HUMBOLDT WEDAG

Half-Year Financial Report 2019

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KHD Humboldt Wedag International AG, Cologne, Germany

Half-year Financial Report 2019

ISIN: DE0006578008

GERMAN SECURITIES IDENTIFICATION NUMBER (WKN): 657800

Stock Exchange Symbol: KWG

www.khd.com

Summary of the First Half Year 2019

- Order intake in the amount of € 44.0 million significantly below the previous year's figure
- Revenue increase of 29.3% to € 82.9 million due to the increased stage of completion of large projects in the order backlog
- Adjusted gross profit in the amount of € 8.2 million (previous year: € 8.1 million) and adjusted EBIT in the amount of € -5.6 million (previous year: € -5.5 million) nearly unchanged from the previous year
- Extensive reorganization of the subsidiary Humboldt Wedag GmbH at the Cologne headquarters resulted in one-off expenses of € 7.2 million

Key Figures at a Glance

in € million	**Jan. 1 - June 30, 2019**	**Jan. 1 - June 30, 2018**	**Variance in %**
Order Intake	44.0	86.2	-49.0
Revenue	82.9	64.1	29.3
Adjusted Gross Profit	8.2	8.1	1.2
Adjusted Gross Profit margin (in %)	*9.9*	*12.6*	*-21.7*
Adjusted EBIT***	-5.6	-5.5	-1.8
Adjusted EBIT-Margin (in %)	*-6.8*	*-8.6*	*21.3*
EBT***	-10.6	-3	-253.3
Group net loss for the period***	-12.7	-4.6	-176.1
EPS (in €)	-0.26	-0.09	-188.9
Equity	108.6	123.1	-11.8
Operating cash flow	-10.8	-4.6	-134.8
Cash flow from investing activities	0.7	0.1	-600.0
Cash flow from financing activities	-2.0	-0.3	-566.7
in € million	**June 30, 2019**	**Dec. 31, 2018**	**Variance in %**
Equity***	108.6	123.1	-11.8
Equity ratio (in %)	*43.9*	*45.5*	*-3.5*
Cash and Intercompany loans *	160.7	172.2	-6.7
Net working capital **	-23.8	-22.5	0.4
Order Backlog	114.7	153.6	-25.3
Employees	654	703	-7.0

* Including intercompany loan of € 100 million, € 50 million of which 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.

*** For a description of the effects of IFRS 16 in the half-year statements, see pages 26 et seq. in the Notes. The figures for the corresponding period in the previous year are not adjusted.

Please note that differences can result from the use of rounded amounts and percentages.

MANAGEMENT REPORT TO THE INTERIM GROUP FINANCIAL STATEMENTS AS OF JUNE 30, 2019

Fundamental Group Principles

KHD Humboldt Wedag International AG (hereinafter also referred to as "KHD" or the "Group") made no fundamental changes to its business model, strategy or management system (see combined management report of December 31, 2018, pp. 11-16) during the first half-year 2019. In addition to continued expansion of business activities in the Plant Services segment, the emphasis is on strengthening the Capex segment by focusing the sales activities, increasing competitiveness, supporting a culture of excellence and performance, and targeted research and development activities.

Management, monitoring and reporting within the Group continue to be based on the financial indicators listed below. With respect to the basic determination and calculation of these financial performance indicators, reference is made to the combined management report of December 31, 2018, page 15 et seq. The significant performance indicators of the Group are:

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

For Group management purposes, KHD adjusts the EBIT as necessary with regard to special effects. The adjusted EBIT as of June 30, 2019 is determined as follows:

in € million	**June 30, 2019**	**June 30, 2018**
EBIT prior to adjustments	**-14.3**	**-6.5**
Idle capacity costs	1.5	1.0
reorganization costs	7.2	-
Adjusted EBIT	**-5.6**	**-5.5**

The adjustments include idle capacity costs of € 1.5 million (previous year: € 1.0 million) due to under-utilization of existing capacities. In addition, the reorganization of the subsidiary Humboldt Wedag GmbH (HW GmbH) resulted in one-off expenses of € 7.2 million during the financial year.

Management and Supervision

Management Board

Effective January 1, 2019, Dr. Matthias Jochem was appointed as another member of the Management Board of KHD. Dr. Jochem has many years of extensive experience in international large plant engineering. Over the past 30 years he has served in executive management and in other management positions in sales and project execution for various international plant engineering firms. On the Management Board, he has assumed responsibility for ongoing projects and, in terms of project execution, the evaluation of new project opportunities. In addition, he also deals with the implementation and further structuring of the new operational processes resulting from the reorganization.

Mr. Dian Xie resigned from the Management Board effective June 30, 2019.

Economic Report

Market Environment

According to the International Monetary Fund (IMF), in 2018 economic activity increased in nearly every region in the world; global growth of about 3.9% was expected for 2019. As of mid-year 2019, this estimate has changed considerably: The escalation in the trade conflict between the USA and China, macroeconomic problems in Argentina and Turkey, tighter credit policy in China, and the effects resulting from efforts to standardize monetary policy in the larger industrial countries have in sum contributed to weaker global growth. As a result, the IMF is now expecting a decrease in growth for 2019. Global growth reached its high point in 2017 at about 4%, then weakened to 3.6% in 2018, and will likely reach just 3.3% in 2019. Despite this economic growth, the prospects for many countries are challenging and entail significant short-term uncertainties.

According to an analysis by CW Research, international cement consumption (excluding China) increased by 1.4% in 2018 and is expected to continue to increase in 2019 as well. The primary reasons for increasing cement consumption are industrialization, the growing population, and the greater purchasing power of consumers in developing and emerging economies. According to CW Research, KHD's important core markets demonstrated differing tendencies with respect to cement consumption in the first half-year 2019:

- In the cement industry in India, capacity increases in cement production in the first half-year 2019 are about 5% in comparison to 2018. At the same time, cement production decreased in the first half-year 2019 by about 9%. However, housing construction activities and further infrastructure development will likely have a sustainable, positive influence on cement consumption in India.
- In Russia there was excess capacity in cement production again in the first half-year 2019. This was due to the drop in cement consumption, which also decreased by 1% in the first half-year 2019 in comparison with the previous year.
- In Turkey, cement demand decreased by 7% in the period from January 2018 to June 2019.
- In the USA, the first half-year 2019 saw an increase of 2% in capacity utilization in cement production. This trend is expected to continue in the coming years as well.
- In China, declining cement demand and the related decrease in capacity utilization in the cement industry continued in the first half-year 2019. While the decrease has amounted to about 1% in recent years, the momentum of the decline increased in the first half-year 2019.

Overall Assessment of the Economic Situation

Economic development for the first half-year 2019 as measured by revenue has much improved over that in the corresponding period in the previous year. The profitability of KHD, however, remains at an unsatisfactory level. Development within the reporting period corresponds with the planning with regard to all significant performance indicators except for order intake.

Revenue of € 82.9 million was significantly higher than the previous year's figure (€ 64.1 million). The reason for the considerable increase in revenue was primarily the order backlog at the beginning of the financial year, which was relatively high in comparison with previous periods.

In the current reporting period, KHD's adjusted gross profit is € 8.2 million. As a result, despite the considerable increase in revenue, the adjusted gross profit remained at last year's level (€ 8.1 million) and is in line with the figure budgeted for the first half-year 2019. The decrease in adjusted gross profit margin from 12.6% in the same period last year to 9.9% currently is primarily the result of the relatively high percentage of revenue from project business. In cement plant engineering, tough competition continues in the Capex segment. For this reason, the order intake of the previous years – orders that are currently being executed – was achieved only with price concessions and low margins. In addition, in the first half-year 2019 there were unexpected cost overruns for two projects. Adjusted EBIT of € -5.6 million in the reporting period remained at the previous year's level (€ -5.5 million) despite the increase in revenue. Particularly due to the one-time effect of the reorganization in the amount of € 7.2 million, unadjusted EBIT decreased by € 7.8 million, from € -6.5 million in the first half-year 2018 to € -14.3 million.

Cash flow from operating activities amounted to € -10.8 million (previous year: € -4.6 million), essentially in line with the submitted outlook.

In spite of the continuing unfavorable market conditions and margin situation, the KHD Group is convinced that, particularly due to quantitative and qualitative growth in business volume, together with the reorganization of HW GmbH, the successful economic turnaround will be achieved in the medium term.

Business Development

In the first half-year 2019, order intake was € 44.0 million. This is considerably lower than both the level reached in the previous year (€ 86.2 million) and the budget figure. On one hand, due to delays in the awarding of contracts by customers, the expected order intake has not yet been realized in the first half-year; on the other hand, this also demonstrates that in comparison with pure growth in volume, margin quality has greater weight.

Orders of € 25.3 million were placed in the Capex segment in the first half-year 2019 (previous year: € 60.8 million). Order intake in India, South Korea, China, the USA, and Bangladesh contributed significantly. In the Plant Services segment, order intake of € 18.7 million (previous year: € 25.4 million) reached neither the previous year's figure nor the budget target. Spare parts and services activities contributed 42.5% to order intake (previous year: 29.5%).

Based on the low order intake volume and taking the progress in execution of existing projects into consideration, order backlog as of June 30, 2019 decreased – compared with the figure of December 31, 2018 – by € -38.9 million to € 114.7 million. As in the previous year, in this reporting year adjustments caused by the reduction of order values (€ -1.0 million; previous year: € -1.8 million) and effects of exchange rate fluctuations (€ 1.0 million; previous year: € -2.8 million) were reported as changes to order backlog. As a result of the significant decrease in order intake and also due to regional differences in the distribution of the order backlog, complete utilization of existing capacities is not ensured at all KHD locations. Consequently, idle capacity costs in the first half-year 2019 were € 1.5 million (previous year: € 1.0 million). Due to the low order backlog as of June 30, 2019, KHD expects that, despite the reduction in number of employees associated with the reorganization, complete utilization of capacities will still not be possible in the second half-year 2019 either, resulting in additional idle capacity costs.

Group Earning Situation

KHD’s revenue, amounting to € 82.9 million, significantly exceeded the figure for the previous year (€ 64.1 million). Significant contributions to revenue in the Capex segment came primarily from projects in India and the neighboring countries of Bangladesh and Nepal as well as Africa, Europe, and Southeast Asia. The main reason for the considerable increase in revenue of 29.3% is the increased stage of completion of large projects from the order backlog.

The gross profit for the first half-year 2019 was € 6.8 million (previous year: € 7.1 million). The costs of sales comprise € 1.5 million (previous year: € 1.0 million) in idle capacity costs that resulted from under-utilization of existing capacities. Because these costs are not directly associated with the revenues recognized, they were corrected when determining adjusted gross profit. Adjusted gross profit for the first half-year 2019 was € 8.2 million (previous year: € 8.1 million). With a nearly unchanged adjusted gross profit and increased revenue, the adjusted gross profit margin decreased from 12.6% to

9.9%. The primary reasons for the decrease in the adjusted gross profit margin are the relatively high portion of project business with low margins and the very competitive industry situation, which has not changed. Current order backlog continues to be characterized by projects won in a highly competitive environment with strong margin pressure. This also influenced the gross profit margin. In addition, in the first half-year 2019 there were unexpected cost overruns for two projects.

In contrast to the first six months of the financial year 2018, sales expenses increased slightly by 4.7%, from € 6.4 million to € 6.7 million. The rise in sales expenses is due to the expansion in tendering and sales initiatives to generate the necessary order intake. As a result, KHD’s sales expenses remained at a high level, even in industry comparisons. In comparison with the previous year, general and administrative expenses of € 5.9 million (previous year: € 6.4 million) have decreased by 7.8%. The further substantial decrease of these expenses points to the success of sustainable, active cost management. Other expenses (excluding those related to reorganization) also decreased from € 2.7 million to € 2.3 million. Besides € 1.1 million of expenses for research and development (previous year: € 0.9 million), other expenses also include exchange rate effects of € 0.8 million (previous year: € 1.3 million). From an economic perspective, other income resulting from exchange rate effects in an amount of € 0.4 million (previous year: € 0.9 million) and income from fair value adjustments of foreign exchange forward contracts of € 0.2 million (previous year: € 0.1 million) should be offset against the expenses from exchange rate effects. Moreover, other expenses include the one-time effect of the reorganization of HW GmbH at the Cologne headquarters of the Group in the amount of € 7.2 million.

Earnings before interest and taxes (EBIT) decreased from € -6.5 million in the previous year to € -14.3 million now. Primarily responsible for the decrease are the expenses for the reorganization and the related reduction in staff. This one-time expense in the reporting period is offset by the positive effects of future periods due to the ongoing reduction of structural costs. The EBIT margin decreased from -10.1% in the previous year to -17.2%. In contrast, the adjusted EBIT of € -5.6 million (after eliminating idle capacity costs and expenses related to reorganization) remained at the previous year’ level (€ -5.5 million).

Finance result increased by € 0.2 million from € 3.5 million to € 3.7 million. Finance income of € 4.4 million (previous year: € 4.1 million), which includes interest received in the amount of € 2.9 million from two loans extended in the 2017 financial year to AVIC Kairong for a total amount of € 100.0 million, is offset by finance expenses of € 0.7 million (previous year: € 0.7 million).

The Group net result for the period was € -12.7 million (previous year: € -4.6 million), which translates into diluted and basic earnings per share of € -0.26 (previous year: € -0.09).

Segment Earnings Situation

Revenue in the Capex segment in the six-month period reached € 58.9 million (previous year: € 39.4 million). The considerable increase in revenue in the Capex segment of 49.5 % is primarily due to the increased stage of completion of large projects in the order backlog. In contrast, the Plant Services segment experienced a slight decrease in revenue of € 0.9 million to € 23.9 million (previous year: € 24.8 million). As a result, the contribution of the Plant Services segment to revenue was 28.9 %.

In the reporting period, the Capex segment achieved a slightly positive gross profit of € 0.5 million – slightly above the previous year's figure (€ 0.4 million). The reason that the gross profit margin remains unsatisfactory is primarily the orders from previous years with low margins due to intense competition in the industry as well as unplanned cost overruns for two projects. In the Plant Services segment, a gross profit of € 6.3 million was achieved (previous year: € 7.5 million). Idle capacity costs apply only to the Capex segment, so the adjusted gross profit for this segment is € 1.9 million (previous year: € 0.6 million). As a result, the adjusted gross profit margin in the Capex segment was 3.2 % (previous year: 1.5 %). Although the adjusted gross profit margin increased in comparison with the previous year's figure, it still remains at an unsatisfactory level. The Plant Services segment achieved a gross profit margin of 26.4 %, which was a reduction in comparison to the previous year's figure of 30.2 %.

In the reporting period, EBIT in the Capex segment was € -16.6 million, a considerable decline with respect to the previous year's figure (€ -10.8 million). Primarily responsible for the significant decrease are the expenses for reorganization of € 6.4 million, attributable for the most part to the Capex segment. EBIT in the Plant Services segment has also been negatively affected by the one-time effects of reorganization (€ 0.8 million). At € 2.3 million, EBIT did not reach the previous year's figure (€ 4.3 million), but after eliminating the one-time effect it remains at an acceptable level. The considerable net loss in the Capex segment was offset by the Plant Services segment only to a certain degree.

Financial Position and Net Assets

Liquidity

The total cash and cash equivalents decreased sharply in the first half-year 2019. As of June 30, 2019, cash and cash equivalents amounted to € 60.7 million (end of 2018: € 72.2 million), a decrease of € 11.5 million. The primary reason for this decline is a negative cash flow from operating activities of € -10.8 million (previous year: € -4.5 million).

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

Cash flow effect from operating activities for the half year 2019	**in € thousand**
Cash flow from customer contacts with revenue recognition over time	19,072
Cash flow from current liabilities/ invoices from subcontractors	(8,036)
Cash flow from changes in receivables	(3,173)
Cash flow from utilization of provisions and long term liabilities	(3,984)
Cash outflow from result (EBITDA)	(13,651)
Cash flow from tax payments made/ received	(703)
Other cash inflows and outflows	(327)
Cash flow from operating activities	**(10,802)**

Cash flow from investment activities of € 0.7 million (previous year: € 0.1 million) is greater than the previous year's figure and primarily includes interest payments received for the loans extended to AVIC Kairong (€ 1.5 million) and cash outflow for fixed assets (€ 0.7 million). Cash flow from financing activities is € -2.0 million (previous year: € -0.3 million). One reason for this is the dividend distribution of KHD Humboldt Wedag Vermögensverwaltungs-AG, as a result of which € 0.9 million was paid out to shareholders outside of the Group. The other reason is that, for the first time, cash flow from financing activities is influenced by the effects of payments and interest in the amount of € 0.9 million on the lease liabilities recognized since January 1, 2019. Reference is made to pages 26 et seq. of the Notes for a description of the effects from the initial application of the new lease reporting. In addition, as in the previous year interest payments for a bank loan in the amount of € 0.2 million were due and payable. Taking the effects of currency exchange rates in the amount of € 0.4 million into consideration, cash and cash equivalents as of June 30, 2019 amount to € 60.7 million (December 31, 2018: € 72.2 million).

Total Assets

The total balance decreased from the figure at the end of 2018 (€ 270.4 million) by € 23.1 million to € 247.3 million. Lease-related rights of use in the amount of € 4.3 million were recognized in non-current assets for the first time in accordance with IFRS 16. Current assets decreased by a total of € 25.2 million. The main reason is that total cash and cash equivalents decreased by € 11.6 million to € 60.7 million. In addition, the contract assets declined by € 5.1 million to € 10.5 million and the advance payments decreased by € 2.9 million to € 7.9 million due to the progressing execution of the current projects. Other current assets differed only slightly.

Financing

On the liabilities side, non-current liabilities increased in comparison with December 31, 2018 by € 3.7 million to € 54.0 million. A significant reason for the increase is the initial recognition of non-current lease liabilities in the amount of € 3.3 million in connection with the initial application of IFRS 16. The changes to other non-current liabilities were insignificant.

Current liabilities due to trade and other payables reduced by € 7.4 million to € 38.6 million as did current provisions by € 7.6 million to € 20.8 million (excluding the provision for reorganization of € 3.7 million recognized in the first half-year 2019.

At € -22.4 million the net working capital – the difference between current assets (less cash and cash equivalents and short-term loans) and current liabilities – remained nearly unchanged from the figure reported on December 31, 2018 (€ -22.5 million). On one hand the reduction in current receivables, contract assets, and advance payments freed up a total of € 10.5 million in the reporting period, but on the other hand, current liabilities and current provisions (including the provision for reorganization) decreased by a total of € 11.3 million. As a result, these two opposing effects on the net working capital nearly balanced out.

Equity decreased by € 14.5 million from € 123.1 million to € 108.6 million. The reasons for this decrease include the decline in minority shares as a result of the dividend distribution of KHD Humboldt Wedag Vermögensverwaltungs-AG in the amount of € -0.9 million and, in particular, the negative group net result for the period in the amount of € -12.7 million. Despite the reduction in equity, at 43.9% the equity ratio remains at a very good level.

Non-Financial Performance Indicators

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

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

The expenses for research and development in the KHD Group were € 1.1 million in the first half-year 2019 (previous year: € 0.9 million). Despite the current unsatisfactory result situation, KHD invested in targeted further development of its technology for cement plants. In addition to improving major plant components, the primary focus of research and development (R&D) is improving the efficiency of cement plants. Other crucial R&D topics include developing environmentally friendly products and solution concepts, with a particular emphasis on energy efficiency and emissions reduction, as well as using alternative fuels in cement plants. An important goal is to continue to minimize the CO_2 footprint associated with cement production in addition to reducing nitrogen oxide emissions (NO_X).

The KHD Group had 654 employees (excluding trainees) at the end of June 2019 (end of 2018: 703). The primary reason for the decrease is the reduction in staff related to reorganization at Humboldt Wedag GmbH at the Cologne headquarters of KHD.

Report on Events after the Reporting Period

Humboldt Wedag, Inc. (HW Inc.), Norcross, Georgia, USA, a subsidiary of KHD, entered into a contract with Lehigh Cement Company LLC, a subsidiary of HeidelbergCement Group, at the end of July 2019. The contract regarding engineering, supplying equipment and steel construction, and advisory services in the context of the erection and commissioning of a cement plant in the USA comprises an order volume of more than € 100 million. The EP (engineering and procurement) contract will be recognized as order intake as soon as the conditions for starting to implement all of the work specified in the contract are met.

There were no further substantial developments or events of particular significance after the balance sheet date of June 30, 2019.

Risk and Opportunities Report

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

In comparison with the balance sheet date in 2018, there has been no significant change in the assessment of risks and opportunities as of the date of this half-year report.

For a detailed description of the risks and opportunities, please refer to the relevant section in the KHD Group's combined management report as of December 31, 2018 (page 41 et seq. of the Group Annual Report).

Outlook

According to analysis by the market research institute CE Research, global cement consumption increased in the first half-year 2019 by 1.3%. This trend is supposed to continue for the entire year. The global growth in cement consumption for 2020 is supposed to continue to increase by 2% in comparison with 2018-19. The predicted increase in cement consumption outside of China is even somewhat greater: 1.9% in 2019 and 2.6% in 2020.

Cement consumption outside of China is driven by global growth, particularly in large Asian markets such as India and Indonesia. An increase in cement consumption of 5% is expected in India and Indonesia alone in 2019. And in other regions, such as North America, Latin America, Europe, and Africa, an increase in cement consumption is anticipated for 2019 and beyond.

To a great extent, the KHD Group is able to confirm the outlook provided for the 2019 financial year in the 2018 annual report. Due to a contract concluded in July 2019 in particular, KHD continues to expect that order intake and order backlog for the 2019 financial year will both be higher than the previous year's levels (€ 141.7 million and € 153.6 million, respectively), despite the unsatisfactory development in the first half-year.

Expected order intake in the 2019 financial year is nevertheless highly dependent on geopolitical factors as well as the financial options available to our customers for investment projects. As the recording of order intake, even for contracts already signed, is often based on the fulfillment of further conditions, there may well be shifts of order intake to the 2020 financial year.

The KHD Group confirms the outlook for revenue, adjusted EBIT and adjusted EBIT margin. Revenue will be higher than the previous year's level. Due in particular to the unsatisfactory margins of the order intake in previous years and insufficient business volume, adjusted EBIT will remain at a disappointing level in the 2019 financial year as well. In contrast to the previous year, however, adjusted EBIT and the adjusted EBIT margin will improve considerably. Due to the negative earnings situation and the associated project-related cash outflows as well as the one-time effects of reorganization, KHD is expecting a negative operating cash flow in the low double digit millions range for the 2019 financial year.

Despite the considerably negative impacts resulting from the profit situation in the 2019 financial year, our outlook shows that the KHD Group's financial and net asset position will remain stable. As the liquidity situation and the high equity ratio remain at a comfortable level, this provides us with the flexibility to successfully cope with difficult market phases as well as the current, unsatisfactory earnings situation. In spite of the unfavorable market and margin situation, KHD is convinced that, with the measures introduced to increase competitiveness, support for a culture of excellence and high performance, and the successful reorganization at the Cologne headquarters, a break-even result will be achieved again in the medium term.

Opportunities and Risks Relating to the Outlook for the Second Half-Year 2019

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

Significant risks and opportunities regarding the forecast figures exist for order intake, particularly in the Capex segment. The awarding of individual large contracts to the KHD Group can significantly affect the order intake in the second half of the 2019 financial year. Despite close collaboration with customers during the tendering process, customer investment decisions and the awarding of individual projects to the KHD Group can only be forecast with substantial uncertainty, which can lead to either higher or lower order intake.

The revenue and earnings forecast is mainly based on order backlog in the Capex segment and on planning of the business in the Plant Services segment, which is significantly less cyclical. The risks and opportunities relating to the planned revenue and earnings figures are nevertheless significant in the second half-year of the 2019 financial year as well, since delays or accelerations in project execution, postponement of awarding projects included in the planned order intake, and unexpected changes in the results of specific projects can affect these figures.

Cologne, Germany, August 14, 2019

The Management Board

(s) Yizhen Zhu (s) Jürgen Luckas

(s) Tao Xing (s) Dr. Matthias Jochem

INTERIM GROUP FINANCIAL STATEMENT

1 GROUP INCOME STATEMENT of KHD Humboldt Wedag International AG for the Period from January 1 to June 30, 2019

in € thousand	Jan. 1 - June 30, 2019	Jan. 1 - June 30, 2018
Revenue	82,853	64,122
Cost of sales	(76,099)	(57,035)
Gross profit	**6,754**	**7,087**
Other operating income	1,118	1,979
Sales expenses	(6,737)	(6,446)
General and administrative expenses	(5,912)	(6,369)
Other expenses	(9,502)	(2,736)
Earnings before interest and taxes (EBIT)	**(14,279)**	**(6,485)**
Finance income	4,431	4,135
Finance expenses	(754)	(680)
Net finance income	**3,677**	**3,455**
Earnings before tax (EBT)	**(10,602)**	**(3,030)**
Income tax expense	(2,141)	(1,561)
Group net result for the period	**(12,743)**	**(4,591)**
Of which are attributable to:		
Parent company shareholders	(12,748)	(4,598)
Non-controlling interests	5	7
	(12,743)	**(4,591)**

EARNINGS PER SHARE

	Jan. 1 - June 30, 2019	Jan. 1 - June 30, 2018
Net profit attributable to shareholders (in € thousand)	(12,748)	(4,598)
Weighted average number of shares outstanding	49,703,573	49,703,573
Basic (undiluted) and diluted earnings per share in €	(0.26)	(0.09)

2 GROUP STATEMENT OF COMPREHENSIVE INCOME for KHD Humboldt Wedag International AG for the Period from January 1 to June 30, 2019

in € thousand	Jan. 1 - June 30, 2019	Jan. 1 - June 30, 2018
Group net loss for the period	(12,743)	(4,591)
Items that will be reclassified subsequently to profit or loss when specific conditions are met		
Currency translation differences	604	(1,396)
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	(1,117)	(117)
Effect from the first-time adoption of IFRS 16	(357)	-
Other comprehensive income	**(870)**	**(1,513)**
Group comprehensive income	**(13,613)**	**(6,104)**
Of which attributable to:		
Parent company shareholders	(13,618)	(6,111)
Non-controlling interests	5	7
	(13,613)	**(6,104)**

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

3 GROUP BALANCE SHEET of KHD Humboldt Wedag International AG as of June 30, 2019

ASSETS	June 30, 2019	Dec. 31, 2018
in € thousand		
Non-current assets		
Property, plant and equipment	9,732	9,613
Goodwill	5,162	5,162
Other intangible assets	1,371	1,298
Right of use *	4,313	-
Trade and other receivables	3,645	5,230
Other financial assets	100,006	100,005
Deferred tax assets	1,591	2,428
Total non-current assets	**125,820**	**123,736**
Current assets		
Inventories	3,268	4,405
Contract assets	10,467	15,565
Trade and other receivables	37,723	41,634
Payments made in advance	7,926	10,796
Other financial assets	1,023	1,097
Income tax assets	400	932
Cash and cash equivalents	60,653	72,228
Total current assets	**121,460**	**146,657**
Total assets	**247,280**	**270,393**

* For a description of the effects of IFRS 16 in the half-year statements, see pages 26 et seq. in the Notes. The figures for the corresponding period in the previous year are not adjusted.

EQUITY AND LIABILITIES	June 30, 2019	Dec. 31, 2018
in € thousand		
Equity		
Subscribed capital	49,704	49,704
Capital reserves	61,097	61,097
Currency translation differences recognized in equity	(7,591)	(8,195)
Retained earnings	4,985	19,207
Shares of equity attributable to shareholders of the parent company	108,195	121,813
Non-controlling interests	452	1,299
Total equity	**108,647**	**123,112**
Non-current liabilities		
Other liabilities	3,109	3,120
Lease liabilities *	3,301	-
Loan	25,000	25,000
Pension benefit obligations	19,897	19,381
Deferred tax liabilities	1	51
Provisions	2,721	2,795
Total non-current liabilities	**54,029**	**50,347**
Current liabilities		
Trade and other payables*	38,611	46,032
Contract liabilities and advanced payments received	21,196	22,257
Income tax liabilities	350	299
Provision for reorganization	3,679	-
Provisions	20,768	28,346
Total current liabilities	**84,604**	**96,934**
Total equity and liabilities	**247,280**	**270,393**

* For a description of the effects of IFRS 16 in the half-year statements, see page 26 et seq.in the Notes. The figures for the corresponding period in the previous year are not adjusted.

4 GROUP STATEMENT OF CASH FLOW for KHD Humboldt Wedag International AG for the Period from January 1 to June 30, 2019

in € thousand	Jan. 1 - June 30, 2019	Jan. 1 - June 30, 2018
Cash flow from operating activities		
Group net result for the period	(12,743)	(4,591)
Income tax expense recognized in the income statement	2,141	1,561
Net finance income recognized in the income statement	(3,677)	(3,455)
Earnings before interest and taxes (EBIT)	**(14,279)**	**(6,485)**
Amortization and depreciation of non-current assets	628	518
Book gain (-)/loss on disposal of fixed assets	-	(95)
Increase(-)/decrease in trade receivables and financial assets	7,711	8,157
Increase (-)/decrease in inventories and contract assets	6,235	(4,683)
Increase (-)/decrease in payments made in advance and other financial assets	2,945	(7,522)
Increase (+)/decrease in trade and other payables and contract liabilities and advance payments received	(9,740)	7,668
Increase (+)/decrease in pension benefit obligations	(601)	(423)
Increase (+)/decrease in provisions and non-current liabilities	(3,984)	856
Other non-cash-transactions	268	(856)
Other translation differences	173	-
Interest received	698	559
Interest paid	(153)	(5)
Income tax received	145	88
Income tax paid	(848)	(2,351)
Cash flow from operating activities	**(10,802)**	**(4,574)**
Cash flow from investing activities		
Cash outflow for intangible assets	(235)	(325)
Cash outflow for property, plant and equipment	(482)	(1,149)
Cash inflow from the disposal of property, plant and equipment	2	109
Interest received from Intercompany loans	1,463	1,462
Cash flow from investing activities	**748**	**97**

in € thousand	Jan. 1 - June 30, 2019	Jan. 1 - June 30, 2018
Cash flow from financing activities		
Dividends paid	(852)	-
Interest paid for loans	(239)	(265)
lease payments	(861)	-
Cash flow from financing activities	**(1,952)**	**(265)**
Change in unrestricted cash and cash equivalents	**(12,006)**	**(4,742)**
Opening balance of unrestricted cash and cash equivalents	72,228	84,041
Exchange rate effects	431	(786)
Closing balance of unrestricted cash and cash equivalents	**60,653**	**78,513**

in € thousand	June 30, 2019	June 30, 2018
Composition of unrestricted cash and cash equivalents		
Current bank accounts and cash	36,579	59,576
Short-term bank deposits and restricted cash	24,074	18,937
Total cash and cash equivalents	**60,653**	**78,513**
Closing balance of unrestricted cash and cash equivalents	**60,653**	**78,513**

5 GROUP STATEMENT OF CHANGES IN EQUITY for KHD Humboldt Wedag International AG for the Period from January 1 to June 30, 2019

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, 2017 / Jan. 1, 2018	**49,704**	**61,097**	**-**	**(6,636)**	**44,296**	**148,461**	**1,300**	**149,761**
Group net result for the period	-	-	-	-	(4,598)	(4,598)	7	**(4,591)**
Actuarial gains and losses and other effects on the group comprehensive income	-	-	-	-	(117)	(117)	-	**(117)**
Currency translation differences	-	-	-	(1,396)	-	(1,396)	-	**(1,396)**
Group comprehensive income	**-**	**-**	**-**	**(1,396)**	**(4,715)**	**(6,111)**	**7**	**(6,104)**
Other changes	-	-	-	-	1	1	-	**1**
June 30, 2018	**49,704**	**61,097**	**-**	**(8,032)**	**39,582**	**142,351**	**1,307**	**143,658**
Group net result for the period	-	-	-	-	(20,714)	(20,714)	5	**(20,709)**
Actuarial gains and losses and other effects on the group comprehensive income*	-	-	-	-	339	339	1	**340**
Currency translation differences	-	-	-	(163)	-	(163)	-	**(163)**
Group comprehensive income	**-**	**-**	**-**	**(163)**	**(20,375)**	**(20,538)**	**6**	**(20,532)**
Other changes	-	-	-	-	-	-	(1)	**(1)**
Dividend payments	-	-	-	-	-	-	(13)	**(13)**
Dec.31, 2018	**49,704**	**61,097**	**-**	**(8,195)**	**19,207**	**121,813**	**1,299**	**123,112**
Group net result for the period	-	-	-	-	(12,748)	(12,748)	5	**(12,743)**
Actuarial gains and losses and other effects on the group comprehensive income**	-	-	-	-	(1,474)	(1,474)	-	**(1,474)**
Currency translation differences	-	-	-	604	-	604	-	**604**
Group comprehensive income	**-**	**-**	**-**	**604**	**(14,222)**	**(13,618)**	**5**	**(13,613)**
Dividend payments	-	-	-	-	-	-	(852)	**(852)**
June 30, 2019	**49,704**	**61,097**	**-**	**(7,591)**	**4,985**	**108,195**	**452**	**108,647**

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

** The effect of the initial application of the new IFRS 16 rules (€ -357 thousand) is recorded in other comprehensive income.

6 NOTES TO THE GROUP FINANCIAL STATEMENTS of KHD Humboldt Wedag International AG as of June 30, 2019

1. Group Structure and Affiliated Companies

KHD Humboldt Wedag International AG ("KHD" or "Group") is one of the world's leading providers of equipment and services for cement producers. In its capacity as the managing holding company of the Group, KHD holds a 100% interest in KHD Humboldt Wedag GmbH, Cologne/Germany as of June 30, 2019, unchanged since December 31, 2018. The core business areas of KHD's 12 Group companies are industrial plant engineering and providing related services. The strategic and operational focus of the Group entities is on planning and constructing plants for the cement industry and providing a comprehensive range of services.

2. Reporting Principles

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

These consolidated financial statements and the Group management report for the first half-year 2019 were neither audited pursuant to Section 317 of the German Commercial Code (HGB) nor were they subjected to an auditor's review.

The accounting and measurement methods applied in these interim financial statements are consistent with those applied as of December 31, 2018, unless changes are described. The methods are described in detail in KHD's Group Annual Report on the IFRS consolidated financial statements as of December 31, 2018 on page 63 et seq.

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

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

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

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

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

3. Applying New or Revised International Financial Reporting Standards

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

Initial Adoption of Recently Published Standards

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 reported leases that were previously reported off-balance sheet as on-balance sheet. This means that the difference between financing and operating leasing contracts as previously required under IAS 17 is eliminated.

Starting on January 1, 2019 in accordance with IFRS 16, KHD, as the Lessee, reports 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, capitalizes a 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 over the useful life. There are simplifications for short-term leases and low value leased items.

The effects on the presentation of the net assets, financial position and result of operations on the present half-year statements for 2019 are described below. In particular, the application of IFRS 16 affected contracts for long-term real estate rentals. In this case, in the initial application of IFRS 16 KHD used 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 parts of the lease. In the context of this introduction, KHD applied the modified, retrospective initial application as of January 1, 2019, i.e. the figures for the corresponding period in the previous year were not adjusted. This means that comparability is limited.

In principle, IFRS 16 requires that at the time of the initial application, existing contracts be examined with regard to the presence of leases – also according to the definition criteria of IFRS 16. KHD used the option in which the existing contracts are not reassessed, i.e. old contracts that include leases according to IAS 17 are recognized according to IFRS 16 as well.

The following effects occurred in the context of the initial application:

- KHD reported lease-related right of use of € 7.2 million in the initial application of IFRS 16 on January 1, 2019. Because the leasing contracts were previously reported as an off-balance sheet item, the application resulted in an increase in financial liabilities of € 7.5 million. The difference of € 0.3 million between the lease-related right of use and the financial liabilities was reported in equity without affecting profit and loss.
- Based on the initial reporting of lease-related financial liabilities, KHD's equity ratio dropped by about 1.3 percentage points to 44.2% as of January 1, 2019.
- The transition of commitments under operating leasing contracts of € 7.8 million as of December 31, 2018 to the initial recognition of lease-related financial liabilities of € 7.5 million as of January 1, 2019 yields a difference of € 0.3 million. For the most part, this difference represents the discounting effects of the lease payments over the specific contract term. In addition, immaterial and short-term leases are not included in the financial liabilities. The weighted discount rate of the lease payments in the KHD Group is approximately 5% as of January 1, 2019.
- As of June 30, 2019, the lease-related right of use amounts to € 4.3 million. Financial liabilities from leases amount to € 4.5 million and split up into a non-current portion (€ 3.3 million) and a current portion of € 1.3 million.

- Due to the initial application of IFRS 16, depreciation from the pro rata amortization of the right of use in the amount of € 0.7 million and interest expenses from the compounding of the lease liabilities of € 0.1 million were recognized in the income statement in the first half-year 2019. The operating result and therefore the key performance indicator “adjusted EBIT” improved as a result of the first-time adoption of IFRS 16 at the expense of the financial result in the amount of € 0.1 million. 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 interest and repayment portion of the leasing payments totaling € 0.9 million reduced cash flow from investing activities. Accordingly, operating cash flow improved.

In addition to the initial application of IFRS 16, as of January 1, 2019, the following rules and amendments were used for the first time:

- IFRIC 23, “Uncertainty over Income Tax Treatments”: Published in June 2017, initial application in the 2019 financial year, endorsement into EU law in October 2018.
- Amendment to IFRS 9, “Prepayment features with negative compensation”: Published in October 2017, initial application in the 2019 financial year, endorsement into EU law in March 2018.
- 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 in February 2019.
- Amendment to IAS 19: “Plan Amendment, Curtailment or Settlement”, published in February 2018, initial application in the 2019 financial year, endorsement into EU law in March 2019.
- Annual Improvement Process 2015 - 2017, published in December 2017, initial application in the 2019 financial year, endorsement into EU law in March 2019.

The application of these new rules and amendments did not significantly affect the Group’s net assets, financial position, or result of operations.

Published Standards for which application is not yet required

The following publications of the IASB have been issued as of the current reporting period, but their application has yet to take effect:

- 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.

KHD does not currently expect any significant effects on the Group’s net assets, financial position, or result of operations due to these amendments.

4. Consolidation

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

Besides KHD AG, the Group includes:

Name of company	Registered office	Main Business	Capital and voting rights in % June 30, 2019	Capital and voting rights in % Dec. 31, 2018		Currency	Subscribed capital June 30, 2019	Subscribed capital Dec. 31, 2018
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	3,722,222
Humboldt Wedag Malaysia Sdn. Bhd.	Kuala Lumpur, Malaysia	Plant engineering	100.00	100.00	I	MYR	500,000	500,000
Humboldt Wedag Do Brasil Servicos Technicos Ltda	Belo Horizonte, Brazil	Sales	100.00	100.00	I	BRL	801,847	801,847

D = directly owned

I = indirectly owned

5. Segment Reporting

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

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

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

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

The following table provides an overview of the business for the 2019 and 2018 financial half-years.

in € thousand	Capex Jan. 1 - June 30, 2019	Plant Services Jan. 1 - June 30, 2019	Total Group Jan. 1 - June 30, 2019	Capex Jan. 1 - June 30, 2018	Plant Services Jan. 1 - June 30, 2018	Total Group Jan. 1 - June 30, 2018
Order intake	25,259	18,702	43,961	60,800	25,411	86,211
Revenue	58,904	23,949	82,853	39,350	24,772	64,122
Cost of sales	(58,403)	(17,696)	(76,099)	(39,750)	(17,285)	(57,035)
Gross profit	501	6,253	6,754	(400)	7,487	7,087
Other income	1,118	-	1,118	1,979	-	1,979
Sales expenses	(4,822)	(1,915)	(6,737)	(4,577)	(1,869)	(6,446)
General and administrative expenses	(4,706)	(1,206)	(5,912)	(5,075)	(1,294)	(6,369)
Other expenses	(8,702)	(800)	(9,502)	(2,736)	-	(2,736)
Earnings before interest and taxes (EBIT)	(16,611)	2,332	(14,279)	(10,809)	4,324	(6,485)
Net finance income			3,677			3,455
Profit before tax			(10,602)			(3,030)
for information: depreciation and amortization	-		*(628)*	-		*(518)*

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

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

Revenue for the Capex segment includes license revenue in the amount of € 0.1 million (previous year as of June 30, 2018: € 0.5 million). Due to contract conditions, the Capex segment recognizes revenue primarily over a period of time. The Plant Services segment recognizes revenue from spare parts business primarily at a specific point in time. Services in the Plant Services segment are also recognized over time.

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

	Revenue		Non-current assets	
in € thousand	**Jan. 1 - June 30, 2019**	**Jan. 1 - June 30, 2018**	**June 30, 2019**	**Dec. 31, 2018**
Rest of Asia	26,726	10,087	-	3
Africa	13,154	4,363	-	-
India	10,597	26,948	7,343	7,184
Rest of Europe	10,530	6,173	-	-
Middle East	8,638	3,913	-	-
Germany	4,069	595	5,866	5,814
South America	3,060	1,621	1	4
North America	2,952	4,516	10	21
Russia	2,363	5,458	3,043	3,043
China	736	182	2	4
Other	28	266	-	-
	82,853	**64,122**	**16,265**	**16,073**

	Order Intake		Order Backlog	
in € thousand	**Jan. 1 - June 30, 2019**	**Jan. 1 - June 30, 2018**	**June 30, 2019**	**Dec. 31, 2018**
India	17,179	16,850	21,945	15,581
Rest of Asia	8,259	28,679	39,370	55,443
North America	5,524	2,591	4,159	3,324
China	4,287	705	4,014	1,077
Rest of Europe	3,099	2,105	5,391	12,947
Middle East	1,739	11,969	4,540	11,908
Germany	1,645	2,115	14,753	17,177
Russia	1,254	1,246	6,690	7,709
Africa	476	5,392	12,866	25,442
South America	458	14,524	938	2,846
Other	41	35	39	176
	43,961	**86,211**	**114,705**	**153,630**

6. Contract Assets and Contract Liabilities and Advance Payments Received

The measurement of customer contracts with revenue recognition over time takes the cost of sales plus proportionate profits depending on the stage of completion less progress billings into consideration. Expected contract losses from ongoing customer contracts are reported in the provisions.

in € thousand	**June 30, 2019**	**Dec. 31, 2018**
Costs incurred to date for construction contracts with realization of revenues over time	155,572	117,256
Proportionate results under these contracts recognized to date	8,311	7,148
Total costs incurred and profits recognized	163,883	124,404
Less progress billings	(171,236)	(129,833)
Balance of contract assets and contract liabilities	**(7,353)**	**(5,429)**
This amount is comprised as follows:		
Contract assets	10,467	15,565
Contract liabilities	(17,820)	(20,994)
	(7,353)	**(5,429)**
Disclosure on the credit side of the balance sheet		
Contract liabilities	(17,820)	(20,994)
Advance payments received	(3,376)	(1,263)
Contract liabilities and advance payments received	**(21,196)**	**(22,257)**

The net position of contrast assets and contract liabilities and advance payments received decreased by € -1,924 thousand from € -5,429 thousand to € -7,353 thousand. Of the revenue of € 82,853 thousand recognized in the reporting period (previous year, as of June 30, 2018: € 64,122 thousand), € 68,151 thousand is attributable to customer contracts with revenue recognition over time based on the stage of completion (previous year as of June 30, 2018: € 45,897 thousand).

The impairment of contract assets for expected credit rating losses recognized in the reporting period is insignificant.

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 € 5 – € 7 million in the first half-year 2019. In the corresponding period, the effects due to amendments were not significant.

7. Cash and Cash Equivalents

The Group discloses cash and cash equivalents in the amount of € 60,653 thousand (previous year as of December 31, 2018: € 72,228 thousand).

in € thousand	**June 30, 2019**	**Dec. 31, 2018**
Bank balances and cash on hand	36,579	49,389
Short-term bank deposits	24,074	22,839
	60,653	**72,228**

8. Other Expenses

in € thousand	**Jan. 1 - June 30, 2019**	**Jan. 1 - June 30, 2018**
Research and development	1,123	899
Exchange rate losses and expenses from derivatives	791	1,322
Costs for reorganization	7,200	-
Miscellaneous expenses	388	515
	9,502	**2,736**

Expenses for reorganization programs in the amount of € 7,200 thousand were recognized in other expenses in the first half-year 2019 (previous year as of June 30, 2018: € 0 thousand).

9. Income Tax Expenses

The expenses recognized in the first half-year 2019 for income taxes amount to € 2,141 thousand (previous year as of June 30, 2018: € 1,561 thousand). The income tax expense is composed as follows:

in T€	**Jan. 1 - June 30, 2019**	**Jan. 1 - June 30, 2018**
Current tax expense	1,307	1,636
Deferred tax expense / income	834	(75)
Tax expense for the year	**2,141**	**1,561**

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

10. Transactions with Related Parties

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

Relationships to Indirect Parent Companies

There has been a cooperation agreement with AVIC Beijing since 2010, reinforced since February 2011 by the capital interest in KHD amounting to 20% that is held by Max Glory Industries Limited (Max Glory), an AVIC Beijing group company. As a consequence of a public takeover offer, AVIC Beijing further increased its indirect share in KHD in the 2014 financial year. As of June 30, 2019, AVIC Beijing indirectly holds the majority of KHD shares with 89.02%.

Relationships to other Related Companies

KHD granted two loans to AVIC International Kairong Limited (AVIC Kairong), Hong Kong, each for € 50,000 thousand, in the 2017 financial year. The loans bear interest of 6.0% and 5.7% p.a., respectively, and both have a term of three years. For the loan extended in July 2017, KHD has the right to demand repayment at any time before the due date with a notification period of 30 days. Both loans are secured by a corporate guarantee from AVIC.

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

The following transactions took place with related companies in the first half-year 2019:

Income

in € thousand	Jan. 1 - June 30, 2019	Jan. 1 - June 30, 2018
Indirect parent company	416	217
Other related companies	2,941	2,941
	3,357	3,158

The income with indirect parent companies related exclusively to income from project business. Only interest income from the loans extended to AVIC Kairong in the amount of € 2,941 thousand is reported under income with other affiliated companies.

Expenses

Expenses from transactions with indirect parent companies amounted to € 2,179 thousand in the first half-year 2019 (previous year as of June 30, 2018: € 105 thousand). The expenses are a result of contract costs for projects in which AVIC is KHD’s customer.

Current assets

in € thousand	June 30, 2019	Dec. 31, 2018
Indirect parent company	2,981	1,425
Other related companies	1,709	230
	4,690	1,655

As of June 30, 2019, current assets due from the companies of the AVIC Group amounted to € 4,460 thousand (previous year as of December 31, 2018: € 1,655 thousand). These are primarily the result of receivables (including advance payments) from projects and interest receivables.

Non-current Assets

Loans to other related companies for a total of € 100,000 thousand (previous year as of December 31, 2018: € 100,000 thousand) are recognized in non-current assets.

Liabilities

Liabilities due to indirect parent companies amount to € 4,361 thousand (previous year as of December 31, 2018: € 1,879 thousand).

11. Additional Notes on Financial Instruments

List of Financial Assets and Liabilities by Category

June 30, 2019	**Financial assets**				**Financial Liabilities**				
	Measurement according to IFRS 9				Measurement according to IFRS 9				
in € thousand	Fair value through OCI	Fair value through P&L	Amortized cost	Not in IFRS 9 application area	Fair value through P&L	Amortized cost	Not in IFRS 9 application area	Carrying amount June 30, 2019	Fair value June 30, 2019
Non-current financial assets	-	-	103,651	-	-	-	-	103,651	100,250
Trade receivables	-	-	27,040	-	-	-	-	27,040	-
Related party receivables	-	-	3,944	-	-	-	-	3,944	-
Contract assets	-	-	10,467	-	-	-	-	10,467	-
Other financial assets	-	937	86	-	-	-	-	1,023	937
Derivatives	-	33	-	-	-	-	-	33	33
Other receivables	-	-	2,975	3,731	-	-	-	6,706	-
Cash and cash equivalents	-	-	60,653	-	-	-	-	60,653	-
Total financial assets	**-**	**970**	**208,816**	**3,731**	**-**	**-**	**-**	**213,517**	**101,220**
Financial liabilities	-	-	-	-	-	59	4,558	4,617	-
Loan	-	-	-	-	-	25,000	-	25,000	-
Contract liabilities	-	-	-	-	-	21,196	-	21,196	-
Other liabilities	-	-	-	-	-	5,318	3,109	8,427	-
Derivatives	-	-	-	-	-	-	-	-	-
Trade payables	-	-	-	-	-	32,319	-	32,319	-
Total financial liabilities	**-**	**-**	**-**	**-**	**-**	**83,892**	**7,667**	**91,559**	**-**

Dec.31, 2018	**Financial assets**				**Financial Liabilities**				
	Measurement according to IFRS 9				Measurement according to IFRS 9				
in € thousand	Fair value through OCI	Fair value through P&L	Amortized cost	Not in IFRS 9 application area	Fair value through 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**

As long as there is no explicit disclosure, the carrying amounts reported on June 30, 2019 correspond to the fair values.

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

- The fair values of the listed securities that are held for trading are determined by reference to quoted market prices.
- The fair value of derivatives is calculated on the basis of discounted cash flow analyses, using corresponding yield curves for the term to maturity of the instruments concerned.

Financial assets and financial liabilities	**Fair value**		**Level**	**Measurement method**	**significant unobservable input(s)**
	June 30, 2019	**Dec. 31, 2018**			
Derivatives	Financial assets: € 33 thousand Financial liabilities: € 0 thousand	Financial assets: € 3 thousand Financial liabilities: € 327 thousand	level 2	Discounted cash flow	N/A
Securities	Financial assets: € 937 thousand	Financial assets: € 1,011 thousand	level 1	listed price on active market	N/A

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

12. Other Information

Within the scope of its normal business activities, the KHD Group has contingent liabilities due to advance guarantees, performance bonds, and guarantees for warranty obligations. The Group does not anticipate any material liabilities due to these commitments. The arranged bank guarantee credit facilities allow individual KHD Group companies to provide bank guarantees for its customers worldwide. As part of these guarantee facilities, the Group has provided bank guarantees within the scope of its normal business activities in the amount of € 23.0 million (previous year as of December 31, 2018: € 45.3 million).

13. Responsibility Statement

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

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

Cologne, Germany, August 14, 2019

The Management Board

(s) Yizhen Zhu	(s) Jürgen Luckas
(s) Tao Xing	(s) Dr. Matthias Jochem