

2018

Financial Statements



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List of Abbreviations

AVIC	AVIC International Holding Corporation, Beijing, People's Republic of China
AVIC Beijing	AVIC International Beijing Company Limited, Beijing, China
AVIC Kairong	AVIC International Kairong Limited, Hongkong, Hongkong
Blake	Blake International Ltd., Road Town, British Virgin Islands
HW	Humboldt Wedag GmbH, Cologne, Germany
HWAUS	Humboldt Wedag Australia Pty Ltd., Braeside, Australien
HW Do Brasil	Humboldt Wedag Do Brasil Servicos Technicos Ltda., Belo Horizonte, Brasilia
HW Inc.	Humboldt Wedag, Inc., Norcross / Georgia, USA
HW India	Humboldt Wedag India Private Ltd., Neu Delhi, India
HW Malaysia	Humboldt Wedag Malaysia Sdn. Bhd., Kuala Lumpur, Malaysia
KHD	KHD Humboldt Wedag International AG, Cologne, Germany
KHD Beijing	KHD Humboldt Wedag Machinery Equipment (Beijing) Co. Ltd., Beijing, People's Republic of China
KHD HW	KHD Humboldt Wedag GmbH, Cologne, Germany
KHD OOO	KHD Humboldt Engineering OOO, Moscow, Russia
KHD VV	KHD Humboldt Wedag Vermögensverwaltungs-AG, Cologne, Germany
ZAB	ZAB Zementanlagenbau GmbH Dessau, Dessau, Germany

**Annual Report of
KHD Humboldt Wedag International AG
for the 2018 Financial Year**

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1 Combined Management Report of KHD Humboldt Wedag International AG and for the Group for the 2018 Financial Year

The management report and Group management report of KHD Humboldt Wedag International AG are combined in accordance with Section 315 Paragraph 5 in conjunction with Section 298 Paragraph 2 of the German Commercial Code (HGB) and published in the annual report of KHD Humboldt Wedag International AG for the 2018 financial year.

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

2 Balance Sheet of KHD Humboldt Wedag International AG as of December 31, 2018

Assets

	Dec. 31, 2018 in € thousand	Dec. 31, 2017 in € thousand
A. Fixed assets		
I. Property, plant and equipment		
Other plant, operating and office equipment	4	5
	<u>4</u>	<u>5</u>
II. Long-term financial investments		
1. Shares in affiliated companies	63,410	63,410
2. Long-term loans to affiliated companies	100,000	100,000
	<u>163,410</u>	<u>163,410</u>
	<u>163,414</u>	<u>163,415</u>
B. Current assets		
I. Receivables and other assets		
1. Receivables due from affiliated companies	134	10,128
2. Other assets	553	1,138
	<u>687</u>	<u>11,266</u>
II. Bank balances	<u>6,947</u>	<u>18,986</u>
	<u>7,634</u>	<u>30,252</u>
C. Prepaid expenses	310	313
	<u>171,358</u>	<u>193,980</u>

Equity and liabilities

	Dec. 31, 2018 in € thousand	Dec. 31, 2017 in € thousand
A. Equity		
I. Subscribed capital	49,704	49,704
II. Capital reserves	61,493	61,493
III. Revenue reserves		
1. Legal reserve	1,538	1,538
2. Other revenue reserves	1,768	1,768
	<u>3,306</u>	<u>3,306</u>
IV. Accumulated loss	-7,834	-8,705
	<u>106,669</u>	<u>105,798</u>
B. Provisions and accruals		
1. Accrual for taxes	305	953
2. Other provisions and accruals	666	804
	<u>971</u>	<u>1,757</u>
C. Liabilities		
1. Liabilities due to banks	25,059	25,090
those which have a residual term of up to one year: € 59 thousand (previous year: € 25,090 thousand)		
2. Trade payables	42	75
3. Liabilities due to affiliated companies	38,617	61,218
4. Other liabilities	0	42
of which tax liabilities € 0 thousand (previous year: € 42 thousand)		
	<u>63,718</u>	<u>86,425</u>
	<u>171,358</u>	<u>193,980</u>

3 Income Statement for the Period

from January 1, 2018 to December 31, 2018

	2018 in € thousand	2017 in € thousand
1. Revenues	1,993	2,515
2. Other operating income	912	1,244
of which from exchange rate gains		
€ 43.0 thousand (previous year: € 60. thousand)		
3. Cost of purchased services	344	339
4. Personnel expenses		
a) Wages and salaries	1,466	1,332
b) Social security expenses	31	37
	<u>1,497</u>	<u>1,369</u>
5. Amortization on other plant, operating and office equipment	3	3
6. Other operating expenses	1,721	4,039
of which from exchange losses		
€ 73 thousand (previous year: € 1,862 thousand)		
7. Income from long-term loans in financial assets	5,931	6,063
of which from affiliated companies		
€ 5,931 thousand (previous year: € 6,063 thousand)		
8. Other interest and similar income	275	1,006
of which from affiliated companies		
€ 275 thousand (previous year: € 1,006 thousand)		
9. Interest and similar expenses	4,123	4,458
of which to affiliated companies		
€ 3,330 thousand (previous year: € 3,646 thousand)		
10. Income taxes	552	279
of which deferred taxes		
€ 0 thousand (previous year: € -41 thousand)		
11. Earnings after taxes	871	341
12. Profit for the year	871	341
13. Loss carried forward from previous year	<u>-8,705</u>	<u>-9,046</u>
14. Accumulated loss	<u><u>-7,834</u></u>	<u><u>-8,705</u></u>

4 Notes to the Financial Statements 2018

4.1 General Remarks

Combined Management Report:

The management report of KHD Humboldt Wedag International AG (KHD), Cologne, and the Group management report are combined in accordance with Section 315 Paragraph 3 of the German Commercial Code (HGB) together with Section 298 Paragraph 3 of the HGB and published in the 2018 annual report of the KHD Group. The annual financial statements and the combined management report of KHD together with the Group management report for the 2018 financial year are submitted to the provider of the Federal Gazette where they are published. The annual financial statements of KHD and the Group annual report for the 2018 financial year are also available online at <http://www.khd.com/annual-report.html>.

Accounting

KHD is registered at the District Court Cologne under the Commercial Register number HRB 36688. The company maintains its head office at Colonia-Allee 3 in Cologne, Germany. The annual financial statements of KHD for the 2018 financial year have been prepared in accordance with the German Commercial Code (HGB) as applicable for large corporations and the provisions of the German Stock Corporation Act (AktG). All amounts, including figures used for comparison, are generally stated in thousands of euros (€ thousand), unless otherwise indicated. All amounts have been rounded according to normal commercial practice. The nature of expense method has been applied to the income statement. KHD is a large corporation in the meaning of Sections 267 Paragraph 3 and 264d of the German Commercial Code (HGB).

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

4.2 Accounting and Valuation Principles

The following accounting and valuation methods, which have essentially remained unchanged in comparison to the prior year, have been used to prepare the financial statements.

Fixed Assets

Property, plant, and equipment are measured at cost and, if depreciable, are depreciated over time. Movable items of property, plant, and equipment are depreciated according to the straight-line method based on the average useful life (between three and ten years) of the respective items. Movable assets with a net cost of acquisition of not more than € 250 (previous year: € 150) are written off completely in the year of acquisition and are notionally removed from the fixed assets register in the year of acquisition. Movable assets with a net cost of acquisition of between € 250 (previous year: 150) and € 1,000 are entered as a collective item in the manner described in Section 6 Paragraph 2a of the German Income Tax Act (EStG) and depreciated straight-line over a period of five years.

Shares in affiliated companies and loans to affiliated companies are recognized at cost. In case of probable permanent impairment, acquisition costs are amortized at the lower fair value. Pursuant to Section 253 Paragraph 3 Sentence 4 of the German Commercial Code (HGB), if impairment is not expected to be permanent, costs are not amortized. The approach to the participation carrying amounts is tested annually for impairment.

The assessment of the recoverability of the reported shares in affiliated companies and interests is based on five-year, medium-term planning. The fundamental planning is based on estimates and assumptions that are subject to uncertainty. To determine the fair values, the estimated future cash flows are discounted to their present value, taking as a basis an appropriate capitalization interest rate. This determination is made according to the principles of IDW RS HFA 10 (a statement of the IDW, the Institute of Public Auditors in Germany) using the German income approach.

Current Assets

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

Prepaid Expenses

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

Deferred Taxes

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

Equity

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

Provisions for Taxes

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

Other Provisions and Accruals

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

Liabilities

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

Currency Translation

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

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

Derivative Financial Instruments

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

The Company did not use the option to combine derivative financial instruments with underlying transactions as a single valuation unit in accordance with Section 254 of the German Commercial Code (HGB). As a result, the reporting for financial instruments is done in accordance with the general accounting and valuation principles.

4.3 Notes to the Balance Sheet and Income Statement

1. Fixed Assets

Please refer to the statement of movements in fixed assets between January 1 and December 31, 2018, which is attached as an appendix to the notes to the financial statements.

The financial assets include the shares in KHD Humboldt Wedag GmbH in the amount of € 63,410 thousand (previous year: € 63,410 thousand).

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

2. Receivables and Other Assets

Receivables due from affiliated companies totaling € 134 thousand (previous year: € 10,128 thousand) have decreased considerably in the 2018 financial year. The reason for this reduction is the receipt of payments on deferred receivables due from an indirect parent company, AVIC Beijing, in the current financial year. The receivables due from AVIC Beijing amounted to € 90 thousand (previous year: € 9,754 thousand) as of December 31, 2018.

The rest of the receivables due from affiliated companies primarily relates to receivables for services invoiced due from companies of the KHD Group as of December 31, 2018, based on the service and cost allocation agreement as well as the bond arrangement agreement amounting in total to € 44 thousand (previous year: € 373 thousand).

Other assets include a VAT credit in the amount of € 552 thousand (previous year: € 917 thousand). Within the tax unity for VAT are amounts payable to the subsidiaries HW and ZAB for reimbursement claims totaling € 535 thousand (previous year: € 861 thousand). Consequently, an identical amount is reported under liabilities due to affiliated companies.

All amounts have a residual term of up to one year.

3. Bank Balances

The reduction in credit balances at banks by € 12,039 thousand to € 6,947 thousand (previous year: € 18,986 thousand) is principally the result of a loan repaid to a subsidiary during the year.

4. Prepaid Expenses

The prepayment and deferred expense assets of € 310 thousand (previous year: € 313 thousand) remain nearly unchanged. These primarily represent assured guarantees that represent future expenses only.

5. Equity

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

Changes in Equity in the 2018 Financial Year

€ thousand	Subscribed capital	Capital reserves	Legal reserves	Other revenue reserves	Accumulated loss	Total
Status as of Dec. 31, 2017	49,704	61,493	1,538	1,768	-8,705	105,798
Net profit for the year 2018	0	0	0	0	871	871
Status as of Dec. 31, 2018	49,704	61,493	1,538	1,768	-7,834	106,669

Following the resolution of the Annual General Meeting of May 29, 2018, the accumulated loss reported as of December 31, 2017 was carried forward to new account. An accumulated loss of € 7,834 thousand as of December 31, 2018 is the result of the net profit for the year of € 871 thousand.

6. Provisions and Accruals

	Dec. 31. 2018 € thousand	Dec. 31. 2017 € thousand	Change € thousand
Provisions for taxes	305	953	-648
Other provisions and accruals	666	804	-138
	971	1,757	-786

Other provisions and accruals include provisions for personnel-related costs (€ 119 thousand, previous year € 292 thousand), for the preparation and audit of annual financial statements (€ 61 thousand, previous year: € 109 thousand) and for outstanding invoices (€ 486 thousand, previous year: € 403).

7. Liabilities

Under liabilities due to banks, KHD includes a loan taken out in November 2018. The bank loan taken out in October 2015 in the amount of € 25 million was repaid in October 2018.

The liabilities due to affiliated companies amount to € 38,617 thousand (previous year: € 61,218) and mainly result from loans extended by ZAB and HW amounting to a total of € 26,300 thousand (previous year: € 50,000 thousand). The loans taken out by the subsidiaries are used to finance a loan for € 50,000 thousand granted from KHD itself to AVIC Kairong. The subsidiaries were allowed nearly the same interest rate (6% per annum) that KHD obtained from its loan to AVIC Kairong. In addition to these two loans, further loans and credit lines were granted to KHD in the 2016 financial year by subsidiaries. KHD VV granted KHD a credit line of € 7 million in the 2016 financial year, of which € 5 million was utilized. Utilizing the credit line incurs interest at 6% p.a. In addition, KHD HW extended KHD a credit line in the amount of € 12 million, of which € 6.9 million was utilized as of December 31, 2018. Utilizing the credit line incurs interest at 5.7% p.a. Moreover, liabilities due to affiliated companies also relate to liabilities due to HW and ZAB arising from the tax unity for VAT as well as liabilities from the exchange of services.

Liabilities due to banks in the amount of € 25 million have a remaining term of more than one year and less than five as of December 31, 2018, while all other liabilities have a remaining term of up to one year. In the previous year, liabilities to banks had a remaining term of up to one year.

8. Contingent Liabilities

KHD has provided € 13.9 million (previous year: € 135.9 million) to affiliated companies in the form of Group guarantees, letters of comfort, and securities. Thereof contingent liabilities arising from sureties as well as draft and check guarantees amount to € 0.3 million (previous year: € 0.3 million), and contingent liabilities arising from warranty guarantees amount to € 13.6 million (previous year: € 135.6 million).

Furthermore, as of December 31, 2018, € 45,290 thousand (previous year: € 33,153 thousand) relate to contingent liabilities to banks resulting from bank guarantees that the Company has provided to KHD Group companies under existing bank guarantee credit facilities. The contingent liabilities to banks comprised of sureties as well as draft and check guarantees amount to € 2,718 thousand (previous year: € 903 thousand), and contingent liabilities arising from warranty guarantees amount to € 42,572 (previous year: € 32,250 thousand).

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

DEUTZ AG, Cologne, Germany, has provided a deed of release of € 68 thousand (previous year: € 105 thousand) to cover KHD's subsidiary liability due to Unterstützungsgesellschaft mbH of Maschinenfabrik Fahr AG. Arising from this matter, HypoVereinsbank AG, Munich, Germany, a company of the UniCredit Group, has provided a letter of comfort that secures the settlement by DEUTZ AG.

9. Other Financial Obligations

Other financial obligations amounting to € 256 thousand (previous year: € 382 thousand) relate to obligations arising from consulting contracts (€ 231 thousand; previous year: € 363 thousand) and leasing contracts (€ 25 thousand; previous year: € 19 thousand) with a remaining term of up to three years.

10. Revenue

Revenue includes income from charges for the supply of centralized services to affiliated companies pursuant to the service and cost allocation agreement in the amount of € 1,411 thousand (previous year: € 1,366 thousand) and financial services pursuant to the bond arrangement agreement in the amount of € 582 thousand (previous year: € 1,149 thousand).

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

Revenue based on region	2018 € thousand	2017 € thousand	Change € thousand
Germany	1,015	775	240
India	690	642	48
USA	269	1,070	-801
China	15	26	-11
Malaysia	2	1	2
Russian Federation	2	1	0
	<u>1,993</u>	<u>2,515</u>	<u>-521</u>

11. Other Operating Income

Other operating income primarily includes prior period income from the release of other provisions in the amount of € 251 thousand (previous year: € 691 thousand), income from exchange rate forward contracts in the amount of € 600 thousand (previous year: € 465 thousand), and exchange rate gains of € 43 thousand (previous year: € 60 thousand).

12. Costs of Purchased Services

KHD reports expenses for purchased services in the amount of € 344 thousand (previous year: € 339 thousand). These expenses include third-party services relating to intragroup revenue.

13. Personnel Expenses

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

14. Amortization

Amortization in the 2018 financial year includes depreciation on other plant, operating, and office equipment in the amount of € 3 thousand (previous year: € 3 thousand).

15. Other Operating Expenses

Other operating expenses comprise the following:

	2018	2017	Change
	€ thousand	€ thousand	€ thousand
Group charges	831	1,360	-529
Audit fees / tax advisory costs	209	221	-12
Supervisory Board compensation	180	196	-16
Legal and consulting costs	97	84	13
Exchange rate losses	73	1,862	-1,789
Investor relations	30	31	-1
Other	301	285	16
	<u>1,721</u>	<u>4,039</u>	<u>-2,318</u>

The reduction in Group charges of € 529 thousand to € 831 thousand is primarily due to lower expenses calculated by HW for the services provided, based on the Service & Cost Allocation Agreement. The exchange rate losses in the previous year totaling € 1,862 thousand were due to the deferred receivable in foreign currency due from AVIC Beijing and were considered together, financially, with the income from foreign exchange forward contracts in the amount of € 465 thousand.

16. Interest Income/Expense

	2018	2017	Change
	€ thousand	€ thousand	€ thousand
Interest from long-term loans in financial assets	5,931	6,063	-132
Other interest and similar income	275	1,006	-731
Interest and similar expenses	-4,123	-4,458	335
	<u>2,083</u>	<u>2,611</u>	<u>-528</u>

The income from long-term loans in financial assets includes interest income in the amount of € 5,931 thousand (previous year: € 1,730 thousand) from two loan contracts of € 50 million each, which KHD concluded with AVIC Kairong in July and November, respectively, in the 2017 financial year. The loans bear interest of 6% and 5.7% p.a., respectively, and both have a term of three years. For the loan extended in July 2017, KHD has the right to demand repayment at any time before the due date with a notification period of 30 days.

Other interest and similar income includes interest from the deferral agreement concluded with AVIC Beijing in the 2016 financial year in the amount of € 275 thousand (previous year: € 1,006 thousand).

Interest and similar expenses include interest expenses in the amount of € 2,658 thousand (previous year: €3,042 thousand) for the loans granted to HW and ZAB in the 2014 financial year. The subsidiaries were allowed nearly the same interest rate (6% per annum) that KHD obtained from its loan to AVIC Kairong. This also includes interest in the amount of € 451 thousand (previous year: € 604 thousand) for the additional loans granted by HW and KHD VV. Two additional credit lines of € 12 million each were concluded with ZAB and KHD Humboldt Wedag GmbH (KHD HW) in October 2018. The loan from ZAB, with a term that ended December 31, 2018 at an interest rate of 5.7%, was utilized to its full extent in October 2018 and repaid to ZAB in December 2018. KHD utilized € 6.9 million of the credit line from KHD HW in October. This loan shall also incur interest of 5.7% until further notice. For these loans, ZAB was credited with interest of € 129 thousand and KHD HW with interest of € 92 thousand. The interest expenses from a bank loan in the amount of € 475 thousand (previous year: € 534 thousand) as well as bank guarantee fees in the amount of € 309 thousand (previous year: € 278 thousand) are also reported under interest and similar expenses.

17. Income Tax Expense

Income tax expense totaled € 552 thousand (previous year: € 279 thousand) and include tax income from previous years amounting to € 48 thousand (previous year: tax income € 7 thousand).

18. Other Information

Employees

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

Financial Instruments

The company was not contracting any derivative financial instruments as of December 31, 2018. The financial instruments that expired during the 2018 financial year were only utilized to mitigate the foreign currency risk of recognized assets and liabilities denominated in foreign currencies. The payment conditions specified in the respective derivative contract stipulated the regular settlement of the underlying transaction in cash at a specified time. The amount of the cash inflow or outflow fluctuated depending on changes in the exchange rate.

12. Shareholdings

Company		Capital share in %	Currency	Equity	Net result for the year
<u>Subsidiaries</u>					
KHD Humboldt Wedag GmbH, Cologne	direct	100.00	€ thousand	42,488	-21,258
Humboldt Wedag GmbH, Cologne	indirect	100.00	€ thousand	0	-22,570
ZAB Zementanlagenbau GmbH Dessau, Dessau	indirect	100.00	€ thousand	22,526	180
EKOF Flotation GmbH, Bochum	indirect	100.00	€ thousand	-119	-66
Blake International Ltd., Road Town, British Virgin Islands	indirect	100.00	€ thousand	4,008	111
KHD Humboldt Wedag Industrial Services AG, Cologne	indirect	91.26	€ thousand	14,886	135
Humboldt Wedag Australia Pty Ltd., Braeside, Australia	indirect	100.00	€ thousand	264	0
Humboldt Wedag Inc., Norcross, USA	indirect	100.00	€ thousand	45	-2,128
Humboldt Wedag India Private Ltd., New Delhi, India	indirect	100.00	€ thousand	35,909	1,182
KHD Humboldt Wedag Machinery Equipment (Beijing) Co. Ltd., Beijing, People's Republic of China	indirect	100.00	€ thousand	-442	-343
KHD Humboldt Engineering OOO, Moscow, Russia	indirect	100.00	€ thousand	329	-160
Humboldt Wedag Malaysia Sdn.Bhd., Kuala Lumpur, Malaysia	indirect	100.00	€ thousand	315	84
Humboldt Wedag Do Brasil Servicos Technicos Ltda, Belo Horizonte, Brasilia	indirect	100.00	€ thousand	13	-6

*Financial statements as of March 31, 2018

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

Spot exchange rate as of December 31, 2018

1 Euro corresponds to:

AUD	1.6247
INR	79.6527
USD	1.1446
RUB	79.7958
CNY	7.8426
MYR	4.7301
BRL	4.4425

4.4 Members of the Supervisory Board and Management Board

Mr. Shaohua Jin was elected as the new Chair of the Supervisory Board, effective October 16, 2018. By a resolution of the Cologne District Court, Mr. Jin was appointed on October 12, 2018 as a member of the Supervisory Board to take the place of Mr. Da Hua, who had previously resigned. The previous Chair, Mr. Gerhard Beinhauer, continues as a Deputy Chair of the KHD Supervisory Board.

Members of the Supervisory Board

Shaohua Jin

Chair of the Supervisory Board (since October 16, 2018)

Member of the Supervisory Board since October 11, 2018

Vice President of the International Business Division of AVIC International Holding Corporation

Gerhard Beinhauer

Deputy Chair of the Supervisory Board since October 16, 2018,

Chair of the Supervisory Board until October 16, 2018

Managing Director of BBI Beteiligungs- und Handelsgesellschaft mbH

Membership in supervisory boards and other governing bodies:

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

Yqiong Zhang

Chief Financial Officer of AVIC International Beijing Co. Limited

Da Hua

Deputy Chair of the Supervisory Board until October 11, 2018

Vice President of AVIC International Beijing Co. Limited

Members of the Management Board

Yizhen Zhu, Engineer

Chief Executive Officer of KHD (since December 2, 2018)

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

Chief Financial Officer of KHD

Chairman of the Supervisory Board of KHD VV

Member of the Board of Directors of HW India

Member of the Board of Directors of KHD Beijing

Member of the Board of Directors of Humboldt Wedag, Inc. (since December 7, 2018)

Dian Xie, Engineer

Executive Vice President of KHD

Member of the Supervisory Board of KHD VV

Member of the Board of Directors of HW India

Member of the Board of Directors of HW Inc. (until December 7, 2018)

Chairman of the Board of Directors of KHD Beijing (until December 18, 2018)

Tao Xing, Engineer

Executive Vice President of KHD (since December 2, 2018)

Chairman of the Board of Directors of HW Inc. (since December 7, 2018)

Chairman of the Board of Directors of KHD Beijing (since December 18, 2018)

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

Chief Executive Officer of KHD (until November 30, 2018)

Member of the Board of Directors of HW India (until November 30, 2018)

Member of the Board of Directors of HW Inc. (until November 30, 2018)

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

The 2018 financial year total remuneration for the active members of the KHD Management Board for their work in the 2018 financial year was € 1,225 thousand (previous year: € 957 thousand). For work performed in the financial year, total compensation amounted to € 1,225 thousand (previous year: € 957 thousand). Total compensation for previous members of the Management Board came to € 0 thousand (previous year: € 0 thousand).

The total remuneration granted to members of the Supervisory Board for their work amounted to € 180 thousand in the 2018 financial year (previous year: € 196 thousand). No compensation was paid to former Supervisory Board members or their remaining dependents following their resignation from the body.

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

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

4.6 Report on Events after the Reporting Period

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

4.7 Parent Company and Consolidated Financial Statements

AVIC International Holdings Limited, Shenzhen, People's Republic of China, prepares the consolidated financial statements for the smallest scope of companies requiring consolidation. AVIC International Holdings Limited's consolidated financial statements for the smallest scope of companies requiring consolidation will be published on its website (www.avic161.com). Aviation Industry Corporation of China, Beijing, People's Republic of China, prepares the consolidated financial statements for the largest scope of the companies requiring consolidation. The consolidated financial statements for the largest group are available at the registered office of this company in Beijing.

4.8 Reported Shareholdings

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

The People's Republic of China¹, Beijing, China notified us that on January 7, 2014, its voting rights had exceeded the thresholds of 50% and 75% and that its voting rights amounted to 76.47% (equivalent to 38,004,767 voting rights). The voting rights of the following companies are allocable to the People's Republic of China:

- Aviation Industry Corporation of China¹, Beijing, People's Republic of China,
- AVIC International Holding Corporation¹, Beijing, People's Republic of China,
- AVIC International Shenzhen Company Limited¹, Shenzhen, People's Republic of China,
- AVIC International Holdings Limited¹, Shenzhen, People's Republic of China,
- AVIC International Beijing Co. Limited¹, Beijing, People's Republic of China,
- AVIC International Kairong Limited¹, Hong Kong, Hong Kong,
- Kaihang Industrial Limited¹, Road Town, British Virgin Islands,
- Golden Prosperity Group Limited¹, Road Town, British Virgin Islands,
- Goldimax Group Limited¹, Road Town, British Virgin Islands,
- AVIC International Engineering Holdings Pte. Ltd.¹, Singapore, Singapore,
- Max Glory Industries Limited¹, Hong Kong, Hong Kong.

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

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

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

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

4.9 Auditor's Fee

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

4.10 Corporate Governance

The Management Board and Supervisory Board of KHD issued the statement required pursuant to Section 161 of the German Stock Corporation Act (AktG) on February 22, 2019 and also made it – as well as statements from previous years – permanently publicly available to shareholders on the Company's website (<http://www.khd.com/declaration-of-compliance.html>).

4.11 Appropriation of Net Retained Profit

The annual financial statements for the 2018 financial year indicate a net profit of € 871 thousand and an accumulated loss of € 7,834 thousand. The Management Board and the Supervisory Board will propose to the Annual General Meeting to be held on May 28, 2019 to carry forward the accumulated loss (determined in accordance with the German Commercial Code – HGB) of KHD Humboldt Wedag International AG to the new account.

Cologne, March 19, 2019

The Management Board

(s) Yizhen Zhu

(s) Jürgen Luckas

(s) Dian Xie

(s) Tao Xing

5. Appendix to the Notes

Movements in Fixed Assets in the for the Period from January 1, 2018 to December 31, 2018

Acquisition Cost				Accumulated amortization, depreciation, and write-downs				Net book value		
	Balance as of Jan. 1, 2018 € thousand	Additions € thousand	Disposals € thousand	Balance as of Dec. 31, 2018 € thousand	Balance as of Jan. 1, 2018 € thousand	Additions € thousand	Disposals € thousand	Balance as of Dec. 31, 2018 € thousand	Balance as of Dec. 31, 2018 € thousand	Balance as of Dec. 31, 2017 € thousand
I. Property, plant and equipment										
Other plants, operating and office equipment	14	2	0	16	9	3	0	12	4	5
	<u>14</u>	<u>2</u>	<u>0</u>	<u>16</u>	<u>9</u>	<u>3</u>	<u>0</u>	<u>12</u>	<u>4</u>	<u>5</u>
II. Financial investments										
1. Shares in affiliated companies	63.410	0	0	63.410	0	0	0	0	63.410	63.410
2. Long-term loans to affiliated companies	100.000	0	0	100.000	0	0	0	0	100.000	100.000
	<u>163.410</u>	<u>0</u>	<u>0</u>	<u>163.410</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>163.410</u>	<u>163.410</u>
	<u>163.424</u>	<u>2</u>	<u>0</u>	<u>163.426</u>	<u>9</u>	<u>3</u>	<u>0</u>	<u>12</u>	<u>163.414</u>	<u>163.415</u>

6 Responsibility Statement

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

Cologne, March 19, 2019

The Management Board

(s) Yizhen Zhu

(s) Jürgen Luckas

(s) Dian Xie

(s) Tao Xing

7 Auditor's opinion

Independent auditor's report

To KHD Humboldt Wedag International AG

Report on the audit of the annual financial statements and of the management report

Opinions

We have audited the annual financial statements of KHD Humboldt Wedag International AG, Cologne, which comprise the balance sheet as at 31 December 2018, and the income statement for the fiscal year from 1 January 2018 to 31 December 2018, and notes to the financial statements, including the recognition and measurement policies presented therein. In addition, we have audited the management report of KHD Humboldt Wedag International AG, which was combined with the group management report, for the fiscal year from 1 January 2018 to 31 December 2018. In accordance with the German legal requirements, we have not audited the content of the non-financial statement included in the "Corporate Governance" section of the management report or the statement on corporate governance included in the "Corporate Governance" section of the management report.

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

- the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law applicable to business corporations and give a true and fair view of the assets, liabilities and financial position of the Company as at 31 December 2018 and of its financial performance for the fiscal year from 1 January 2018 to 31 December 2018 in compliance with German legally required accounting principles, and

- the accompanying management report as a whole provides an appropriate view of the Company's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the management report does not cover the content of the statement on corporate governance or the non-financial statement referred to above.

Pursuant to Sec. 322 (3) Sentence 1 HGB ["Handelsgesetzbuch": German Commercial Code], we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the management report.

Basis for the opinions

We conducted our audit of the annual financial statements and of the management report in accordance with Sec. 317 HGB and the EU Audit Regulation (No 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's responsibilities for the audit of the annual financial statements and of the management report" section of our auditor's report. We are independent of the Company in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Art. 10 (2) f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Art. 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 opinions on the annual financial statements and on the management report.

Key audit matters in the audit of the annual financial statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual financial statements for the fiscal year from 1 January 2018 to 31 December 2018. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our opinion thereon; we do not provide a separate opinion on these matters.

Below, we describe what we consider to be the key audit matters:

1. Valuation of shares in affiliates

Reasons why the matter was determined to be a key audit matter

The shares in affiliates represent a significant part of the Company's assets. The valuation of shares in affiliates for commercial law purposes is based on the acquisition cost or lower net realizable value. The fair values were determined as the present values of expected future income disclosed in the forecasts prepared by the executive directors using the capitalization of earnings method. The forecasts also take into account expectations regarding future market development and assumptions about trends in macroeconomic factors. The individually calculated cost of capital of the financial assets is used for discounting.

The result of this valuation is highly dependent on the executive directors' estimate of future cash flows and the respective discount and growth rates used. The valuation of shares in affiliates therefore involves significant uncertainty. In light of this and due to the high level of complexity of the valuation, it was a key audit matter.

Auditor's response

As part of our audit, we examined the Company's forecast process and obtained an understanding of the method of determining the fair values. In this context, we assessed in particular whether the calculation of the fair values of shares in affiliates using the capitalization of earnings method comply with the relevant measurement standards. With the support of our valuation specialists, we discussed the key value drivers with the executive directors and compared them to general and industry-specific market expectations. We also compared the Company's budget for the subsequent year and its medium-term planning with the budget approved by the Supervisory Board as well as the approved medium-term planning. Based on our understanding that even relatively small changes in the discount rate used can have significant effects on the amount of the capitalized earnings value of the

affiliates, we reperformed the calculations and examined whether the parameters included correspond to external market data. We also checked the clerical accuracy of the calculation method on a sample basis.

Our audit procedures did not lead to any reservations relating to the valuation of shares in affiliates.

Reference to related disclosures

The Company's disclosures on the valuation of shares in affiliates are included in the notes to the financial statements, section 4.2 "Recognition and measurement policies."

2. Valuation of loans to affiliates

Reasons why the matter was determined to be a key audit matter

Loans to affiliates comprise two loans of EUR 50.0m each to AVIC International Kairong Limited, Hong Kong, and represent a significant part of the Company's assets. AVIC International Holding Corporation, Peking, People's Republic of China, issued a guarantee to the Company to secure the loan receivables covering the full amount of the loans of EUR 100.0m plus outstanding interest as well as all costs that could arise in connection with the redemption of the guarantee. AVIC International Holding Corporation is an indirect parent company of KHD Humboldt Wedag International AG.

The valuation of loans to affiliates for commercial law purposes is based on the acquisition cost or lower net realizable value. Write-downs are recognized if impairment is likely to be permanent. The executive directors assess the recoverability of the loans and the creditworthiness of the borrowers chiefly by means of available capital market information from international external rating agencies, especially credit rating, as well as the financial information provided by the AVIC International Holding Corporation Group.

Due to the assumptions and estimates made by the executive directors for the valuation and the related increased risk of material misstatement, this valuation procedure was a key audit matter.

Auditor's response

During our audit, we gained an understanding of the Company's credit risk monitoring process on the basis of the underlying loan agreements and guarantees. In this context, we checked the determination of the probability of default using publicly accessible ratings of the lender. In addition, we obtained an understanding, among other things, of the Company's procedure of measuring and assessing indicators for impairment of the loans by gathering external information on the borrower, AVIC International Kairong Limited, Hong Kong, as well as the guarantor AVIC International Holding Corporation, Peking, People's Republic of China, and compared them to the information used by the Management Board.

We also obtained an understanding of the assumptions made by the executive directors and assessments regarding recoverability of the loans and the creditworthiness of the borrower, by comparing them to the audit evidence provided to us as well as with externally published information, such as credit ratings by international rating agencies for the guarantor.

Our audit procedures did not lead to any reservations relating to the valuation of loans to affiliates.

Reference to related disclosures

The Company's disclosures on the valuation of loans to affiliates are included in the notes to the financial statements, section 4.2 "Recognition and measurement policies."

Other information

The executive directors are responsible for the other information. The other information comprises the non-financial statement included in the "Corporate Governance" section of the management report and the statement on corporate governance included in the "Corporate Governance" section of the management report. The other information also includes the other sections of the management report without further cross-references to external information with the exception of the audited annual financial statements, the audited management report and our auditor's report.

The separate non-financial statement in accordance with Sec. 315b (3) HGB is expected to be provided to us after the date of our report.

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

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

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

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the executive directors and the Supervisory Board for the annual financial statements and the management report

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

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

Furthermore, the executive directors are responsible for the preparation of the management report that, as a whole, provides an appropriate view of the Company's position and is, in all material respects, consistent with the annual financial statements, complies with German

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

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

Auditor's responsibilities for the audit of the annual financial statements and of the management report

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

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

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

- Identify and assess the risks of material misstatement of the annual financial statements and of the management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our 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 control.
- Obtain an understanding of internal control relevant to the audit of the annual financial statements and of arrangements and measures (systems) relevant to the audit of the management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems of the Company.
- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the annual financial statements and in the management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German legally required accounting principles.
- Evaluate the consistency of the management report with the annual financial statements, its conformity with [German] law, and the view of the Company's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information. □

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

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and

other matters that may reasonably be thought to bear on our independence and where applicable, the related safeguards.

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

Other legal and regulatory requirements

Further information pursuant to Art. 10 of the EU Audit Regulation

We were elected as auditor by the Annual General Meeting on 29 May 2018. We were engaged by the Supervisory Board on 30 July 2018. We have been the auditor of KHD Humboldt Wedag International AG since fiscal year 2018.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Art. 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 Titus Zwirner.

8 Report of the Supervisory Board of the Fiscal Year 2018

Dear Shareholders,

In the 2018 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 material Group companies. The Management Board also reported on the strategic alignment of the Group and the status of strategy implementation.

The Supervisory Board was involved in all decisions of fundamental importance to the KHD Group.

Cooperation between the Management Board and the Supervisory Board has always been constructive. The Chair of the Supervisory Board was in regular contact with the Management Board and particularly the Chief Executive Officer over and above the regular meetings and discussed the Group's strategy, risk situation, and risk management. The Chief Executive Officer immediately notified the Chair 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

Mr. Gerold Keune resigned from the Management Board effective November 30, 2018. With a resolution of the Supervisory Board dated December 2, 2018, Mr. Yizhen Zhu was appointed as Chair of the Management Board and Mr. Tao Xing as a further member of the Management Board, effective immediately.

After Mr. Da Hua resigned from the Supervisory Board, Mr. Shaohua Jin was appointed on October 11, 2018 as a member of the Supervisory Board by a resolution of the court. Mr. Shaohua Jin was elected as the new Chair of the Supervisory Board and Mr. Gerhard Beinhauer as Deputy Chair in the Supervisory Board meeting of October 16, 2018.

Meetings and Resolutions of the Supervisory Board

In the 2018 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, 17 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 2017. At the meeting convened to approve the financial statements on April 17, 2018, 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, 2017. The Supervisory Board approved the financial statements and the proposal for the appropriation of net retained profit. In addition, the Supervisory Board discussed its proposal for the selection of the independent auditors by the Annual General Meeting of shareholders.

The agendas of the Supervisory Board meetings that took place in person in January, April, August, and October covered reports on business development, deviations of the actual business development from the budget and forecasts, the 2019 budget and the medium-term planning for 2020-23, discussions of the half-year report prior to publication, discussion of proposed resolutions for the Annual General Meeting of shareholders, the internal control system, the risk management system as well as discussions related to Corporate Governance and organizational matters of the Supervisory Board. A focus in the 2018 financial year was again on the discussion of the strategic development of the Group, improving competitiveness and development perspectives, organizational changes, and further operational issues.

The resolutions made by circulation procedure concerned transactions requiring approval by the Supervisory Board, the appointment of Management Board members, management service contracts for members of the Management Board and the termination of such contracts, as well as the approval of the Declaration of Compliance with the German Corporate Governance Code and the separate non-financial Group report (CSR report) for 2017.

Responsibilities as Defined by Section 107 Paragraph 3 of the German Stock Corporation Act (AktG)

Responsibilities that would otherwise be passed on to an Audit Committee have been carried out by the full Supervisory Board. The Supervisory Board issued the audit mandate to the auditors and discussed and agreed upon the focal points of the audit as well as the audit fees with the auditors. Furthermore, the Supervisory Board monitored the independence, qualification, rotation, and efficiency of the auditors as well as the services provided in addition to the audit of financial statements. The Supervisory Board also dealt with issues of corporate governance, including the preparation of the Declaration of Compliance with the German Corporate Governance Code. On the basis of reports from the Management Board, the Head of Risk Management, and the Head of Internal Audit, 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 2019. 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.

Separate Non-financial Group Report

The Management Board generated the separate non-financial Group report for the 2017 financial year in accordance with Section 315b Paragraph 3 of the German Commercial Code (HGB). Before its publication, the Supervisory Board reviewed the separate non-financial Group report in accordance with Section 171 Section 1 of the German Stock Corporation Act (AktG).

Annual and Consolidated Financial Statements

The Management Board prepared the annual financial statements of KHD Humboldt Wedag International AG as of December 31, 2018 and the consolidated financial statements as of December 31, 2018 in a timely manner and in accordance with principles set out in the German Commercial Code (HGB), in accordance with IFRS as adopted by the European Union, including the management report summary for the 2018 financial year. The annual financial statements and the consolidated financial statements, including the management report summary, were audited by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Cologne office, who were appointed by the Annual General Meeting of shareholders on May 29, 2018. 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 2, 2019. Both the auditors and the Management Board participated in these Supervisory Board meetings that dealt with the approval of the financial statements. The auditors reported on the scope, the emphases, and the significant results of the audit, going into particular detail with regard to key audit matters. During the Supervisory Board meeting, the auditors were available to provide further information and to answer questions.

The Supervisory Board conducted its own examination of the annual financial statements for the 2018 financial year and of the consolidated financial statements, including the management report summary, for the 2018 financial year, as well as of the Management Board's proposal on the appropriation of net retained profit for the 2018 financial year, taking

into account the auditors' reports. In its audit, the Supervisory Board concerned itself in particular with the key audit matters. After considering the final results of the Supervisory Board's review 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 Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft. The Supervisory Board approves the annual financial statements and the consolidated financial statements as of December 31, 2018, 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 (Dependency Report) was audited by the auditors and issued with the following unqualified audit opinion:

"Based on the results of our statutory audit and evaluation, we confirm that

1. the actual information included in the report is correct
2. and that the consideration paid by the Company for the transactions listed in the report was not inappropriately high."

The Management Board presented the Dependency Report to the Supervisory Board, which also reviewed the Dependency Report. After considering the final results of its own review, the Supervisory Board has no objections to raise with respect to the Management Board's final declaration in the Dependency 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, April 2, 2019

(s) Shaohua Jin
(Chair of the Supervisory Board)

Members of the Supervisory Board

Shaohua Jin

Chair of the Supervisory Board since October 16, 2018,

Member of the Supervisory Board since October 11, 2018

Vice President of the International Business Division of AVIC International Holding Corporation

Gerhard Beinhauer

Deputy Chair of the Supervisory Board since October 16, 2018,

Chair of the Supervisory Board until October 16, 2018

Managing Director of BBI Beteiligungs- und Handelsgesellschaft mbH

Membership in supervisory boards and other governing bodies:

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

Yiqiong Zhang

Chief Financial Officer of AVIC International Beijing Co. Limited

Da Hua

Deputy Chair of the Supervisory Board until October 11, 2018

Vice President of AVIC International Beijing Co. Limited

9 Declaration of Compliance by the Management Board and Supervisory Board

**of KHD Humboldt Wedag International AG
in accordance with Section 161 of the German Stock Corporation Act ("AktG")
on the recommendations of the
“Government Commission on the German Corporate Governance Code”**

The Management Board and the Supervisory Board of KHD Humboldt Wedag International AG hereby declare that since the last declaration of compliance on February 23, 2018 the recommendations of the German Corporate Governance Code (the “Code”) as amended on February 7, 2017 have been complied with and will be complied with in future with the following exceptions:

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

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

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

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

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

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

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

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

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

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

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

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

- The consolidated financial statements and the combined management report for the 2018 financial year will not be made publicly accessible within 90 days from the end of the financial year (Code Item 7.1.2 third sentence 1st half-sentence).

The consolidated financial statements and the combined management report can only be published immediately after the Supervisory Board meeting convened to adopt the financial statements that is scheduled for April 2, 2019.

Cologne, February 22, 2019

For the Management Board

For the Supervisory Board

(s) Yizhen Zhu

(s) Jürgen Luckas

(s) Shaohua Jin

(s) Dian Xie

(s) Tao Xing