	**26,058**
Current liabilities		
Trade and other payables	43,353	35,538
Borrowings	25,000	25,000
Contract liabilities and advance payments received	26,067	30,968
Income tax liabilities	684	1,461
Provisions	18,671	13,852
Total current liabilities	**113,775**	**106,819**
Total equity and liabilities	**284,089**	**282,638**

4 GROUP STATEMENT OF CASH FLOWS for KHD Humboldt Wedag International AG for the Period from January 1 to June 30, 2018

in € thousand	Jan. 1 - June 30, 2018	Jan. 1 - June 30, 2017
Cash flow from operating activities		
Group net result for the period	(4,591)	(10,848)
Income tax expense recognized in the income statement	1,561	1,147
Net finance income recognized in the income statement	(3,455)	(4,442)
Earnings before interest and taxes (EBIT)	**(6,485)**	**(14,143)**
Amortization and depreciation of non-current assets	518	820
Book gain (-) / loss on disposal of fixed assets	(95)	(2)
Increase(-)/decrease in trade receivables and financial assets	8,157	34,616
Increase (-) / decrease in inventories and contract assets	(4,683)	2,488
Increase (-) / decrease in payments made in advance and other financial assets	(7,522)	(2,002)
Increase (+) / decrease in trade and other payables and contract liabilities and advance payments received	7,668	(20,373)
Increase (+) / decrease in pension benefit obligations	(423)	(540)
Increase (+) / decrease in provisions and non-current liabilities	856	(2,014)
Other non-cash-transactions	(856)	(532)
Interest received	559	1,732
Interest paid	(5)	(15)
Income tax received	88	-
Income tax paid	(2,351)	(2,158)
Cash flow from operating activities	**(4,574)**	**(2,123)**
Cash flow from investing activities		
Cash outflow for intangible assets	(325)	(162)
Cash outflow for property, plant and equipment	(1,149)	(576)
Cash inflow from the disposal of property, plant and equipment	109	4
Interest received from intercompany loans	1,462	3,017
Cash flow from investing activities	**97**	**2,283**

in € thousand	Jan. 1 - June 30, 2018	Jan. 1 - June 30, 2017
Cash flow from financing activities		
Interest paid for loans	(265)	(264)
Cash flow from financing activities	**(265)**	**(264)**
Change in unrestricted cash and cash equivalents	**(4,742)**	**(104)**
Opening balance of unrestricted cash and cash equivalents	84,041	77,989
Exchange rate effects	(786)	(1,025)
Closing balance of unrestricted cash and cash equivalents	**78,513**	**76,860**

in € thousand

	June 30, 2018	June 30, 2017
Composition of unrestricted cash and cash equivalents		
Current bank accounts and cash	59,576	51,283
Short-term bank deposits and restricted cash	18,937	25,663
Total cash and cash equivalents	**78,513**	**76,946**
Restricted cash (collateral for bank guarantees)	-	(86)
Closing balance of unrestricted cash and cash equivalents	**78,513**	**76,860**

5 GROUP STATEMENT OF CHANGES IN EQUITY der KHD Humboldt Wedag International AG

for the Period from January 1 to June 30, 2018

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, 2016 / Jan. 1, 2017	**49,704**	**61,097**	**-**	**(3,370)**	**63,411**	**170,842**	**1,379**	**172,221**
Group net loss for the period	-	-	-	-	(10,835)	(10,835)	(13)	**(10,848)**
Currency translation differences	-	-	-	(1,652)	-	(1,652)	-	**(1,652)**
Group comprehensive income	**-**	**-**	**-**	**(1,652)**	**(10,835)**	**(12,487)**	**(13)**	**(12,500)**
Other changes	-	-	-	-	(1)	(1)	1	-
June 30, 2017	**49,704**	**61,097**	**-**	**(5,022)**	**52,575**	**158,354**	**1,367**	**159,721**
Group net loss for the period	-	-	-	-	(8,457)	(8,457)	(64)	**(8,521)**
Actuarial gains and losses*	-	-	-	-	178	178	(2)	**176**
Currency translation differences	-	-	-	(1,614)	-	(1,614)	-	**(1,614)**
Group comprehensive income	**-**	**-**	**-**	**(1,614)**	**(8,279)**	**(9,893)**	**(66)**	**(9,959)**
Other changes	-	-	-	-	-	-	(1)	(1)
Dec.31, 2017	**49,704**	**61,097**	**-**	**(6,636)**	**44,296**	**148,461**	**1,300**	**149,761**
Group net loss for the period	-	-	-	-	(4,598)	(4,598)	7	(4,591)
Actuarial gains and losses*	-	-	-	-	(117)	(117)	-	(117)
Currency translation differences	-	-	-	(1,396)	-	(1,396)	-	(1,396)
Group comprehensive income	**-**	**-**	**-**	**(1,396)**	**(4,715)**	**(6,111)**	**7**	**(6,104)**
Other changes	-	-	-	-	1	1	-	1
June 30, 2018	**49,704**	**61,097**	**-**	**(8,032)**	**39,582**	**142,351**	**1,307**	**143,658**

* The recognition of actuarial gains and losses is disclosed in other comprehensive income while taking the related deferred tax assets and deferred tax liabilities into consideration.

6 NOTES TO THE GROUP FINANCIAL STATEMENTS of KHD Humboldt Wedag International AG as of June 30, 2018

1. Group Structure and Affiliated Companies

KHD Humboldt Wedag International AG (“KHD” or “Group”) is one of the world’s leading providers of equipment and services for cement producers. In its capacity as the managing holding company of the Group, KHD holds a 100% interest in KHD Humboldt Wedag GmbH, Cologne/Germany on June 30, 2018, unchanged since December 31, 2017. The core business areas of KHD’s 12 Group companies are industrial plant engineering and providing related services. The strategic and operational focus of the Group entities is on planning and constructing plants for the cement industry and providing a comprehensive range of services.

2. Reporting Principles

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

These consolidated financial statements and the Group management report for the first half-year 2018 were neither audited pursuant to Section 317 of the German Commercial Code (HGB) nor were they subjected to an auditor’s review.

The accounting and measurement methods applied in these interim financial statements are consistent with those applied as of December 31, 2017, unless changes are described. The methods are described in detail in KHD’s Group Annual Report on the IFRS consolidated financial statements as of December 31, 2017 on page 81 et seq.

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

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

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

The KHD Group operates in the area of plant engineering and construction. Contracts in this area are frequently customer contracts with revenue recognition over time. In these cases, KHD determines the result and revenue according to the stage of completion based on the proportion of contract costs already incurred for the project to the estimated total contract costs, i.e. an input method is applied. In the result, the revenue recognition over time for customer contracts is equivalent to the recognition of profit according to the percentage of completion method (POC-method) based on the stage of completion. An expected loss from customer contracts with revenue recognition over time is immediately recorded as an expense. When revenue is recognized over time, the estimate of the stage of completion is particularly important. Significant estimates include, in particular, overall project costs, overall contract revenues, contract risks and other relevant figures. According to the POC-method, changes in estimates can lead to an increase or decrease in revenue.

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

3. Applying New or Revised International Financial Reporting Standards

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

Initial Adoption of Recently Published Standards

In this reporting period, KHD is applying IFRS 15 for the first time, retrospectively to January 1, 2018. The previous year's figures were not adjusted because KHD is using the option for a simplified modified first time adoption. As explained previously in KHD's IFRS consolidated financial statements of December 31, 2017, IFRS 15 introduces a unified, principle-based model for determining and recognizing revenue. In future, for contracts with customers who were previously subject to IAS 11, KHD shall apply the rules for customer contracts with revenue recognition over time based on an input method (proportion of contract costs already incurred for the project to the estimated total contract costs). The following effects resulted from the initial adoption:

- Since January 1, 2018, KHD no longer discloses the line items "Gross amount due from customers for contract work" and "Commitments under construction contracts" in the Group Balance Sheet. Because the content of these balance sheet line items is equivalent to the line items "Contract assets" and "Contract liabilities and advance payments received" as required according to IFRS 15 terminology, the line items were renamed accordingly in the column for the previous year. Both line items are a direct result of revenue recognition over time. The balance sheet line item "Contract assets" does not differ from the previous line item "Gross amount due from customers for contract work" in that it includes KHD's claim to compensation from customer contracts in exchanges for goods or services transferred (in an economic sense) to the customer. Accordingly, the line item "Contract liabilities" includes the obligations of KHD based on customer contracts to transfer goods or services for which the customer has made compensation or for which KHD already has an unconditional claim to specific compensation (i.e. a receivable). The balance sheet includes a summary of the contract liabilities with the advance payments received in the line item “Contract liabilities and advance payments received”.

- Changes made due to the adoption of IFRS 15 as of January 1, 2018 that are relevant to measurement pertain to the recognition of cost of obtaining a contract. Starting on January 1, 2018, the cost of obtaining a contract must be recognized as a separate asset, which must be depreciated on a pro-rata basis over the period of the respective project. At KHD, the cost of obtaining a contract pertains primarily to commission for representatives. While these costs have been recorded in the past as part of the order costs at the beginning of a project, starting on January 1, 2018, IFRS 15 requires that commissions be recognized separately as intangible assets. The costs for obtaining contracts, which are to be reported as an intangible asset, are approx. € 0.1 million as of January 1, 2018. The effect on gross profit margin as a result of recognizing and depreciating the intangible asset is not significant in comparison with the previous classification system.

- Changes in reporting due to the application of IFRS 15 affect commitments from onerous customer contracts. Starting on January 1, 2018, losses from onerous customer contracts must be reported exclusively according to the rules of IAS 37, not as part of contract assets or contract liabilities. Until December 31, 2017, the expected losses for ongoing projects were not reported separately; instead, they were recognized in the determination of the gross amount due from customers for contract work or the gross amount due to customers for contract work (project-specific contractual net position). As a result of this change in disclosure, as of January 1, 2018 the provisions also include commitments from onerous customer contracts in the amount of € 5.2 million, which were still recognized as of December 31, 2017 as part of the gross amount due to customers for contract work (€ 4.7 million) or as an offset item under gross amount due from customers for contract work (€ 0.4 million).

As of January 1, 2018, KHD has adopted IFRS 9, “Financial Instruments”. KHD is using the option for a simplified and modified first time adoption. The corresponding figures from the previous year were not adjusted. There were no significant effects on KHD’s Group Financial Statements with regard to the initial adoption of IFRS 9 as of January 1, 2018.

Published Standards for which Application is not yet required

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. For further information regarding the content of the fundamentally new conception of lease reporting, please see section 1 of the Group notes to the 2017 Group Financial Statements. KHD analyzed the effects on the presentation of the net assets, financial position and result of operations and the implementation of the new rules is moving forward. Based on these analyses, KHD would report lease liabilities and lease-related rights of use of approx. € 5 million – assuming IFRS 16 were applied already as of June 30, 2018. Significant effects on the result are not expected.

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

- In February 2018, the IASB published an amendment to IAS 19: “Plan Amendment, Curtailment or Settlement”. The changes are to be applied for reporting periods that begin on or after January 1, 2019. Endorsement into EU law is pending.

- In March 2018, the IASB published a revised conceptual framework for financial reporting. The revised framework is to be applied for reporting periods that begin on or after January 1, 2020. Endorsement into EU law is pending. The revised conceptual framework includes definitions of assets and debts and new guidelines for measurement and de-recognition, disclosure and notes.

KHD does not currently expect any significant effects on the Group’s net assets, financial position, and result of operations due to these two changes. For further information regarding standards, interpretations and amendments that have been published, but are not yet applicable, please see section 1 of the Group notes to the 2017 Group Financial Statements.

4. Consolidation

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

Besides KHD AG, the Group includes:

Name of company	Registered office	Main Business	Capital and voting rights in % June 30, 2018	Capital and voting rights in % Dec. 31, 2017		Currency	Subscribed capital June 30, 2018	Subscribed capital Dec. 31, 2017
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	2.100.000
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

5. Segment Reporting

For KHD, reporting is done in two separate segments. Segment reporting is oriented towards internal Group management and control as well as internal financial reporting, i.e. it is based on the management approach. The business activities of the two reportable segments include the following services:

- **Capex (project business)**
  In the Capex segment, the KHD Group reports all revenues and expenses resulting from supplying equipment for cement plants and providing services that are directly linked to the equipment supply. This encompasses process technology, design, engineering, project management and the supply of technology and equipment. In addition, supervision of erection and commissioning of cement plants are 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, or rather, adjusted EBIT).

The following table provides an overview of the business for the 2018 and 2017 financial half-years.

in € thousand	**Capex** **Jan. 1-June 30, 2018**	**Plant Services** **Jan. 1-June 30, 2018**	**Total Group** **Jan. 1-June 30, 2018**	**Capex** **Jan. 1-June 30, 2017**	**Plant Services** **Jan. 1-June 30, 2017**	**Total Group** **Jan. 1-June 30, 2017**
Order intake	60,800	25,411	86,211	60,775	18,527	79,302
Revenue	39,350	24,772	64,122	29,925	18,822	48,747
Cost of sales	(39,750)	(17,285)	(57,035)	(29,879)	(13,838)	(43,717)
Gross profit	(400)	7,487	7,087	46	4,984	5,030
Other income	1,979	-	1,979	1,353	-	1,353
Sales expenses	(4,577)	(1,869)	(6,446)	(5,585)	(1,927)	(7,512)
General and administrative expenses	(5,075)	(1,294)	(6,369)	(5,847)	(1,401)	(7,248)
Other expenses	(2,736)	-	(2,736)	(5,512)	(254)	(5,766)
Earnings before interest and taxes (EBIT)	(10,809)	4,324	(6,485)	(15,545)	1,402	(14,143)
Net finance income			3,455			4,442
Profit before tax			(3,030)			(9,701)
<u>for information:</u> depreciation and amortization	-		*(518)*	-		*(820)*

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

In its segment reporting, the KHD Group reports only revenue from external customers, i.e. revenue between the two segments is eliminated. Currently, the segments do not recognize revenue with the respective, other segment.

Revenue for the Capex segment includes license revenue in the amount of € 0.5 million (previous year: € 0.5 million). Due to contract conditions, the Capex segment recognizes revenue primarily over a period of time. The Plant Services segment recognizes revenue from spare parts business primarily at a specific point in time. Services in the Plant Services segment are also recognized over time.

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

	Revenue		Non-current assets	
in € thousand	Jan. 1- June 30, 2018	Jan. 1- June 30, 2017	June 30, 2018	Dec. 31, 2017
India	26,948	19,909	6,370	4,054
Rest of Asia	10,087	6,294	5	7
Rest of Europe	6,173	2,123	-	-
Russia	5,458	1,499	3,036	3,037
North America	4,516	6,404	40	69
Africa	4,363	4,641	-	-
Middle East	3,913	4,770	-	-
South America	1,621	727	6	10
Germany	595	1,546	5,597	5,387
China	182	435	5	8
other	266	399	-	-
	64,122	**48,747**	**15,059**	**12,572**

	Order Intake		Order Backlog	
in € thousand	Jan. 1- June 30, 2018	Jan. 1- June 30, 2017	June 30, 2018	Dec. 31, 2017
Rest of Asia	28,679	15,957	59,403	40,317
India	16,850	19,785	27,157	39,296
South America	14,524	-	13,011	360
Middle East	11,969	4,045	13,602	6,303
Africa	5,392	31,735	35,801	34,963
North America	2,591	2,235	3,289	6,418
Germany	2,115	1,094	2,046	298
Rest of Europe	2,105	1,964	21,412	24,582
Russia	1,246	1,862	8,369	12,719
China	705	625	1,604	2,797
Other	35	-	8	242
	86,211	**79,302**	**185,702**	**168,295**

6. Contract Assets and Contract Liabilities and Advance Payments Received

Starting on January 1, 2018, claims or obligations from customer contracts with revenue recognition over time are disclosed under the balance sheet items “Contract assets” or “Contract liabilities and advance payments received”. In the measurement of contracts with revenue recognition over time, cost of sales plus proportionate profits depending on the stage of completion less progress billings are taken into consideration. Starting on January 1, 2018, expected contract losses are no longer disclosed as part of the project-specific contract assets and contract liabilities, but are instead disclosed under provisions.

in € thousand	**June 30, 2018**	**Dec. 31, 2017**
Costs incurred to date for construction contracts with revenue recognition over time	98,389	72,319
Proportionate results under these contracts recognized to date	10,652	8,284
Total costs incurred and profits recognized	109,041	80,603
Less recognized contract losses	-	(8,290)
Less progress billings	(124,243)	(95,066)
Balance of contract assets and contract liabilities	**(15,202)**	**(22,753)**
This amount is comprised as follows:		
Contract assets	9,458	3,822
Contract liabilities	(24,660)	(26,575)
	(15,202)	**(22,753)**
Disclosure on the liabilities side of the balance sheet		
Contract liabilities	(24,660)	(26,575)
Advance payments received	(1,407)	(4,393)
Contract liabilities and advance payments received	**(26,067)**	**(30,968)**

The net position of contrast assets and contract liabilities and advance payments received increased by € 7,551 thousand from € -22,753 thousand to € -15,202 thousand, primarily due to the change in disclosure of the expected contract losses. Of the revenue of € 64,122 thousand recognized in the reporting period (previous year, as of June 30, 2017: € 48,747 thousand), € 45,897 thousand is attributable to customer contracts with revenue recognition over time based on the stage of completion (previous year, as of June 30, 2017: € 29,298 thousand).

The measurement of customer contracts with revenue recognition over time is affected by estimations with respect to project revenue and project costs. Here, particularly in terms of the additional incurred costs up to completion and, therefore, the total project costs, changes in estimates can occur. Changes in estimates for projects are recorded in the calculation of the amount for earnings and expenses in the profit or loss for the period in which the change was made as well as in the following periods. In this way, changes in estimates have a direct effect on the recognized result from customer contracts with revenue recognition over time. There were no negative effects from changes in estimates in the first half-year of 2018.

7. Cash and Cash Equivalents

The Group discloses cash and cash equivalents in the amount of € 78,513 thousand (previous year, as of December 31, 2017: € 84,127 thousand).

in € thousand	**June 30, 2018**	**Dec.31, 2017**
Bank balances and cash on hand	59,576	62,833
Short-term bank deposits	18,937	21,208
Restricted cash (collateral for guarantees)	-	86
	78,513	**84,127**

8. Other Expenses

in € thousand	Jan. 1 - June 30, 2018	Jan. 1 - June 30, 2017
Research and development	899	1,153
Exchange rate losses and expenses from derivatives	1,322	2,786
Miscellaneous expenses	515	1,827
	2,736	**5,766**

Other expenses in the corresponding period in the previous year included expenses associated with headcount reduction measures in the amount of € 1,295 thousand.

9. Income Tax Expenses

The expenses booked in the first half-year 2018 for income taxes amount to € 1,561 thousand (previous year, as of June 30, 2017: € 1,147 thousand). The income tax expense is composed as follows:

in € thousand	Jan. 1 - June 30, 2018	Jan. 1 - June 30, 2017
Current tax expense	1,636	532
Deferred tax expense / income	(75)	615
Tax expense for the year	**1,561**	**1,147**

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

10. Transactions with Related Parties

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

Relationships to Indirect Parent Companies

There has been a cooperation agreement with AVIC Beijing since 2010, reinforced since February 2011 by the capital interest in KHD amounting to 20% that is held by Max Glory Industries Limited (Max Glory), an AVIC Beijing group company. As a consequence of a public takeover offer, AVIC Beijing further increased its indirect share in KHD in the 2014 financial year. As of June 30, 2018, AVIC Beijing indirectly holds the majority of KHD shares with 89.02%. Among others, the strategic partnership between AVIC Beijing and KHD resulted in joint projects in Malaysia, Venezuela, Turkey and Angola.

Relationships to other Related Companies

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 extended in July 2017, KHD has the right to demand repayment at any time before the due date with a notification period of 30 days. 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 disclosed under the other non-current financial assets because the remaining term of the loans is greater than 12 months.

The following transactions took place with related companies in the first half-year 2018:

Income

in € thousand	Jan. 1 - June 30,2018	Jan. 1 - June 30,2017
Indirect parent company	217	2,319
Other related companies	2,941	3,017
	3,158	5,336

Income with indirect parent companies primarily relates to interest income on receivables due to a deferred payment agreement with AVIC Beijing. Only interest income from the loans extended to AVIC Kairong in the amount of € 2,941 thousand is reported under income with other affiliated companies.

Expenses for project business with indirect parent companies amounted to € 105 thousand in the first half-year (previous year: € 0). There were no expenses with other related entities in this reporting period (previous year: € 0).

Current Assets

in € thousand	**June 30, 2018**	**Dec.31, 2017**
Indirect parent company	4,407	11,047
Other related companies	1,709	2,809
	6,116	13,856

As of June 30, 2018, current assets due from the companies of the AVIC Group amounted to € 6,116 thousand (previous year, as of December 31, 2017: € 13,856 thousand). These assets result exclusively from project receivables (including advance payments made), interest receivables and refund claims.

Non-current Assets

Non-current assets include loans granted to other related companies for a total of € 100,000 thousand (previous year, as of December 31, 2017: € 100,000 thousand).

Liabilities

in € thousand	**June 30, 2018**	**Dec.31, 2017**
Indirect parent company	1,789	2,025
Other related companies	-	-
	1,789	2,025

Liabilities due to indirect parent companies amount to € 1,789 thousand (previous year, as of December 31, 2017: € 2,025 thousand).

11. Additional Notes on Financial Instruments

List of Financial Assets and Liabilities by Category

June 30, 2018	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 June 30, 2018	Fair value June 30, 2018
Non-current financial assets	-	-	109,244	-	-	-	-	109,244	109,579
Trade receivables	-	-	36,910	-	-	-	-	36,910	-
Related party receivables	-	-	3,361	-	-	-	-	3,361	-
Contract assets	-	-	9,458	-	-	-	-	9,458	-
Other financial assets	-	1,194	-	-	-	-	-	1,194	1,194
Derivatives	-	22	-	-	-	-	-	22	22
Other receivables	-	-	5,381	3,541	-	-	-	8,922	-
Cash and cash equivalents	-	-	78,513	-	-	-	-	78,513	-
assets	**-**	**1,216**	**242,867**	**3,541**		**-**	**-**	**247,624**	**110,795**
Financial liabilities	-	-	-	-	-	90	-	90	-
Loan	-	-	-	-	-	25,000	-	25,000	-
Contract liabilities	-	-	-	-	-	24,660	-	24,660	-
Other liabilities	-	-	-	-	-	4,704	3,356	8,060	-
Derivatives	-	-	-	-	405	-	-	405	405
Trade payables	-	-	-	-	-	34,093	-	34,093	-
Total financial liabilities	**-**	**-**	**-**	**-**	**405**	**88,547**	**3,356**	**92,308**	**405**

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	-
Contract assets	-	-	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	-
Contract liabilities	-	-	-	-	26,575	26,575	-	53,150	-
Other liabilities	-	-	-	-		4,757	3,183	7,940	-
Derivatives	-	-			144			144	144
Trade payables	-	-	-	-		30,000	-	30,000	-
Total financial liabilities	**-**	**-**	**-**	**-**	**26,719**	**86,422**	**3,183**	**116,324**	**144**

As long as there is no explicit disclosure, the carrying amounts reported on June 30, 2018 correspond to the fair values.

The fair values for the financial assets and liabilities held for trading purposes and for the long term guaranteed loan to AVIC Kairong accounted for with respect to amortized costs are classified within the hierarchy described below:

- 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 values for the loan receivables from AVIC Kairong and for the loan liability from the Bank of China are 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)**
	June 30, 2018	**Dec. 31, 2017**			
Derivatives	Financial assets: € 22 thousand Financial liabilities: € 405 thousand	Financial assets: € 747 thousand Financial liabilities: € 144 thousand	level 2	Discounted cash flow	N/A
Securities	Financial assets: € 1,280 thousand	Financial assets: € 1,367 thousand	level 1	listed price on active market	N/A
Loan	Financial assets: € 100,335 thousand Financial liabilities: € 25,000 thousand	Financial assets: € 99,787 thousand Financial liabilities: € 25,000 thousand	level 3	Discounted cash flow	Credit risk of the borrower

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

12. Other Information

Within the scope of its normal business activities, the KHD Group has contingent liabilities due to advance guarantees, performance bonds, and guarantees for warranty obligations. The Group does not anticipate any material liabilities due to these commitments. The arranged bank guarantee credit facilities allow individual KHD Group companies to provide bank guarantees for its customers worldwide. Within the scope of these bank guarantee credit facilities, the Group has provided bank guarantees in the amount of € 45.0 million (previous year, as of December 31, 2017: € 33.2 million).

13. Responsibility Statement

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

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

Cologne, Germany, August 14, 2018

The Management Board

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