2018
Annual Report

get more out of your plant.

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

Key Figures at a Glance

in € million	2018	2017
Order intake	141.7	182.5
Revenue	151.8	100.1
Adjusted gross profit	-0.6	12.4
Adjusted gross profit margin (in %)	-0.4	12.4
Adjusted EBIT	-28.6	-19.5
Adjusted EBIT margin (in %)	-18.8	-19.5
EBT	-23.9	-16.9
Group net loss for the year	-25.3	-19.4
EPS (in €)	-0.51	-0.39
Operating cash flow	-13.5	5.3
Cash flow from investing activities	2.8	3.7
Cash flow from financing activities	-0.4	-0.5

in € million	Dec. 31, 2018	Dec. 31, 2017
Equity	123.1	149.8
Equity ratio (in %)	45.5	53.0
Cash and intercompany loans *	172.2	184.1
Net working capital **	-22.5	-9.0
Order backlog	153.6	168.3
Employees	703	666

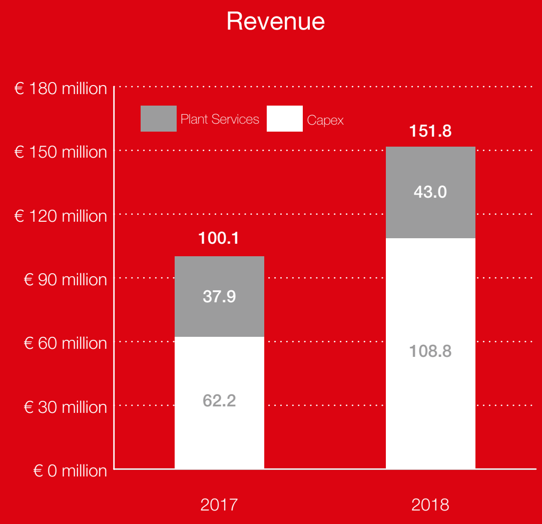
* Including intercompany loan of € 50 million with entitlement to call for early repayment by giving 30 days‘ notice.
** Balance of current assets (less cash equivalents and current loans granted) and current liabilities.

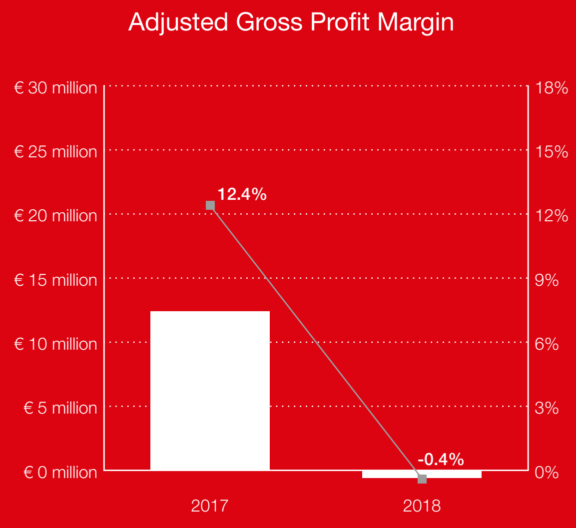
Facts & Figures

Considerable revenue increase of 51.6% to € 151.8 million, but still an unsatisfying operating result as market conditions remain challenging.

€ 141.7 million
Order Intake (-22.4%)

€ 153.6 million
Order Backlog (-8.7%)





Foreword of the Management Board

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

The 2018 financial year was one of the most difficult years ever for KHD. The turnaround expected in the previous year did not prove to be sustainable. In particular, the very tough market conditions led to significantly fewer new orders than expected a year ago. In addition, unexpected cost overruns during the execution of several projects, which already had a low margin, had a considerable negative impact on our result.

Global demand for cement has been stagnating for several years and, according to current forecasts, a strong increase in cement consumption cannot be expected for subsequent years either. Unfortunately, this will have a direct effect on demand for KHD's products and services. In such a difficult market environment, it is all the more important to place the customer at the center of our business activities. In doing so, we focus on offering our customers in particular the technology and services in which we can offer genuine added value compared with our competitors. Incoming orders, which are mainly volume-driven, are therefore not in line with our targets.

The management team newly formed in December 2018 took on the responsible task of steering KHD through difficult times and realigning the Group, and in particular, the subsidiary Humboldt Wedag GmbH at its Cologne headquarters, back to a profitable and sustainable business model soon. With the two added MB members (Mr. Zhu and Mr. Xing), we are expanding and maximizing the synergy with AVIC worldwide and also in China.

The reorganization concept developed for Humboldt Wedag GmbH focuses on a leaner and at the same time more effective organization as well as a significant improvement of our project execution processes. We are confident that the new organization will permanently overcome the difficulties in project execution that hit KHD so hard in 2018. The reorganization and streamlining of processes also entails a considerable reduction in personnel. This is intended to reduce costs to such an extent that they can be sustainably borne by the future business volume.

Despite major challenges, there were also some achievements in the 2018 financial year. As a further development of traditional calciner technology, KHD now offers the PYROROTOR®, a technological solution with which very coarse and poorly prepared secondary fuels can be used in cement production. With the PYROREDOX®, KHD has a gasification reactor for emission reduction. Nitrogen oxide emissions can be significantly reduced without complex catalyst technology or high operating cost. The two new products are currently in the commissioning phase or shortly before. KHD will continue to develop its Clean Technology solutions to help our customers meet increasingly stringent environmental requirements.

KHD's equity position, with an equity ratio of 46%, remains strong and provides a good basis for improvements in all areas and for a successful turnaround within the next two years. The liquidity (including financial assets with affiliated companies) of € 172.2 million and the support of our majority shareholder AVIC give us the confidence to successfully master the difficult situation in the market for equipment suppliers to the cement industry.

We would particularly like to thank our customers, employees and business partners as well as our shareholders and the Supervisory Board for their trust and support in the difficult financial year 2018 and are pleased to keep you informed about the progress of the turnaround of KHD!

Best regards,

Management Board – KHD Humboldt Wedag International AG

Report of the Supervisory Board

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

COMBINED MANAGEMENT REPORT

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

The Guidelines Implementation Law concerning corporate social responsibility (CSR) became effective on April 19, 2017. This law governs the reporting on non-financial information for certain capital market-oriented companies. KHD is subject to these non-financial reporting requirements and complies with its obligation by preparing a special non-financial report in accordance with Section 315b, Paragraph 3 of the German Commercial Code (HGB). For the first time, the separate non-financial Group report was prepared in accordance with Section 315b Paragraph 3 of the German Commercial Code (HGB) for the 2017 financial year and published on April 27, 2018. The non-financial report for the 2018 financial year will also be published on the KHD website within the first four months of 2019 and, in accordance with Section 315b Paragraph 3 HGB, it is not integrated into this management report.

FUNDAMENTAL PRINCIPLES OF KHD GROUP

Business Model

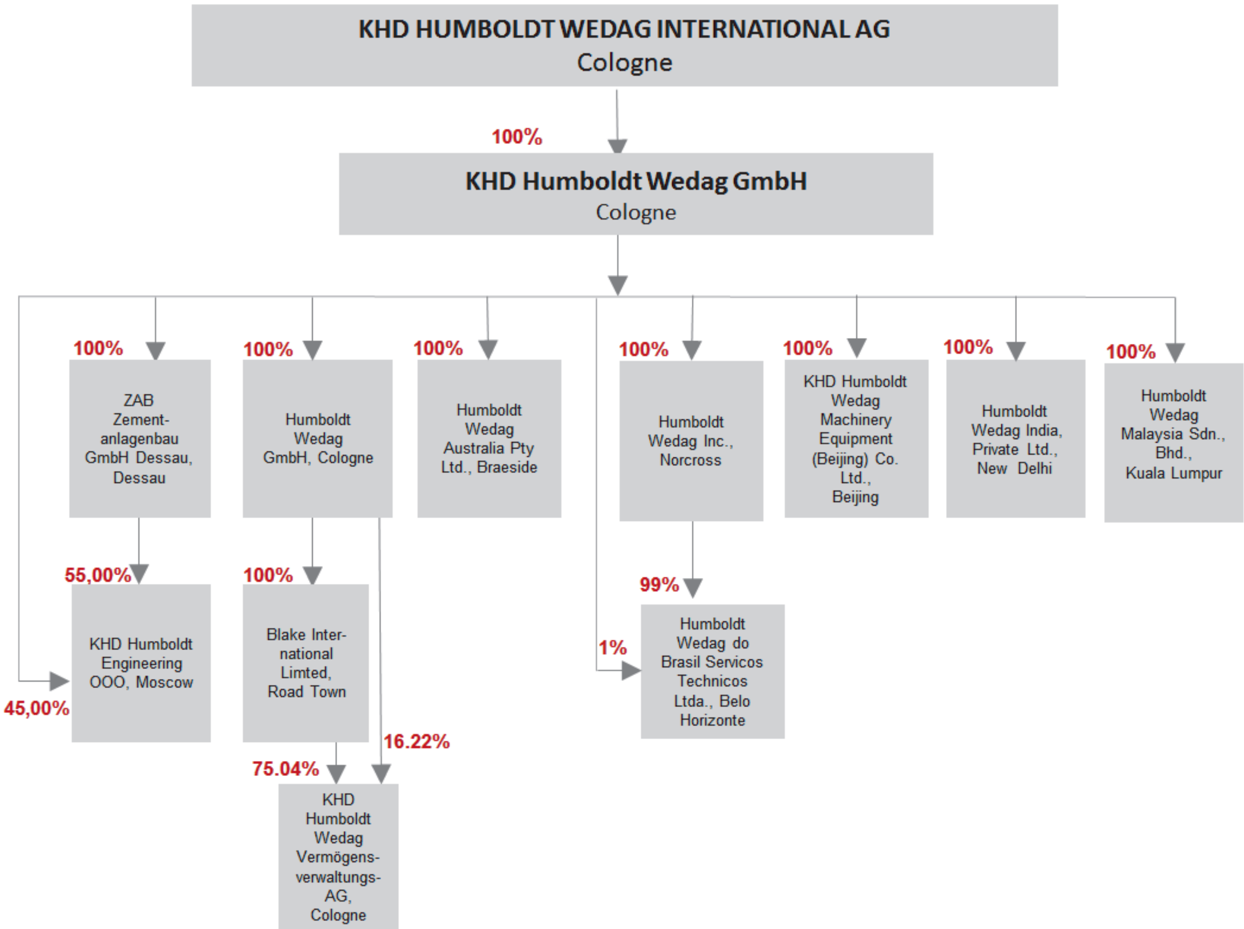
Organizational Structure and Locations

With its subsidiaries in Europe, the Americas, Asia, and Australia, KHD Humboldt Wedag International AG (hereafter also referred to as "KHD" or "Group") based in Cologne, Germany, ranks as one of the world's top equipment suppliers and service companies for the cement industry. The scope of services encompasses process know-how and design, engineering, project management, the supply of technology and equipment as well as supervising the erection and commissioning of cement plants and related equipment. It also includes customer services such as supplying spare parts, the optimization, maintenance and repair of cement plants (e.g. with our mobile welding system for reprocessing roller presses), and training of plant personnel. KHD focuses mainly on knowledge-intensive areas. The manufacturing of plant equipment is predominantly outsourced to quality-certified, external manufacturers who work in accordance with KHD's specifications. KHD invested in the expansion of its own production capacities in India in the 2017 and 2018 financial years and officially opened the new production facility in Faridabad, India, in the autumn of 2018. For this reason, selected products will also be manufactured increasingly with the Group's own production capacities.

In its capacity as the ultimate holding company of the Group, KHD Humboldt Wedag International AG holds a 100 % investment in KHD Humboldt Wedag GmbH ("KHD HW"), Cologne, Germany, which functions as a holding company with no operating business activities. The twelve KHD Group companies primarily focus on the business segment of industrial plant engineering as well as related services. KHD Humboldt Wedag Vermögensverwaltungs-AG ("KHD VV") no longer provides services in cement plant engineering since May 2017, but instead focuses exclusively on managing its own portfolio. The services previously provided by KHD VV are being provided by other KHD companies since May 2017. Humboldt Wedag Do Brasil Servicos Technicos Ltda. did not undertake any operational business in the 2018 financial year and Humboldt Wedag Australia Pty. Ltd. is currently in liquidation. Within KHD, neither the Group structure nor the tasks of individual Group companies changed in the 2018 financial year.

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

Group Structure



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

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

Within the KHD Group, in addition to technological leadership, HW GmbH assumes important central functions and serves as a contact for specialist and organizational matters. The markets in Europe, the Middle East and Africa as well as the Asia-Pacific region (with the exception of

China) are managed directly from Cologne by HW GmbH. The other regions – Russia/CIS, India, the Americas and China – are managed locally by the respective subsidiaries.

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

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

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

Range of Products and Services

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

Capex (Project Business)

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

The core product range supplied by KHD includes equipment for grinding and pyro processing, which represent essential elements of every cement plant. Our grinding technology is utilized in raw material, clinker and clinker substitute grinding, and comprises crushing, grinding, and separation equipment as well as fans. KHD's pyro processing equipment covers all of the key components of the kiln line, such as preheaters, calciner systems, burners, process fans, rotary kilns, and clinker coolers. With the PYROROTOR®, a further development of traditional calciner technology, KHD is also providing technological solutions with which very coarse and poorly prepared secondary fuels can be used to manufacture cement. The PYROREDOX® is KHD's gasification reactor for reducing emissions. Nitrogen oxide emissions can be reduced considerably without extensive catalytic technology or the use of ammonia. Moreover, KHD has developed a number of system automation products, which are used together with process control systems to optimize plant performance.

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

Plant Services

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

Management and Supervision

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

Management Board

The rules of procedure implemented for the Management Board by the Supervisory Board govern the fundamental principles of the Management Board's work. The assignment of functional responsibilities for individual Management Board members is laid out in the schedule of responsibilities. Mr. Gerold Keune resigned from his position as the Chief Executive Officer of KHD on November 30, 2018, effective immediately. Mr. Yizhen Zhu was appointed as the new Chief Executive Officer on December 2, 2018, effective immediately. In addition, Mr. Tao Xing was appointed as a member of the Management Board on December 2, 2018 as well. Both men were already members of the KHD Management Board with different responsibilities and both have many years of management experience in the area of cement plant engineering. As a result, as of December 31, 2018, the Management Board of KHD is comprised of four members.

Supervisory Board

By a resolution of the Cologne District Court, Mr. Shaohua 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. Mr. Jin was elected as the new Chair of the Supervisory Board in the Supervisory Board meeting of October 16, 2018. The previous Chair, Mr. Gerhard Beinhauer, continues as a Deputy Chair of the KHD Supervisory Board.

Corporate Governance

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

The corporate governance report (see Section 3.10 of the GCGC) provides further details concerning corporate governance. The declaration of compliance and the corporate governance report (including the declaration on corporate governance in accordance with Section 315d in connection with Section 289f of the German Commercial Code (HGB)) are available on KHD's website (http://www.khd.com/corporate-governance-645.html).

Objectives and Strategy

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

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

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

Management and Control System

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

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

fluctuations are shown as changes in the order backlog. In this way, the order intake directly represents the new business gained in the financial year.

- Group revenue

  Group revenue is determined in accordance with generally accepted accounting principles. Group revenue was determined according to the new regulations of IFRS 15 for the first time in the 2018 financial year. Regarding changes and effects due to the initial application of IFRS 15, reference is made to the respective items in the notes.

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

  EBIT provides information about the Group's operating profitability and includes all of the components of the income statement that refer to operating performance. It is determined as the Group net result for the year plus the net finance income and income tax expense. The EBIT margin is a relative indicator used to compare operational profitability. A ratio of EBIT to revenue is used to determine this figure. For Group management purposes, KHD adjusts EBIT as necessary with regard to special effects. Special effects are one-time-items or effects that are special in nature and/or magnitude, e.g. expenses for restructuring, reorganization or litigation as well as expenses related to under-utilization of capacity. The adjusted EBIT is more suitable for comparing the operating performance across several periods. The adjusted EBIT as of December 31, 2018 is calculated as follows:

in € million	**2018**	**2017**
EBIT prior to adjustments	**-31.2**	**-25.6**
Idle capacity costs	2.6	4.9
Staff adjustment measures	-	1.2
Adjusted EBIT	**-28.6**	**-19.5**

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

Research and Development

In the 2018 financial year, the following trends have continued to define the industry:

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

Research and development activities at KHD are focused on the development of convincing responses to the trends listed above. KHD spent € 1.9 million on research and development in the 2018 financial year (previous year: € 2.3 million). This corresponds to 1.3 % (previous year: 2.3 %) of revenue. A total of 13 patents – five of which were registered designs – (previous year: 13 patents) were applied for in the reporting year. At the end of the year, KHD owned the rights to a total of 943 items of intellectual property, of which 405 were patents (previous year: 516), 528 were brands (previous year: 544), and 10 were registered designs (previous year: 11).

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

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

With the initial installation of a PYROREDOX® gasification reactor, KHD has reached another milestone in reducing emissions for cement plants. With this innovation, which does not require extensive catalytic technology or the use of ammonia, KHD offers an option for meeting the increasing requirements in terms of a significant reduction of nitrogen oxide emissions, even in the future. With the PYROREDOX® gasification reaction, KHD customers can realize reductions in both investment and operating costs.

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

ECONOMIC REPORT

Macroeconomic and Sector-related Conditions

Economic Environment

In October 2018, the International Monetary Fund (IMF) predicted global growth of 3.7 % for 2018 (previous year: 3.6 %). This means that the growth forecast is 0.1 percent less than that predicted in April 2018. In the United States, strong momentum continues despite the trade measures that have already been introduced and those that have been announced, especially with respect to China. Particularly in the first half-year 2018, growth in European economies has decreased despite continuing monetary policy support. In the emerging countries and developing economies, growth prospects improved, especially in countries that export oil due to higher oil prices. In countries such as Argentina, Brazil, Iran, and Turkey, however, growth has diminished due to country-specific factors, tighter financial conditions, geopolitical tensions, and higher prices for raw materials. Following the recently announced trade measures by the U.S. administration, China and some other Asian economies will likely experience somewhat weaker growth in 2019 as well.

Industry Environment

According to the Global Cement Magazine, 2018 will continue to be characterized by global surplus production of clinker and ongoing efforts to reduce CO_2 emissions related to cement manufacturing. According to the October 2018 CW Research forecast, global cement demand was expected to decrease by 0.2 % in 2018 to 4.0 billion tons in this period.

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

- Demand for the Indian cement industry remains positive and is affected primarily by the infrastructure development programs of the Indian government. These include municipal infrastructure, roads, railways, and airports. In addition, development programs in the areas of education, health, and sanitary facilities also have a positive effect on cement demand.
- The cement sector in Turkey also underwent very positive development in 2018. Cement demand increased by more than 10 %, primarily due to government infrastructure projects. The current political and economic tensions in Turkey have not yet affected cement demand.
- In western Europe, cement demand for 2018 is expected to increase by a total of 2.8 % over that for the previous year. This is equivalent to a slight decrease in growth of 0.1 % with respect to the previous year and is primarily due to rough weather conditions.
- The Russian cement industry experienced negative development in 2018. Over the entire year, cement demand decreased by about 1.0 % to 55.0 millions tons, while production will likely decrease by 0.5 % to 54.4 million tons.
- In the United States, the predicted increase in cement demand for 2018 was reduced by 0.5 % to 3.0 % due to the slow down in infrastructure activities. However, there is still a chance that progress will continue on at least some of the planned infrastructure projects as of the end of 2018.
- The cement sector in Iran is characterized by excess capacities in 2018. As a result, growth in cement demand decreased by 1 % to 2.0 % in 2018. The reduction is also due to the new U.S. sanctions, which prevented or delayed the planned implementation of government construction projects.
- Though cement demand in Southeast Asia increased, at the same time capacity utilization rates at existing plants remain low due to capacity development in recent years.
- In China, cement production declined by 9.9 % in the first five months of 2018 compared with the previous year, which is due, in particular, to weaker cement demand in connection with government construction projects. According to the forecast by CW Research, 2018 ends with a reduction in cement demand of 3.0 % to 2.3 billion tons per year. This trend will likely continue into the coming years.

Financial Market Environment

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

Compared with the closing rate for the previous year, as of December 31, 2018, the Indian rupee fell 3.8 % with regard to the euro. However, at 80.6 rupees to the euro, the average rate was significantly lower than the previous year’s level (73.9 rupees to the euro). In contrast, the closing rate of the US dollar gained ground with respect to the euro (4.7 %). At 1.18 US dollars per euro, the average rate was also greater than that of the previous year (1.14 US dollars per euro). The year-end rate of the Russian ruble against the euro decreased considerably by 15.5 %. The average rate also declined significantly (74.1 rubles per euro, previous year: 66.3 rubles per euro). Due to converting local financial statements into euros, exchange rate changes over the reporting year have had an overall negative impact on the KHD Group.

Overall Assessment of the Results of Operations and Economic Position

Based on EBIT, adjusted EBIT and the net result for the period, business development in 2018 was unsatisfactory. The targets set for several significant performance indicators were not met.

While accelerated growth in the cement markets and a continued increase in order intake were assumed in the outlook for the 2018 financial year, the development of cement consumption in KHD's core markets remained at a relatively low level. The continuing political and economic insecurity in markets important to KHD, such as Russia and parts of the EMEA region and the renewed introduction of U.S. sanctions against Iran, together with difficulties of our customers with regard to project financing have all resulted in further delays in project awards. Order intake was just € 141.7 million, which remained below that of the forecast at the beginning of the financial year (over € 200 million) and below that of the forecast (above the previous year), which had been adjusted already by the end of the first half year 2018. Following a nearly complete utilization of existing capacities in the early months of the 2018 financial year, due to the lack in order intake during the year, idle capacity costs of € 2.6 million (previous year: € 4.9 million) were nevertheless incurred.

As of December 31, 2018, order backlog was € 153.6 million, remaining below the order backlog of the previous year (€ 168.3 million). The forecast (above that of the previous year) was not achieved. The current order backlog is not sufficient to ensure complete utilization of existing capacities in the 2019 financial year. In this respect, the recovery of the cement markets and significant order intake in the first half year 2019 are important for KHD in order to ensure full capacity utilization and prevent idle capacity costs.

Revenue totaled € 151.8 million (previous year: € 100.1 million). This was significantly greater than the revenue in the previous year and, therefore, it matched the submitted forecast (considerably higher than the previous year). The reason for the considerable increase in revenue was that the order backlog at the beginning of the 2018 financial year was considerably higher than that of the previous year.

Overall, KHD achieved EBIT of € -31.2 million (previous year: € 25.6 million), adjusted EBIT of € -28.6 million (previous year:€ -19.5 million) and thus a significantly negative EBIT margin of -20.6 % (previous year: -25.6 %) or adjusted EBIT margin of -18.8 % (previous year: -19.5 %). Adjusted EBIT was less than the previous year's value and, therefore, below the submitted forecast (significantly negative adjusted EBIT, but also a significant improvement over the previous year). The adjusted EBIT margin in the 2018 financial year was slightly above the previous year's value. The forecast for the adjusted EBIT margin (considerable improvement over the previous year) was not achieved completely. The reasons for the significantly negative EBIT and adjusted EBIT and EBIT as well as adjusted EBIT margin are, on one hand, the insufficient business volume and the new projects that were won in a highly competitive environment with unsatisfactory margins. On the other hand, the unplanned extra expenses associated with executing specific, individual projects in the 2018 financial year were very high.

KHD repaid a bank loan taken out in October 2015 from the Bank of China as scheduled in October 2018. A new loan for € 2 million concluded with the Bank of China was disbursed to KHD in November 2018. The new loan has a fixed term and is due for repayment by 2021. The interest rate agreed to for the loan is significantly lower than that obtained by KHD for the two loans granted to AVIC International Kairong Limited ("AVIC Kairong").

The cash flow from operating activities of € -13.5 million was considerably less than the submitted forecast (cash flow from operating activities at a break-even level). The main reason for the significantly negative cash flow from operating activities is the high operating loss in the financial year. However, the financial and net assets position of KHD remains fully satisfactory due to continuing adequate liquidity and a high equity ratio.

The order intake in the Capex segment of just € 98.6 million (previous year: € 140.7 million) failed to meet the forecast (a significant increase over the previous year) by considerable margin. The significant decrease in order intake is due to the lack in order intake primarily in the second half year 2018. Although the revenue of € 108.8 million did meet the submitted forecast (more than € 100 million), adjusted EBIT for the Capex segment once again exhibited considerable deviation from the forecast (significantly negative, but much improved with respect to the previous year). Due to unexpected additional costs associated with several projects, EBIT or adjusted EBIT totaled just € -36.4 million or € -33.8 million (previous year: € 28.9 million or € -22.8 million).

Order intake in the Plant Services business unit totaled € 43.1 million, above the previous year's value of € 41.8 million, which met the submitted forecast (further increase with respect to the previous year). The forecasts for revenue and EBIT were also met (significantly above the previous year or significantly positive). Revenue totaled € 43.0 million (previous year: € 37.9 million) and EBIT € 5.2 million (previous year: € 3.3 million). In terms of the significant operating earnings figure EBIT, the Plant Services business unit demonstrated a favorable increase of over 50 %.

Business and Earnings Position

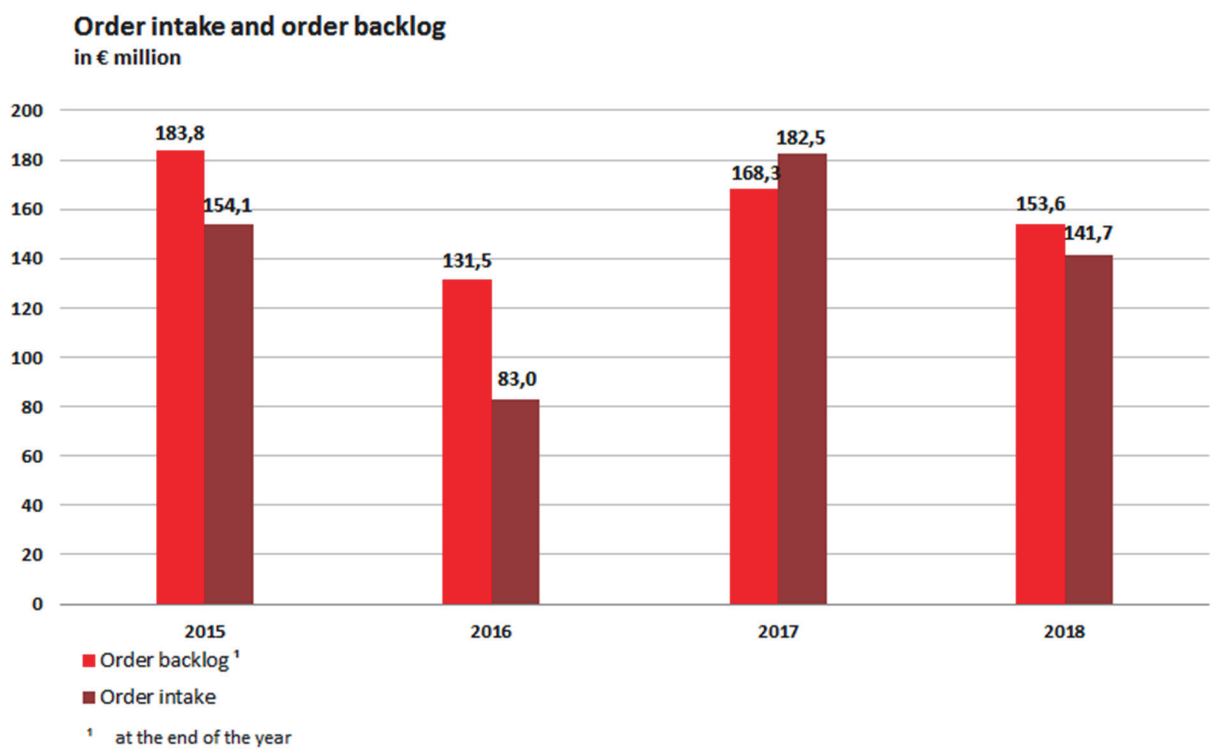
Order Intake and Order Backlog

The order intake of € 141.7 million in the 2018 financial year was considerably less than the previous year's value of € 182.5 million. The reduction in order intake is due to the continuing political and economic insecurity in markets important to KHD, such as Russia and parts of the EMEA region and the renewed introduction of U.S. sanctions against Iran, together with difficulties of our customers with regard to project financing. This has resulted in further delays in project awards. Because there were delays in the awarding of contracts and in customer decisions regarding investments primarily in the second half year 2018, the expected order intake did not materialize. The turnaround expected in the previous year in the development of order intake did not prove to be sustainable despite the continued intensive sales activities.

In the Capex segment, KHD achieved a total order intake of € 98.6 million, which was considerably lower than the previous year's figure for new business (€ 140.7 million). Significant contributions to order intake were made in the markets managed by HW India (India, Nepal, Bangladesh) as well as successful projects in Europe, Turkey, and South America. Other regions – particularly future markets in sub-Saharan Africa and in Southeast Asia – remained below expectations.

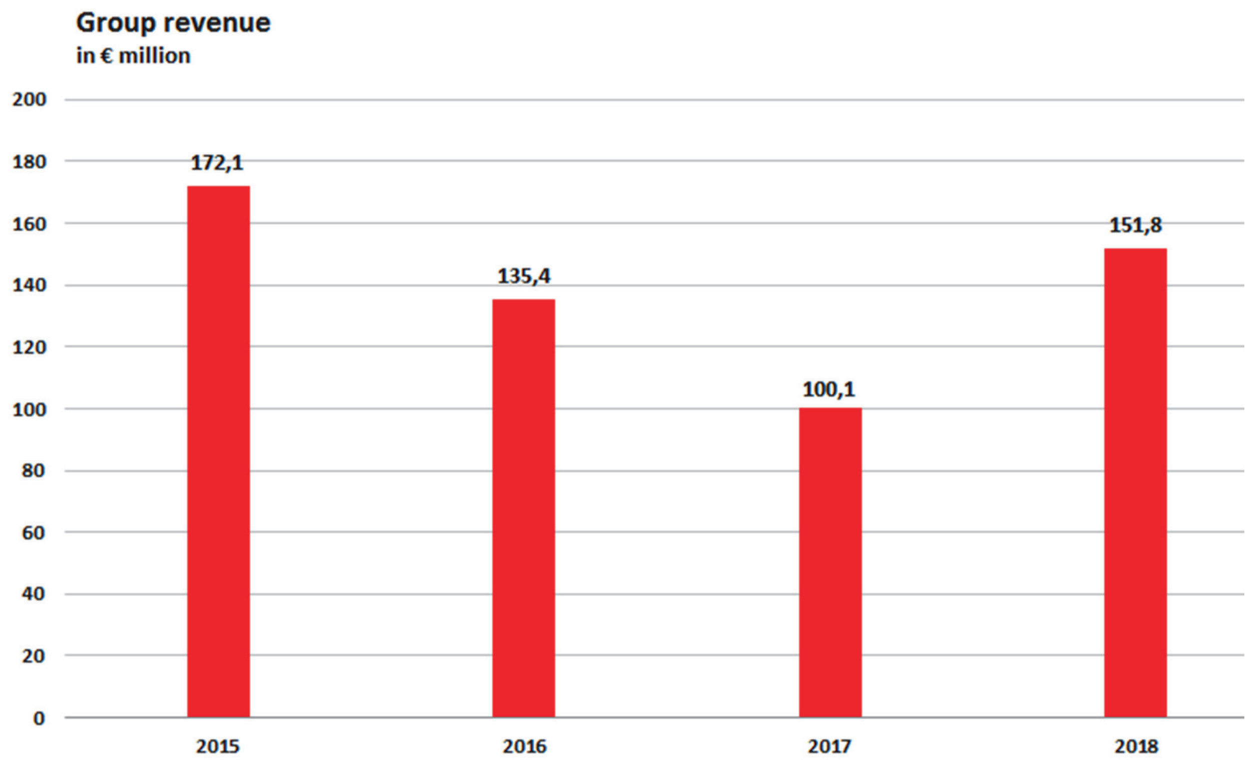
At € 43.1 million (previous year: € 41.8 million), the spare parts and service business (Plant Services) contributed a significant share to the total order intake. The Plant Services segment was responsible for 30.4 % of the total order intake (previous year: 22.9 %).

Because revenue was higher than order intake, order backlog as of December 31, 2018 decreased to a current total of € 153.6 million (previous year: € 168.3 million). As in the previous year, adjustments due to the reduction of order values or cancellation of orders as well as adjustments due to the suspension of project execution totaling € 1.8 million (previous year: € 42.0 million) are shown as an adjustment to order backlog. This also applies for the effects of exchange rate fluctuations of € -2.8 million (previous year: € -3.5 million). The decrease in order backlog is mainly due to the lack in order intake in the second half year 2018. Order backlog as of December 31, 2018 is not sufficient to ensure full capacity utilization in the 2019 financial year. Full utilization of capacities – particularly in the second half year 2019 – is only possible if there is high order intake in the first two quarters of the 2019 financial year.



Group Revenue

In the 2018 financial year, KHD achieved revenue in the amount of € 151.8 million (previous year: € 100.1 million). The considerable increase of 51.7 % over the previous year's value is primarily due to the fact that the order backlog at the beginning of the 2018 financial year was significantly higher than in the previous year. Projects in India, Europe, the Philippines, Africa, and South America were the biggest contributors to revenue.



Group Earnings Position

The costs of sales comprise € 2.6 million (previous year: € 4.9 million) in idle capacity costs that resulted from incomplete utilization of existing capacities. Because these costs are not directly related to cost of sales, they are adjusted in the determination of the adjusted gross profit. In addition, the costs of sales include high, unplanned cost overruns due to difficulties in executing several projects. The costs of sales – adjusted with regard to idle capacity costs – totaled € 152.4 million in the 2018 financial year and thus exceeded revenue. The total adjusted gross profit in the 2018 financial year was negative in an amount of € -0-6 million (previous year: € 12.4 million).

At € 2.7 million, the other operating income remained at the level of the previous year (€ 2.8 million). The other operating income of the financial year mainly includes income from exchange rate fluctuations in the amount of € 1.2 million (previous year: € 2.5 million).

Despite the slight decrease in sales expense by -5.0 % to € 13.2 million (previous year: € 13.9 million), sales activities remained at a high level, even in industry comparisons. The measures introduced in the previous periods in order to meet significant prerequisites for improving order intake, including expanding and intensifying customer contacts and increasing the number of project tenders in which KHD participates, have not yet yielded the expected positive results.

Active cost management reduced general and administrative expenses by 5.2 % to € 12.4 million (previous year: € 13.1 million). General and administrative costs include, in addition to the costs of general administration, legal and consulting costs, accounting costs, Management Board remuneration, Supervisory Board remuneration, and costs related to the KHD Group's stock exchange listing.

Other operating expenses decreased significantly in comparison with the previous year to € 5.1 million (previous year: € 9.0 million). Currency exchange rate fluctuations and changes in market value of foreign exchange forward contracts for hedging exposure on foreign currency receivables decreased from € 4.6 million to € 2.1 million as did expenses for research and development, from € 2.3 million to € 1.9 million. Despite this reduction, research and development activities remain at a high level, illustrating the efforts of KHD to continue to expand its technological expertise. Other operating expenses in the previous year include a one-time effect due to the adjustment of personnel capacities in the amount of € 1.2 million.

After deduction of the expenses, the unsatisfactory EBIT amounts to € -31.2 million (previous year: € -25.6 million). Due to the increase in revenue, even though EBIT declined, the EBIT margin improved to -20.6 % (previous year: -25.6 %). Without considering idle capacity costs, the adjusted EBIT amounts to € -28.6 million and the adjusted EBIT margin to -18.8 %.

The net finance income of the Group decreased by € 1.5 million from € 8.8 million to € 7.3 million, but it remains at a high level. In particular, the net finance income includes interest income of € 5.9 million from the two loans granted to AVIC Kairong, each for € 50 million. The largest items under finance expenses, which totaled € 1.3 million (previous year: € 1.0 million), are the interest related to pension benefit obligations, the interest expenses for a bank loan, and interest expenses resulting from the discounting of provisions and other non-current liabilities. The net finance income also made an important contribution to compensate for at least a portion of the operating losses in the 2018 financial year.

Earnings before tax (EBT) declined significantly to € -23.9 million, (previous year: € -16.9 million), and thus remains at an unsatisfactory level. Despite the negative earnings before tax, KHD accounted for income tax expenses of € 1.4 million (previous year: € 2.5 million) in the 2018 financial year. The income tax expense is due to the varying profitability of the subsidiaries. Some subsidiaries achieved positive EBT that resulted in income tax expenses, whereas other subsidiaries sustained significant losses. KHD capitalizes deferred tax assets on temporary differences and tax loss carry-forwards only to a limited extent, so that only a low compensation effect on the current income tax expenses could be recognized. The group net loss for the year amounted to € -25.3 million (previous year: € -19.4 million). Basic and diluted earnings per share deteriorated to € -0.51 (previous year: € -0.39).

Segment Earnings Situation

At € 108.8 million, revenue for the Capex segment was significantly higher than in the previous year (€ 62.2 million). The adjusted gross profit in the Capex business unit (adjusted by idle capacity costs of € 2.6 million, previous year: € 4.9 million) amounted to € -12.0 million (previous year: € 2.8 million). The adjusted gross profit margin of -11.0 % was also significantly lower than the previous year's figure of -4.5 %. The adjusted gross profit margin amounting to € -14.6 million (previous year: € -2.1 million) is still unsatisfactory and on one hand, it is a result of the conscious decision to give growth in business volume priority over margin quality in the ongoing, difficult competitive situation. On the other hand, significant cost overruns in the execution of some projects contributed to the considerable decline in the adjusted gross profit margin by € 12.5 million.

Other operating income of € 2.7 million (previous year: € 2.8 million) was allocated to the Capex business unit. The segment's sales expenses were € 9.6 million (previous year: € 10.4 million) and the general and administrative expenses were € 9.9 million (previous year: € 10.5 million). KHD Group's other expenses are allocated in their entirety to the Capex business unit, i.e. for this segment, other expenses of € 5.1 million (previous year: € 8.7 million) were recorded. Due to major challenges in the market environment and the overall unsatisfactory development, EBIT for the Capex segment amounted to € -36.4 million (previous year: € -28.9 million) and EBIT-margin amounted to -33.5 % (previous year: -46.5 %). Adjusted EBIT was also significantly negative and amounted to € -33.8 million (adjusted EBIT margin of -31.1 %) (Previous year: € -22.8 million, adjusted EBIT margin in the previous year: -36.7 %).

KHD Group revenue in the Plant Services segment totaled € 43.0 million (previous year: € 37.9 million), demonstrating a significant increase. The gross profit in this business unit was € 11.4 million (previous year: € 9.6 million), rising disproportionately with respect to the increase in revenue. As a result, the adjusted EBIT-margin increased from 8.7 % to 12.1 % in 2018 the financial year.

The total of sales expenses, general and administrative expenses, other operating expenses and other income for the Plant Services segment amounted to € 6.1 million (previous year: € 6.3 million). EBIT for the business unit, € 5.2 million (previous year: € 3.3 million), demonstrated a solid increase of more than 50 % compared with the previous year.

Financial Position and Net Assets

Fundamentals of the Financing Strategy

The KHD Group's financing strategy continues to be characterized by a robust liquidity position at Group level and a strong equity base. Both remain prerequisites for consolidating business activities. A solid financial position is also an important basis for the growth targeted following a consolidation phase, which includes investments in new technologies and an expansion of the business model.

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

KHD repaid a bank loan taken out in October 2015 from the Bank of China as scheduled in October 2018. A new loan for € 25 million concluded with the Bank of China was disbursed to KHD in November 2018. The new load has a fixed term and is due for repayment by 2021. The interest rate agreed to for the loan is significantly lower than that obtained by KHD for the two loans granted to AVIC Kairong.

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

All operating companies in the KHD Group have access to bank guarantee credit facilities for various hedging instruments such as guarantees via bank guarantee credit facilities with Deutsche Bank AG (€ 40 million) and Austrian Raiffeisen Bank International AG (€ 38 million). Furthermore, the KHD Group has a bank guarantee credit facility with Zurich Insurance plc, with a total volume of approximately € 5 million. As of December 31, 2018 the bank guarantee credit facilities have been utilized in a total amount of € 45.3 million (previous year: € 33.2 million).

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

Financial Position

Total cash and cash equivalents decreased by € 11.9 million from € 84.1 to € 72.2 million during the reporting year. Besides the short-term liquidity in the form of cash and cash equivalents, KHD can, in case of additional need for liquidity, call in the € 50 million loan that was granted to AVIC Kairong in July 2017 for repayment by giving 30 days' notice.

A bank loan in the amount of € 25 million granted by the Bank of China in the 2015 financial year was repaid in October 2018. A new loan for € 25 million concluded with the Bank of China was disbursed to KHD in November 2018. As a result, the bank loans did not have any effects on the financial situation.

Cash Flow

The cash flow from operating activities totaled € -13.5 million in the financial year (previous year: € 5.3 million). The main reason for the significantly negative cash flow is the high operating loss in the financial year. The operating loss also includes project costs that did not impact cash flow (not cash effective) until December 31, 2018. Especially due to the provisions for the project costs that were not yet cash effective, the net working capital decreased to € -22.5 million (previous year: € -9.0 million).

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

Cash flow effect from operating activities for the year 2018	in € thousand
Cash flow from customer contacts with revenue recognition over time	(26,288)
Cash flow from current liabilities/ invoices from subcontractors	8,620
Cash flow from changes in receivables	28,669
Cash flow from utilization of provisions and long term liabilities	10,227
Cash outflow from result (EBITDA)	(31,197)
Cash flow from tax payments made/ received	(3,321)
Other cash inflows and outflows	(162)
Cash flow from operating activities	**(13,452)**

Cash flow from investing activities of € 2.7 million (previous year: € 3.7 million) mainly results from interest received (€ 5.9 million, previous year: € 6.1 million) on the loans granted to AVIC Kairong with outgoing payments during the same period for investments in property, plant and equipment and intangible assets of € 3.2 million, (previous year: € 2.5 million). The increase in payments for investments is related to the expansion of production in India and future-oriented investments in IT systems.

Cash flow from financing activities of € -0.4 million (previous year: € -0.5 million) results almost exclusively from interest payments for a bank loan in the amount of € 25.0 million.

Total Assets

The balance sheet total decreased slightly from the figure at the end of 2017 (€ 282.6 million) by € 12.2 million to € 270.4 million. Cash and cash equivalents made up 26.7 % of the total assets (previous year: 29.8 %).

At € 123.7 million, non-current assets remained at the level of the previous year. Non-current assets include two loans granted to AVIC Kairong in the 2017 financial year for a total amount of € 100 million. Each of the two loans granted to AVIC Kairong has a fixed term of three years. They are due for repayment in July and November 2020, respectively. Property, plant, and equipment increased considerably from € 6.5 million to € 9.6 million in the 2018 financial year.

The increase is mainly associated with the expansion of KHD's own production capacities in India. In contrast, non-current trade receivables declined significantly from € 10.7 million to € 5.2 million. These primarily include deferred trade receivables in the amount of € 3.7 million (previous year: € 6.5 million). The deferred receivables incur interest at usual market conditions.

In addition to cash and cash equivalents, current assets include contract assets from customer contracts with revenue recognition over time in the amount of € 15.6 million (previous year: € 3.8 million). As of the end of 2018, costs incurred for these contracts plus proportionate profits recognized exceed progress billings. The considerable increase in contract assets is due to the execution status as of the reporting date for several large projects as well as the contractual conditions of payment for these projects. Due to the receipt of payments, trade receivables and other receivables decreased to € 41.6 million (previous year: € 55.5 million). The receipt of payments from AVIC Group companies (affiliated companies) was the major reason for this reduction. Receivables due from companies affiliated with the AVIC Group decreased from € 12.6 million in the previous year to € 0.3 million as of December 31, 2018. Due to the higher volume of projects in execution, advance payments to suppliers increased by € 3.1 million to € 10.8 million as of December 31, 2018.

Financing

Equity saw a decrease from € 149.8 million at the end of 2017 by € 26.7 million to € 123.1 million. The decrease was primarily caused by the net loss for the financial year. Despite the decrease in equity, the equity ratio as of December 31, 2018 amounted to 45.5 % (previous year: 53.0 %) and remains at a fully satisfactory level.

The non-current liabilities at the end of the year were € 50.3 million (previous year: € 26.1 million) and primarily include pension benefit obligations (€ 19.4 million, previous year: € 21.0 million) as well as a bank loan taken out during 2018 (€ 25.0 million, previous year: € 0.0 million). While a bank loan in the amount of € 25 million was reported under current liabilities in the previous year because it was due and payable in the 2018 financial year, the bank loan disbursed in November 2018 is reported under non-current liabilities because it is due for repayment in 2021.

On the liabilities side of the balance sheet, current liabilities decreased to € 96.9 million (previous year: € 106.8 million). A significant reason for this decrease is the repayment of a bank loan in the amount of € 25 million. In contrast, the current operating liabilities increased, in particular due to higher supplier invoices in the final weeks of the 2018 financial year as well as higher project-related provisions. The sum of trade and other payables (primarily resulting from contract costs), other liabilities, contract liabilities, and current provisions increased in comparison with the previous year by a total of € 16.3 million.

Net working capital – the difference between current assets (less cash and cash equivalents and short-term loans) and current liabilities – improved significantly to € -22.5 million (end of 2017: € -9.0 million). However, the net working capital also includes high additional project costs that have not yet been cash effective as of December 31, 2018.

Non-financial Performance Indicators

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

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

Employees

Personnel Development

As of the end of 2018, KHD employed 703 people, 37 more than the previous year's total of 666. The increase occurred primarily in India and is associated with the expansion of KHD’s own production capacities in Faridabad, India. As of the end of 2018, approximately 41 % of employees worked in Germany and 50 % in India.

KHD's personnel expenses in the financial year totaled € 40.1 million, which is equivalent to the previous year’s level (€ 40.1 million). Personnel expenses remained unchanged despite the increase in total employees for two reasons: first, the expenses related to headcount reduction measures (€ 1.2 million) included in the previous year’s value, and second, switch with regard to staff structure. While the number of employees at HW India increased to 41 people during the financial year under review, the staff at other KHD companies remained nearly unchanged.

Development of Team and Leadership Skills

Our employees undergo a variety of internal and external training programs. This is intended to ensure that the knowledge, skills, and working practices are adapted to continuously changing conditions and to customers’ growing expectations. Seminars for our managers have been part of internal training since the 2018 financial year. Internal feedback sessions for the evaluation and development of employees continued in 2018 as well.

ANNUAL FINANCIAL STATEMENTS OF KHD HUMBOLDT WEDAG INTERNATIONAL AG

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

Business Performance in 2018 and Expected Development in 2019 with Significant Risks and Opportunities

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

Liquidity and earnings before tax (excluding the effect of income from investments) are the performance indicators with key relevance. As a management holding company, KHD AG – unlike the operating Group companies – is not additionally controlled based on non-financial performance indicators. KHD AG fully achieved the targets as submitted in the outlook for the 2018 financial year, resulting in a slightly positive result for earnings before tax (excluding the effect of income from investments). In addition to the income from services provided to subsidiaries, particularly the significantly positive net finance income contributed to achieving this target. The forecasted improvement in the liquidity situation was not met in the 2018 financial year. The liquidity of KHD AG remains satisfactory, though it did decrease due to the partial repayment of a loan to a subsidiary during the year.

The expected development of KHD AG in the 2019 financial year is also determined by the operating success and dividend policy of the direct and indirect subsidiaries and, therefore, the development of the KHD Group. To this extent, the statements in the outlook for the Group also apply indirectly to the future development of KHG AG. With respect to the significant performance indicators, KHD AG expects a slightly positive result for earnings before tax (excluding the effect of income from investments) in the 2019 financial year as well. This guidance is based on the assumption that the operating subsidiaries will continue to receive services from the bond arrangement agreement via KHD AG in the planned volume and that the Group charges for the services provided (management tasks of the Management Board members performed for KHD subsidiaries) and received do not change significantly. Furthermore, the outlook also assumes that from the available liquidity and the loans granted, interest income can be generated at a level equal to that of the previous year. Due to further partial repayments of loans to a subsidiary, KHD AG expects a reduction in liquid assets. The liquidity and financing of KHD AG continue to be ensured to their full extent.

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

Results of Operations

KHD AG reports revenue from internal Group services in the amount of € 1,993 thousand (previous year: € 2,515 thousand). The decline in comparison with the previous year is due to the lower demand for Group services from the operating subsidiaries.

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

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.

Personnel expenses in the amount of € 1,497 thousand (previous year: € 1,369 thousand) primarily relate to the compensation of the members of the Company's Management Board.

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

The decrease in other operating expenses in the amount of € 2,318 thousand resulted primarily from the decrease in exchange rate losses by € 1,789 thousand. The exchange rate losses in the previous year totaling € 1,862 were due to the deferred receivable in foreign currency due from AVIC Beijing, which was paid as scheduled during the financial year. The expenses for Group charges decreased by € 529 thousand, and further expenses for other services and travel increased slightly by € 16 thousand. In addition, other operating expenses include legal and consulting costs, costs of preparing and auditing the annual financial statements, Supervisory Board compensation, costs related to the Annual General Meeting, investor relations costs, and other administrative costs.

The income from long-term loans in financial assets (€ 5,931 thousand; previous year: € 6,063 thousand) is the interest income from the loans granted to AVIC Kairong for a total of € 100 million. Interest expenses of € 4,123 thousand (previous year: € 4,458 thousand) primarily result from interest for loans taken out by four subsidiaries (€ 3,330 thousand, previous year: € 3,646 thousand), bank guarantee fees and interest expenses from a bank loan for € 25 million.

After considering income taxes of € 552 thousand (previous year: € 279 thousand), net profit for the year is € 871 thousand (previous year: € 341 thousand), which resulted in an accumulated loss of € 8,705 thousand after taking into account the loss carried forward from the previous year of € 7,834 thousand.

Financial Position and Net Assets

The Company's total assets decreased in this financial year by € 22,622 thousand from € 193,980 thousand to € 171,358 thousand.

The most significant assets of KHD AG, which functions as a management holding company, are the shares in KHD HW in the amount of € 63 million (previous year: € 63 million) and the two loans granted in the 2017 financial year to AVIC Kairong, each in the amount of € 50 million. The total value of these financial investments is equal to 95.3 % of the total assets (previous year: 84.2 %).

The decrease in receivables due from affiliated companies is primarily due to the payment of receivables due from AVIC Beijing. The receivables decreased by € 9,664 thousand, from € 9,754 thousand in the previous year to € 90 thousand.

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 the repayment of a loan to a subsidiary in the amount of € 5,000 thousand and the partial repayment of loans to another subsidiary in the amount of € 23,700 thousand. The outgoing payments are offset by the receipt of payments of receivables due from AVIC Beijing in the amount of € 9,664 thousand and from a loan agreement with a subsidiary in the amount of € 6,850 thousand.

The Company's equity increased in the amount of the net profit generated by € 871 thousand from € 105,798 thousand to € 106,669 thousand. As a result, the equity ratio increased in the financial year to 62.2 % (previous year: 54.5 %).

The liabilities decreased in this financial year by € 22,707 thousand from € 86,425 thousand to € 63,718 thousand. The primary reason for this is the partial repayment of a loan to a subsidiary. Accordingly, the debt ratio of KHD AG (the ratio of total liabilities to equity) decreased to 60.6 % (previous year: 83.3 %).

The financing of KHD AG continues to be ensured to its full extent due to the available liquidity at the end of 2018, the option to require repayment of the loan granted in July 2017 to AVIC Kairong in the amount of € 50 million within 30 days, and the ongoing distribution potential of companies in the KHD Group.

Relations with Affiliated Companies

The Management Board of KHD AG has prepared a report on relations with affiliated companies – a dependent company report – in accordance with Section 312 of the German Stock Corporation Act (AktG) for the 2018 financial year. The KHD Management Board issued the following concluding declaration in the Company's dependent company report:

"With respect to the legal transactions listed and in view of the facts known to us at the time at which the legal transactions were made, our Company received appropriate consideration for each legal transaction in the report for the 2018 financial year regarding relations with affiliated companies. There were no other legal transactions or measures at the request of or in the interest of the controlling companies or one of their affiliated companies in the 2018 financial year."

Accumulated Loss

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

Balance Sheet and Income Statement of KHD Humboldt Wedag International AG

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

Assets	Dec. 31, 2018 € thousand	Dec. 31, 2017 € thousand
Fixed Assets	163,414	163,415
	163,414	**163,415**
Current Assets		
Receivables and other assets	687	11,266
Bank balances	6,947	18,986
	7,634	**30,252**
Prepayments and deferred expenses	**310**	**313**
Total assets	**171,358**	**193,980**

Equity and liabilities	Dec. 31, 2018 € thousand	Dec. 31, 2017 € thousand
Equity		
Subscribed capital	49,704	49,704
Reserves	64,799	64,799
Accumulated loss	-7,834	-8,705
	106,669	**105,798**
Provisions and Accruals		
Accruals for taxes	305	953
Other provisions and accruals	666	804
	971	**1,757**
Liabilities		
Liabilities due to banks	25,059	25,090
Liabilities due to affiliated companies	38,617	61,218
Other liabilities	42	117
	63,718	**86,425**
Total equity and liabilities	**171,358**	**193,980**

Income Statement	2018	2017
	€ thousand	€ thousand
Revenue	1,993	2,515
Other operating income	912	1,244
Cost of purchased services	-344	-339
Depreciation on other plant, operating, and office equipment and on current assets	-3	-3
Personnel expenses	-1,497	-1,369
Other operating expenses	-1,721	-4,039
Interest income/expense	2,083	2,611
Income taxes	-552	-279
Profit for the year	871	341
Loss carried forward from previous year	-8,705	-9,046
Net accumulated loss	**-7,834**	**-8,705**

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

Composition of Subscribed Capital

The Company's subscribed capital (share capital) amounted to € 49,703,573 as of December 31, 2018, and is divided into 49,703,573 no-par-value ordinary shares. All shares are ordinary bearer shares and grant the same rights. The rights and obligations arising from the shares are derived from statutory regulations.

Restrictions affecting Voting Rights or the Transfer of Shares

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

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

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

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

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

The Management Board was not informed of any other shareholders whose voting rights directly or indirectly exceeded 10 % of the total voting rights as of the reporting date December 31, 2018, or at the time of the preparation of the financial statements.

Shares with Special Rights granting Control Authorizations

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

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

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

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

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

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

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

The Management Board members are neither authorized nor empowered to issue or repurchase their own shares.

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

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

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

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

COMPENSATION REPORT

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

Compensation System for Members of the Management Board

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

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

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

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

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

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

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

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

For Dian Xie, appointed as a member of the Management Board effective July 1, 2017 and Yizhen Zhu, appointed as Chief Executive Officer effective December 2, 2018, the Supervisory Board agreed upon variable compensation rules that differ from those of the compensation system. For Mr. Xie and Mr. Zhu, the Supervisory Board can set only personal targets, only financial targets (quantitative, based on key performance indicators), or any combination of personal and financial targets. The achievement of the targets is evaluated based on three defined levels (0 % / 50 % / 100 %). Each target is considered separately here, i.e. exceeding a target value (target achievement > 100 %) cannot be used to compensate for other target values (target achievement < 100 %). If the average target achievement does not reach at least 80 %, no variable compensation will be paid. In order to gear the variable compensation components towards sustainable corporate growth and to create a long-term incentive effect, the targets for

Mr. Xie are based on a two-year assessment period.In consideration of the appointment of Mr. Zhu until December 31, 2019, the evaluation period has been limited to the 2019 financial year.

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

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

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

Total Compensation paid to Management Board Members

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

Name	**Management Board member since:**	**Management Board member until:**
Yizhen Zhu	Dec. 2, 2018	
Jürgen Luckas	April 10, 2015	
Dian Xie	July 1, 2017	
Tao Xing	Dec. 2, 2018	
Gerold Keune	Oct. 17, 2016	Nov. 30, 2018

Mr. Gerold Keune resigned from the Management Board of KHD Humboldt Wedag International AG effective November 30, 2018. With a resolution of the Supervisory Board dated December 2,, 2018, Mr. Yizhen Zhu and Mr. Tao Xing were appointed to the as further members of Management Board, effective immediately.

The total compensation for members of the KHD Management Board active in the financial year under review amounted to € 1,225 thousand in the 2018 financial year (previous year: € 957 thousand).

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

With respect to the benefits granted, it is especially important to consider that under the rules of the German Corporate Governance Code, a “target value” is shown for the both the one-year and multi-year variable compensation instead of the compensation actually earned. This target value can differ substantially from the compensation actually earned with regard to the variable compensation. At KHD, the target value is principally defined as 50 % of the maximum achievable one-year and multi-year variable compensation. Due to the different rule in the contract, the target value for Mr. Xie is defined as 80 % of the maximum achievable variable compensation. Mr. Zhu waived his claim to the Management Board compensation entitled to him contractually for the 2018 financial year, so only the fringe benefit compensation to him is reported. Neither Management Board compensation nor fringe benefits were paid for Mr. Xing in the 2018 financial year. In previous years, the performance-based bonus for Mr. Keune, which had an evaluation period that ran through December 31, 2019, was accrued on a pro rata basis and this value shown as a benefit granted. The accrual for a performance-based bonus reported in the income statement in the amount of € 188 thousand due to the resignation of Mr. Keune in the 2018 financial year is not shown as part of the total remuneration in accordance with Section 314 Paragraph 1 Number 6a of the German Commercial Code (HGB).

The benefits granted to the Management Board members in the 2018 and 2017 financial years can be seen in the following overview:

Benefits granted (in €)	Yizhen Zhu* Chief Executive Officer Management Board member since December 2, 2018				Jürgen Luckas Chief Financial Officer Management Board member since April 10, 2015			
	FY 2017	FY 2018	FY 2018 (Min)	FY 2018 (Max)	FY 2017	FY 2018	FY 2018 (Min)	FY 2018 (Max)
Fixed compensation	100,000	0	0	0	220,000	220,000	220,000	220,000
Fringe benefits	7,378	2,307	2,307	2,307	23,445	23,295	23,295	23,295
Total	**107,378**	**2,307**	**2,307**	**2,307**	**243,445**	**243,295**	**243,295**	**243,295**
One-year variable compensation	11,250	0	0	0	22,500	22,500	0	45,000
Multi-year variable compensation								
Bonus for financial targets (Jan. 1, 2017 to Dec. 31, 2018)	26,250	0	0	0	52,500	52,500	0	105,000
Total	**144,878**	**2,307**	**2,307**	**2,307**	**318,445**	**318,295**	**243,295**	**393,295**
Service cost	0	0	0	0	0	0	0	0
Total compensation	**144,878**	**2,307**	**2,307**	**2,307**	**318,445**	**318,295**	**243,295**	**393,295**

Benefits granted (in €)	Dian Xie Executive Vice President Management Board member since July 1, 2017				Gerold Keune ex-Chief Executive Officer Management Board member October 17, 2016 to November 30, 2018			
	FY 2017	FY 2018	FY 2018 (Min)	FY 2018 (Max)	FY 2017	FY 2018	FY 2018 (Min)	FY 2018 (Max)
Fixed compensation	100,000	200,000	200,000	200,000	385,000	352,917	352,917	352,917
Severance	0	0	0	0	0	470,000	470,000	470,000
Fringe benefits	19,525	23,443	23,443	23,443	46,318	45,759	45,759	45,759
Total	**119,525**	**223,443**	**223,443**	**223,443**	**431,318**	**868,676**	**868,676**	**868,676**
One-year variable compensation	20,000	0	0	0	0	0	0	0
Multi-year variable compensation								
Financial and individual targets (Jan. 1, 2018 to Dec. 31, 2019)	0	40,000	0	50,000	0	0	0	0
Success bonus (Oct. 17, 2016 to Dec. 31, 2019)	0	0	0	0	156,000	0	0	0
Total	**139,525**	**263,443**	**223,443**	**273,443**	**587,318**	**868,676**	**868,676**	**868,676**
Service cost	0	0	0	0	0	0	0	0
Total compensation	**139,525**	**263,443**	**223,443**	**273,443**	**587,318**	**868,676**	**868,676**	**868,676**

* Mr. Zhu was already member of the Management Board from April 1, 2011 to June 30, 2017.
For the 2018 financial year he waived his contractual entitlement for a fixed compensation of € 20,000.

In contrast to the benefits granted, the following table shows the Management Board compensation according to allocation for the 2018 and 2017 financial years:

Allocation (in €)	Yizhen Zhu Chief Executive Officer		Jürgen Luckas Chief Financial Officer	
	FY 2018	FY 2017	FY 2018	FY 2017
Fixed compensation	0	100,000	220,000	220,000
Fringe benefits	2,307	7,378	23,295	23,445
Total	**2,307**	**107,378**	**243,295**	**243,445**
One-year variable compensation	0	0	45,000	0
Multi-year variable compensation				
Bonus for financial targets (Jan. 1, 2017 to Dec. 31, 2018)	0	0	0	0
Total	**2,307**	**107,378**	**288,295**	**243,445**
Service cost	0	0	0	0
Total compensation	**2,307**	**107,378**	**288,295**	**243,445**

Allocation (in €)	Dian Xie Executive Vice President		Gerold Keune ex-Chief Executive Officer	
	FY 2018	FY 2017	FY 2018	FY 2017
Fixed compensation	200,000	100,000	352,917	385,000
Severance	0	0	470,000	0
Fringe benefits	23,443	19,525	45,759	46,318
Total	**223,443**	**119,525**	**868,676**	**431,318**
One-year variable compensation	0	0	0	0
Multi-year variable compensation				
Financial and individual targets (Jan. 1, 2018 to Dec. 31, 2019)	0	0	0	0
Success bonus (Oct. 17, 2016 to Dec. 31, 2019)	0	0	0	0
Total	**223,443**	**119,525**	**868,676**	**431,318**
Service cost	0	0	0	0
Total compensation	**223,443**	**119,525**	**868,676**	**431,318**

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

<u>2018 Financial Year</u>

- Payment of a one-year variable compensation for the 2017 financial year for Mr. Luckas in the amount of € 45,000 for which an accrual in the amount of € 30,000 was established, i.e. net expense in the amount of € 15,000 in the 2018 financial year;
- Establishment of an accrual for a one-year variable compensation for the 2018 financial year for Mr. Luckas in the amount of € 45,000;

- Establishment of an accrual for a one-year variable compensation for the 2018 financial year for Mr. Xie in the amount of € 15,000;

<u>2017 Financial Year</u>

- Establishment of an accrual for a one-year variable compensation for the 2017 financial year for Mr. Luckas in the amount of € 30,000;
- Establishment of an accrual for a one-year variable compensation for the 2017 financial year for Mr. Xie in the amount of € 25,000;

The amounts listed above are reported as part of the total remuneration for Management Board members in the 2018 and 2017 financial years; however, they are not shown in the “Allocation” table because the final payment amount has (had) not yet been determined at the time the compensation report was prepared.

Compensation of Supervisory Board Members

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

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

The total compensation of each member of the Supervisory Board for the 2018 financial year is shown in the following table:

Fixed compensation	**In €**
Shaohua Jin (Chair)[1]	17,534
Gerhard Beinhauer (Deputy Chair)[2]	75,781
Da Hua[3]	46,685
Yiqiong Zhang[4]	30,000
not yet allocated[5]	10,000
Total	**180,000**

[1] Chair of the Supervisory Board since October 16, 2018,
Member of the Supervisory Board since October 12, 2018

[2] Deputy Chair of the Supervisory Board since October 16, 2018,
Chair of the Supervisory Board until October 16, 2018

[3] Member and Deputy Chair of the Supervisory Board until October 12, 2018

[4] Member of the Supervisory Board

[5] According to Section 13 Paragraph 1 of the articles of association, the Supervisory Board decides by resolution on the distribution of the aggregate compensation. A resolution has not yet been passed regarding the allocation of the remaining amount of € 10,000.

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

Fixed compensation	**In €**
Gerhard Beinhauer (Chair)[1]	80,000
Da Hua (Deputy Chair)[2]	60,000
Yiqiong Zhang[3]	30,000
Eliza Suk Ching Yuen[4]	19,590
not yet allocated[5]	6,082
Total	**195,672**

[1] Chair of the Supervisory Board

[2] Deputy Chair of the Supervisory Board

[3] Member of the Supervisory Board

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

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

REPORT ON EVENTS AFTER THE REPORTING PERIOD

The executive management of the subsidiary HW GmbH passed a resolution in March 2019 to introduce an extensive reorganization in the context of a restructuring concept and an associated reduction in staff due to operational reasons. The works council of HW GmbH was informed of the planned reorganization and negotiations regarding the concluding of a settlement of interests and a social plan have begun. The planned reduction in staff is integrated into an entire restructuring plan. One-time additional costs related to reductions in staff will have a significantly negative effect on the net result of for the period of the 2019 financial year. These extra costs are taken into consideration in the earnings forecast in the Management Report.

There have been no other significant developments or events of particular importance since the reporting date of December 31, 2018.

RISK AND OPPORTUNITIES REPORT

Risk Management

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

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

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

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

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

Risk Management Organization, Responsibilities, Instruments, and Reporting

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

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

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

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

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

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

Risk Assessment

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

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

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

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

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

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

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

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

Risk Management for Financial Instruments

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

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

Interest rate risks arise through market-related fluctuations in interest rates. As of the balance sheet date, the KHD Group is reporting a continuous high level of cash and cash equivalents and large loans granted to the AVIC Group, but also significant interest-bearing liabilities. In the fourth quarter of 2018, KHD took out a bank loan with a term of three years and a variable interest rate. Transactions for hedging the variable interest rate were not concluded because the KHD Group does not expect a significant increase in the interest rate until the maturity date of the bank loan. As the interest rate risk with regard to fluctuations in the interest rates for short-term and overnight deposits do have an offsetting impact to a certain extent, this can be regarded as a natural hedge of the interest rate risk from the variable interest rate of the bank loan. The interest rates for the loans to the AVIC Group have been firmly agreed for the applicable term. This means that there is no interest rate risk for the loans.

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

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

Accounting-related Internal Control System

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

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

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

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

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

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

Summary of Company’s or KHD Group’s Risk Position

In summary, it may be concluded that the risks identified do not pose a threat to the Company and to the KHD Group as a going concern, either individually or in combination. From an organizational standpoint, the foundations have been laid to ensure that changes in the risk position are recognized in good time. Overall the risk position has not changed significantly compared with the previous year. With regard to measurable specific risks, valuation allowances and balance sheet provisions have been set up to the extent required in the 2018 financial year.

Risk Areas

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

Risks from Underlying Economic Conditions

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

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

Country Risks

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

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

Procurement Risks

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

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

Innovation Risks

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

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

Project Risks

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

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

Personnel Risks

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

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

Legal Risks

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

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

Tax Risks

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

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

IT Risks

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

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

Default Risks on Loans Extended

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

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

Opportunities

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

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

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

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

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

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

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

OUTLOOK

Projected Market Environment

The International Monetary Fund (IMF) is expecting growth in the world economy of 3.7 % in 2019 and 2020 (3.7 % in 2018). In fact, growth in developing and emerging countries will compensate for the expected decline in growth in the developed, industrialized countries primarily due decreasing US demand.

The World Cement Association expects that growth in global cement demand will remain at a low level (about 1.5 %) in 2019. This development is affected considerably by diminishing cement demand in China, but even after adjusting for these effects, it is expected that the total demand for cement in 2019 will increase by just 2.8 %, remaining at a lower level than the global economic growth expected by the IWF.

Expected Business Development

KHD is again expecting unsatisfactory earnings for the 2019 financial year. After turnaround in order intake expected in previous years did not materialize neither in terms of volume nor with respect to the margin quality, despite intensive sales activities, in 2019 KHD will deeply adjust cost structures by carrying out reorganization measures based on individual locations. In particular, successfully implementing an extensive reorganization of the subsidiary HW GmbH should create a foundation for achieving positive financial results again over the medium term.

Due to ongoing general uncertainty, the sensitivity of the cement markets and restraint among cement producers when it comes to larger investments, significant risks still exist – particularly for the Capex segment. This may lead to further delays in awarding projects in fulfilling the pre-conditions for commencing project execution for contracts that have already been effectively concluded and may even result in the suspension of projects. In addition to continued pressure on margins due to tough competition, technical and economic risks from project execution continue to demand our attention.

In 2019, KHD will implement its sales activities in a more targeted manner with regard to business opportunities in growth markets. We are expecting an order intake for the 2019 financial year that is about the same as that of the previous year, 2018. The low order intake reflects the revised planning assumptions, i.e. the quality of the projects will have higher priority with respect to purely volume related growth. Order backlog at the end of 2019 will be below the previous year’s value. With successful implementation of the planned reorganization and the related adjustments with regard to staff at the subsidiary HW GmbH, full capacity utilization should be ensured for the most part in the second half year 2019.

Revenue for the 2019 financial year will be slightly higher than the previous year’s level. Since revenue in the 2019 financial year will also be generated through projects won in a highly competitive environment with strong margin pressure, we again expect a low value for the gross profit margin that is, however, significantly improved over the previous year. Because there are no effects expected in the 2019 financial year that would be comparable to the very high cost overruns in 2018, the expected adjusted gross profit is considerably higher than the previous year’s value.

Overall, KHD expects a significant improvement in the result of operations in comparison with the 2018 financial year. However, because the gross profit margins of projects in the current order backlog remain unsatisfactory and due to the insufficient business volume and the expected reorganization costs, the income for the 2019 financial year will not be sufficient to cover all of the costs of the KHD Group. For this reason, KHD again expects a considerably negative figure for the EBIT as well as for the adjusted EBIT and, accordingly, a considerably negative EBIT margin as well as a considerably negative adjusted EBIT margin in the current 2019 financial year. Both figures, however, will improve significantly in comparison with the 2018 financial year. We aim to counter the continued margin pressure caused by ever tougher competition in cement plant engineering through increased realization of cost advantages available through our Global Supply Chain Management, considerable improvement in project execution, and strict cost discipline. In conjunction with increased sales efficiency and expanded service activities, these measures are intended to guarantee a return to profitability in the medium term. The core element for returning to profitability is, in particular, the successful implementation of the extensive reorganization of the subsidiary HW GmbH. This should reduce cost structures to a level that is viable over the long term while noticeably increasing the quality of service from the sales stage up to commissioning the cement plant.

Due to a distinctly positive financial result, which is forecasted to reach the level of the 2018 financial year, KHD is also expecting considerable improvements in earnings before tax (EBT) in comparison with the 2018 financial year.

For operating cash flow in 2019 we expect a negative figure in the low, double-digit millions. The operative cash outflows are primarily due to the high additional project costs from the 2018 financial year that will be cash-effective in the 2019 financial year. Moreover, cash outflows related to costs of the reorganization will already occur to some extent in the 2019 financial year.

Overall, due to the ongoing difficult market conditions, KHD again expects an unsatisfactory result of operations for the 2019 financial year. In order to achieve positive results again in the medium term, the successful implementation of the reorganization measures that have been introduced, together with significant reduction in staff and improved margin quality with regard to order intake are crucial. We forecast that KHD’s financial and net assets position will remain stable and will probably not change significantly in the 2019 financial year (compared to the previous year). With the continuing, sufficient liquidity position combined with our high equity ratio makes it possible for us to implement the reorganization successfully and gives us the flexibility we need to master even difficult market phases well. Our objectives are still the continuous development of our portfolio of products and services and making the most of opportunities for internal and external growth.

Expected Economic Development of the Capex Segment

We are expecting an order intake in the Capex segment in the 2019 financial year that is about the same as that of the previous year. The low order intake reflects the revised planning assumptions, i.e. the quality of the projects will have higher priority with respect to purely volume related growth. However, customers' investment decisions remain subject to considerable uncertainty due to economic, financial and political unpredictability. According to the budget planning, order backlog for the Capex business unit as of the end of 2019 will be below that of the previous year. With successful implementation of the planned reorganization and the related adjustments with regard to staff at the subsidiary HW GmbH, full capacity utilization should be ensured for the most part in the second half year 2019.

Due to current order backlog and the expected order intake, the KHD Group expects revenue in the Capex segment for the 2019 financial year to remain approximately at the level of the 2018 financial year.

Despite the measures introduced in previous years toward cost optimization, our planning in the Capex segment once again shows significantly negative EBIT or adjusted EBIT and a significantly negative EBIT or adjusted EBIT margin. This is, in particular, due to the low margins in the current order backlog and a business volume that is still not sufficient for achieving the profit threshold. Because there are no effects expected in the 2019 financial year that would be comparable to the very high cost overruns in 2018, considerable improvement is expected in comparison with the 2018 financial year.

Expected Economic Development of the Plant Services Segment

Due to the good potential in the Plant Services segment, the expansion of our market position in this business unit remains an important goal for the 2019 financial year. In accordance with our planning for the 2019 financial year, for this segment we are expecting a considerable increase in order intake compared to the 2018 financial year (€ 43.1 million).

On the revenue side, the planned growth in the Plant Services segment should result in revenues in the 2019 financial year that are significantly above the previous year’s figure. In turn, a significantly positive EBIT is expected in the Plant Services business unit.

Opportunities and Risks Relating to the Outlook for the 2019 Financial Year

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

Significant risks and opportunities regarding the 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 2019 financial year. Despite close collaboration with customers during the tendering process, customers' investment decision and the awarding of individual projects to the KHD Group can only be forecast with substantial uncertainty, possibly leading to either a significantly higher or significantly lower order intake.

The revenue outlook is mainly based on the order backlog as of December 31, 2018 and expected order intake for the initial months of the 2019 financial year in the Capex segment and on the planning of the relatively stable business in the Plant Services segment. Particularly with regard to the expected order intake in the first six months of the 2019 financial year there are significant risks and opportunities in terms of the planned revenue figures. Delays or accelerations in project execution can directly affect the planned revenue figure for the financial year in addition to the risk that projects reflected in planned order intake do not materialize or are postponed and the possibility that additional projects not included in the budget are awarded to KHD.

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

The opportunities and risks with regard to the forecast in the 2019 financial year are also based on the reorganization measures introduced at the subsidiary HW GmbH. The reorganization, together with a significant reduction in staff will result in high, one-time costs in the 2019 financial year, but these have already been taken into consideration in the forecast. The successful implementation of the extensive reorganization will result in a significant improvement in efficiency and a long term adjustment of the cost structures under which a positive financial result can be achieved again in the medium term. In contrast, if the reorganization fails, there is a risk that the existing structural costs cannot be covered over the long term, which would jeopardize a return to the profit zone.

Cologne, March 19, 2019

The Management Board

(s) Yizhen Zhu (s) Jürgen Luckas (s) Dian Xie

(s) Tao Xing

1 Group Income Statement for KHD Humboldt Wedag International AG for the 2018 Financial Year

in € thousand	Note	2018	2017
Revenue	4	151,766	100,098
Cost of sales	21	(154,990)	(92,564)
Gross profit		**(3,224)**	**7,534**
Other operating income	22	2,714	2,821
Sales expenses	23	(13,234)	(13,934)
General and administrative expenses	24	(12,398)	(13,076)
Other expenses	25	(5,054)	(8,965)
Profit before interest and taxes (EBIT)		**(31,196)**	**(25,620)**
Finance income	26	8,634	9,799
Finance expenses	26	(1,297)	(1,049)
Net finance income		**7,337**	**8,750**
Profit before tax (EBT)		**(23,859)**	**(16,870)**
Income tax expense	27	(1,441)	(2,499)
Group net loss for the year		**(25,300)**	**(19,369)**
Of which are attributable to:			
Parent company shareholders		(25,312)	(19,292)
Non-controlling interests		12	(77)
		(25,300)	**(19,369)**

		2018	2017
Net profit attributable to shareholders (in € thousand)		(25,312)	(19,292)
Weighted average number of shares outstanding		49,703,573	49,703,573
Basic (undiluted) and diluted earnings per share in €	28	(0.51)	(0.39)

2 Group Statement of Comprehensive Income for KHD Humboldt Wedag International AG for the 2018 Financial Year

in € thousand	2018	2017
Group net loss for the year	(25,300)	(19,369)
Items that will be reclassified subsequently to profit or loss when specific conditions are met		
Currency translation differences	(1,559)	(3,266)
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	484	176
Effect from the first-time adoption of IFRS 9	(261)	-
Other comprehensive income	**(1,336)**	**(3,090)**
Group comprehensive income	**(26,636)**	**(22,459)**
Of which attributable to:		
Parent company shareholders	(26,649)	(22,380)
Non-controlling interests	13	-79
	(26,636)	**(22,459)**

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

The actuarial gains and losses recognized in other comprehensive income are reduced in principle to the related deferred tax assets and deferred tax liabilities, which are also recognized in other comprehensive income in their entirety, without affecting profit and loss. Actuarial gains and losses do not include any deferred tax liabilities in the financial year (previous year: deferred tax liabilities in the amount of € 68 thousand).

3 Group Balance Sheet for KHD Humboldt Wedag International AG as of December 31, 2018

ASSETS	Note	Dec. 31, 2018	Dec. 31, 2017
in € thousand			
Non-current assets			
Property, plant and equipment	5	9,613	6,513
Goodwill	6	5,162	5,162
Other intangible assets	6	1,298	897
Trade and other receivables	7	5,230	10,650
Other financial assets	11	100,005	100,005
Deferred tax assets	8	2,428	2,474
Total non-current assets		**123,736**	**125,701**
Current assets			
Inventories	9	4,405	3,935
Contract assets	10	15,565	3,822
Trade and other receivables	7	41,634	55,553
Payments made in advance		10,796	7,719
Other financial assets	11	1,097	1,367
Income tax assets		932	414
Cash and cash equivalents	12	72,228	84,127
Total current assets		**146,657**	**156,937**
Total assets		**270,393**	**282,638**

EQUITY AND LIABILITIES	Note	Dec. 31, 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		(8,195)	(6,636)
Retained earnings		19,207	44,296
Shares of equity attributable to shareholders of the parent company		121,813	148,461
Non-controlling interests		1,299	1,300
Total equity	13	**123,112**	**149,761**
Non-current liabilities			
Other liabilities	16	3,120	3,183
Loan	16	25,000	-
Pension benefit obligations	14	19,381	20,960
Deferred tax liabilities	8	51	199
Provisions	15	2,795	1,716
Total non-current liabilities		**50,347**	**26,058**
Current liabilities			
Trade and other payables	16	46,032	35,538
Borrowings		-	25,000
Contract liabilities and advanced payments received	17	22,257	30,968
Income tax liabilities	16	299	1,461
Provisions	15	28,346	13,852
Total current liabilities		**96,934**	**106,819**
Total equity and liabilities		**270,393**	**282,638**

4 Group Statement of Cash Flows for KHD Humboldt Wedag International AG for the 2018 Financial Year

in € thousand	**2018**	**2017**
Cash flow from operating activities		
Group net loss for the year	(25,300)	(19,369)
Income tax expense recognized in the income statement	1,441	2,499
Net finance income recognized in the income statement	(7,337)	(8,750)
Earnings before interest and taxes (EBIT)	**(31,196)**	**(25,620)**
Amortization and depreciation of non-current assets	1,241	1,393
Book gain (-)/loss on disposal of fixed assets	(96)	(15)
Book gain (-)/loss on disposal of consolidated companies	-	(73)
Increase(-)/decrease in trade receivables and financial assets	18,428	44,566
Increase (-)/decrease in inventories and contract assets	(12,213)	12,293
Increase (-)/decrease in payments made in advance and other financial assets	(2,807)	(2,458)
Increase (+)/decrease in trade and other payables and contract liabilities and advance payments received	7,066	(14,070)
Increase (+)/decrease in pension benefit obligations	(1,579)	(1,461)
Increase (+)/decrease in provisions and non-current liabilities	10,227	(8,420)
Other non-cash-transactions	(115)	(49)
Other translation differences	(788)	(253)
Interest received	1,838	2,612
Interest paid	(137)	(149)
Income tax received	99	288
Income tax paid	(3,420)	(3,304)
Cash flow from operating activities	**(13,452)**	**5,280**
Cash flow from investing activities		
Cash outflow for intangible assets	(811)	(629)
Cash outflow for property, plant and equipment	(2,396)	(1,834)
Cash inflow from the disposal of property, plant and equipment	115	28
Interest received from Intercompany loans	5,931	6,063
Gain on disposal of consolidated companies and other business units less funds transferred	-	123
Cash flow from investing activities	**2,839**	**3,751**

in € thousand	2018	2017
Cash flow from financing activities		
Inflows from the receipt of loans	25,000	-
Outflow from repayment of bank loans	25,000	-
Dividends paid to parent company shareholders	(13)	-
Interest paid for loans	(416)	(532)
Cash flow from financing activities	**(429)**	**(532)**
Change in unrestricted cash and cash equivalents	**(11,042)**	**8,499**
Opening balance of unrestricted cash and cash equivalents	84,041	77,989
Exchange rate effects	(771)	(2,447)
Closing balance of unrestricted cash and cash equivalents	**72,228**	**84,041**

in € thousand	Dec. 31, 2018	Dec. 31, 2017
Composition of unrestricted cash and cash equivalents		
Current bank accounts and cash	49,389	62,833
Short-term bank deposits and restricted cash	22,839	21,294
Total cash and cash equivalents	**72,228**	**84,127**
Restricted cash (collateral for bank guarantees)	-	(86)
Closing balance of unrestricted cash and cash equivalents	**72,228**	**84,041**

Cash and cash equivalents decreased in the financial year by € 11,899 thousand to € 72,228 thousand (previous year: € 84,127 thousand). The reason for this is particularly the significant cash outflow from operating activities of € 13,452 thousand (previous year: cash inflow of € 5,280 thousand). The cash inflows from investment activities of € 2,839 thousand (previous year: € 3,751) are offset by cash outflows from financing activities in the amount of € 429 thousand (previous year: € 532 thousand). The cash and cash equivalents were affected by negative exchange rates in the amount of € 771 thousand in the 2018 financial year (previous year: negative exchange rates in the amount of € 2,447 thousand). At the end of the year, unrestricted cash and cash equivalents had decreased by € 11,813 thousand (previous year: increase of € 6,052 thousand) to € 72,228 thousand (previous year: € 84,041 thousand).

5 Group Statement of Changes in Equity for KHD Humboldt Wedag International AG for the 2018 Financial Year

in € thousand	Subscribed capital	Capital reserves	Treasury shares	Currency translation differences recognized in equity	Retained earnings	Equity attributable to shareholders of the parent company	Non-controlling interests	Total
Dec.31, 2016 / Jan. 1, 2017	**49,704**	**61,097**	**-**	**(3,370)**	**63,411**	**170,842**	**1,379**	**172,221**
Group net loss for the year	-	-	-	-	(19,292)	(19,292)	(77)	**(19,369)**
Actuarial gains and losses	-	-	-	-	178	178	(2)	**176**
Currency translation differences	-	-	-	(3,266)	-	(3,266)	-	**(3,266)**
Group comprehensive income	**-**	**-**	**-**	**(3,266)**	**(19,114)**	**(22,380)**	**(79)**	**(22,459)**
Other changes	-	-	-	-	(1)	(1)	-	**(1)**
Dec. 31, 2017 / Jan. 1, 2018	**49,704**	**61,097**	**-**	**(6,636)**	**44,296**	**148,461**	**1,300**	**149,761**
Group net loss for the year	-	-	-	-	(25,312)	(25,312)	12	**(25,300)**
Actuarial gains and losses and other effects on the group comprehensive income*	-	-	-	-	222	222	1	**223**
Currency translation differences	-	-	-	(1,559)	-	(1,559)	-	**(1,559)**
Group comprehensive income	**-**		**-**	**(1,559)**	**(25,090)**	**(26,649)**	**13**	**(26,636)**
Other changes	-	-	-	-	1	1	(1)	**-**
Dividend payments	-	-	-	-	-	-	(13)	**(13)**
Dec. 31, 2018	**49,704**	**61,097**	**-**	**(8,195)**	**19,207**	**121,813**	**1,299**	**123,112**

* The effect of the initial adoption of the new IFRS 9 regulations (€ 261 thousand) is recorded in other comprehensive income.

6 Notes to the Group Financial Statements of KHD Humboldt Wedag International AG for the 2018 Financial Year

1. Summary of Major Accounting and Measurement Principles

Basis of Preparation and Other Notes

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

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

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

The Group income statement has been prepared using the cost of sales method. The financial year of KHD and of itssubsidiaries and joint ventures included in the group financial statements corresponds to the calendar year.

Consolidation

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

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

Currency Translation

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

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

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

	currency	Closing rate As of Dec. 31, 2018	Average rate Jan. 1 to Dec. 31, 2018
	1 Euro =		
Australia	**AUD**	1.6247	1.5852
India	**INR**	79.6527	80.5622
USA	**USD**	1.1446	1.1780
Malaysia	**MYR**	4.7301	4.7513
Brazil	**BRL**	4.4425	4.3255
Russia	**RUB**	79.7958	74.0612

Exchange rates used in the preceding financial year:

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

Intangible Assets

Goodwill

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

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

Other Intangible Assets

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

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

Property, Plant, and Equipment

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

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

Under the leases concluded, the major risks and benefits from the leased asset remain with the lessor. As a result, all leases are classed as operating leases. Therefore, all payments for operating leases are expensed in the income statement using the accrual basis of accounting. The reporting for operating leasing has undergone fundamental changes as the new leasing accounting rules according to IFRS 16 have come into effect as of January 1, 2019. With regard to how this has affected the KHD financial statements, reference is made to the section titled “First application of new accounting standards”.

Borrowing Costs

Borrowing costs are capitalized in the KHD Group to the extent that they are attributable to the purchase or production of qualifying assets. Borrowing costs are otherwise expensed through the income statement under net finance income. As in the previous year, no borrowing costs were capitalized in the 2018 financial year.

Impairment Test on Non-current Assets

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

Financial Instruments:

Starting from the 2018 financial year onwards, KHD is applying the new accounting standard IFRS 9, which replaces the previous rules of IAS 39. The application of the new principles of IFRS 9 is not done retroactivly. In the initial application period, starting January 1, 2018, KHD is exercising the right to recognize the cumulative effects of the transition in equity without affecting profit and loss. The effects of the initial application are recorded in the section titled “First application of new accounting standards”. The corresponding figures from the previous year were not adjusted.

IFRS 9 introduces a new model for classifying and measuring financial assets. Financial assets are classified based on the characteristics of the cash flows accompanying the financial assets (cash flow conditions) as well as the underlying business model (business model conditions). This results in three possible measurement categories:

- Measurement of the amortized costs for debt instruments
- Neutral measurement (without affecting profit and loss) at the fair value for debt instruments (with recycling) and for equity instruments (without recycling)
- Measurement through profit and loss at the fair value for debt instruments, derivatives, and equity instruments

Financial assets are designated to a measurement category at the time of initial recognition. Financial assets are measured at fair value on initial recognition. Subsequent measurements are made according to the rules of the respective measurement category. For the most part, at KHD financial assets are measured at amortized cost. Only those financial assets held for trading and the derivatives purchased for hedging purposes are assigned to the measurement category “measured at fair value through profit or loss”. The Group has not yet used the fair value option.

In the KHD Group, financial assets include primarily cash and cash equivalents, loans and receivables, equity instruments, and derivative financial instruments for hedging purposes.

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

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

- Equity instruments:

  To a limited extent, for trading purposes, the Group holds financial assets that are measured at fair value through profit or loss.

- Derivative financial instruments and hedges

  The Group regularly utilizes derivative financial instruments to mitigate the foreign currency risk of recognized assets and liabilities or of planned transactions denominated in foreign currencies. All derivative contracts are exclusively foreign exchange forward contracts. These are initially recognized at fair value at the date the contract is concluded and measured at fair value in subsequent periods. The fair value of derivatives is calculated on the basis of discounted cash flow analyses, using corresponding yield curves for the term to maturity of the instruments concerned. The economic hedging relationships are not reported as on-balance hedging accounting relationships. The right according to IFRS 9 to disclose hedging relationships in the balance sheet has not been utilized. As a result, the changes in fair value of the concluded derivative financial instruments are recognized directly in the income statement.

Financial liabilities as defined by IFRS 9 relate to financial liabilities that are measured at amortized cost. Financial liabilities are measured at fair value, including transaction costs, at the time of initial recognition. In the following periods, they are measured at amortized cost using the effective interest rate method. Measurement of financial liabilities through profit and loss is only implemented for derivative financial instruments. The fair value option is not utilized.

Impairment of Financial Assets

IFRS 9 introduces a new model for impairment for financial assets. The effects of the initial application of the impairment model were recognized as of January 1, 2018 in equity without affecting profit and loss and are reported in the section titled “First application of new accounting standards”.

In the new IFRS 9 impairment model, not only incurred losses, but also expected losses (Expected Loss Model) are reported. Because expected losses are taken into account, impairment losses are recognized earlier in the new IFRS 9 model than under IAS 39. KHD calculates expected credit default based on externally available information regarding the credit worthiness of the respective debtor and the credit rating estimates of external credit agencies.

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

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

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

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

Inventories
Inventories are carried at cost. In general, raw materials, consumables and supplies are measured at moving average cost. The amount of any write-down to net realizable value is recognized. The net realizable value is composed of the estimated selling price in the ordinary

course of business less the estimated cost of completion and costs necessary to make the sale. In case of an increase in net realizable value of inventories that have been written-down the compulsory reversal of write-down is recognized as a reduction in the amount of inventories recognized as an expense.

Project-specific Contract Assets and Contract Liabilities from Customer Contracts with Revenue Recognition over Time

Since January 1, 2018, claims or obligations from customer contracts with revenue recognition over time are reported according to the rules of IFRS 15. In these cases, KHD determines the result and revenue according to the stage of completion of the respective customer project based on the proportion of contract costs already incurred for the project to the estimated total contract costs. This means that the revenue recognition over time for customer contracts is equivalent to the recognition of profit according to the percentage of completion (PoC) method based on the stage of completion. An expected loss from customer contracts is immediately recorded to its full extent as an expense. Depending on the amount of progress billings, customer contracts with revenue recognition over time are recognized under contractual assets or contract liabilities and advance payments received. They are measured at cost incurred plus a proportionate profit depending on the stage of completion. To the extent that contract revenue (contract costs incurred plus recognized contract profits) exceeds the progress billings, customer projects are recognized as contractual assets. If there is a negative balance after deducting progress billings, this balance is presented as a liability under contract liabilities and advance payments received. Expected contract losses are recognized through valuation allowances or loss order provisions and all identifiable risks are taken into consideration in determining such losses. 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. With regard to the effects of the initial application of IFRS 15 on the KHD financial statements, reference is made to the section titled “First application of new accounting standards”.

Pension Benefit Obligations and Retirement Benefit Plans

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

Personnel expenses of some subsidiaries include contributions for defined contribution plans. Payments are made to pension insurance funds on a contractual basis. The Group companies enter into no obligations beyond the rendering of contribution payments. The Group companies do not enter into any obligations beyond the rendering of contribution payments.

In addition, there is a defined contribution plan for all employees of the Group companies in Germany within the scope of the German statutory pension scheme, with a current employer contribution rate of 9.30 % (previous year: 9.35 %).

Provisions and Accruals

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

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

Provisions are measured at the expected settlement value, taking into consideration all identifiable risks. The settlement value is determined based on the best possible estimate. The expected outflow of resources embodying economic benefits for all products covered by warranty terms is estimated by the Group as of the balance sheet date. While recognizing provisions, individual warranty obligations with a probability of occurrence that is more than 50 % are considered. In addition, provisions are measured on the basis of expenses incurred in the past combined with current estimates of the warranty risk.

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

Income Tax Expenses

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

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

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

Recognition of Income and Expenses

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

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

Income and expenses arising in connection with customer contracts that meet the requirements for revenue recognition over time according to IFRS 15.35 are recognized as revenue and expenses, respectively, by reference to the stage of completion of the contract activity at the balance sheet date using the percentage of completion (PoC) method. An expected loss on a construction contract is recognized as an expense immediately.

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

Estimates and Assumptions

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

Point in Time at which the Entity satisfies Performance Obligations for Customer Contracts with Revenue Recognition over Time

KHD operates in the area of long-term plant engineering and determines the point in time at which the entity satisfies performance obligations for customer contracts with revenue recognition over time in accordance with the percentage of completion (PoC) method based on the stage of completion. The point in time at which revenue and profit are recognized is determined based on the percentage of completion. KHD determines the percentage of completion based on the cost to cost method, which establishes the percentage of completion based on the proportion of contract costs already incurred to the estimated total contract costs. According to an assessment by management, determining the stage of completion based on the input oriented cost to cost method provides a realistic and faithful representation of the transfer of goods and services to the customer because the costs applied are equivalent to the output provided to the customer.

With the cost to cost method, the estimate of the stage of completion is particularly important; moreover, it can include estimates with regard to the scope of deliveries and services required to meet the contractual obligations. These significant estimates also include the overall contract revenues, the overall project costs, the contract risks and other relevant figures.

At KHD, the overall project revenues result from contractually agreed fixed price contracts. As a rule, variable revenue agreements that are affected by estimates do not exist. Allocating the overall revenue across several service components is not necessary due to the specific features of KHD's plant engineering business, because individual components of a plant cannot be identified separately as goods and services as defined by IFRS 15 (see the section titled "First application of new accounting standards").

- The estimation of overall project costs and contract risks is of particular significance. The estimation of overall project costs is greatly influenced by the technical and expert assessment of the employees responsible for the project. Changes in estimates can lead to an increase or decrease in revenue. KHD regularly checks and, if necessary, adjusts all of the estimates in connection with such customer contracts. In this case, the estimates made by the employees responsible for the project are checked for plausibility and reliability in a standardized process by people who are not involved with the project and adjusted accordingly.

For customer contracts for which the entity satisfies a performance obligation at a specific point in time, revenue is recognized when the power of control is transferred based on the delivery documents. In general, there are no significant discretionary decisions with regard to these projects.

Impairment of Goodwill

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

Income Tax Expenses

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

Accounting for Employee Benefits

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

Provisions and Accruals

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

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

First Application of New Accounting 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 adopted by the European Union (EU).

IFRS 15, "Revenue from Contracts with Customers"

In this reporting period, KHD is applying IFRS 15, "Revenue from Contracts with Customers", for the first time, retrospectively to January 1, 2018. The new standard summarizes the previous regulations on revenue recognition and transfers these into a uniform model, which is applicable for all industries and all types of revenue transactions. The new standard therefore also encompasses the rules of IAS 18 in addition to the reporting of construction contracts previously regulated in IAS 11. The new, uniform model for revenue recognition in IFRS 15 introduces a five step model, on the basis of which the amount of revenue and the time, or period, of the recognition of the revenue are determined:

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

A significant element of IFRS 15 is the identification of separate performance obligations in the respective customer contracts. However, the required separation of performance obligations is of minor importance for the project contracts of KHD (Capex segment). For the customer-specific plants engineered by KHD, it will be routinely assumed that the individual components of a plant cannot be identified separately as goods and services as defined by IFRS 15. KHD's primary service is the integration of the individual components within the context of a functional plant. And because, generally speaking, the functionality of the equipment supplied with regard to the guaranteed service parameters when the cement plant is operating is considered an entire service with respect to the debt owed, the individual components are to be viewed as highly integrated with each other. The relevant group of services, therefore, is the functioning package of equipment. For KHD, this means that in a contract, separation into various groups of services will not be the case. The contract as a whole is the respective group of services. This understanding is equivalent to the previous process, so there will be no significant changes for KHD due to the required separation of performance obligations.

IFRS 15 stipulates revenue recognition at the point when the entity satisfies the performance obligation. The criteria for recognizing revenue over time in accordance with IFRS 15.35 are routinely in place for KHD project contracts in the Capex segment. This means that either the requirements of IFRS 15.35b or IFRS 15.35c or even both regulations are met. KHD creates or improves an asset in accordance with IFRS 15.35b which the customer controls even during its establishment. Due to the high degree of customer individuality, the customer controls this asset in an economic sense as soon as the project begins. Customer contracts also include an enforceable claim for payment for the service provided as defined by IFRS 15.35c. This enforceable claim regularly includes – besides the reimbursement of incurred costs – a compensation for lost profit. As a result, the requirements for recognizing revenue over time for the contracts in the Capex segment are fullfilled.

In the context of the initial application of IFRS, the previous year's values were not adjusted because KHD is using the option for a simplified and modified first time adoption as of January 1, 2018. The changes to the balance sheet and the income statement based on the initial application of the rules in the period are as follows.

- Since January 1, 2018, KHD no longer includes the 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 items is equivalent to the items "Contract assets" and "Contract liabilities and advance payments received" as required according to IFRS 15 terminology, the items were renamed accordingly in the column for the previous year. Both items are an direct result of revenue recognition over time. The balance sheet item "Contract assets" does not differ from the previous 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 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). In the balance sheet the contract liabilities are summarized 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 relate 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 costs of obtaining a contract relate primarily to commission for representatives. While these costs have been recorded in the past as part of the project costs at the beginning of a project, IFRS 15 requires that commissions should be recognized separalty under non-current assetsf from January 1, 2018 onwards. The costs for obtaining contracts, which are to be reported as a non-current 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 non-current asset is not significant in comparison with the previous methodology.

- Changes in disclosure 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 disclosed 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 disclosed separately; instead, they were included as part 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).

IFRS 9, “Financial Instruments”

As of January 1, 2018, KHD has adopted IFRS 9, “Financial Instruments”. The standard introduces new recognition and measurement regulations for financial instruments and replaces IAS 39. The new standard notably introduces major changes relating to the classification and measurement of financial assets, with classification to be based on the type of business model and on contractual cash flows. In this context, impairment assessment is changed from an incurred loss model to an expected loss model. Depending on the type of the financial asset, either the expected credit default for the next twelve months or the total remaining term is to be reported (“simplified approach”). In general, this results in an earlier assessment of impairment losses than under IAS 39. A new hedge accounting model is also introduced to bring hedge accounting more closely into line with the risk management activities of the entity in the future. The complete revision of IAS 39 by IFRS 9 results in additional disclosures.

KHD is using the option for a simplified first time adoption. The cumulative effects of the transition will be recognized in equity without affected profit and loss. 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.

The following table shows the allocation of the financial assets according to the original measurement categories of IAS 39 and the new categories of IFRS 9 at the time of initial adoption. Effects in terms of measurement totaling € 0.3 million occur only in the initial application of expected credit defaults (expected loss model) in the context of the new impairment model. Ultimately, the effects of IFRS 9 on the KHD Group financial statements are insignificant, both qualitatively and quantitatively.

in € thousand	IAS 39 measurement category	IFRS 9 measurement category	amount in accordance with IAS 39 as of Dec. 31, 2017	valuation adjustments	amount in accordance with IFRS 9 as of Jan. 1, 2018
Non-current financial assets	loans and receivables	acquisition costs	110,655	-	110,655
Trade receivables	loans and receivables	acquisition costs	35,346	(214)	35,132
Related party receivables	loans and receivables	acquisition costs	12,626	-	12,626
Gross amount due from customers for contract work respectively contract assets	loans and receivables	acquisition costs	3,822	(27)	3,795
Other financial assets	measurement at fair value through profit or loss	measurement at fair value through profit or loss	1,367	(20)	1,347
Derivatives	measurement at fair value through profit or loss	measurement at fair value through profit or loss	747	-	747
Other receivables	loans and receivables	acquisition costs	3,926	-	3,926
Cash and cash equivalents	loans and receivables	acquisition costs	84,127	-	84,127
Total financial assets			**252,616**	**(261)**	**252,355**

KHD is not planning to make use of the right to recognize hedging relationships in the balance sheet, which remains in IFRS 9.

Published Standards for which Application is not yet required

IFRS 16, "Leasing"

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

KHD analyzed the effects on the disclosure of the net assets, financial position and result of operations. In particular, effects of the application of IFRS 16 are expected with regard to contracts for long-term real estate rentals. In this case, KHD is using the option in which leasing and non-leasing components are not separated into the respective contracts, i.e. non-leasing components in the respective contracts are also reported as leases. Because a relatively low number of contractual relationships are affected, the introduction of IFRS 16 will not result in significant system effects. In the context of the introduction, KHD is planning a modified retrospective application as of January 1, 2019, and is using the option to recognize the right of use in the amount of the lease liability adjusted by the lease payments already reported as assets or liabilities.

The operational implementation of the new standard is, for the most part, completed and has resulted in the following effects:

- Based on the contract analyses, KHD will report lease liabilities and lease-related right of use of approx. € 8 million in the initial application of IFRS 16 on

- January 1, 2019. The reporting of leases that were previously reported off-balance will increase the financial liabilities as well as the balance sheet total and will therefore result in a decrease in the equity ratio. Correspondingly, the other financial obligations from lease contracts reported in the Group notes will decrease.

- In the income statement, in the future both depreciation from the pro rata amortization of the right of use and interest expenses from the compounding of the lease liabilities will be reported, while ongoing leasing payments were previously recognized as rental expenses. In this respect, the operating result will improve at the expense of the financial result. The effect on the comprehensive income due to the application of the new standard, however, is of minor significance.

- In the cash flow statement, the repayment portion of the leasing payments from previously effective leases will reduce the cash flow from investing activities. Accordingly, operating cash flow will improve.

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

- IFRIC 23, “Uncertainty over Income Tax Treatments”: Published in June 2017, initial application in the 2019 financial year, endorsement into EU law still pending.
- Amendment to IFRS 9, “Prepayment features with negative compensation”: Published in October 2017, initial application in the 2019 financial year, endorsement into EU law still pending.
- Amendment to IAS 28: “Long-term Interests in Associates and Joint Ventures”, published in October 2017, initial application in the 2019 financial year, endorsement into EU law still pending.
- Amendment to IAS 19: “Plan Amendment, Curtailment or Settlement”, published in June 2018, initial application in the 2019 financial year, endorsement into EU law still pending.

- Annual Improvement Process 2015 - 2017, published in December 2017, initial application in the 2019 financial year, endorsement into EU law still pending.
- 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 derecognition, recognition and disclosure.
- Amendments to IAS 1 and IAS 8: “Definition of Material”, published in October 2018, initial application in the 2020 financial year, endorsement into EU law still pending.
- Amendments to IFRS 3: “Definition of a business”, published in October 2018, initial application in the 2020 financial year, endorsement into EU law still pending.

2. Subsidiaries of KHD Humboldt Wedag International AG as of December 31, 2018

Name of company	Registered office	Main Buisness	Capital and voting rights in % Dec. 31, 2018	Capital and voting rights in % Dec. 31, 2017		Currency	Subscribed capital Dec. 31, 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	3,722,222	3,350,000
Humboldt Wedag Malaysia Sdn. Bhd.	Kuala Lumpur, Malaysia	Plant engineering	100.00	100.00	I	MYR	500,000	500,000
Humboldt Wedag Do Brasil Servicos Technicos Ltda	Belo Horizonte, Brazil	Sales	100.00	100.00	I	BRL	801,847	801,847

D = directly owned
I = indirectly owned

As of December 31, 2018, the scope of consolidation included four (December 31, 2017: four) domestic and eight (December 31, 2017: eight) foreign subsidiaries in addition to KHD.

The only Group company in which there is non-controlling interests is KHD Humboldt Wedag Vermögensverwaltungs-AG ("KHD VV"):

		Interest and voting rights share of non-controlling interests		Gain or loss attributable to non-controlling interests		Accumulated attributable to non-controlling interests	
Name of the company	**Registered office**	**Dec. 31, 2018 in %**	**Dec. 31, 2017 in %**	**Dec. 31, 2018 in € thousand**	**Dec. 31, 2017 in € thousand**	**Dec. 31, 2018 in € thousand**	**Dec. 31, 2017 in € thousand**
KHD Humboldt Wedag Vermögensverwaltungs-AG	Cologne, Germany	8.74	8.74	12	(77)	1,299	1,300

The Group did not acquire any further shares in KHD VV during the 2018 financial year. The Group's share as of Dec. 31, 2018 amounted to 91.26 % as in the previous year. Changes in 2018 to KHD VV equity attributable to KHD are as follows:

	T€
Equity of shareholders of the parent company as of January 1, 2018	**13,575**
Dividend payment	(131)
Change in comprehensive income attributable to shareholders of the parent company in 2018	129
Equity of shareholders of the parent company as of December 31, 2018	**13,573**

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

KHD Humboldt Wedag Industrial Services AG	**Dec. 31, 2018 in € thousand**	**Dec. 31, 2017 in € thousand**
Current assets	15,032	14,965
Non-current assets	-	-
Current liabilities	(86)	(13)
Non-current Liabilities	(74)	(77)
Share of equity attributable to shareholders of the parent company	13,573	13,575
Share of equity attributable to non-controlling interests	1,299	1,300

	2018 in € thousand	**2017 in € thousand**
Revenue	-	1,604
Expenses	140	(2,489)
Net profit / loss for the year	**140**	**(885)**
Net profit for the year attributable to shareholders of the parent company	128	(808)
Net profit for the year attributable to the non-controlling shareholders	12	(77)
Total net profit / loss for the year	**140**	**(885)**
Other comprehensive income attributable to shareholders of the parent company	1	(14)
Other comprehensive income attributable to non-controlling shareholders	-	(2)
Total other comprehensive income	**1**	**(16)**
Comprehensive income attributable to shareholders of the parent company	129	(822)
Comprehensive income attributable to non-controlling shareholders	12	(79)
Comprehensive income	**141**	**(901)**
Dividends paid to non-controlling interests	**-**	**-**
Net cash flow from operating activities	20	2,203
Net cash flow from investment activities	327	402
Net cash flow from financing activities	(144)	-
Total net cash flow	**203**	**2,605**

3. Changes to the Scope of Consolidation

The scope of consolidation of KHD did not change in the 2018 financial year.

4. Segment Reporting

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

The business activities of the two reportable segments as of December 31, 2018 include the following activities and services:

- **Capex (Project Business)**
  In the Capex segment, KHD reports all revenues and expenses resulting from supplying equipment for cement plants and providing services directly linked to the equipment supply. This encompasses process technology, design, engineering, project management and the supply of technology and equipment. In addition, supervision of erection and commissioning of cement plants are allocated to this segment. General and administrative expenses, sales expenses and other expenses (in particular, research and development costs) are allocated to this segment, accordingly.

- **Plant Services**
  The Plant Services segment comprises all revenues and expenses resulting from supplying spare parts and providing services to existing cement plants. Services include optimizing cement plants, maintenance services, carrying out plant audits, creating optimization concepts and training plant personnel. General and administrative expenses, sales expenses and other expenses are allocated to the segment accordingly.

Management and controlling of the KHD Group is based in particular on key figures for the balance sheet and income statement. However, for the operating segments key figures are determined only for the income statement and for order intake, but not for the balance sheet.

In its function as the chief operating decision maker, the Management Board assesses the profitability of the segments based on the operating result (earnings before interest and taxes – EBIT).

The following table provides an overview of the business for the 2018 and 2017 financial years:

in € thousand	Capex Jan. 1- Dec. 31, 2018	Plant Services Jan. 1- Dec. 31, 2018	Total Group Jan. 1- Dec. 31, 2018	Capex Jan. 1- Dec. 31, 2017	Plant Services Jan. 1- Dec. 31, 2017	Total Group Jan. 1- Dec. 31, 2017
Order intake	98,596	43,094	141,690	140,753	41,791	182,544
Revenue	108,785	42,981	151,766	62,188	37,910	100,098
Cost of sales	(123,364)	(31,626)	(154,990)	(64,275)	(28,289)	(92,564)
Gross profit	(14,579)	11,355	(3,224)	(2,087)	9,621	7,534
Other income	2,714	-	2,714	2,821	-	2,821
Sales expenses	(9,592)	(3,642)	(13,234)	(10,434)	(3,500)	(13,934)
General and administrative expenses	(9,895)	(2,503)	(12,398)	(10,495)	(2,581)	(13,076)
Other expenses	(5,054)	-	(5,054)	(8,724)	(241)	(8,965)
Earnings before interest and taxes (EBIT)	(36,406)	5,210	(31,196)	(28,919)	3,299	(25,620)
Net finance income			7,337			8,750
Profit before tax			(23,859)			(16,870)
for information: *depreciation and amortization*	-		*(1,241)*	-		*(1,394)*

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

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

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

	Revenue		Non-current assets	
in € thousand	**2018**	**2017**	**2018**	**2017**
India	47,808	36,049	7,184	4,054
Rest of Asia	28,894	14,493	3	7
Rest of Europe	15,803	5,201	-	-
Africa	15,478	8,742	-	-
Middle East	12,888	16,332	-	-
South America	12,330	2,696	4	10
Russia	7,817	4,775	3,043	3,037
North America	6,696	8,450	21	69
Germany	2,297	2,500	5,814	5,387
China	1,620	618	4	8
Other	135	242	-	-
	151,766	**100,098**	**16,073**	**12,572**

	Order Intake		Order Backlog	
in € thousand	**2018**	**2017**	**2018**	**2017**
Rest of Asia	46,255	47,189	55,443	40,317
India	23,233	45,044	15,581	39,296
Middle East	19,250	6,716	11,908	6,303
Germany	18,949	2,276	17,177	298
South America	15,068	4,003	2,846	360
Africa	6,147	32,383	25,442	34,963
Rest of Europe	4,169	28,902	12,947	24,582
North America	3,502	3,883	3,324	6,418
Russia	3,368	10,028	7,709	12,719
China	1,716	2,035	1,077	2,797
Other	33	85	176	242
	141,690	**182,544**	**153,630**	**168,295**

Order backlog as of December 31, 2018, i.e. the total of the revenue still to be reported from the respective contract, amounted to € 153,630 thousand (previous year: € 168,295 thousand). Of this total, order backlog for the Capex segment is € 130,594 thousand (previous year: € 144,904 thousand) and order backlog for the Plant Services segment is € 23,036 thousand (previous year: € 23,391 thousand). KHD will recognize the existing order backlog as revenue to the degree that project-specific products and services are delivered. In the Capex segment, approx. 90 % of the order backlog will become revenue in the next twelve months. For the remaining 10 %, revenue will be recognized within the next 24 months. For the Plant Services segment, revenue recognition for the current order backlog is expected within the next twelve months. KHD is not using the practical alternative of IFRS 15.122.

Information about Key Customers

In the financial year, revenue attributable to individual customers in the amount € 16.9 million with which at least 10 % of the Group's revenue was achieved, respectively. (Previous year: no revenue was attributable to individual customers with which at least 10 % of the Group's revenue was achieved.) Revenue with the key customers was generated in both segments.

5. Property, Plant, and Equipment

in € thousand	Land and building	Leasehold improvements	Property, plant and equipment	Total
COST				
Dec.31, 2016 / Jan. 1, 2017	**-**	**505**	**10,884**	**11,389**
Additions	1,865	1,174	570	3,609
Disposals	-	(2)	(176)	(178)
Disposal due to changes in consolidated group	-	(27)	(964)	(991)
Foreign currency translation and reclassification	-	-	**(76)**	(76)
Dec.31, 2017 / Jan. 1, 2018	**1,865**	**1,650**	**10,238**	**13,753**
Additions	1,727	1,264	1,111	4,102
Disposals	-	-	(950)	(950)
Foreign currency translation and reclassification	(69)	(94)	14	(149)
Dec.31, 2018	**3,523**	**2,820**	**10,413**	**16,756**
ACCUMULATED DEPRECIATION				
Dec.31, 2016 / Jan. 1, 2017	**-**	**341**	**7,143**	**7,484**
Additions	-	42	820	862
Disposals	-	-	(165)	(165)
Disposal due to changes in consolidated group	-	(27)	(914)	(941)
Dec.31, 2017 / Jan. 1, 2018	**-**	**356**	**6,884**	**7,240**
Additions	-	84	750	834
Disposals	-	-	(931)	(931)
Dec.31, 2018	**-**	**440**	**6,703**	**7,143**
Carrying amount				
Dec.31, 2017	**1,865**	**1,294**	**3,354**	**6,513**
Dec.31, 2018	**3,523**	**2,380**	**3,710**	**9,613**

The additions with respect to properties and buildings in the amount of € 1,727 thousand (previous year: € 1,865 thousand) relate, as in the previous year, to investments in constructing a production facility in India. Investments during the financial year include € 1,706 thousand, which were disclosed under non-current receivables as of January 1, 2018 and did not lead to a cash outflow in the financial year. The additions to remaining property, plant, and equipment in the financial year primarily result, as in the previous year, from investments in the operating and office equipment for the production facility in India and replacement investments in IT hardware. Total depreciation in the financial year amounted to € 834 thousand (previous year: € 862 thousand).

6. Goodwill and Other Intangible Assets

in € thousand	Goodwill	Licences and other intangible assets	Total
Cost			
Dec.31, 2016, Jan. 1, 2017	**5,162**	**9,356**	**14,518**
Additions	-	629	629
Disposals	-	(2)	(2)
Currency differences and reclassification	-	(5)	(5)
Dec.31, 2017 / Jan. 1, 2018	**5,162**	**9,978**	**15,140**
Additions	-	811	811
Disposals	-	(309)	(309)
Currency differences and reclassification	-	(3)	(3)
Dec.31, 2018	**5,162**	**10,477**	**15,639**
Accumulated amortisation			
Dec.31, 2016, Jan. 1, 2017	**-**	**8,551**	**8,551**
Additions	-	532	532
Disposals	-	(2)	(2)
Dec.31, 2017 / Jan. 1, 2018	**-**	**9,081**	**9,081**
Additions	-	407	407
Disposals	-	(309)	(309)
Dec.31, 2018	**-**	**9,179**	**9,179**
Carrying amount			
Dec.31, 2017	**5,162**	**897**	**6,059**
Dec.31, 2018	**5,162**	**1,298**	**6,460**

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

Goodwill

Goodwill as reported as of December 31, 2018 arises from acquisitions and was allocated to the respective cash generating units (CGU). Overall, the carrying amount of goodwill of € 5,162 thousand remained unchanged compared with the previous year. As of December 31, 2018, the goodwill is attributable to the following cash generating units:

CGU	Carrying amount of goodwill allocated to CGU in € thousand	Proportion of total goodwill	Discounting interest rate (before tax) in %	Growth rate in %	Description of key assumptions of company valuation	Procedure used to determine key assumptions
Plant Services HWG	2.127	41.2%	7.6%	1.0%	- Growth rates of the respective markets - Industry-specific cycles - Selling prices - Procurement prices	- Intercompany estimate of the responsible sales and purchasing departments - Economic conditions expected by KHD AG and external market research
Plant Services KHD OOO	1.605	31.1%	13.8%	1.0%	- Growth rates of the respective markets - Industry-specific cycles - Selling prices - Procurement prices	- Intercompany estimate of the responsible sales and purchasing departments - Economic conditions expected by KHD AG and external market research
Capex KHD OOO	1,430	27.7%	13.1%	1.0%	- Growth rates of the respective markets - Industry-specific cycles - Selling prices - Procurement prices	- Intercompany estimate of the responsible sales and purchasing departments - Economic conditions expected by KHD AG and external market research

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

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

A change to the key measurement parameters, such as a reduction in the expected cash flows by 10 % would not affect the measurement as of December 31, 2018. Increasing the capitalization rate by 20 % would result in a need to recognize an impairment loss for the “Capex KHD OOO” cash generating unit in an amount of € 28 thousand (previous year: € 0). There is no additional need to recognize an impairment loss for the other cash generating units.

7. Receivables and Financial Assets

in € thousand	**Dec. 31, 2018**	**Dec. 31, 2017**
Current financial assets		
Trade receivables	40,218	38,674
Less valuation allowances for impairment of receivables	(3,487)	(3,328)
Trade receivables - net	36,731	35,346
Intercompany receivables	383	12,626
Other intangible assets	1,097	1,367
Financial receivables	2,108	4,673
Current financial assets	**40,319**	**54,012**
Other receivables	2,412	2,908
Current financial assets and other receivables	**42,731**	**56,920**
Non-current financial assets		
Trade receivables	5,230	10,650
Other non-current financial assets	100,005	100,005
Non-current financial assets	**105,235**	**110,655**

Trade receivables (gross amount – before deducting valuation allowances) increased in the financial year by € 1,544 thousand from € 38,674 thousand to € 40,218 thousand. Trade receivables include receivables from license contracts in the amount of € 899 thousand (previous year: € 831 thousand). Intercompany receivables decreased by € 12,243 thousand from € 12,626 thousand to € 383 thousand due to receipt of payments from companies of the AVIC Group.

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

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

Financial receivables decreased by € 2,565 thousand, from € 4,673 thousand to € 2,108 thousand. Financial receivables as of December 31, 2018 mainly comprise costs backcharged to subcontractors, interest receivables, securities, insurance claims and other financial receivables totaling € 792 thousand (previous year: € 1,761 thousand).

Other receivables in the amount of € 2,412 thousand (previous year: € 2,908 thousand) arise from reimbursement claims for input value-added tax.

For trade receivables in the amount of € 2,731 thousand (previous year: € 1,457 thousand), which were overdue more than 61 days, no valuation allowances were made, because no material change in the credit standing of these debtors was identified and the outstanding amounts are expected to be recoverable.

Other non-current financial assets include two trade receivables against customers in an amount of € 3,661 thousand (previous year: € 6,467 thousand), with whom deferral agreements were agreed. The deferred receivables incur interest at usual market conditions.

Other non-current assets also include deferred costs of obtaining projects for contracts with customers in the area of project business with an expected project length of more than twelve months. The expenses are depreciated on a pro-rata basis over the period of the respective project. At KHD, the cost of obtaining a contract relates to contractual commission for representatives. Both the amortized costs of obtaining contracts and the corresponding depreciation for the 2018 financial year are not significant as of December 31, 2018.

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

in € thousand	Dec. 31, 2018	Dec. 31, 2017
61 to 90 days	582	138
91 to 180 days	1,588	430
181 to 365 days	481	264
Over 365 days	80	625
Total	**2,731**	**1,457**

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

The overdue receivables for which no valuation allowance was recognized increased considerably in comparison with the previous year by € 1,274 thousand, from € 1,457 thousand to € 2,731 thousand. Based on internal analysis, KHD expects that the overdue receivables are still recoverable and will be paid by the customers.

Movement in valuation allowances on trade receivables

in € thousand	2018	2017
Valuation allowances as of Jan. 1	3,328	4,140
Addition	2,121	1,563
Utilization	(988)	(327)
Currency translation differences	(79)	(176)
Reversal	(895)	(1,872)
Valuation allowances as of Dec. 31	**3,487**	**3,328**

Valuation allowances correspond to the net value (excluding VAT) of the impaired receivables. KHD reported valuation allowances on expected credit defaults in the income statement in accordance with IFRS 9 on receivables in the amount of € 102 thousand (previous year: € 0).

The current and non-current trade receivables do not include any significant foreign currency receivables (previous year: in USD of € 15,169 thousand).

8. Deferred Tax Assets and Liabilities

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

As of December 31, 2018, KHD has a total amount of tax loss carry-forwards of € 126.8 million (previous year: € 100.6 million) for corporate income tax and comparable foreign income taxes. For trade tax, the total amount of tax loss carry-forwards is € 72.2 million (previous year: € 49.0 million). In the reporting of deferred tax assets as of December 31, 2018, tax loss carry-forwards of € 1.8 million (previous year: € 4.1 million) for corporate income tax and comparable foreign income taxes as well as € 1.8 million (previous year: € 2.0 million) for trade tax were recognized. Deferred tax assets are only recognized to the extent that, based on the 5-year business planning, future taxable profit will be available or corresponding deferred tax liabilities will be recognized, respectively. The basis for the expected future taxable profit is KHD's estimation in relation to the future development of its subsidiaries. KHD expects that the respective subsidiaries generate positive results and ultimately taxable profit, both in the Capex segment and in the Plant Services segment within the business planning period.

The probable taxable profit in the future are determined for the respective subsidiary based on business planning done for Group purposes. No deferred tax assets were recognized based on temporary differences in the amount of € 1.8 million (previous year: € 2.2 million) and tax loss carry-forwards shown above for which the future utilization is not reasonably assured. In principle, the tax loss carry-forwards of the German companies can be carried forward with no time limit. The utilization of tax loss carry-forwards for foreign companies is subject to some time limits. Unutilized loss carry-forwards for foreign companies in the amount of € 51,886 thousand (previous year: € 47,205 thousand) will expire during the time period from 2029 through 2037.

The total amount of deferred taxes assets not recognized in profit and loss amounts to € 307 thousand (previous year: € 307 thousand) as of December 31, 2018.

For temporary differences amounting to € 1.0 million (previous year: € 67.9 million) which are linked to shares in subsidiaries and which will not reverse in the foreseeable future, no deferred tax assets or liabilities were recognized.

Deferred tax assets and liabilities arise from the following items:

in € thousand	Dec. 31, 2018	Dec. 31, 2017
Deferred tax assets		
Provisions	619	3,751
Resulting from tax loss carry-forwards	2,683	986
Offset with deferred tax liabilities	(874)	(2,263)
	2,428	**2,474**

in € thousand	Dec. 31, 2018	Dec. 31, 2017
Deferred tax liabilities		
Construction contracts / PoC method	(925)	(2,462)
Offset with deferred tax assets	874	2,263
	(51)	**(199)**

Of the reported deferred tax assets based on provisions in the amount of € 619 thousand, € 307 thousand are related to deferred tax assets for pension benefit obligations.

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

9. Inventories

in € thousand	Dec. 31, 2018	Dec. 31, 2017
Raw materials, consumables, and supplies	3,601	4,767
Work in progress	2,493	-
Finished goods and merchandise	86	820
Write-down to net realizable value	(1,775)	(1,652)
	4,405	3,935

In the financial year, inventories in the amount of € 8,768 thousand (previous year: € 6,869 thousand) were recorded as part of cost of sales. The manufactured products and services are mainly spare parts stocked by customers, but for which transfer of ownership to the customer occurs only when the customer retrieves a part. Write-downs to net realizable value of the inventories amounted to € 1,775 thousand as of December 31, 2018 (previous year: € 1,652 thousand). These write-downs relate to raw materials, consumables, and supplies, the gross carrying amount of which is € 2,743 thousand (previous year: € 1,848 thousand).

10. 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 reported under the balance sheet items Contract assets or Contract liabilities and advance payments received.

The contract assets represent conditional claims to compensation from the customer for meeting the contractual obligations. Receivables are recognized at the point at which the claim to receiving compensation becomes unconditional. This is routinely the case when contractually agreed milestones for settlement are reached. When the milestones are reached, the contract asset is reclassified into receivables in the amount of the respective progress billings.

The contract liabilities refer to payments received from the customer in advance, i.e. before the required contractual obligations are met. They arise when customer payments based on the agreed upon milestones exceed the contractual obligations met. The contract liabilities are recognized as revenue as soon as KHD provides the contracted service. Revenue in the amount of € 18,603 thousand, which was included in the balance of contract liabilities at the beginning of the period, was recognized in the 2018 financial year.

In the valuation of contracts with revenue recognition over time, cost of sales plus proportionate profits depending on the stage of completion less progress billings and recognized contract losses 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 recognized under provisions and accruals.

Contract balances from contract balances developed as follows:

in € thousand	Dec. 31, 2018	Dec. 31, 2017
Costs incurred to date for construction contracts with realization of revenues over time	117,256	72,319
Proportionate results under these contracts recognized to date	7,148	8,284
Total costs incurred and profits recognized	124,404	80,603
Less recognized contract losses *	-	(8,290)
Less progress billings	(129,833)	(95,066)
Balance of contract assets and contract liabilities	**(5,429)**	**(22,753)**
This amount is comprised as follows:		
Contract assets	15,565	3,822
Contract liabilities	(20,994)	(26,575)
	(5,429)	**(22,753)**
Disclosure on the credit side of the balance sheet		
Contract liabilities	(20,994)	(26,575)
Advance payments received	(1,263)	(4,393)
Contract liabilities and advance payments received	**(22,257)**	**(30,968)**

* Disclosure adjustment according to IFRS 15 for contract losses in 2018

Customer contracts are generally designed such that the point at which performance obligations are met corresponds with the contractually agreed upon progress billings and customer payments. Depending on the project status and the individually agreed upon settlement plan, projects show a net balance as a contract asset or a contract liability related to the respected customer as of the balance sheet date.

The balance of the contrast assets and the contract liabilities, including advance payments received, increased as of the December 31, 2018 by € 17,324 thousand from € -22,753 thousand to € -5,429 thousand, primarily due to the change in disclosure of the expected contract losses due to the initial application of IFRS 15. In addition to changes in disclosure due to the initial application of IFRS 15, as of the balance sheet date, several large projects are in a project phase, in which KHD has already met significant performance obligations, but the contractual milestones for settlement have not been reached.

Of the revenue of € 151,766 thousand recognized in the reporting period (previous year: € 100,098 thousand), € 120,436 thousand is attributable to customer contracts with revenue recognition over time based on stage of completion (previous year: € 68,565 thousand).

Impairment of contract assets for expected credit rating losses were recognized in the reporting period in accordance with IFRS 9 for the first time. The amount is not significant.

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 negative effects from changes in estimates in the range of € 10.0 - € 15.0 million in the 2018 financial year.

11. Other Financial Assets

KHD granted two loans to AVIC International Kairong Limited (AVIC Kairong), Hong Kong, each for € 50,000 thousand, in the 2017 financial year. Up to the time when the loans were granted to AVIC Kairong in July and November 2017, respectively, there were loans of the same amount and nearly the same conditions granted to AVIC International (HK) Group Ltd., Hong Kong. The loans bear interest of 6.0 % and 5.7 % p.a., respectively, and both have a term of three years. For the loan 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 reported as of December 31, 2018 under the other non-current financial assets because the remaining term of the loans is greater than 12 months.

12. Cash and Cash Equivalents

The Group reports cash and cash equivalents in the amount of € 72,228 thousand (previous year: € 84,127 thousand).

in € thousand	Dec. 31, 2018	Dec. 31, 2017
Bank balances and cash on hand	49,389	62,833
Short-term bank deposits	22,839	21,208
Restricted Cash (collateral for guarantees)	-	86
	72,228	**84,127**

13. Equity

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

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

There are no authorizations to purchase our own shares.

Retained earnings amounting to € 19,207 thousand comprise revenue reserves, profits carried forward from previous years as well as items of other comprehensive income from remeasuring defined benefit plans that will not be reclassified subsequently to profit or loss. Other items of other comprehensive income relate to currency translation differences from the translation of foreign currency financial statements. This is presented as separate item within equity. In addition, effects from the initial application of IFRS 9 are also disclosed in equity without affecting profit and loss in the financial year under review.

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

14. Pension Benefit Obligations

The pension scheme granted to employees in the Group as of December 31, 2018 relates exclusively to two Group companies in Germany. The pension scheme is granted under defined benefit plans, which are covered by setting up pension benefit obligations. After the pension plans were frozen in 1996, it is no longer possible for employees to acquire additional vested rights to future pensions. The claims to payment of committed, non-forfeitable pension benefit obligations under the pension plans arise upon application by the beneficiaries, and through the provision of supporting evidence that the statutory pension may be drawn. The pension plans of the two Group companies are identical. They are designed as benefits for old-age pension, early retirement pension, and pension benefits to widows and orphans. Benefits to respective employees are dependent on date of entry, length of service, and income.

As of December 31, 2018, the Group's pension benefit obligations amounted to € 20,840 thousand (previous year: € 22,480 thousand).

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

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

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

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

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

The most important actuarial assumptions made are as follows:

in %	**Dec. 31, 2018**	**Dec. 31, 2017**
Discount rate	1.55	1.40
Pension trend	1.50	1.50
Employee turnover rate	0	0

The mortality tables 2018 G from Dr. Klaus Heubeck form the biometric basis for calculating these obligations for the first time in this financial year (previous year: mortality tables 2005 G). As a result of using the new mortality tables, there were actuarial losses based on demographic changes of € 305 thousand in the financial year.

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

- If the discount rate increases by 0.5 %, the pension benefit obligations decrease by € 968 thousand (previous year: € 1,078 thousand). If, however, the discount rate instead falls by 0.5 %, the pension benefit obligations increase by € 1,053 thousand (previous year: € 1,175 thousand).
- If the pension trend increases by 0.25 %, the pension benefit obligations rise by € 190 thousand (previous year: € 552 thousand). If the pension trend decreases by 0.25 %, the pension benefit obligations are reduced by € 485 thousand (previous year: € 532 thousand).
- If life expectancy increases by one year for both men and women, the benefit obligation increases by € 1,190 thousand (previous year: € 1,276 thousand).

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

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

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

in € thousand	**Dec. 31, 2018**	**Dec. 31, 2017**
Defined benefit obligation on Jan. 1	22,480	24,004
Interest cost	304	332
Benefits actually paid (total)	(1,460)	(1,479)
Losses / (gains) due to experience adjustments	(488)	(100)
Actuarial (gains) / losses due to change in actuarial assumptions	(301)	112
Losses / (gains) due to demographic adjustments	305	-
Changes in consolidation scope	-	(389)
Defined benefit obligation on Dec. 31	**20,840**	**22,480**

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

As of December 31, 2018, of the total obligations of € 20,840 thousand (previous year: € 22,480 thousand), an amount of € 539 thousand is attributable to active employees (previous year: € 603 thousand), € 1,967 thousand to former employees (previous year: € 2,184 thousand), and € 18,334 thousand to pensioners and surviving dependents (previous year: € 19,693 thousand).

As of December 31, 2018, the average term of the defined benefit obligation was 9.39 years (previous year: 10.1 years).

Cumulative remeasurement recorded in comprehensive income:

in € thousand	Dec. 31, 2018	Dec. 31, 2017
Opening balance - cumulative remeasurement gains (-) / losses	8,002	8,256
Actuarial gains (-) / losses	(484)	12
Changes in consolidation scope	-	(266)
Closing balance - cumulative remeasurement gains (-) / losses	**7,518**	**8,002**

in € thousand	Dec. 31, 2018	Dec. 31, 2017
Defined benefit costs		
Current service cost	-	-
Net interest expense	**304**	**332**
Actuarial (gains) / losses due to experience adjustments	(488)	(100)
Actuarial (gains) / losses due to change in actuarial assumptions	(301)	112
Losses / (gains) due to demographic adjustments	305	-
Changes in consolidation scope	-	(266)
Actuarial (gains) / losses recognized in other comprehensive income	**(484)**	**(254)**
Defined benefit costs	**(180)**	**78**

In the financial year under review, interest expenses on pensions of € 304 thousand (previous year: € 332 thousand) were recognized under finance expenses.

Prospective Benefit Payments

in € thousand	2018	2017
in 2018	-	1,520
in 2019	1,459	1,506
in 2020	1,455	1,491
in 2021	1,432	1,462
in 2022	1,401	1,425
in 2023	1,364	15,076
2024 onwards (prior year: 2023 onwards)	13,729	

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

The portion of pension benefit obligations expected to be paid out in the following financial year are reported in the current provisions in the amount of € 1,459 thousand.

15. Provisions and Accruals

in € thousand	Warranty	Tax and litigation risks	Impending losses	Pension benefit obligations	Total
Provisions as of Jan. 1, 2018	13,266	623	159	1,520	15,568
Additions	7,942	377	11,048	-	19,367
Release	(1,084)	(39)	-	-	(1,123)
Interest accrual	7	-	-	-	7
Currency translation effects	46	(11)	(47)	-	(12)
Utilization / reclassification	(2,398)	(48)	(159)	(61)	(2,666)
Provisions as of Dec. 31, 2018	**17,779**	**902**	**11,001**	**1,459**	**31,141**

-

in € thousand	Dec. 31, 2018	Dec. 31, 2017
Non-current (warranty)	2,795	1,716
Current	28,346	13,852
	31,141	**15,568**

The provisions for warranties cover all identifiable risks which relate to guarantee or warranty commitments. The provisions are measured on a contract-by-contract basis according to the best estimate. The amounts reported as non-current incorporate warranty commitments for a term of more than one year. The remaining expected maturities are between one and four years.

Starting on January 1, 2018, losses from onerous customer contracts are disclosed according to IFRS 15 under provisions and accruals. Due to the initial application of this change in recognition, € 5,283 thousand was added to provisions and accruals as of January 1, 2018.

The provisions for tax and litigation risks primarily involve risks of litigation.

As in the previous year, the effects from currency translation of € 12 thousand (previous year: € 1,656 thousand) are mainly attributable to the translation of the local currencies of HW India and HW Inc.

16. Liabilities

in € thousand	Dec. 31, 2018	Dec. 31, 2017
Current financial liabilities		
Trade payables	39,738	28,624
Liabilities due to affiliated companies	1,140	1,376
Current financial liabilities	59	90
Other current liabilities	5,055	4,901
Loan	-	25,000
Current financial liabilities	**45,992**	**59,991**
Other liabilities		
Tax and social security	40	547
Income tax liabilities	299	1,461
Other liabilities	**339**	**2,008**
Current liabilities	**46,331**	**61,999**
Other non-current liabilities		
Other non-current liabilities	3,120	3,183
Loan	25,000	-
Other non-current liabilities	**28,120**	**3,183**

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

Other non-current liabilities comprise a bank loan taken out in October 2018 that is due and payable in 2021. In addition, warranty commitments are reported under the other non-current liabilities.

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

17. Contract Liabilities and Advance Payments Received

This item includes the disclosed contract liabilities from customer contracts determined based on the application of IFRS 15 and shown in the notes to the financial statements (note 10). Furthermore, this item includes advances recognized in accordance with IFRS 15, i.e. advance payments made by customers upon acceptance of the contract in advance of the related work performed by the KHD Group.

18. Personnel Expenses

in € thousand	2018	2017
Wages and salaries	34,355	33,946
Social security contributions and costs, including pension costs	5,713	6,160
	40,068	**40,106**

No. of employees

	As of Mar. 31, 2018	As of Jun. 30, 2018	As of Sept. 30, 2018	As of Dec. 31, 2018
Salaried employees	611	628	637	637
Industrial employees	49	54	64	66
Total	**660**	**682**	**701**	**703**

As of December 31, 2018, the number of employees was 703 (previous year: 666). In the year under review, the average number of employees was 687, of whom 58 were industrial employees (previous year: 676 employees, of whom 50 were industrial).

Personnel expenses include employer contributions to statutory pension insurance in the amount of € 1,968 thousand (previous year: € 1,547 thousand) and expenses for contractually defined contribution plans of € 790 thousand (previous year: € 772 thousand).

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

The compensation for key management personnel amounted to € 1,405 thousand in the 2018 financial year (previous year: € 1,308 thousand).

The compensation for members of the KHD Management Board in the 2018 financial year amounted to € 1,225 thousand (previous year: € 1,113 thousand). It can be attributed to the following categories in accordance with IAS 24.17:

- € 755 thousand (previous year: € 957 thousand) – short-term benefits,
- € 0 thousand (previous year: € 0 thousand) – post-employment benefits,

- € 0 thousand (previous year: € 156 thousand) – other long-term benefits,
- € 470 thousand (previous year: € 0 thousand) – termination benefits,
- € 0 thousand (previous year: € 0 thousand) – share-based payment.

The amounts listed above for the remuneration of management in key positions or for Management Board compensation do not include an accrual for a performance-based bonus in the amount of € 188 thousand reported in the income statement in previous years (other long-term benefits).

The total remuneration in accordance with Section 314 Paragraph 1 Number 6a of the German Commercial Code (HGB) for members of the Management Board in the 2018 financial year amounted to € 1,225 thousand (previous year: € 957 thousand).

As of December 31, 2018, a balance amounting to € 75 thousand (previous year: € 243 thousand) of the remuneration of the Management Board is outstanding for payment. The balance outstanding for payment comprises € 75 thousand (previous year: € 55 thousand) in short-term benefits and € 0 thousand (previous year: € 188 thousand) in other long-term benefits.

The remuneration granted to members of the Supervisory Board for performing their duties in the 2018 financial year amounted to € 180 thousand (previous year: € 196 thousand). The remuneration of the Supervisory Board members in the 2018 financial year relate in full (€ 180 thousand, previous year: € 196 thousand) to short-term benefits. As of December 31, 2018, a balance amounting to € 371 thousand (previous year: € 273 thousand) of the remuneration of members of the Supervisory Board is outstanding for payment.

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

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

20. Revenue and Recognition of Revenue

As of December 31, 2018, revenue amounted to € 151,766 thousand (previous year: € 100,098 thousand) and is divided between the Capex segment (Project Business) at € 108,785 thousand (previous year: € 62,188 thousand) and the Plant Services segment at € 42,981 thousand (previous year: € 37,910 thousand). Revenue for the Capex segment includes license revenue in the amount of € 1,000 thousand (previous year: € 1,000 thousand). For further classification of this revenue, reference is made to the segment report in section 4.

- Capex (Project Business):
  Due to contract conditions, the recognized revenue in the Capex segment (Project Business) primarily relates to revenue, which is recogizend over a period of time based on the percentage of completion by applying the cost to cost method. Revenue is recognized based on the stage of completion achieved by KHD, which is derived in a method using the ratio of the internal and external costs incurred to the overall costs. In the project business, the payment conditions are linked to contractually agreed upon milestones. When the agreed upon milestones are reached, KHD issues process billings that are due and payable within 14 to 90 days.

- Plant Services area:
  In Plant Services segment, revenue is related to the spare parts business and services. Revenue in the spare parts area is recognized over a specific period or at a specific point in time. Customer-specific spare parts business regularly meets the requirement for revenue recognition over time; in contrast, for spare parts business with standard products, revenue is recognized at a specific point in time upon transfer to the customer. Services in the Plant Services segment are also recognized over time to the extent that the service is provided. The payment conditions for spare parts supply and services are agreed upon per specific customer and vary from agreements for payment in advance to payment targets of 90 days.

In both project business and the spare parts business, KHD provides mechanical, service-related, and wear-related guarantees. The guarantees provided do not extend beyond either duration or scope that is legally required or customary in the industry, and generally do not represent separate performance obligations according to IFRS 15.

KHD uses practical expedients in the determination and classification of revenue. In this way, KHD does not recognize the costs of obtaining a contract, if the relevant project period is no longer than one year. These costs of obtaining a contract are recognized directly as expenses at the point of time they are incurred.

21. Cost of Sales

The cost of sales is not directly linked to the revenue recognized in the financial year under review.

in € thousand	2018	2017
Normal cost of sales	152,374	87,710
Cost of idle capacity	2,616	4,854
	154,990	**92,564**

22. Other Operating Income

in € thousand	2018	2017
Exchange gains	1,227	2,477
Other income	1,487	344
	2,714	**2,821**

Other operating income includes exchange gains and income from foreign exchange forward contracts in the amount of € 1,227 thousand (previous year: € 2,477 thousand). The exchange gains are mainly the result of exchange rate fluctuations between the US dollar and the euro. Exchange gains include both realized and unrealized exchange rate effects. Regarding exchange gains it should be considered that from an economic perspective, due to the foreign currency hedging performed, the expenses from foreign exchange forward contracts that are presented under other expenses and a portion of exchange rate losses should be offset against the income from exchange rate fluctuations.

23. Sales Expenses

Sales expenses decreased compared with the previous year (€ 13,934 thousand) by € 700 thousand to € 13,234 thousand. Sales expenses include costs for tendering in the amount of € 6,421 thousand (previous year: € 6,585 thousand) In addition, sales expense include the costs for trade shows and customer events as well as other sales related expenses.

24. General and Administrative Expenses

The general and administrative expenses of € 12,398 decreased again in comparison with the previous year (€ 13,076 thousand) due to ongoing measures with regard to cost reduction. Aside from the costs of general administration, general and administrative expenses include in particular costs for Management Board compensation, legal and consulting costs, costs of preparing and auditing financial statements, Supervisory Board remuneration and investor relations costs.

25. Other Expenses

in € thousand	2018	2017
Research and development	1,942	2,339
Exchange rate losses and expenses from derivatives	2,091	4,555
Miscellaneous expenses	1,021	2,071
	5,054	**8,965**

Other expenses decreased with respect to the previous year by € 3,911 thousand, from € 8,965 thousand to € 5,054 thousand. This includes the expenses from foreign exchange forward contracts and exchange rate losses, which decreased by € 2,464 thousand, from € 4,555 thousand in the previous year to € 2,091 thousand. The foreign exchange forward contracts were used exclusively to hedge foreign currency receivables. Therefore, expenses arising from exchange rate forwards contracts have to be compared against income from exchange rate effects. Since the derivative financial instruments used by the KHD Group do not meet the strict requirements of hedge accounting, the economic hedge relationship is not reflected by using hedge accounting in the consolidated financial statements.

Expenses for research and development decreased by € 397 thousand from € 2,339 thousand in the previous year to € 1,942 thousand. A clearer focus on promising development projects continued in the 2018 financial year, while external research and development expenses were reduced as well.

Miscellaneous expenses include, among other items, expenses for consultancy services, fees, and insurance premiums. Other miscellaneous expenses decreased by € 1,050 thousand, from € 2,071 thousand to € 1,021 thousand.

26. Net Finance Income

Net finance income is composed as follows:

in € thousand	**2018**	**2017**
Interest income	8,564	9,219
Total interest income	**8,564**	**9,219**
Dividend income	28	-
Gains on securities	-	578
Interest related to non current assets	42	2
Finance income	**8,634**	**9,799**
Interest related to pension benefit obligations, provisions and other non-current liabilities	(351)	(368)
Losses on securities	(356)	-
Interest expense	(590)	(681)
Finance expenses	**(1,297)**	**(1,049)**
Net finance income	**7,337**	**8,750**

Interest income includes interest income from bank deposits and cash equivalents as well as interest income from related companies from deferred payment agreements in the amount of € 2,633 thousand (previous year: € 3,156 thousand). Interest income from loans to a related company amounted to € 5,931 thousand (previous year: € 6,063 thousand). Total interest income decreased by € 655 thousand, from € 9,219 thousand to € 8,564 thousand. Interest income results from financial assets that are measured at amortized cost. Due to developments in the exchange rate, the fair value measurement of listed shares held as financial assets gains on securities resulted in a loss of € 356 thousand (previous year: € 578 thousand) in the financial year.

Finance expenses include interest related to pension benefit obligations in the amount of € 304 thousand (previous year: € 332 thousand). In the financial year, interest expenses of € 47 thousand (previous year: € 36 thousand) were incurred due to interest on provisions and other non-current liabilities. Interest expenses in the amount of € 475 thousand were incurred for a bank loan.

27. Income Tax Expenses

The income tax expense of € 1,441 thousand incurred in the 2018 financial year (previous year: € 2,499 thousand) is composed as follows:

in € thousand	**2018**	**2017**
Current tax expense	(1,635)	(2,176)
Deferred tax income / expense	194	(323)
Tax expense for the year	**(1,441)**	**(2,499)**

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

in € thousand	**2018**	**2017**
Earnings before income tax	(23,859)	(16,870)
Expected tax result while applying an average tax rate of 32.45 % (Previous year: 32.45 %)	7,742	5,474
Effects of tax-free income	278	128
Effects of non-tax-deductible expenses	(364)	(1,624)
Effects of unutilized deferred tax losses not recognized as deferred assets recognized tax losses and offset possibilities	(8,913)	(4,409)
Effects of originally unrecognized unutilized tax losses and offset possibilities, which are now reported as deferred tax assets and effects arising from changes to tax loss carryforwards	6	(1,118)
Effects of subsidiaries' divergent tax rates	(207)	(623)
Adjustments for previous years' taxes recognized in the current period	77	(169)
Other non-tax-effective additions and deductions	(60)	(158)
Tax expense for the year	**(1,441)**	**(2,499)**

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

The effective Group taxation rate is -6.04 % (previous year: -14.8 %).

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

28. Earnings and Dividends per Share

Earnings per Share

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

	2018	2017
Group net loss for the year attributable to shareholders (in € thousand)	(25,312)	(19,292)
Weighted average number of shares outstanding	49,703,573	49,703,573
Basic (undiluted) and diluted earnings per share (in €)	(0.51)	(0.39)

Dividend per Share

According to the articles of association, KHD's Annual General Meeting of shareholders passes a resolution concerning the appropriation of net retained profit. With regard to the suggestion concerning the appropriation of net retained profit, reference is made to the KHD annual financial statements.

29. Total Fees charged by the Auditors for the Financial Year

Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft is functioning as the independent auditor for the 2018 financial year. PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft functioned as the independent auditor for the previous year.

The total fees charged by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft for the 2018 financial year are comprised as follows:

in € thousand	**2018**	**2017**
Financial statement audit services	213	305
	213	**305**

The total remuneration for the auditor for the 2018 financial year is € 213 thousand. The total remuneration for the auditor for the previous year was € 305 thousand. The audit services mainly include fees for the audit of the annual and consolidated financial statements of KHD AG as well as the legally required audits of the annual financial statements of two other German subsidiaries.

30. Commitments and Contingent Liabilities and Assets

COMMITMENTS FOR OPERATING LEASES

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

in € thousand	**Dec. 31, 2018**	**Dec. 31, 2017**
Within one year	2,814	2,680
Between two and five years	4,995	5,212
After five years	-	-
Total lease and rental commitments	**7,809**	**7,892**

Other contingent liabilities from current contracts amount to € 231 thousand (previous year: € 363 thousand).

Expenses for leased and rented office space and office equipment recognized in the Group income statement amount to € 3,041 thousand in the year under review (previous year: € 3,261 thousand).

CONTINGENT LIABILITIES

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

As of the reporting date, contingent liabilities result from a possible calling of guarantees and from other claims against KHD that exceed the amounts covered by provisions. Considering the current stage of negotiations, a more precise quantification is neither practical nor possible. For further details regarding the contingent liabilities, reference is made to the information in section 31, Liquidity Risk.

CONTINGENT ASSETS

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

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

Both the development of contingent assets and contingent liabilities are monitored continuously. As soon as the corresponding claims and obligations are substantiated, they are recorded in profit and loss for the period. No amount is listed for practical reasons.

31. Additional Notes on Financial Instruments

FINANCIAL RISK FACTORS

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

CAPITAL MANAGEMENT

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

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

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

KHD is subject to the minimum capital requirements applicable to German stock corporations. Compliance with these requirements is monitored continuously. KHD was in compliance with these requirements in 2018.

in € thousand	Dec. 31, 2018	Dec. 31, 2017
Equity	123,112	149,761
Total assets	270,393	282,638
Equity ratio (in %)	45.53	52.99

The equity ratio increased by 7.5 percentage points compared with the previous year from 53.0 % to 45.5 %.

MARKET RISK

Currency Risk

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

The Group recognized assets and liabilities denominated in foreign currencies translated to a carrying amount of € 8,495 thousand (previous year: € 10,559 thousand). In this context, foreign currency denotes that a company of the KHD Group holds assets and liabilities in a currency that is not the functional currency of the subsidiary. Without taking any exchange rate forward contracts into account that may be in place, a 10 % variance in exchange rates would change Group earnings / comprehensive income by € 574 thousand (previous year: € 713 thousand).

The individual financial statements prepared by the foreign subsidiaries are translated into euros in line with the functional currency principle. The Group's functional currency is the euro. Assets and liabilities are translated at the balance sheet closing rate. Assets and liabilities are translated at the balance sheet closing rate. Currency translation differences resulting from translating the assets and liabilities of foreign subsidiaries denominated in local currencies into the Group's functional currency may have an impact on Group equity. A 10 % change in foreign currency exchange rates would change Group equity by € 3,836 thousand (previous year: € 4,028 thousand).

PRICE RISK

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

CREDIT AND DEFAULT RISK

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

Securities for receivables in the financial year amounted to € 3,393 thousand (previous year: € 3,366 thousand).

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

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

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

LIQUIDITY RISK

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

In order to avoid financial risks from the plant engineering business, construction contracts are executed through progress billings and customer payments made in advance, which largely financed projects in progress as of the balance sheet date. By means of financial and liquidity planning, cash and cash equivalents are available in such a way that the KHD Group is at all times able to fully meet its payment obligations. The majority of current trade and other payables reported as of the balance sheet date in the amount of € 39,738 thousand (previous year: € 28,624 thousand) are payable within 60 days.

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

Within the scope of its normal business transactions, the Group has commitments due to advance guarantees, performance bonds, and guarantees for warranty obligations. The Group does not anticipate any material liabilities due to these commitments. The arranged bank guarantee credit facilities allow individual KHD Group companies to provide bank guarantees for its customers worldwide. As part of these guarantee facilities, the Group has provided bank guarantees within the scope of its normal business activities in the amount of € 45.3 million (previous year: € 33.2 million).

INTEREST RATE RISK

The Group holds assets that are affected by changes in market interest rates over the course of time. In the event that market interest rates had risen or fallen by 50 basis points, Group earnings as of December 31, 2018, would have been € 244 thousand (previous year: € 284 thousand) higher or lower, respectively. As of December 31, 2018, KHD reports interest-bearing debt in the form of a bank loan. The loan has a variable interest rate, so it is subject to interest risk due to changes in market interest rates. If market interest rates had risen by 50 basis points, Group earnings as of December 31, 2018 would have been € 125 thousand (previous year: € 125 thousand) lower, and if market interest rates had fallen by 50 basis points, Group earnings as of December 31, 2018 would have remained unchanged (previous year: unchanged Group earnings). A fixed interest rate has been agreed for each of the three-year loans extended to AVIC Kairong, so there is no risk from interest rate changes with regard to these loans.

NET EARNINGS PER CATEGORY

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

2018		Financial assets		Financial liabilities		Total
in € thousand	Available for sale	Fair value through profit and loss	Loans and receivables	Fair value through profit and loss	Amortized cost	
Expenses due to valuation allowances on financial assets	-	-	(2,121)	-	-	(2,121)
Interest Income / expense	-	-	8,564	-	(475)	8,089
Other net earnings	-	(863)	634	-	-	(229)
Net earnings	**-**	**(863)**	**7,077**	**-**	**(475)**	**5,739**

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

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

Dec.31, 2018	Financial assets				Financial Liabilities				
	Measurment according to IFRS 9				Measurment according to IFRS 9				
in € thousand	Fair value throught OCI	Fair value throught P&L	Amortized cost	Not in IFRS 9 application area	Fair value throught P&L	Amortized cost	Not in IFRS 9 application area	Carrying amount Dec. 31, 2018	Fair value Dec. 31, 2018
Non-current financial assets	-	-	105.235	-	-	-	-	105.235	100.197
Trade receivables	-	-	36.731	-	-	-	-	36.731	-
Related party receivables	-	-	383	-	-	-	-	383	-
Contract assets	-	-	15.565	-	-	-	-	15.565	-
Other financial assets	-	1.011	86	-	-	-	-	1.097	1.011
Derivatives	-	3	-	-	-	-	-	3	3
Other receivables	-	-	2.105	2.412	-	-	-	4.517	-
Cash and cash equivalents	-	-	72.228	-	-	-	-	72.228	-
Total financial assets	**-**	**1.014**	**232.333**	**2.412**	**-**	**-**	**-**	**235.759**	**101.211**
Financial liabilities	-	-	-	-	-	59	-	59	-
Loan	-	-	-	-	-	25.000	-	25.000	-
Contract liabilities	-	-	-	-	-	22.257	-	22.257	-
Other liabilities	-	-	-	-	-	4.728	3.120	7.848	-
Derivatives	-	-		-	327	-		327	327
Trade payables	-	-	-	-	-	40.878	-	40.878	-
Total financial liabilities	**-**	**-**	**-**	**-**	**327**	**92.922**	**3.120**	**96.369**	**327**

Dec.31, 2017	Financial assets				Financial Liabilities				
	Measurment according to IFRS 39				Measurment according to IFRS 39				
in € thousand	Fair value throught OCI	Fair value throught P&L	Amortized costs	Not in IFRS 9 application area	Fair value throught P&L	Amortized cost	Not in IFRS 9 application area	Carrying amount Dec. 31, 2017	Fair value Dec. 31, 2017
Non-current financial assets	-	-	110,655	-	-	-	-	110,655	110,442
Trade receivables	-	-	35,346	-	-	-	-	35,346	-
Related party receivables	-	-	12,626	-	-	-	-	12,626	-
Gross amount due from customers for contract work	-	-	3,822	-	-	-	-	3,822	-
Other financial assets	-	1,367	-	-	-	-	-	1,367	1,367
Derivatives	-	747	-	-	-	-	-	747	747
Other receivables	-	-	3,926	2,908	-	-	-	6,834	-
Cash and cash equivalents	-	-	84,127	-	-	-	-	84,127	-
Total financial assets	**-**	**2,114**	**250,502**	**2,908**	**-**	**-**	**-**	**255,524**	**112,556**
Financial liabilities		-	-	-	-	90	-	90	-
Loan	-	-	-	-	-	25,000	-	25,000	-
Gross amount due to customers for contract work	-	-	-	-	-	26,575	-	26,575	-
Other liabilities	-	-	-	-	-	4,757	3,183	7,940	-
Derivatives	-	-			144	-	-	144	144
Trade payables	-	-	-	-	-	30,000	-	30,000	-
Total financial liabilities	**-**	**-**	**-**	**-**	**144**	**86,422**	**3,183**	**89,749**	**144**

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

The fair values for the financial assets and liabilities held for trading purposes were 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.

Financial assets and financial liabilities	Fair value		Level	Measurement method	Significant unobservable input(s)
	Dec. 31, 2018	Dec. 31, 2017			
Derivatives	Financial assets: € 3 thousand Financial liabilities: € 327 thousand	Financial assets: € 747 thousand Financial liabilities: € 144 thousand	Level 2	Discounted cash flow	N/A
Securities	Financial assets: € 1,011 thousand	Financial assets: € 1,367 thousand	Level 1	Listed price on active market	N/A

SECURITIES HELD FOR TRADING

Securities held for trading amounted to € 1,011 thousand (previous year: € 1,367 thousand). A 10 % variance in the market price would change Group earnings by € 96 thousand (previous year: € 130 thousand).

RECEIVABLES

Overdue Group receivables, including receivables for which valuation allowances were made, amounted to € 5,635 thousand (previous year: € 4,838 thousand). After deducting securities (letters of credit and Hermes coverage), the Group values the resulting risk at € 5,597 thousand (previous year: € 3,328 thousand). The receivables for which valuation allowances have been made are generally more than 90 days overdue.

DERIVATIVES

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

The net balance of the derivatives carries a fair value of € -324 thousand (previous year: € 603 thousand). A 10 % change in the exchange rate hedged by the derivative would affect earnings by € 1,261 thousand (previous year: € 1,733 thousand). The total amount of underlying transactions allocated to foreign exchange forward contracts amounts to € 18.7 million (previous year: € 25.6 million).

Foreign exchange forward contracts amounting to € 18.7 million (previous year: € 25.6 million) are due within one year.

OFFSETTING

In the KHD Group there are offsetting agreements with the corresponding banks for derivative financial instruments. In accordance with these framework agreements, the amounts owed by each respective party with respect to transactions in the same currency that are still outstanding on a specific date of maturity are offset to reach a net amount. The derivative financial instruments concluded as of the reporting date and as of the previous year's reporting date have a negative value of € 324 thousand (previous year: € 603 thousand). In this respect, no offsetting based on the offsetting agreement is done.

32. Related Party Disclosures

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

Relations with affiliated Companies

There has been a cooperation agreement with AVIC Beijing since 2010, reinforced since February 2011 by the capital interests in KHD amounting to 20 % held by Max Glory Industries Limited (Max Glory), an AVIC Beijing group company. As a consequence of a public takeover offer, AVIC Beijing further increased its indirect share in KHD in the 2014 financial year. As of December 31, 2018, AVIC Beijing indirectly holds the majority of KHD shares with 89.02 % (unchanged from the previous year). Among others, the strategic partnership between AVIC and KHD resulted in joint projects in Malaysia, Venezuela, and Turkey.

Other Transactions with related Parties

KHD granted two loans to AVIC International Kairong Limited (AVIC Kairong), Hong Kong, each for € 50,000 thousand, in the 2017 financial year. The loans bear interest of 6.0 % and 5.7 % p.a., respectively, and both have a term of three years. For the loan 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 reported as of December 31, 2018 under the other non-current financial assets because the remaining term of the loans is greater than 12 months.

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

Income

In the financial year under review income with indirect parent companies amount to € 302 thousand (previous year: € 2,984 thousand). Income in the current year largely relates to interest income from payment agreements with AVIC Beijing.

Interest income from the loans extended to AVIC Kairong in the amount of € 5,931 thousand (previous year: € 6,063 thousand) is reported under income with other affiliated companies.

in € thousand	2018	2017
Indirect parent company	302	2,984
Other related companies	5,931	6,063
	6,233	9,047

Expenses

Expenses arising from transactions with indirect parent companies amounted to € 105 thousand (previous year: € 0). As in the previous year, no expenses with indirect parent companies were recognized in the financial year under review. The expenses with indirect parent companies relate to project costs for a project in which AVIC was KHD's customer.

Current Assets

In the financial year under review, there were current assets due from companies of the AVIC Group in the amount of € 1,655 thousand (previous year: € 13,856 thousand). As in the previous year, these resulted exclusively from project receivables and refund claims.

in € thousand	2018	2017
Indirect parent company	1,425	11,047
Other related companies	230	2,809
	1,655	13,856

Non-current Assets

Loans to other related companies amounting to a total of € 100,000 thousand are reported under non-current assets as of the balance sheet date.

Liabilities

As in the previous year, no liabilities due from other related companies are reported under liabilities from project contracts. Liabilities due from indirect parent companies in the amount of € 1,879 thousand are reported (previous year: € 2,025 thousand).

in € thousand	**2018**	**2017**
Indirect parent company	1,879	2,025
Other related companies	-	-
	1,879	2,025

Relations with Associated Persons

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

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

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

Furthermore, the Management Board and Supervisory Board of the publicly listed Group company KHD VV issued the statement required pursuant to Section 161 of the German Stock Corporation Act (AktG) on January 29, 2019, and also made it permanently publicly available to shareholders on this company's website (www.khdis.de).

34. Events after the Reporting Period

The executive management of the subsidiary HW GmbH passed a resolution in March 2019 to introduce an extensive reorganization in the context of a restructuring concept and an associated reduction in staff due to operational reasons. The works council of HW GmbH was informed of the planned reorganization and negotiations regarding the concluding of a settlement of interests and a social plan have begun. The planned reduction in staff is integrated into an entire restructuring plan. One-time additional costs related to reductions in staff will have a significantly negative effect on the net result of for the period of the 2019 financial year. These extra costs are taken into consideration in the earnings forecast in the Management Report.

There have been no other significant developments or events of particular importance since the reporting date of December 31, 2018.

35. Release for Publication by the Management Board

These group financial statements were released for publication by the Management Board resolution of March 19, 2019. The Supervisory Board approval is due to be issued at the Supervisory Board meeting on April 2, 2019.

Cologne, March 19, 2019

The Management Board

(s) Yizhen Zhu (s) Jürgen Luckas (s) Dian Xie

(s) Tao Xing

Responsibility Statement

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

Cologne, March 19, 2019

The Management Board

(s) Yizhen Zhu (s) Jürgen Luckas (s) Dian Xie

(s) Tao Xing

Independent Auditor’s Report

Independent auditor’s report

To KHD Humboldt Wedag International AG

Report on the audit of the consolidated financial statements and of the group management report

Opinions

We have audited the consolidated financial statements of KHD Humboldt Wedag International AG, Cologne, and its subsidiaries (the Group), which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of financial position as at 31 December 2018, consolidated statement of cash flows and consolidated statement of changes in equity for the fiscal year from 1 January 2018 to 31 December 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of KHD Humboldt Wedag International AG, which was combined with the management report of the Company, 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 group non-financial statement included in the “Corporate Governance” section of the group management report or the group statement on corporate governance included in the “Corporate Governance” section of the group management report.

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

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB [“Handelsgesetzbuch”: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December 2018, and of its financial performance for the fiscal year from 1 January 2018 to 31 December 2018, and

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

Pursuant to Sec. 322 (3) Sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the opinions

We conducted our audit of the consolidated financial statements and of the group 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 consolidated financial statements and of the group management report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with 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 consolidated financial statements and on the group management report.

Key audit matters in the audit of the consolidated financial statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the fiscal year from 1 January 2018 to 31 December 2018. These matters were addressed in the context of our audit of the consolidated 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. Long-term construction contracts: Revenue recognition and measurement of provisions for obligations under onerous contracts

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

Revenue from long-term construction contracts is recognized over time under IFRS 15 Revenue from Contracts with Customers depending on the stage of completion, which is determined as the ratio of contract costs actually incurred to the planned total costs ("cost-to-cost method"). In particular, the determination of the expected total costs requires estimates and assumptions to be made by the executive directors. If the planned total costs exceed the achievable total revenue, provisions for potential losses from obligations under onerous contracts are recognized.

Due to the first-time application and the complexity of IFRS 15 as well as the estimation uncertainties and the related risks of material misstatement arising from the determination of the stage of completion of long-term construction contracts and the measurement of contract revenue and contract costs, the recognition of revenue and the measurement of provisions for obligations under onerous contracts in connection with long-term construction contracts was a key audit matter.

Auditor’s response

During our audit, we examined the processes established by the Company for the Group to determine the stage of completion of long-term construction contracts. We obtained an understanding of the amount and the substantive allocation of the actual costs, which mainly comprise material and wage costs, by taking into consideration materiality levels and inspecting a sample of vouchers gathered using statistical selection criteria and comparing these to job order costing. We assessed the amount and the recognition of the planned total costs of individual orders on a sample basis by inspecting contracts and project costings and by discussing with project managers the progress of projects and the estimated costs until completion. In addition, we analyzed the measurement of and the need to make allocations or adjustments to a provision for obligations under onerous contracts for such construction projects in which the stage of completion, expected project costs or planned margins differ significantly from the original project costings. In this context, we compared the original project costings with the current, ongoing project costings and discussed any ensuing deviations with the project managers. Furthermore, we checked the clerical accuracy of project costings on a sample basis and compared the amount of revenue to be recognized and the provisions for obligations under onerous contracts with the Company’s financial accounting. By comparing the project costings with documents from the prior year, we also analyzed whether the methods used were applied consistently over time.

Our procedures did not lead to any reservations regarding the recognition of revenue or the measurement of provisions for obligations under onerous contracts for long-term construction contracts.

Reference to related disclosures

The Company’s disclosures on revenue recognition and the measurement of provisions for obligations under onerous contracts are included in sections 1 “Summary of Major Accounting and Measurement Principles” under “Contract Assets and Contract Liabilities from Customer Contracts with Revenue Recognition over Time” and 20 “Revenue and Recognizing Revenue.”

2. Measurement of provisions for risks resulting from guarantee and warranty obligations

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

Provisions for risks resulting from guarantee and warranty obligations are measured for each contract based on the executive directors’ best possible estimate of the expected costs. The provisions include costs for agreed reworking, further claims reported by contractual partners and other estimated expenses.

Due to the long-term processing of the provisions over several fiscal years and the resulting complexity and estimation uncertainties, the measurement of these provisions was a key audit matter.

Auditor's response

During our audit we assessed the internal processes established by the Management Board with regard to the complete recognition and accurate measurement of guarantee and warranty obligations. Based on our knowledge of the industry and the business and on the basis of historical data, we assessed whether judgments made by the Management Board in connection with the measurement of provisions for risks resulting from guarantee and warranty obligations are consistent with our expectations and are sufficiently documented. In addition, we discussed the assumptions underlying the valuation with project managers, the central controlling department and the Management Board in order to assess whether valuation was consistent with the information provided to us from internal project documentation and industry information. Furthermore, we checked the clerical accuracy of the calculation of provisions, compared it to the Company's financial accounting and, by inspecting documents from the prior year, assessed whether the methods used to calculate guarantee and warranty obligations were applied consistently over time.

Our audit procedures did not lead to any reservations relating to the measurement of provisions for risks resulting from guarantee and warranty obligations.

Reference to related disclosures

The Company's disclosures on the measurement of provisions for risks resulting from guarantee and warranty obligations are contained in sections 1 "Summary of Major Accounting and Measurement Principles" under "Provisions" and "Estimates and Assumptions" and 15 "Provisions."

3. Measurement of other financial assets

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

Other financial assets comprise two loans of EUR 50.0m each to AVIC International Kairong Limited, Hong Kong. In order to secure these loans, AVIC International Holding Corporation, Beijing, People's Republic of China, has issued respective guarantee statements to KHD Humboldt Wedag International AG covering the total amount of the loans of EUR 100.0 million, plus outstanding interest payments and any costs associated with the redemption of the guarantee. AVIC International Holding Corporation is an indirect parent company of KHD Humboldt Wedag International AG.

The financial assets mentioned above are classified and measured in accordance with IFRS 9 Financial Instruments for the first time in fiscal year 2018. The executive directors assess the recoverability of the loans and the creditworthiness of the borrower chiefly by means of available capital market information from international external rating agencies, especially credit ratings, 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 measurement of other financial assets and the related increased risk of material misstatement, the measurement of these assets 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 for measuring and assessing indicators for impairment of other financial assets by gathering external information on the borrower, AVIC International Kairong Limited, Hong Kong, as well as on the guarantor AVIC International Holding Corporation, Beijing, 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 measurement of other financial assets.

Reference to related disclosures

The Company’s disclosures on other financial assets are contained in sections 1 “Summary of Major Accounting and Measurement Principles,” under “Financial Instruments” and “Impairment of Financial Assets“and 11 “Other Financial Assets.”

Other information

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

The separate non-financial report pursuant to Sec. 315b (3) HGB will be provided to us after the auditor's report has been issued.

Our opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an 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 consolidated financial statements, with the group 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 consolidated financial statements and the group management report

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

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

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

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

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

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

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 consolidated financial statements and this group management report.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our 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 consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.

- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

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

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

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

- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

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

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

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

Other legal and regulatory requirements

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

We were elected as group auditor by the Annual General Meeting on 28 May 2018. We were engaged by the Supervisory Board on 30 July 2018. We have been the group 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.

List of Abbreviations

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