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Annual Report
2020

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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	2020	2019
Order Intake	**102.1**	301.1
Revenue	**151.2**	146.3
Adjusted Gross Profit	**11.9**	12.1
Adjusted Gross Profit margin (in %)	**7.9**	8.3
Adjusted EBIT	**-12.5**	-14.4
Adjusted EBIT margin (in %)	**-8.3**	-9.8
EBT	**-6.6**	-15.1
Group net loss for the year	**-8.0**	-18.8
EPS (in €)	**-0.16**	-0.38
Operating cash flow	**-11.7**	10.8
Cash flow from investing activities	**4.1**	3.0
Cash flow from financing activities	**-1.9**	-2.9

in € million	Dec. 31, 2020	Dec. 31, 2019
Equity	**89.1**	101.5
Equity ratio (in %)	**34.4**	39.6
Cash and intercompany loans *	**168.0**	182.6
Net working capital **	**-47.7**	-51.2
Order Backlog	**240.4**	307.8
Employees	**670**	664

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

Facts & figures

Order Intake

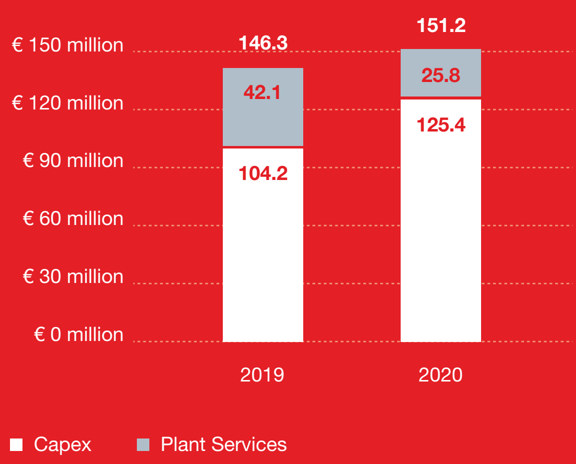
€ 102.1 million

Order Backlog

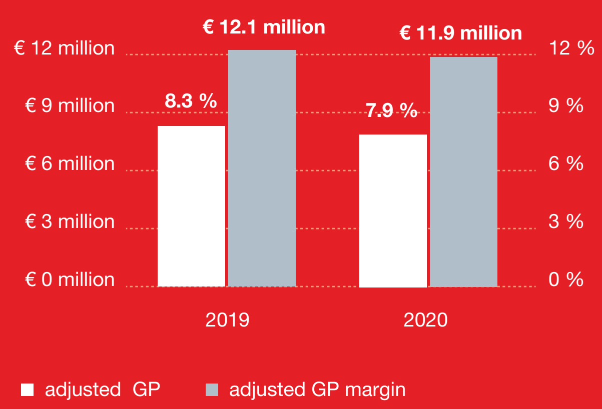
€ 240.4 million

- COVID-19 pandemic with noticable impact on business performance
- Unsatisfactory operating result amid unchanged tough market conditions
- Noticable recovery in demand and order intake in fourth quarter of 2020
- Liquidity and equity remain solid

Revenue



Adjusted Gross Profit



Employees

worldwide
-
670

Foreword by the Management Board

Dear shareholders, customers, business partners, and friends of KHD,

The 2020 financial year behind us was undoubtedly dominated by the COVID-19 pandemic for many of us, including KHD. With the exception of China, cement consumption declined in all of KHD's core markets. In the second quarter of 2020, directives from local authorities or our customers' own safety precautions led to restricted access or even the temporary shutdown of cement plants. Due to the COVID-19 pandemic, both customers and suppliers as well as KHD have claimed cases of force majeure. Some of our major projects that are currently in the execution phase were delayed by several months. Our customers postponed investment decisions due to the overall uncertainties and in some cases significant declines in cement demand. Unfortunately, the spare parts and service business (Plant Services) in all regions was also impacted by the COVID-19 pandemic. The sharp drop in customers' inquiry activity was caused both by the temporary closure of cement plants due to lockdown measures and the postponement of planned maintenance work.

Various impacts from COVID-19 are being carefully monitored and mitigated with a focus on the health and safety of our employees as well as business continuity. KHD has encouraged home office working ho to the greatest extent possible, in part to allow employees the flexibility they often need to care for their children. With restrictions continuing in many parts of the world, market uncertainty remains high. The ongoing vaccination programs provide a likely path to normalization, but we expect market conditions in the first half of 2021 to be similar to those in the second half of 2020.

Despite the overall unsatisfactory order intake of € 102.1 million (€ 75.2 million for Capex and € 26.9 million for Plant Services), there was already a noticeable pick-up in demand in the fourth quarter of 2020. The order intake of € 73.3 million (€ 57.6 million for Capex and € 15.7 million for Plant Services) in the second half of 2020 shows that KHD is able to successfully compete in the market even under difficult conditions. In the first two months of the 2021 financial year, we were already able to win further orders with a total volume of € 58.7 million.

As a result of the reorganization completed in the 2019 financial year, a leaner and at the same time more effective organization has created the basis for being able to generate sustainable positive results. Unfortunately, very unfavorable general conditions prevented a return to profitability in the 2020 financial year. However, with very significantly reduced structural costs, we are no longer forced to accept orders with an unbalanced risk structure, but can focus on the strengths with which we offer our customers the highest added value.

Our customers are the focus of our business activities, i.e. we want to offer the technology and services with which we provide them real added value. With the PYROROTOR® for the use of very coarse and poorly processed secondary fuels in cement production and the PYROREDOX® for the reduction of nitrogen oxide emissions without complex catalyst technology, we are demonstrating our claim to be the technology leader in the cement industry. In the coming years, the cement industry will require very significant investments to meet the goals of emission reduction, energy efficiency and reduction of operating costs, as well as the ever-increasing commitment to carbon neutrality. Based on our strong process engineering know-how and our well-known innovative strength, we are well positioned to benefit from this development to an above-average extent.

The cement industry in China accounts for well over 50% of global production capacity. Here in particular there will be an enormous need to modernize existing cement plants over the next few years, not least because of rigid emission reduction and energy efficiency requirements in the current 5-year plan. In cooperation with our majority shareholder AVIC, we are excellently positioned to exploit this potential.

KHD's equity ratio of over 34% and high liquidity (including intercompany loans granted) of € 168 million provide a good basis for the successful implementation of our ambitious innovation program as well as sustainable growth. The focus of sales activities on projects with a balanced opportunity/risk profile and improvements in all operating areas create the foundation for a possible return to profitability already in the current financial year. Our reputation as a technology leader, our innovative strength, and the close cooperation with our majority shareholder AVIC give us the confidence that we will be able to lead KHD into a successful future despite persistently challenging general conditions.

We would like to thank in particular our customers, employees, and business partners, as well as our shareholders and the Supervisory Board for their trust and support in the 2020 financial year, and look forward to reporting on KHD's successes next year!

Yours sincerely,

Management Board – KHD Humboldt Wedag International AG

Report of the Supervisory Board

Dear Shareholders,

In the 2020 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

On December 18, 2019, the Supervisory Board appointed Matthias Mersmann as a further member of the Management Board with effect from February 1, 2020. As Chief Technology Officer, Mr. Mersmann is responsible in particular for expanding the leading technology position of the KHD Group. Effective September 30, 2020, Mr. Yizhen Zhu resigned from his position as Chairman and member of the Management Board. By resolution of the Supervisory Board on September 18, 2020, Mr. Jianlong Shen was appointed as Chairman of the Management Board effective October 1, 2020. As Chief Executive Officer (CEO), Mr. Shen focuses on the consistent implementation and further development of the Group's strategy. In addition, due to his good network with Chinese cement producers, he plays a decisive role in the further development of the Chinese markets in close cooperation with our parent company AVIC.

Meetings and Resolutions of the Supervisory Board

The restrictions associated with the COVID-19 pandemic did not allow for any physical meetings in the 2020 financial year. In 2020, the Supervisory Board held four meetings via video conference, at which it dealt extensively with all issues of fundamental importance to the KHD Group. In addition, 14 resolutions were passed by circulation procedure. All members of the Supervisory Board participated in the meetings by video conference as well as the resolutions by circulation procedure. At one of the meetings by video conference, two members of the Supervisory Board participated by submitting their written votes.

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 2019. At the meeting convened to approve the financial statements on March 10, 2020, 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, 2018. 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 via video conference in March, June, August, and October covered reports on business development, deviations of the actual business development from the budget and forecasts, the 2021 budget and the medium-term planning for 2021-25, 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. In addition to the impact of the COVID-19 pandemic, the Supervisory Board in the 2020 financial year once again focused 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 2019.

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. 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. Based on reports from the Management Board, the Supervisory Board concerned itself with the internal control system and was informed about the effectiveness and further development of the Group-wide risk management system. Significant opportunities and risks, including the risk situation, risk identification, and risk monitoring as well as the compliance structure and compliance issues within the KHD Group were discussed. The Supervisory Board assessed the effectiveness of the internal control system and the risk management 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 2021. 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 Statement (within the meaning of the German Corporate Governance Code as amended on December 16, 2019), which has also been published on the Company's website.

KHD supports the members of the Supervisory Board upon their appointment by explaining a list of key tasks and handing over important core documents, for example the Rules of Procedure for the Supervisory Board as well as for the Management Board and the list of transactions requiring Supervisory Board approval. The Company generally supports the members of the Supervisory Board in training and development measures. In the 2020 financial year, training measures were only possible to a limited extent due to the restrictions resulting from the COVID-19 pandemic. Due to the already high level of expertise and experience of the Supervisory Board members, in particular new developments were explained. The focus was on the German Corporate Governance Code as amended on December 16, 2019 and the changes to Management Board compensation system resulting from ARUG II.

Separate Non-financial Group Report

The Management Board prepared the separate non-financial Group report for the 2020 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 Paragraph 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, 2020 and the consolidated financial statements as of December 31, 2020 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 combined management report for the 2020 financial year. The annual financial statements and the consolidated financial statements, including the combined management report, were audited by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Cologne office, who were appointed by the Annual General Meeting of shareholders on October6, 2020. 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 March 9, 2021. 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 2020 financial year and of the consolidated financial statements, including the combined management report, for the 2020 financial year, as well as of the Management Board's proposal on the appropriation of net retained profit for the 2020 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, 2020, as prepared by the Management Board. The annual financial statements of KHD Humboldt Wedag International AG are therefore adopted. The Supervisory Board consents to the appropriation of net retained profit proposed by the Management Board.

The Management Board's report on the relationships with affiliated companies (Dependent Company Report) was audited by the auditors and issued with the following unqualified audit opinion:
"Based on our audit performed in accordance with professional standards and our professional judgment, we confirm that:

1. The factual statements contained in the report are correct.
2. The consideration paid by the Company for the legal transactions stated in the report was not excessive."

The Management Board presented the Dependent Company Report to the Supervisory Board, which also reviewed the Dependent Company 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 Dependent Company Report or with respect to the result of the audit by the auditors.

Expression of Thanks

The Supervisory Board would like to thank all staff members and the Management Board for their work in a challenging business environment.

Cologne, March 11, 2021

Shaohua Jin
(Chairman of the Supervisory Board)

Members of the Supervisory Board

Shaohua Jin
Chair of the Supervisory Board,
Vice President of the International Business Division of AVIC International Holding Corporation

Gerhard Beinhauer
Deputy Chair of the Supervisory Board,
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
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 the business development, including the business performance, as well as the position and expected development of the Group and of KHD AG. Within the economic report the information about KHD AG is presented 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 CSR directive implementation act 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 Group Report in accordance with Section 315b, Paragraph 3 of the German Commercial Code (HGB). In accordance with the specifications of Section 315b Paragraph 3 HGB, the Management Board decided not to integrate the Non-Financial Group Report for the 2020 financial year into the Group Management Report, but instead to create a separate report that is published on the KHD website under https://www.khd.com/csr-report.html.

FUNDAMENTAL PRINCIPLES OF THE KHD GROUP

Business Model

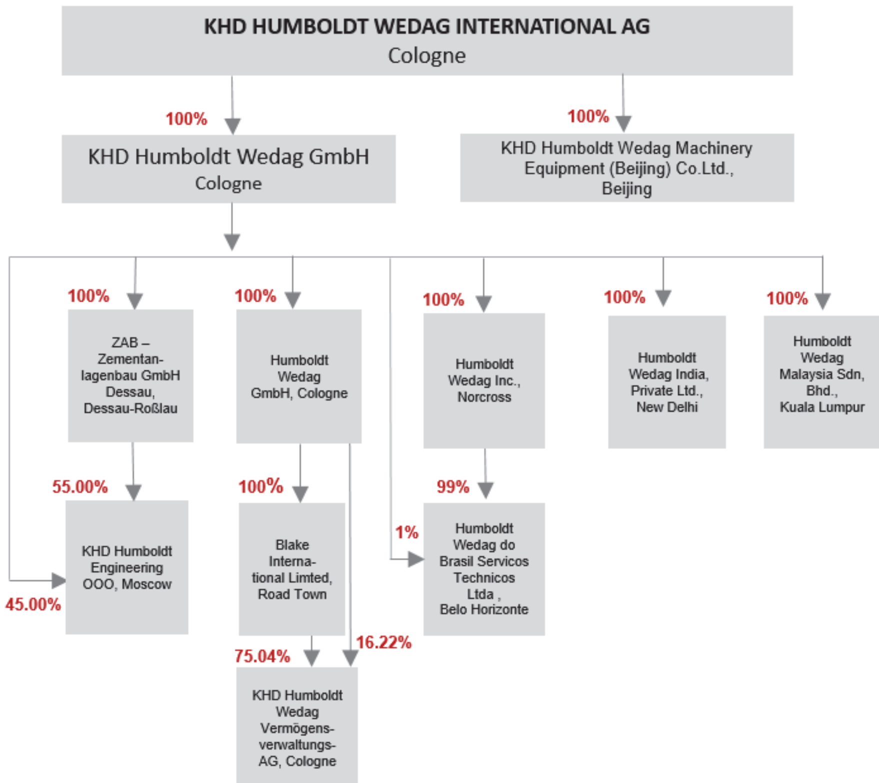
Organizational Structure and Locations

With its subsidiaries in Europe, the Americas, and Asia, 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. In the past financial years, KHD invested in the expansion of its own production capacities in India and officially opened a new production facility in Faridabad, India, in the autumn of 2018. For this reason, selected products are also be manufactured increasingly with the Group’s own production capacities.

In its capacity as the ultimate holding company of the Group, KHD AG holds a 100% investment in KHD Humboldt Wedag GmbH ("KHD GmbH”), Cologne, Germany, which functions as a holding company with no operating business activities. In accordance with the Share Purchase Agreement of December 6, 2019, effective January 1, 2020 KHD acquired the shares in KHD Humboldt Wedag Machinery Equipment (Beijing) Co. Ltd., Beijing, China, from KHD GmbH for the purchase price of € 1. The purchase price is equivalent to the carrying amount of the subsidiary as previously reported by KHD GmbH. The 11 KHD AG subsidiaries primarily focus on the business segment of industrial plant engineering as well as related services. KHD Humboldt Wedag Vermögensverwaltungs-AG (“KHD VV”), located in Cologne, focuses exclusively on managing its own assets. As in the previous years, Humboldt Wedag Do Brasil Servicos Technicos Ltda. did not undertake any operational business in the 2020 financial year.

KHD AG 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 AG, 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 KHD 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 through the Center of Excellence (CoE), HW GmbH assumes important central functions and serves as a contact for specialist and organizational matters. The markets in Europe, the Middle East and North 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.

KHD GmbH operates an **office in Nanjing**, China. The office in Nanjing is not an independent company, but is legally part of KHD GmbH and, since autumn 2019, it provides engineering and (strategic) purchasing services across the entire Group for both operating subsidiaries and the holding company of the Group. The office in Nanjing performs important tasks in the implementation of the Group strategy and provides critical support for utilizing the cost and efficiency advantages of the Chinese labor and procurement market to the benefit of KHD.

Humboldt Wedag India Private Ltd. ("HW India") in New Delhi is responsible for the important Indian market and the neighboring countries of Nepal, Bangladesh, Bhutan, and Sri Lanka as well as East Africa. With about 248 engineers as of December 31, 2020, HW India not only executes its own orders, but it also increasingly supports the other KHD subsidiaries. HW India has its own workshop in Faridabad, near New Delhi, for producing some key components and refurbishing roller presses.

ZAB – Zementanlagenbau GmbH Dessau ("ZAB") in Dessau-Roßlau, Germany, together with its subsidiary in Moscow, **KHD Humboldt Engineering OOO** ("KHD OOO"), 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, HW India, and the office in Nanjing.

Range of Products and Services

The range of KHD products and services includes the segments for Project Business (Capex) and Plant Services.

Capex (Project Business)

The scope in the Capex business unit encompasses 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. Specialized e-learning programs about the pyro process expand the training options. The Capex segment comprises all of the deliveries and services directly connected with an EP (Engineering and Procurement) 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 Group’s pyro processing equipment covers all of the key components of the kiln line, such as preheaters, calciner systems, burners, process fans, rotary kilns, and clinker coolers. With the PYROROTOR®, an enhanced development of traditional calciner technology, KHD also provides technological solutions with which very coarse and poorly prepared secondary fuels can be used in the cement manufacturing process.

The PYROREDOX® is KHD's gasification reactor for reducing emissions. Nitrogen oxide emissions (NO_X) can be reduced considerably without sophisticated 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. Significant here are consulting on energy efficiency, reducing emissions and operating costs (e.g. fuel substitution by alternative fuels) in plant modernization.

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. As of December 31, 2020, the Management Board of KHD consisted of five members.

With a resolution of the Supervisory Board dated December 18, 2019, Mr. Matthias Mersmann was appointed to the Management Board, effective February 1, 2020. Mr. Yizhen Zhu resigned from his position as Chairman of the Management Board, and from the Management Board itself, effective September 30, 2020. With a resolution of the Supervisory Board dated September 18, 2020, Mr. Jianlong Shen was appointed as member and Chairman of the Management Board, effective October 1, 2020.

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 corporate governance statement that also includes the declaration of compliance pursuant to Section 161 of the German Stock Corporation Act (AktG). The declaration of compliance and the corporate governance statement are available on KHD's website (http://www.khd.com/corporate-governance-370.html).

Objectives and Strategy

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

Since its establishment more than 160 years ago, KHD has set itself apart with technologically superior machines and plants developed in Germany. In product development, KHD focuses strongly on energy efficiency, clean plants with minimal polluting emissions, long service life, and 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 our controlling shareholder AVIC makes cost-efficient deliveries 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 release for commencement of project execution is decisive for recording order intake. Here, in addition to the legally binding entry into force of a customer contract, other conditions must also be met. Such conditions include, for example, receipt of a down payment or the effective opening of a letter of credit. If the respective prerequisites are met, the contract value is recorded as order intake. The order backlog increases in accordance with recorded order intake. 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 pursuant to the regulations of IFRS 15.

- Adjusted Group earnings before taxes and interest (adjusted EBIT) as well as the ratio to revenue (adjusted 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 taxes. 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 for the 2020 financial year is calculated as follows:

in € million	**2020**	**2019**
EBIT prior to adjustments	**-13.3**	**-22.6**
Idle capacity costs	0.8	1.8
Reorganization expenses	-	6.4
Adjusted EBIT	**-12.5**	**-14.4**

- 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 investing and financing activities.

Research and Development

In the 2020 financial year, the following trends continued to define the cement industry:

- 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. The expenses for research and development in the 2020 financial year amounted to € 2.7 million (previous year: € 2.1 million). This corresponds to 1.8% (previous year: 1.4%) of revenue.

A total of 9 patents (previous year: 15 patents) were applied for in the reporting year. At the end of the year, KHD owned the rights to a total of 879 items of intellectual property, of which 350 were patents (previous year: 423), 518 were brands (previous year: 539), and 11 were utility models (previous year: 12).

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

Since the market introduction of the PYROROTOR® combustion reactor, 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 installation of PYROREDOX® gasification reactors, KHD reached another milestone in reducing emissions for cement plants. With this innovation, which does not require sophisticated catalytic technology or the use of ammonia, KHD offers an option for meeting increasing requirements for significantly reducing nitrogen oxide emissions, even into the future. With the PYROREDOX® gasification reactors, KHD customers can realize reductions in both investment and operating costs.

With the introduction of the PYROCLON® calciner, KHD now also offers a solution for the calcination of alternative substances, such as clay. In addition to the energy-related benefits, the admixture of calcined clay drastically reduces the CO_2 footprint of cement, resulting in a significant contribution to climate protection.

With numerous efficiency enhancing measures, modernization concepts, and improvements as well as services for plants, KHD’s orientation, based on customer requirements, continues its focus on environmentally friendly solutions that also reduce operating expenses for its customers. An important goal for further work in the area of research and development is adapting our product range to the needs of the Chinese market and production standards. However, the development of convincing concepts for drastically reducing the CO_2 emissions of cement plants will continue to be tremendously important.

ECONOMIC REPORT

Macroeconomic and Sector-related Conditions

Economic Environment

In October 2020, the International Monetary Fund (IMF) predicted a global slowdown of 4.4% for 2020 due, for the most part, to the COVID-19 pandemic. At the same time, the IMF had already adjusted its growth forecast from June upward by 0.5%. According to the IMF, the weakening of the global economy by 4.4% represents the poorest development since the Great Depression. However, the negative influences on the global business environment and economic activity include not only the COVID-19 pandemic, but also military tensions in the Middle East and continuing trade restrictions and political tensions between the USA and China.

Industry Environment

According to CW Research in the “Global Cement Volume Forecasts Report 2H2020 extended update” of November 2020, global cement demand is expected to decrease by 2.9% in 2020 to a volume of 3.9 billion tons in this period. In 2019, however, cement demand had increased by 1.1% in comparison with the previous year’s value.

The KHD Group depends indirectly on the development of global cement production and cement consumption. KHD's key markets demonstrated the following tendencies in relation to cement consumption in the 2020 financial year:

- For Western Europe, CW Research is forecasting a decrease in demand of 5.5%, following a positive development in 2019 (increase in cement demand of 0.9%). The reasons for this development include the COVID-19 pandemic and the resulting decrease in business in the construction sector. A reduction in cement demand of 1.5% is forecast for Germany. In Italy, on the other hand, a 10% decline is expected in Italy, and even 12% in Spain.
- After cement demand in Turkey decreased by 29.0% in 2019, the first 5 months of 2020 saw a positive development with an increase in revenue of 2.8% in comparison with the same period in the previous year. However, no further improvement is expected in the remaining months of 2020. In fact, CW expects the opposite, with another reduction in cement demand of 6% to 42.7 million tons. This development is due to the continuing weakness of the housing market and the general economic downturn in the country, among other factors.
- In Russia, cement demand increased by 4.7% in 2019. However, a decrease in demand of 8.0% to 53.3 million tons is expected for 2020.
- India must deal with a massive reduction in cement demand, estimated at 20%, to a total of 266.4 million tons in 2020. In contrast, cement demand in the country had increased by 2.4% in 2019. Significant contributors to the development in 2020 were the COVID-19 pandemic and the associated lockdown. Although government construction activity was categorized as extremely important, projects were not able to be executed as originally planned.
- The COVID-19 pandemic had a negative impact on cement demand in the United States in 2020. Even though cement demand increased by 4.1% to 101.4 million tons in the previous year, a decrease of 6.5% to 94.8 million tons is expected for the reporting year 2020.
- The ASEAN countries differ with respect to developments in 2020: For Indonesia and the Philippines, a reduction in cement demand is expected (Indonesia: -10.0%; the Philippines: -14.0%). For Thailand, however, CW Research is forecasting an increase in cement demand of 4.0%.
- Among the world's significant national economies, China's is the only one forecast to grow in 2020, despite the COVID-19 pandemic, by 1.9%. Nevertheless, revenue in the cement industry decreased by 2.4% in the first six months of 2020 compared with the previous year. According to a forecast by CW Research, 2020 will conclude with an increase in cement consumption of 1.0% to 2.26 billion tons. In the previous year, 2019, 55% of global cement demand was based in China. This amount could increase to 58% in 2020.

Financial Market Environment

Because of KHD's global presence, its business performance is influenced by exchange rate effects, among other things. 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 Chinese yuan and the Russian ruble.

Compared with the closing rate for the previous year, as of December 31, 2020, the Indian rupee fell 11.5% with regard to the euro. At 84.96 rupees to the euro, the average rate was lower than the previous year's level (78.7 rupees to the euro). The US dollar also lost ground with respect to the euro (-9.0%). At 1.15 US dollars per euro, the average rate was below that of the previous year (1.12 US dollars per euro). As of December 31, 2020, the Chinese yuan fell 2.3% with regard to the euro based on the rate at the end of the previous year. Likewise, the average rate of 7.91 yuan per euro is also lower than that of the previous year (7.72 yuan per euro). The year-end rate of the Russian ruble against the euro decreased considerably by 30.0% in the financial year. The average rate of 84.3 rubles per euro is also lower than that of the previous year (72.3 rubles per euro). Due to the conversion of local financial statements into euros, exchange rate effects over the reporting year had an overall negative impact on the KHD Group.

Overall Assessment of the Results of Operations and Economic Position

The 2020 financial year was significantly affected by the COVID-19 pandemic and the resulting reluctance of customers with respect to investment decisions. Accordingly, the business development of the Group was again unsatisfactory in 2020 based on EBIT, adjusted EBIT and EBT. Nevertheless, crucial targets for significant performance indicators were met.

With the exception of China, cement consumption in KHD's core markets decreased significantly in the 2020 financial year. A particular reason for this development was the COVID-19 pandemic, which resulted in massive lockdown measures in some countries that continued for months. The reduction in cement demand, together with the great insecurity with regard to future developments and the ongoing difficulties of customers in terms of project financing, contributed significantly to the restraint among cement producers when it comes to larger investments. At € 102.1 million, the volume of order intake in the reporting year was significantly lower than that of the 2019 financial year, but corresponded with the forecast submitted in the most recent financial report (significantly below the level of the previous year).

As of December 31, 2020, order backlog was € 240.4 million, which is below the order backlog of the previous year (€ 307.8 million), but within the scope of the forecast submitted in the previous year and confirmed in the 2020 half-year financial report (significantly lower than the previous year's figure). Due to the high order backlog at the beginning of the reporting year and the reorganization of the subsidiary HW GmbH concluded in the 2019 financial year, full capacity utilization was ensured to a greater extent in the 2020 financial year than in the previous years. Because of great differences in the regional distribution of the order backlog, for some subsidiaries of KHD, the recovery of the cement markets and further order intake continue to remain important in order to guarantee full capacity utilization over the entire 2021 financial year and to prevent idle capacity costs.

Revenue totaled € 151.2 million (previous year: € 146.3 million), which was slightly above the previous year's figure and did not quite reach the amount in the submitted forecast (significantly above the level of the previous year).

Due to the COVID-19 pandemic, both customers and suppliers as well as KHD have invoked force majeure claims, which caused some of the main projects in the execution phase to be delayed by several months.

Overall, the Group achieved an EBIT of € -13.3 million (previous year: € -22.6 million), adjusted EBIT of € -12.5 million (previous year: € -14.4 million) and a negative EBIT margin of -8.8% (previous year: -15.5%) and adjusted EBIT margin of -8.3% (previous year: -9.8%). Adjusted EBIT is therefore € 1.9 million better than the previous year's figures, but is still significantly negative. Hence, the submitted forecast of a slightly negative, but considerably improved adjusted EBIT in comparison with the previous year was only partially met. Likewise, the forecast for the adjusted EBIT margin (slightly negative, but demonstrating improvement over the previous year) was only partially met as well. The reasons that the targets with regard to adjusted EBIT and the adjusted EBIT margin were not completely met include, in particular, the consequences of the COVID-19 pandemic and unplanned cost overruns associated with executing some projects.

The cash flow from operating activities of € -11.7 million was considerably lower than the previous year's figure (€ 10.8 million) and therefore corresponded with the submitted forecast (negative cash flow from operating activities in the low double-digit millions). In the previous year, the positive cash flow was due to the progress payments of customers on the high order intake. In the early phase of project execution, the progress payments of customers considerably exceed the project-related cash outflow, which results in a positive cash flow. In the advanced phase of project execution, the cash outflow, including payments made to suppliers, regularly exceeds further progress payments made by customers. 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 € 75.2 million (previous year: € 265.8 million) met the forecast (considerably below the level of the previous year). Order intake in the previous year was primarily due to a large project from the USA. Revenue of € 125.4 million (previous year: € 104.2 million) met the forecast (considerably above the level of the previous year). EBIT and adjusted EBIT totaling € -15.2 million and € -14.3 million (previous year: € -28.3 million and € -20.8 million) were negatively affected by unexpected cost overruns in some projects in the 2020 financial year. Nevertheless, the Capex segment fully met the forecast for adjusted EBIT (negative, but a considerable improvement over the previous year).

Order intake in the Plant Services business unit totaled € 26.9 million, less than the previous year's figure of € 35.3 million, so it did not meet the submitted forecast (significant increase in order intake). Revenue in the amount of € 25.8 million (previous year: € 42.1 million) met the target (lower than the previous year). EBIT in the amount of € 1.9 million (previous year: € 5.7 million) corresponded with the forecast (significantly positive).

Business and Earnings Position

Order Intake and Order Backlog

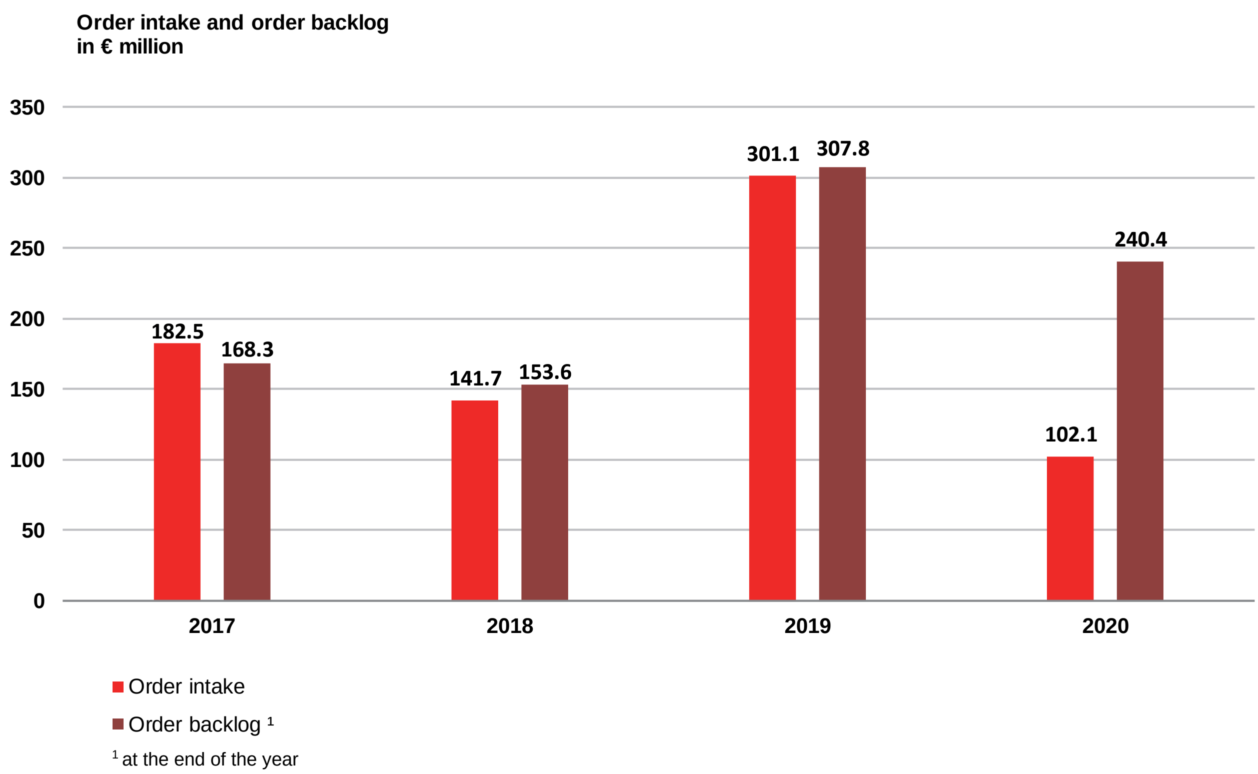
KHD achieved an order intake of € 102.1 million in the 2020 financial year, which was, as expected, considerably lower than the previous year's volume (€ 301.1 million). Order intake in the 2019 financial year was influenced greatly by a large order from the USA. In addition to customer restraint due to the COVID-19 pandemic, the continuing political and economic insecurity in markets important to KHD and the difficulties of our customers with regard to project financing resulted in order intake that was not fully satisfactory.

In the Capex segment, KHD achieved an order intake of € 75.2 million, which, as expected, was considerably lower than the previous year's figure for new business (€ 265.8 million). The markets of HW India (India, Nepal, Bangladesh) made a significant contribution to order intake, but remained significantly below expectations. The markets in Turkey, in Russia, in the Asia-Pacific region, and in Africa demonstrated a similar trend and, likewise, did not meet expectations. Order intake in China demonstrated positive development as KHD achieved important order intake due to innovative products and upgrades for increasing performance.

Following a total of € 35.3 million in the previous year, the spare parts and service business (Plant Services) contributed € 26.9 million to order intake. The development in all regions was disappointing, particularly due to the COVID-19 pandemic. The serious reduction in inquiries was caused by the temporary closing of cement plants due to lockdown measures as well as the postponement of planned maintenance work. In the 2020 financial year the Plant Services segment was responsible for 26.4% of the total order intake (previous year: 11.7%).

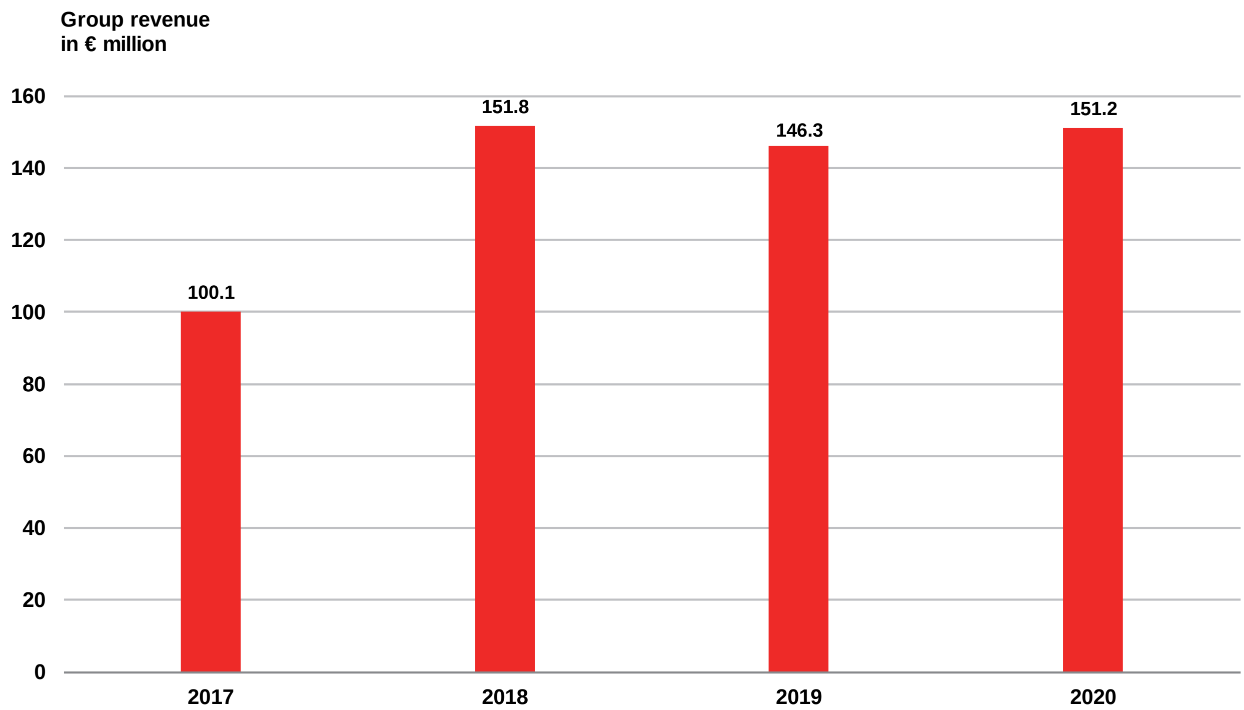
Because revenue was considerably higher than the order intake, order backlog as of December 31, 2020 was € 240.4 million, which is significantly below the previous year's value of € 307.8 million. Variations due to the reduction of order values or cancellation of orders totaling € 1.4 million (previous year: € 1.7 million) are shown as an adjustment to order backlog. This also applies for the effects of exchange rate fluctuations of € -16.8 million (previous year: € 1.1 million). Due to the good order backlog at the beginning of the reporting year and the reduction in staff associated with the reorganization of the subsidiary HW GmbH, full capacity utilization could be reached to a greater extent in the 2020 financial year than in the previous year.

Due to the great differences in the regional distribution of the order backlog, for some subsidiaries of KHD further order intake still remains important in order to guarantee full capacity utilization in the 2021 financial year and to prevent idle capacity costs.



Group Revenue

In the 2020 financial year, the Group achieved revenue in the amount of € 151.2 million (previous year: € 146.3 million). The slightly higher revenue in comparison with the previous year's figure is due to the higher order backlog at the beginning of the 2020 financial year. Projects in the USA, India, China, and in the rest of Asia were the biggest contributors to revenue.



Group Earnings Position

The costs of sales comprise € 0.8 million (previous year: € 1.8 million) in idle capacity costs that resulted from not fully utilizing existing capacities. As these costs are not directly related to cost of sales, they are adjusted while calculating the adjusted gross profit. In addition, the costs of sales include unplanned cost overruns due to difficulties in executing several projects. The costs of sales – adjusted with regard to idle capacity costs – totaled € 139.3 million in the 2020 financial year. The total adjusted gross profit in the 2020 financial year was positive in an amount of € 11.9 million, following € 12.1 million in the previous year.

At € 3.3 million, the other operating income remains at the level of the previous year (€ 3.3 million). As in the previous year, it also includes primarily income from exchange rate fluctuations in the amount of € 2.7 million (previous year: € 2.2 million).

Despite the decrease in sales expenses by 18.8% to € 9.4 million (previous year: € 11.6 million), expenses remained at a high level due to ongoing, intensive sales activities.

General and administrative expenses of € 12.3 million decreased slightly once again in the 2020 financial year, following € 12.7 million in the previous year. This slight decrease is primarily due to lower IT expenses. In addition to IT expenses, the general and administrative costs include, in particular, legal and consulting costs, accounting costs, Management Board remuneration, Supervisory Board remuneration, and costs related to KHD's listing at the stock exchange.

Other expenses increased slightly in comparison with the previous year (€ 6.0 million; previous year: € 5.6 million). In particular, they include currency exchange rate fluctuations and changes in market value of foreign exchange forward contracts for hedging exposure on foreign currency receivables of € 1.3 million (previous year: € 2.4 million), impairment of goodwill of € 1.3 million (previous year: € 0.0 million), and expenses for research and development of € 2.8 million (previous year: € 2.1 million). Research and development activities thus remain at a high level in the 2020 financial year, illustrating KHD's efforts to further expand its technological expertise.

Despite a very considerable improvement with respect to the previous year, the negative EBIT of €- 13.3 million (previous year: € -22.6 million) remains unsatisfactory. The EBIT margin improved from -15.5% to -8.8%. With respect to the improvement in comparison with the previous year, it is important to consider that one-time expenses for reorganization in the amount of € 6.4 million were included in the 2019 financial year. By eliminating idle capacity costs, the adjusted EBIT in the 2020 financial year is € -12.5 million and the adjusted EBIT margin is -8.3%.

The Group's net finance income of € 6.7 million (previous year: € 7.6 million) remains at a high level. In particular, the net finance income includes interest income of € 5.7 million (previous year: € 5.9 million) from the two loans granted to AVIC Kairong, each for € 50 million. The interest on the loans has previously amounted to 6.0% and 5.7% per annum, respectively. In the 2020 financial year, the two loans were both extended for another three years until 2023. Since July 23 / November 14, 2020 (respectively), the interest rate for both loans is the same: 5% p. a. The largest items under finance expenses, which totaled € 1.2 million (previous year: € 1.1 million), are the discounting 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. As in the previous year, the net finance income also made an important contribution to partially compensate the operating losses in the 2020 financial year.

Earnings before tax (EBT) did improve considerably in comparison with the 2019 financial year to € -6.6 million (previous year: € -15.1 million), but still remains at an unsatisfactory level. Despite the negative earnings before tax, the Group accounted for income tax expenses of € 1.3 million (previous year: € 3.8 million) in the 2020 financial year. The income tax expense is due to the varying profitability of the KHD 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 current income tax expenses could be recognized. The Group net loss for the year amounted to € -8.0 million (previous year: € -18.8 million). Basic and diluted earnings per share improved to € -0.16 (previous year: € - 0.38).

Segment Earnings Situation

At € 125.4 million, revenue for the Capex segment was significantly higher than the previous year's figure (€ 104.2 million). The adjusted gross profit in the Capex business unit (adjusted by idle capacity costs of € 0.8 million; previous year: € 1.8 million) amounted to € 3.7 million (previous year: € -0.2 million). As a result, the adjusted gross profit margin of 3.0% was positive and significantly better than in the previous year (-0.2%). Unadjusted, the gross profit margin totaled € 2.9 million (previous year: € -2.0 million). Although considerable cost overruns were again reported with regard to executing some projects, the gross profit margin demonstrates the change in KHD's orientation toward business with higher margins in which our position as a technology leader and the resulting added value for customers are taken into consideration in the contract price as well. Despite this improvement, the gross profit is still not satisfactory.

Other operating income of € 3.3 million (previous year: € 3.3 million) was allocated to the Capex business unit. The segment's sales expenses were € 6.3 million (previous year: € 8.2 million) and the general and administrative expenses were € 10.0 million (previous year: € 10.2 million). Reorganization expenses totaling € 6.4 million were reported in the previous year. The majority of these, i.e. € 5.7 million, were attributable to the Capex segment. The KHD Group's other expenses (€ 6.0 million; previous year: € 5.6 million), included expenses of € 5.0 million allocated to the Capex segment (previous year: € 5.6 million). Due to the ongoing major challenges in the market environment and continuing overall unsatisfactory development, EBIT for the Capex segment amounted to € -15.2 million (previous year: € -28.3 million) and the EBIT margin amounted to -12.1% (-27.2% in 2019). The adjusted EBIT of € -14.3 million (previous year: € -20.8 million) is still negative, but demonstrates considerable improvement.

KHD Group revenue in the Plant Services segment totaled € 25.8 million, remaining considerably below the level of the 2019 financial year (€ 42.1 million). Likewise, the gross profit in this business unit showed a downward trend and amounted to € 8.3 million (previous year: € 12.3 million). The total of sales expenses and general and administrative expenses in the Plant Services segment amounted to € 5.4 million (previous year: € 5.9 million). Additional other expenses include impairment of goodwill in the amount of € 1.3 million (previous year: € 0.0 million). The resulting EBIT for the business unit totaled € 1.9 million (previous year: € 5.7 million). As a result, the EBIT margin decreased from 13.5% in the previous year to 7.2% in the 2020 financial 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 and a strong equity base. A solid financial position is 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 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). Both loans originally had terms of three years. In the 2020 financial year, the two loans were both extended for another three years to 2023. Since July 23 / November 14, 2020 (respectively), the interest rate for both loans is the same: 5% p. a.

A loan for € 25 million from the Bank of China Limited, Frankfurt branch, was disbursed to KHD in November 2018. The 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 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 if required.

Due to its project business 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 the 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 monitoring the equity ratio.

All operating companies in the KHD Group have access to bonding facilities for various hedging instruments such as bank guarantees via a bank guarantee credit facility with Deutsche Bank AG (€ 55 million). Furthermore, the KHD Group has a bank guarantee credit facility with the Bank of China Limited, Frankfurt branch, with a volume of € 6 million and a bank guarantee credit facility with Zurich Insurance plc. of € 5 million. As of December 31, 2020 the bank guarantee credit facilities have been utilized in a total amount of € 46.3 million (previous year: € 44.9 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 € 14.6 million from € 82.6 to € 68.0 million during the reporting year. Besides the short-term liquidity in the form of cash and cash equivalents, KHD can call in one of the loans amounting to € 50 million that was granted to AVIC Kairong by giving 30 days' notice in case additional liquidity is required.

A bank loan for € 25 million and long-term pension benefit obligations of € 18.3 million on the liabilities side offset cash and cash equivalents on the assets side.

Cash Flow

Cash flow from operating activities in the amount of € 11.7 million was negative in the 2020 financial year following a positive cash flow from operating activities in the amount of € 10.8 million in the 2019 financial year. On one hand, the negative cash flow from operating activities reflects the Group's operating losses. On the other hand, in the advanced phase of project execution, the cash outflow, including payments made to suppliers, regularly exceeds further progress payments made by customers. In the previous year, the positive cash flow from operating activities was due to the progress payments of customers on the high order intake.

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 2020 financial year	in € thousand
Cash flow from customer contacts with revenue recognition over time	(46,243)
Cash flow from current liabilities/ invoices from suppliers	38,966
Cash flow from changes in receivables	1,661
Cash flow from changes in provisions and long term liabilities	2,116
Cash flow from result (EBITDA)	(9,287)
Cash flow from tax payments made/ received	(1,857)
Other cash inflows and outflows	2,945
Cash flow from operating activities	**(11,699)**

Cash flow from investing activities of € 4.1 million (previous year: € 3.0 million) mainly results from interest payments received (€ 5.9 million, previous year: € 4.4 million) on the loans granted to AVIC Kairong and outgoing payments during the same period for investments in property, plant and equipment and intangible assets of € 1.8 million (previous year: € 1.5 million).

Cash flow from financing activities of € -1.9 million (previous year: € -2.9 million) includes the principal payments of the reported lease liabilities in the amount of € 1.4 million (previous year: € -1.5 million). Interest payments for a bank loan are reported as € -0.5 million (previous year: € -0.5 million). The dividend payment of a subsidiary to outside shareholders resulted in additional cash outflow in the amount of € -0.9 million in the 2019 financial year.

Total Assets

The balance sheet total of the Group increased slightly from the figure at the end of 2019 (€ 256.7 million) by € 2.2 million to € 258.9 million. While the ratio of current assets to non-current assets was nearly balanced as of December 31, 2020, the current assets were considerably higher than the non-current assets as of the balance sheet date in the previous year. This resulted from the reclassification of two loans granted to AVIC Kairong from non-current assets into the current assets. In accordance with the contractual agreements, these loans were due for repayment in July and November 2020. In the 2020 financial year, the two loans were both extended for another three years until 2023 and are reported accordingly as non-current assets. Cash and cash equivalents made up 26.3% of the total assets (previous year: 32.2%).

Due to the above-mentioned reclassification of the loans, the figure for the non-current assets, € 120.1 million, is significantly above the level of the previous year (€ 23.4 million). At € 9.3 million, the figure for property, plant, and equipment is at approximately the previous year's level (€ 9.7 million). Rights of use according to IFRS 16 “Leases” totaled € 3.2 million (previous year: € 3.9 million) as of the balance sheet date for the reporting year.

The non-current trade receivables and other receivables decreased from € 2.3 million to € 1.0 million. These also include deferred trade receivables in the amount of € 0.3 million (previous year: € 1.0 million). The deferred receivables incur interest at usual market conditions.

In addition to cash and cash equivalents, current assets include, among others, current trade receivables and other receivables of € 30.0 million (previous year: € 32.1 million). The contract assets from customer contracts with revenue recognition over time in the amount of € 17.2 million (previous year: € 3.8 million) result from projects for which as of the end of 2020 the costs incurred for these contracts plus proportionate profits recognized exceeded progress billings. The considerable increase in contract assets is due to the execution status as of the reporting date as well as the contractually agreed upon conditions of issuing progress billings for these projects. Payments made in advance increased considerably in comparison with the previous year's figure from € 10.0 million to € 17.9 million. The reason for this is the execution stage of significant projects won in the 2019 and 2020 financial years for which the supplier orders and the related progress payments have already been carried out to a great extent as of the reporting date.

Financing

The Group's equity decreased in comparison to the end of the previous year (€ 101.5 million) by € 12.4 million to € 89.1 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, 2020 amounted to 34.4% (previous year: 39.6%) and remains at a fully satisfactory level as of the balance sheet date.

The non-current liabilities as of December 31, 2020 amounted to € 26.3 million (€ 53.2 million on the reporting date in the previous year). These liabilities primarily include pension benefit obligations (€ 18.3 million, previous year: € 19.6 million). A bank loan in the amount of € 25.0 million (previous year: € 25.0 million) that was reported in the non-current liabilities in the previous year was reclassified to current liabilities as of December 31, 2020 because it is due for repayment in 2021.

Also due to this reclassification of the bank loan for € 25.0 million, the current liabilities have increased significantly in comparison with the figure on the balance sheet date in the previous year. They amounted to € 101.9 million as of the balance sheet date in the previous year; at the end of 2020 they totaled € 143.4 million. Significantly lower contract liabilities and advance payments received (€ 21.2 million, compared with € 46.4 million in the previous year) were more than compensated by a significant increase in trade and other payables (€ 72.2 million, compared with € 33.1 million in the previous year). At € 24.4 million, the figure for provisions was slightly higher than the previous year (€ 22.1 million). It includes an amount of € 0.5 million for reorganization expenses (previous year: € 1.8 million).

Net working capital – the difference between current assets (less cash and cash equivalents) and current liabilities (less current loans) – increased to € -47.7 million (December 31, 2019: € -51.2 million).

Non-financial Performance Indicators

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

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

Employees

Personnel Development

As of the end of 2020, KHD employed 670 people, six more than the previous year's total of 664. While the number of employees decreased slightly in the companies in Germany, the USA, and Russia, more employees were hired in the Indian subsidiary. As of the end of 2020, approximately 31% of our employees worked in Germany and 58% in India.

KHD's personnel expenses in the 2020 financial year totaled € 34.5 million (previous year: € 37.7 million).

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. Internal training includes seminars for our managers. Internal feedback sessions for the evaluation and development of employees were performed in 2020 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 thus the possible dividend distribution amount.

Business Performance in 2020 and Expected Development in 2021 with Significant Risks and Opportunities

The business development and position of KHD AG is primarily determined by the business development 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 as well as 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 met the targets as submitted in the outlook for the 2020 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. KHD AG did not expect any significant reduction in liquidity for the 2020 financial year. Due to a payment of € 7 million into the capital reserves of a subsidiary during the year, the liquidity of KHD AG decreased, but it remains satisfactory.

The expected development of KHD AG in the 2021 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 2021 financial year. 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 performed for KHD subsidiaries by Management Board members) and received do not change significantly. Furthermore, the outlook also assumes that from the available liquidity and the loans granted, the interest income generated will be lower than that of the previous year due to the interest rate that now applies (5% p. a.) for the loans granted to AVIC Kairong for a total amount of € 100 million. For the outlook regarding the interest income and the liquidity situation, it was assumed that the existing bank loan would be granted again in the 2021 financial year at similar conditions, so no high repayments from the loans granted to AVIC Kairong were planned. Based on these assumptions, KHD AG does not expect any significant change in cash and cash equivalents. The liquidity and financing of KHD AG continue to be fully secured.

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 investment 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 is still classified as "medium".

Results of Operations

In the 2020 financial year KHD AG achieved revenue resulting exclusively from internal Group services in the amount of € 1,578 thousand (previous year: € 1,825 thousand).

Other operating income of € 1,148 thousand was significantly higher than the previous year's level (€ 76 thousand). Crucial to this result were foreign exchange forward contracts and exchange rate gains in the amount of € 1,136 thousand which contributed to the other operating income.

The expenses for purchased services in the amount of € 621 thousand (previous year: € 622 thousand) mainly included external consulting services.

Personnel expenses in the amount of € 1,140 thousand (previous year: € 1,172 thousand) included the compensation of the members of the Company's Management Board and two employees.

Other operating expenses increased by the amount of € 463 thousand to € 2,863 thousand in the 2020 financial year. This increase was primarily due to expenses in connection with the strategic alignment of the Group as well as increased Group charges. Other operating expenses mainly include legal and consulting expenses, costs of preparing and auditing the annual financial statements, Supervisory Board compensation, investor relations costs, exchange losses, and other administrative costs.

Income from long-term loans within the financial assets totaled € 5,707 thousand in the 2020 financial year (previous year: € 5,931 thousand) and corresponds with the interest income from the loans granted to AVIC Kairong. Interest and similar expenses totaling € 2,981 thousand (previous year: € 3,019 thousand) primarily resulted from interest for loans taken up at five subsidiaries (€ 2,198 thousand; previous year: € 2,233 thousand) as well as for bank guarantee fees and interest expenses from a € 25 million bank loan.

After considering income taxes of € 355 thousand which – in contrary to the previous year – mainly comprise deferred taxes (previous year: € 357 thousand), net profit for the financial year under consideration was € 471 thousand (previous year: € 261 thousand), which resulted in an accumulated loss of € 7,102 thousand after taking into account the loss carried forward from the previous year of € 7,573 thousand.

Financial Position and Net Assets

The total assets of the Company, which functions as a management holding company, increased during the financial year from € 169,387 thousand to € 177,073 thousand and continue to be dominated by financial assets.

The most significant assets of KHD AG were – as in the previous year as well – the shares in KHD GmbH in the amount of € 70 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. In the context of the recapitalization of a subsidiary, KHD AG made a payment of € 7 million into the capital reserves of KHD GmbH in the 2020 financial year and increased the carrying amount of the investment in this company by the same amount. In accordance with the share purchase agreement of December 6, 2019, effective January 1, 2020 KHD AG acquired the shares in KHD Humboldt Wedag Machinery Equipment (Beijing) Co. Ltd., Beijing, China, from KHD GmbH for the purchase price of € 1. The total value of financial investments equaled 96.3% of the total assets (previous year: 96.5%).

Current assets increased by € 772 thousand to € 6,568 thousand as of the balance sheet date on December 31, 2020. Particularly receivables and other assets contributed here with an increase of € 2,935 thousand to € 4,715 thousand. Cash and cash equivalents of the Company decreased during the reporting period by one-third from € 2,862 thousand to € 1,853 thousand.

The equity of KHD AG increased in the amount of the net profit generated by € 471 thousand from € 106,930 thousand to € 107,401 thousand. Due to the increase in total assets in comparison with the previous year, the equity ratio decreased from 63.1% to 60.7%, but it continues to remain at a very high level.

Other provisions and accruals established as of December 31, 2020 were primarily for outstanding invoices, bonus for management and others, unused vacation days, and audit costs. This amount, which was greater than in the previous year, resulted mainly from increased provisions for outstanding invoices and bonus. The total amount of liabilities in the amount of € 68,159 thousand as of the balance sheet date was approximately 11.2% higher than the previous year's figure of € 61,305 thousand. The liabilities almost exclusively comprised liabilities due to affiliated companies in the amount of € 43 million (previous year: € 36 million) and liabilities due to banks in the amount of € 25 million (previous year: € 25 million). Consequently, the debt ratio of KHD AG (the ratio of total liabilities to equity) increased to 64.8% in comparison with 58.4% on the previous year's balance sheet date.

Tax charges arising from differences between the carrying amounts of assets, debts, prepayments and deferred expenses in the financial statements and their tax bases, which are expected to reverse in subsequent financial years, resulted in deferred tax liabilities in the amount of € 369 thousand (previous year: € 0 thousand).

The financing of KHD AG remains fully secured due to the available liquidity at the end of 2020, the option to call in a loan granted to AVIC Kairong in the amount of € 50 million with 30 days' notice, and the ongoing distribution potential of companies in the KHD Group. As a management holding company with central financing function, the Company can draw on liquid funds from other Group companies and can also call in a loan of € 50 million granted to AVIC Kairong at short notice. In this respect, the financing of KHD AG is explicitly secured in full, also with regard to a bank loan in the amount of € 25 million that is due for repayment in the financial year 2021.

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 2020 financial year. The Management Board of KHD AG 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. Furthermore, with respect to the measures listed, and in view of the facts known to us at the time at which the measures were implemented, our Company was not placed at a disadvantage. No other legal transactions or other measures at the request of or in the interest of the controlling companies or one of their affiliated companies occurred."

Accumulated loss

The annual financial statements of KHD Humboldt Wedag International AG for the 2020 financial year disclose a net profit of € 471 thousand and an accumulated loss of € 7,102 thousand. The Management Board and the Supervisory Board will propose to the Annual General Meeting of shareholders to be held on May 20, 2021 to carry forward the accumulated loss (determined in accordance with the German Commercial Code – HGB) to 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, 2020**	**Dec. 31, 2019**
	€ thousand	**€ thousand**
Fixed assets	170,434	163,412
	170,434	**163,412**
Current assets		
Receivables and other assets	4,715	2,935
Bank balances	1,853	2,862
	6,568	**5,796**
Prepayments and deferred expenses	**71**	**179**
Total assets	**177,073**	**169,387**

Equity and liabilities	**Dec. 31, 2020**	**Dec. 31, 2019**
	€ thousand	**€ thousand**
Equity		
Subscribed capital	49,704	49,704
Reserves	64,799	64,799
Accumulated loss	-7,102	-7,573
	107,401	**106,930**
Provisions and accruals		
Provisions for taxes	78	384
Other provisions and accruals	1,065	768
	1,143	**1,152**
Liabilities		
Liabilities due to banks	25,059	25,057
Liabilities due to affiliated companies	43,031	36,168
Other liabilities	69	80
	68,159	**61,305**
Deferred tax liabilities	**369**	**0**
Total equity and liabilities	**177,073**	**169,387**

Income Statement	2020	2019
	€ thousand	€ thousand
Revenue	1,578	1,825
Other income	1,148	76
Cost of purchased services	-621	-622
Amortization on other plant, operating and office equipment	-2	-2
Personnel expenses	-1,140	-1,172
Other operating expenses	-2,863	-2,400
Interest income/expense	2,726	2,913
Income taxes	-355	-357
Profit for the year	**471**	**261**
Loss carried forward from previous year	-7,573	-7,834
Accumulated loss	**-7,102**	**-7,573**

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, 2020, 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, 2020, 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 Chair of the Management Board. 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 Chair of the Management Board 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, Particularly with Regard to 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 a bilateral bank guarantee credit facilities with Deutsche Bank AG. In the event of a change of control under the agreement, the Company will immediately inform the bank of the change in control and enter into negotiations with the bank 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

A compensation report as applicable for German stock corporations in accordance with Section 162 AktG must be created initially for the financial year that begins after December 31, 2020. KHD has waived earlier application of the amended statutory rules. This compensation report therefore does not comply with the provisions of Section 162 AktG, but has been prepared consistently with the legal provisions that also applied in previous years. The chosen approach is in line with the legal requirements of Art. 83 para. 1 EGHGB. It presents the principles, structure, and amount of both Management Board and Supervisory Board remuneration at KHD. The compensation report is part of the management report and takes into account the recommendations of the German Corporate Governance Code as amended on February 7, 2017 ("GCGC").

Compensation System for Members of the Management Board

Providing a transparent and comprehensible presentation of Management Board compensation is a key element of good corporate governance at KHD. 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 review by the Supervisory Board.

Management Board compensation at KHD is structured and measured in such a way that it is 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, his personal performance, the economic situation and financial position, 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. The Management Board member Dr. Matthias Jochem does not receive a Management Board compensation. KHD in 2019 concluded a consultancy agreement with 4-stream consulting GmbH, Roetgen, which is a related party to Dr. Jochem. In line with this agreement KHD accounts for expenses related to consulting services received.

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 was also provided for Mr. Luckas. This amount is shown, along with the non-cash benefits and other fringe benefits, in the compensation report under “fringe benefits”. In addition to the fixed compensation, the bonus, and the fringe benefits, the Supervisory Board can specify a discretionary bonus for special performance and / or in case of special economic achievement by the KHD Group.

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 challenging 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% / 25% / 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 minimum threshold is set for every quantitative target. If the respective minimum threshold is achieved, the bonus amounts to 25% of the corresponding bonus portion. If the targets are not achieved (failure to reach the minimum 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 when the two-year assessment period has expired, a final assessment on the target achievement is carried out. 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, 2019 through December 31, 2020) were set at the beginning of the 2019 financial year. The targets for the current assessment period (January 1, 2021 through December 31, 2022) were set at the beginning of the 2021 financial year.

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

In the event that the appointment to a Management Board member is revoked for a good cause that entitles KHD to extraordinary termination of the management service contract, the service contract ends without notice. If the appointment to the Management Board is otherwise revoked for a good cause, the Company has the right to terminate the management service contract with notice. The service contract then ends when the period of notice expires or on the contractually agreed termination date of the management service contract, whichever occurs first. For current members of the Management Board, this period of notice is twelve months.

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

Total Remuneration of the Members of the Management Board

Overview of key data concerning the Management Board members (in the 2020 financial year):

Name	Management Board member since:	Management Board member until:
Jianlong Shen	Oct. 1, 2020	
Jürgen Luckas	April 10, 2015	
Tao Xing	Dec. 2, 2018	
Dr. Matthias Jochem	June 1, 2019	
Matthias Mersmann	Feb. 1, 2020	
Yizhen Zhu	Dec. 2, 2018	Sept. 30, 2020

With a resolution of the Supervisory Board dated December 18, 2019, Mr. Matthias Mersmann was appointed to the Management Board, effective February 1, 2020. Mr. Yizhen Zhu resigned as Chairman and member of the Management Board of KHD Humboldt Wedag International AG effective September 30, 2020. With a resolution of the Supervisory Board dated September 18, 2020, Mr. Jianlong Shen was appointed as Chairman of the Management Board (CEO), effective October 1, 2020.

The total compensation in the 2020 financial year for members of the KHD Management Board active in the financial year under review amounted to € 1,113 thousand (previous year: € 995 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 displayed 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 in the version of February 7, 2017, 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 actual remuneration entitlement acquired for the variable compensation. At KHD, the target value is principally defined as 50% of the maximum achievable one-year and multi-year variable compensation.

With regard to the effects of the COVID-19 pandemic, all members of the Management Board in the 2020 financial year voluntarily waived 10% of their contractually guaranteed fixed compensation for the period from May 1 through September 30, 2020. The benefits granted to the Management Board members in the 2020 and 2019 financial years can be seen in the following overview:

Benefits granted (in €)	Jianlong Shen Chief Executive Officer Management Board member since October 1, 2020				Jürgen Luckas Chief Financial Officer Management Board member since April 10, 2015			
	FY 2019	FY 2020	FY 2020 (Min)	FY 2020 (Max)	FY 2019	FY 2020	FY 2020 (Min)	FY 2020 (Max)
Fixed compensation	0	62,500	62,500	62,500	220,000	210,833	210,833	220,000
Fringe benefits	0	0	0	0	23,600	24,200	24,200	24,200
Total	**0**	**62,500**	**62,500**	**62,500**	**243,600**	**235,034**	**235,034**	**244,200**
One-year variable compensation	0	5,625	0	11,250	22,500	22,500	0	45,000
Discretionary bonus	0	0	0	25,000	20,000	0	0	50,000
Multi-year variable compensation								
Bonus for financial targets (Jan. 1, 2019 to Dec. 31, 2020)	0	13,125	0	26,250	52,500	52,500	0	105,000
Total	**0**	**81,250**	**62,500**	**125,000**	**338,600**	**310,034**	**235,034**	**444,200**
Service cost	0	0	0	0	0	0	0	0
Total compensation	**0**	**81,250**	**62,500**	**125,000**	**338,600**	**310,034**	**235,034**	**444,200**

Benefits granted (in €)	Tao Xing Executive Vice President Management Board member since December 2, 2018				Matthias Mersmann Chief Technology Officer Management Board member since February 1, 2020			
	FY 2019	FY 2020	FY 2020 (Min)	FY 2020 (Max)	FY 2019	FY 2020	FY 2020 (Min)	FY 2020 (Max)
Fixed compensation	116,667	183,701	183,701	191,688	0	192,499	192,499	201,667
Fringe benefits	8,969	47,924	47,924	47,924	0	10,066	10,066	10,066
Total	**125,636**	**231,624**	**231,624**	**239,611**	**0**	**202,565**	**202,565**	**211,733**
One-year variable compensation	14,584	7,500	0	15,000	0	20,625	0	41,250
Discretionary bonus	0	25,000	0	50,000	0	40,000	0	91,667
Multi-year variable compensation								
Financial and individual targets (Jan. 1, 2019 to Dec. 31, 2020)	0	17,500	0	35,000	0	48,125	0	96,250
Total	**140,220**	**281,624**	**231,624**	**339,611**	**0**	**311,315**	**202,565**	**440,900**
Service cost	0	0	0	0	0	0	0	0
Total compensation	**140,220**	**281,624**	**231,624**	**339,611**	**0**	**311,315**	**202,565**	**440,900**

Benefits granted (in €)	Yizhen Zhu ex-Chief Executive Officer Management Board member December 2, 2018 to September 30, 2020			
	FY 2019	FY 2020	FY 2020 (Min)	FY 2020 (Max)
Fixed compensation	240,000	170,000	170,000	180,000
Fringe benefits	63,438	75,823	75,823	75,823
Total	**303,438**	**245,823**	**245,823**	**255,823**
One-year variable compensation	84,000	16,875	0	33,750
Discretionary bonus	0	0	0	50,000
Multi-year variable compensation				
Bonus for financial targets (Jan. 1, 2019 to Dec. 31, 2020)	0	39,375	0	78,750
Total	**387,438**	**302,073**	**245,823**	**418,323**
Service cost	0	0	0	0
Total compensation	**387,438**	**302,073**	**245,823**	**418,323**

In contrast to the benefits granted, the following table shows the Management Board compensation according to allocation for the 2020 and 2019 financial years:

Allocation (in €)	Jianlong Shen Chief Executive Officer		Jürgen Luckas Chief Financial Officer	
	FY 2020	FY 2019	FY 2020	FY 2019
Fixed compensation	0	0	210,833	220,000
Fringe benefits	0	0	24,200	23,600
Total	**0**	**0**	**235,034**	**243,600**
One-year variable compensation	0	0	45,000	45,000
Discretionary bonus	0	0	0	20,000
Multi-year variable compensation				
Bonus for financial targets (Jan. 1, 2019 to Dec. 31, 2020)	0	0	0	0
Total	**0**	**0**	**280,034**	**308,600**
Service cost	0	0	0	0
Total compensation	**0**	**0**	**280,034**	**308,600**

Allocation (in €)	Tao Xing Executive Vice President		Matthias Mersmann Chief Technology Officer	
	FY 2020	FY 2019	FY 2020	FY 2019
Fixed compensation	183,701	116,667	192,499	0
Severance	0	0	0	0
Fringe benefits	47,924	8,970	10,066	0
Total	**231,624**	**125,637**	**202,565**	**0**
One-year variable compensation	14,584	0	0	0
Discretionary bonus	35,416	0	0	0
Multi-year variable compensation				
Bonus for financial targets (Jan. 1, 2019 to Dec. 31, 2020)	0	0	0	0
Total	**281,624**	**125,637**	**202,565**	**0**
Service cost	0	0	0	0
Total compensation	**281,624**	**125,637**	**202,565**	**0**

Allocation (in €)	Yizhen Zhu ex-Chief Executive Officer	
	FY 2020	FY 2019
Severance	170,000	240,000
Fringe benefits	75,823	63,438
Total	**245,823**	**303,438**
One-year variable compensation	0	0
Discretionary bonus	0	0
Multi-year variable compensation		
Bonus for financial targets (Jan. 1, 2019 to Dec. 31, 2020)	0	0
Total	**245,823**	**303,438**
Service cost	0	0
Total compensation	**245,823**	**303,438**

The total of the figures shown in the table above are in line with the remuneration to be disclosed in accordance with Section 314 Paragraph 1 Number 6a of the German Commercial Code (HGB) with the following exceptions:

<u>2020 Financial Year</u>

- Expenses for establishing an accrual in the amount of € 62,500 for fixed compensation as well as an accrual for variable compensation and discretionary bonus for the 2020 financial year for Mr. Shen in the amount of € 30,000;
- Expenses for establishing an accrual for a discretionary bonus for the 2020 financial year for Mr. Luckas in the amount of € 13,000;
- Expenses for establishing an accrual for a discretionary bonus for the 2020 financial year for Mr. Xing in the amount of € 15,000;
- Expenses for establishing an accrual for variable compensation and discretionary bonus for the 2020 financial year for Mr. Mersmann in the amount of € 87,000;
- Release of an accrual established in the previous year for variable compensation for the 2019 financial year for Mr. Zhu in the amount of € 105,000.

<u>2019 Financial Year</u>

- Expenses for establishing an accrual for a one-year variable compensation for the 2019 financial year for Mr. Zhu in the amount of € 105,000;
- Expenses for establishing an accrual for a one-year variable compensation for the 2019 financial year for Mr. Xing in the amount of € 30,000.

The amounts listed above as 'establishment of an accrual' are reported as part of the total remuneration for Management Board members in the 2020 and 2019 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 Chairperson and Deputy Chairperson 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.

With regard to the effects of the COVID-19 pandemic, the members of the Supervisory Board voluntarily waived 20% of their compensation for the period from April 1 through September 30, 2020 in the 2020 financial year. The total compensation of each member of the Supervisory Board for the 2020 financial year is shown in the following table:

in €	**Fixed compensation**
Shaohua Jin (Chairman)[1]	72,000
Gerhard Beinhauer (Deputy Chairman)[2]	54,000
Yiqiong Zhang[3]	27,000
not yet allocated[4]	10,000
Total	**163,000**

[1] Chairman of the Supervisory Board

[2] Deputy Chairman of the Supervisory Board

[3] Member of the Supervisory Board

[4] 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 2019 financial year is shown in the following table:

in €	**Fixed compensation**
Shaohua Jin (Chairman)[1]	80,000
Gerhard Beinhauer (Deputy Chairman)[2]	60,000
Yiqiong Zhang[3]	30,000
not yet allocated[4]	10,000
Total	**180,000**

[1] Chairman of the Supervisory Board

[2] Deputy Chairman of the Supervisory Board

[3] Member of the Supervisory Board

[4] 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.

REPORT ON EVENTS AFTER THE REPORTING PERIOD

On February 11, 2021, Humboldt Wedag India Private Ltd., New Delhi, India, concluded a contract package with an Indian customer regarding three new kiln lines, a new raw meal grinding facility with two KHD roller presses, and five upgrades of existing clinker grinding facilities that will be increased in performance with KHD roller presses. The order volume of more than € 30 million includes engineering and equipment supply as well as supervision services regarding erection and commissioning.

Other significant developments or events of particular importance have not taken place since the reporting date of December 31, 2020.

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 business risks, the KHD Group is able to utilize opportunities for increasing 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, in addition to reducing impact and probability of negative events, risk management in the KHD Group also considers the best possible use of opportunities as a positive deviation from target due to the successful implementation of the respective measures. 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 liability for consequential damages is contractually excluded for projects.

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), which only covers business viability risks; instead, it 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. These registers also document assessments of the probability of a risk occurring and the extent of potential damage that would be caused by each significant risk. In addition, existing and planned risk response measures are recorded here 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 considering the measures and controls for risk mitigation (net risks) and not doing so (gross risks). 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 measuring the probability of occurrence is presented in the following table:

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

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

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

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

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

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

Risk Management for Financial Instruments

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

In the case of exchange rate risks, a differentiation should be made on the one hand between currency risks related to the execution of projects in differing currency areas and related to granting or utilizing 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. In the context of executing projects and extending loans, exchange rate risks are generally determined on the basis of planned cash flows and minimized by using derivative financial instruments. At present, the only derivative financial instruments in use are 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 not only an ongoing 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. 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 increased 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 secured against default risks to a large extent by confirmed and unconfirmed letters of credit as well as 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 able to meet its payment obligations fully at all times. Guarantee credit facilities arranged with 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 the Risk Position of the Company and the KHD Group

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 a timely manner. 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 2020 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 combine 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 in Connection with the COVID-19 Pandemic

Since the second quarter of the 2020 financial year, the effects of the COVID-19 pandemic have gradually impacted KHD in both the Plant Services segment and in project business. The COVID-19 pandemic was added to the description of the individual risk areas. The extent and duration of individual impacts on KHD’s business are extremely difficult to predict. Significant uncertainties of the COVID-19 pandemic include its duration – which includes, for example, possible additional waves of infection or virus mutations – and the economic consequences of the “lockdown” measures. There is a risk that customers will cancel orders or postpone investments. In addition, increased default risks with regard to receivables and, in certain areas, difficulties in our supply chain are possible.

At the Group level, with the involvement of the Management Board, a centralized task force is making comprehensive decisions and is coordinating the flow of information. At the same time, the responsible management in the respective KHD companies is authorized to implement measures appropriate to local circumstances. Various effects of COVID-19 are carefully monitored and mitigated, while emphasizing the health and safety of our employees and business continuity. Because the instruments of risk mitigation or minimization with regard to the COVID-19 pandemic are available to individual companies only to a limited extent, the remaining risk is classified as “high”.

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 has been 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, the Purchasing area 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 success factor for a technology-focused group such as the KHD Group. In this context, it is important to take not only customer requirements, but also growing environmental protection requirements into account 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. With a development process that has defined milestones and a given budget for individual research and development projects, potential deviations from targets can be identified as early as possible and corresponding corrective measures implemented. 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 of the activities related 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 the growing complexity of contractual obligations combined with an expansion of service requirements and increasing customer demands.

It is especially important for risk management to identify possible cost variances in an early stage in order to estimate the effects on costs to complete and to take countermeasures in a timely manner. As early as the tendering phase, we employ proven methods to manage such project risks in order to prevent taking on 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. Balance sheet provisions are established 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. In most cases, the outcome of currently pending or future legal proceedings 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 within the KHD Group (accounting and controlling, project management, purchasing, engineering, sales, etc.) depend on the functionality and availability of the IT systems used. Thus, disruptions of system operations also disrupt the workflow as well as 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 2020 financial year, the KHD Group extended by three years the terms of two loan agreements concluded in the 2017 financial year with AVIC Kairong as borrower, each for € 50 million.

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 due to the development of more cost-effective products, the continued optimization of our procurement activities, and our improved project execution. By the same token, expanding 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 examine the significant opportunities and potential for future development.

It is typical for global economic growth to have a delayed 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 increasing and cement plants will be modernized and/or expanded. Thanks to a strong market position, the KHD Group sees opportunities for growth in Russia and particularly in India as well as in neighboring countries. We expect additional positive effects on future growth from the expansion of our market activities in China and the rigorous implementation of our China strategy – based in no small part on our innovative products.

Furthermore, we regard the rise in regulatory requirements for reducing the environmental impact of cement plants, such as the focus on environmental aspects in China's current five-year plan, as an opportunity. 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 reducing emission levels and the efficient use of resources, materials, and energy.

The KHD Group entered into a strategic partnership with AVIC way back in December 2010. Following the successful conclusion of the takeover by AVIC, there is a stable shareholder structure with a very significant majority. The partnership with AVIC has resulted in significant opportunities for expanding our market activities in China. The purpose of KHD Group's activities in Global Supply Chain Management is to make improvements with regard to easier and more extensive access to the Chinese supply market. It is significantly easier to gain access to more cost-effective, high-quality production capacities in China through AVIC.

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, to develop additional market potential, and to expand its portfolio of products and services. We continuously monitor our current and future markets in order to identify opportunities for strategic acquisitions or cooperation that may complement our organic growth.

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

OUTLOOK

Projected Market Environment

In its World Economic Outlook, the IMF updated the forecasts regarding changes in the economic performance of countries and regions. According to the report, the IMF is expecting an increase of 5.2% in global economic output for 2021, which represents a slight decline in comparison with the forecast in June 2020 (5.4%). According to the IMF, the economic output of the USA could grow by 3.1% in 2021 and the gross domestic product (GDP) of the European Union by 5.0%.

The IMF emphasizes that these forecasts are subject to a relatively high degree of uncertainty. Particularly the unforeseeable course of the COVID-19 pandemic in individual countries makes it difficult to predict further developments.

According to CW Research, global growth in cement consumption of 2.0% is expected for 2021. However, if China is not taken into account, expected global growth is 2.9%. Moderate growth in Western Europe (1.6%), Russia (1.0%), and even Turkey (2.0%) is offset by a more significant increase in planned cement consumption in some Asian countries, such as India (9.0%), Bangladesh (3.0%), and the Philippines (3.0%). In contrast, a considerable decrease in cement consumption (-2.2%) is expected in North America.

Expected Business Development

KHD sees as a realistic chance for slightly positive earnings before tax for the 2021 financial year. The modified focus of sales activities since the 2019 financial year will result in continued improvements with respect to margin quality while significantly reducing the risks during project execution. Moreover, the cost structures were adjusted sustainably. Overall, the foundations have been laid for generating positive results again on a sustainable basis.

However, due to the continuing general uncertainty – including the COVID-19 pandemic – the sensitivity of the cement markets and the reluctance of cement producers to make major investments, major risks remain unchanged – particularly for the Capex segment. This may lead to delays in awarding projects and 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, the technical and economic risks of project execution continue to demand our attention.

In 2021, KHD will continue to implement its sales activities in a targeted manner such that the position of KHD as a technology leader can be applied appropriately with regard to business opportunities. We are expecting an order intake for the 2021 financial year that is significantly above that of the previous year, 2020. The planned order intake reflects the planning assumptions which have not changed since the 2019 financial year, i.e. the quality of the projects will have higher priority than growth that is purely volume related. Due to the planned progress in project execution, order backlog at the end of 2021 will be significantly below the previous year’s value. Due to the successful implementation of the reorganization and the related adjustments with regard to headcount in the 2019 financial year, full capacity utilization is ensured to a large extent in the 2021 financial year than in previous years.

According to our planning, revenue for the 2021 financial year will be considerably higher than the previous year’s level. As the business environment remains highly competitive with margin pressure, we continue to expect a gross profit margin that is not entirely satisfactory, though significantly improved over the previous year. The expected adjusted gross profit is considerably higher than the previous year’s figure as we do not expect effects in the 2021 financial year that would be comparable to the high cost overruns in 2020.

Overall, KHD expects a significant improvement in the earnings position in comparison with the 2020 financial year. However, because the gross profit margins of projects in the current order backlog are still not entirely satisfactory, the operating result for the 2021 financial year will not be sufficient to cover all of the costs of the KHD Group. For this reason, KHD again expects negative figures for EBIT as well as for the adjusted EBIT for the current 2021 financial year. Accordingly, both the EBIT margin and the adjusted EBIT margin will be negative. Both figures, however, will improve significantly in comparison with the 2020 financial year. Taking the significantly positive financial result into account, according to our planning the earnings before tax (EBT) remains negative, but it should improve considerably in comparison with the previous year. Due to significant upward potentials, KHD sees a realistic possibility of a slightly positive EBT already in the 2021 financial year.

For operating cash flow in 2021 we expect a negative figure in the low, double-digit millions. The reason for the operating cash outflows are scheduled payments to suppliers as well as additional project costs from the 2020 financial year that will be cash-effective in the 2021 financial year.

Overall, due to the ongoing difficult market conditions, KHD expects that the earning position for the 2021 financial year will not be entirely satisfactory. In order to achieve the medium-term goal of returning to sustainable positive EBIT, improvements in margin quality with regard to order intake as well as in project execution are crucial, in addition to implementing our China strategy. We forecast that KHD’s financial and net assets position will remain stable and will probably not change significantly in the 2021 financial year (compared to the previous year). The ongoing fully adequate liquidity position combined with our high equity ratio allows us to develop our portfolio of products and services continuously and to make the most of opportunities for internal and external growth.

Expected Economic Development of the Capex Segment

In the Capex segment we expect an order intake that is significantly above than the level of the previous year as the 2020 financial year was greatly affected by customer restraint with regard to investment due to the COVID-19 pandemic. The planned order intake reflects the planning assumptions which have not changed since the 2019 financial year, i.e. the quality of the projects will have higher priority than growth that is purely volume related. In 2021, KHD will use business opportunities by targeting projects in which our position as a technology leader can be applied appropriately. However, customers' investment decisions remain subject to uncertainty due to the COVID-19 pandemic as well as economic, financial and political unpredictability. Due to revenue recognition according to planned progress in project execution, the order backlog at the end of 2021 will be considerably less than the previous year’s value. Due to the successful implementation of the reorganization and the related adjustments with regard to headcount in the 2019 financial year, full capacity utilization is ensured to a large extent in the 2021 financial year than in previous years.

Due to current order backlog and the expected order intake, the KHD Group expects revenue in the Capex segment for the 2021 financial year that is significantly higher than the level of the 2020 financial year.

Despite the measures implemented in previous years toward cost optimization, the Capex segment, in accordance with our planning, is expected to once again report negative EBIT and adjusted EBIT as well as negative EBIT and adjusted EBIT margin. This is particularly due to the low margins in the current order backlog. As there are no effects expected in the 2021 financial year that would be comparable to the very high cost overruns in previous years, considerable improvement is expected in comparison with the 2020 financial year.

Expected Economic Development of the Plant Services Segment

Following an unsatisfactory 2020 financial year and the very significant effects of the COVID-19 pandemic, we expect improvements in the Plant Services segment in the current year. Due to the good potential with regard to spare parts and services, we plan to expand our market position in this business unit in the 2021 financial year. According to our planning, for this segment we expect a considerable increase in order intake compared to the 2020 financial year (€ 26.9 million).

Despite the low order intake in the previous year, we expect a considerable increase in revenue in the Plant Services segment in the 2021 financial year. In turn, a significantly positive EBIT is expected in the Plant Services business unit.

Opportunities and Risks Relating to the Outlook for the 2021 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 2021 financial year. Despite close collaboration with customers during the tendering process, customer investment decisions and the awarding of individual projects to KHD can only be forecast with substantial uncertainty, which can lead to either a significantly higher or significantly lower order intake.

The revenue outlook is mainly based on the order backlog as of December 31, 2020 and expected order intake for the initial months of the 2021 financial year in the Capex segment and on the planning of the business in the Plant Services segment. Particularly with regard to the expected order intake in the first six months of the 2021 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) can be materially impacted 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 back-charging cost overruns result in opportunities for significantly improving the planned EBIT.

Cologne, March 4, 2021

The Management Board

Jianlong Shen (Chairman)	Jürgen Luckas	Dr. Matthias Jochem
Tao Xing	Matthias Mersmann	

1 Group Income Statement for KHD Humboldt Wedag International AG for the Financial Year 2020

in € thousand	**Note**	**2020**	**2019**
Revenue	20	151,226	146,289
Cost of sales	21	(140,111)	(136,011)
Gross profit		**11,115**	**10,278**
Other operating income	22	3,328	3,312
Sales expenses	23	(9,399)	(11,569)
General and administrative expenses	24	(12,309)	(12,676)
Reorganization costs	26	-	(6,360)
Other expenses	25	(6,044)	(5,633)
Profit before interest and taxes (EBIT)		**(13,309)**	**(22,648)**
Finance income	27	7,821	8,651
Finance expenses	27	(1,151)	(1,068)
Net finance income		**6,670**	**7,583**
Profit before tax (EBT)		**(6,639)**	**(15,065)**
Income tax expense	28	(1,318)	(3,769)
Group net loss for the year		**(7,957)**	**(18,834)**
Of which are attributable to:			
Parent company shareholders		(7,963)	(18,875)
Non-controlling interests		6	41
		(7,957)	**(18,834)**

		2020	**2019**
Net loss attributable (in € thousand)		(7,963)	(18,875)
Weighted average number of shares outstanding		49,703,573	49,703,573
Basic (undiluted) and diluted earnings per share in €	29	(0.16)	(0.38)

2 Group Statement of Comprehensive Income for KHD Humboldt Wedag International AG for the Financial Year 2020

in € thousand	**2020**	**2019**
Group net loss for the year	**(7,957)**	**(18,834)**
Items that will be reclassified subsequently to profit or loss when specific conditions are met		
Currency translation differences	(4,679)	(258)
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	94	(1,272)
Effects from the first-time adaption of IFRS 16	138	(357)
Other comprehensive income	**(4,447)**	**(1,887)**
Group comprehensive income	**(12,404)**	**(20,721)**
Of which attributable to:		
Parent company shareholders	(12,410)	(20,762)
Non-controlling interests	6	41
	(12,404)	**(20,721)**

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. The actuarial gains and losses do not include any deferred taxes in either the financial year or the previous year.

3 Group Balance Sheet for KHD Humboldt Wedag International AG as of December 31, 2020

ASSETS	Note	Dec 31, 2020	Dec. 31, 2019
in € thousand			
Non-current assets			
Property, plant and equipment	5	9,330	9,730
Goodwill	6	3,851	5,162
Other intangible assets	6	1,278	1,269
Right of use	6	3,214	3,896
Trade and other receivables	7	1,012	2,252
Other financial assets	11	100,000	-
Future Income Tax Assets	8	1,447	1,092
Total non-current assets		**120,132**	**23,401**
Current assets			
Inventories	9	3,819	3,349
Contract assets	10	17,225	3,754
Trade and other receivables	7	29,971	32,074
Payments made in advance		17,943	10,046
Other financial assets	11	992	101,103
Income tax assets		806	387
Cash and cash equivalents	12	68,035	82,622
Total current assets		**138,791**	**233,335**
Total assets		**258,923**	**256,736**

EQUITY AND LIABILITIES	Note	Dec 31, 2020	Dec. 31, 2019
in € thousand			
Equity			
Subscribed capital		49,704	49,704
Capital reserves		61,097	61,097
Currency translation differences recognized in equity		(13,132)	(8,453)
Retained earnings		(9,028)	(1,297)
Shares of equity attributable to shareholders of the parent company		88,641	101,051
Non-controlling interests		495	489
Total equity	13	**89,136**	**101,540**
Non-current liabilities			
Other liabilities	16	2,794	3,082
Lease Liabilities	16	2,145	2,627
Borrowings	16	-	25,000
Pension benefit obligation	14	18,328	19,609
Deferred tax liabilities	8	69	18
Provisions	15	2,997	2,904
Total non-current liabilities		**26,333**	**53,240**
Current liabilities			
Trade and other payables	16	72,212	33,101
Borrowings	16	25,000	-
Contract liabilities and advance payments received	17	21,222	46,395
Income tax liabilities	16	644	395
Provisions	15	24,376	22,065
Total current liabilities		**143,454**	**101,956**
Total equity and liabilities		**258,923**	**256,736**

4 Group Statement of Cash Flows for KHD Humboldt Wedag International AG for the Financial Year 2020

in € thousand	2020	2019
Cash flow from operating activities		
Group net loss for the year	(7,957)	(18,834)
Income tax expense recognized in the income statement	1,318	3,769
Net finance income recognized in the income statement	(6,670)	(7,583)
Earnings before interest and taxes (EBIT)	**(13,309)**	**(22,648)**
Amortization and depreciation of non-current assets	4,022	2,731
Book gain (-)/loss on disposal of fixed assets	1	1
Increase(-)/decrease in trade receivables and financial assets	3,326	13,513
Increase (-)/decrease in inventories and gross amount due from customers for contract work	(13,941)	12,867
Increase (-)/decrease in payments made in advance and other financial assets	(7,639)	744
Increase (+)/decrease in trade and other payables and contract liabilities and advance payments received	14,123	9,710
Increase (+)/decrease in pension benefit obligations	(1,187)	(1,045)
Increase (+)/decrease in provisions and non-current liabilities	2,116	(6,210)
Other non-cash-transactions	472	(270)
Other translation differences	439	266
Interest received	1,987	3,188
Interest paid	(252)	(264)
Income tax received	-	145
Income tax paid	(1,857)	(1,910)
Cash flow from operating activities	**(11,699)**	**10,818**
Cash flow from investing activities		
Cash outflow for intangible assets	(342)	(299)
Cash outflow for property, plant and equipment	(1,409)	(1,189)
Cash inflow from the disposal of property, plant and equipment	19	8
Interest received from Intercompany loans	5,851	4,436
Cash flow from investing activities	**4,119**	**2,956**

in € thousand	2020	2019
Cash flow from financing activities		
Redemption of lease liabilities	(1,409)	(1,527)
Dividends paid to parent company shareholders	-	(852)
Interest paid for loans	(480)	(477)
Cash flow from financing activities	**(1,889)**	**(2,856)**
Change in unrestricted cash and cash equivalents	**(9,469)**	**10,918**
Opening balance of unrestricted cash and cash equivalents	82,622	72,228
Exchange rate effects	(5,118)	(524)
Closing balance of unrestricted cash and cash equivalents	**68,035**	**82,622**

Cash and cash equivalents decreased in the financial year by € 14,587 thousand to € 68,035 thousand (previous year: € 82,622 thousand). The reason for this is particularly the cash outflow from operating activities of € 11,699 thousand (previous year: cash inflow of € 10,818 thousand). Cash inflows from investing activities in the amount of € 4,119 thousand (previous year: € 2,956 thousand) are offset by cash outflows from financing activities of €1,889 thousand (previous year: € 2,856 thousand). Cash and cash equivalents were affected by negative exchange rate effects in the amount of € 5,118 thousand (previous year: negative exchange rate effects in the amount of € 524 thousand) in the 2020 financial year. Unrestricted cash and cash equivalents, including exchange rate effects, decreased by € 14,587 thousand (previous year: increase of € 10,394 thousand) to € 68,035 thousand (previous year: € 82,622 thousand) in the 2020 financial year.

5 Group Statement of Changes in Equity for KHD Humboldt Wedag International AG for the 2020 Financial Year

in € thousand	Subscribed capital	Capital reserves	Treasury shares	Currency translation differences recognized in equity	Retained earnings	Euqity attributable to shareholders of the parent company	Non-controlling interests	Total
31.12.2018 / 01.01.2019	**49,704**	**61,097**	**-**	**(8,195)**	**19,207**	**121,813**	**1,299**	**123,112**
Group net loss for the year	-	-	-	-	(18,875)	(18,875)	41	(18,834)
Actuarial gains and losses and other effects on the group comprehensive income *	-	-	-	-	(1,629)	(1,629)	-	(1,629)
Currency translation differences	-	-	-	(258)	-	(258)	-	(258)
Group comprehensive income	**-**	**-**	**-**	**(258)**	**(20,504)**	**(20,762)**	**41**	**(20,721)**
Other changes	-	-	-	-	-	-	1	**1**
Dividend payments	-	-	-	-	-	-	(852)	(852)
31.12.2019 / 01.01.2020	**49,704**	**61,097**	**-**	**(8,453)**	**(1,297)**	**101,051**	**489**	**101,540**
Group net loss for the year	-	-	-	-	(7,963)	(7,963)	6	(7,957)
Actuarial gains and losses and other effects on the group comprehensive income	-	-	-	-	232	232	-	232
Currency translation differences	-	-	-	(4,679)	-	(4,679)	-	(4,679)
Group comprehensive income	**-**	**-**	**-**	**(4,679)**	**(7,731)**	**(12,410)**	**6**	**(12,404)**
31.12.2020	**49,704**	**61,097**	**-**	**(13,132)**	**(9,028)**	**88,641**	**495**	**89,136**

* The effect of the initial adoption of the new IFRS 16 regulations (€ - 357 thousand) was recorded in the previous year in the other comprehensive income.

6 Notes to the Group Financial Statements of KHD Humboldt Wedag International AG for the Financial Year 2020

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, is 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 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 nature of expense method. The financial year of KHD and of its subsidiaries and joint ventures included in the group financial statements corresponds to the calendar year. One exception to this is Humboldt Wedag India Private Limited ("HW India"), for which the financial year runs from April 1 to March 31. However, for the purpose of composing the KHD Group financial statements, HW India issues interim statements on December 31.

Consolidation

Subsidiaries are investees over which KHD has the authority to dispose, and which expose KHD to variable returns based on its involvement with the respective investee; KHD has the ability to affect those returns through its power over the investee. This is regularly the case if KHD holds, directly or indirectly, more than 50% of the voting rights, or controls the business activities in another manner. These companies are, as a general rule, consolidated. Subsidiaries are consolidated from the date when actual control is transferred to KHD and are deconsolidated from the date when control no longer exists.

All intercompany transactions, balances, and unrealized profits or losses on intra-Group transactions are eliminated. The accounting and measurement principles applicable to subsidiaries pursuant to statutory law are adjusted in order to ensure consistency with the accounting and valuation principles of KHD. Non-controlling interests are presented and commented on separately.

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

Currency Translation

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

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

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

		Closing rate	Average rate
	currency	As of Dec.31, 2020	Jan.1 to Dec.31, 2020
	1 Euro =		
Australia	**AUD**	1.5863	1.6602
India	**INR**	89.3178	84.9564
USA	**USD**	1.2232	1.1477
Malaysia	**MYR**	4.9203	4.8161
Brazilia	**BRL**	6.3532	6.0247
Russia	**RUB**	90.4599	84.3222

Exchange rates used in the preceding financial year:

		Closing rate	Average rate
	currency	As of Dec.31, 2019	Jan.1 to Dec.31, 2019
	1 Euro =		
Australia	**AUD**	1.5968	1.6079
India	**INR**	80.0700	78.6822
USA	**USD**	1.1219	1.1186
Malaysia	**MYR**	4.5891	4.6291
Brazilia	**BRL**	4.5095	4.4089
Russia	**RUB**	69.6111	72.2714

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 lower of cost and recoverable amount (cost less impairment losses).

Rights of Use

As the new lease reporting according to IFRS 16 takes effect as of January 1, 2019, rights of use from leases will be reported for the first time in the balance sheet if a contract provides authorization to control the use of an identified asset for a specified period in return for the payment of a fee. Rights of use are measured based on the amortized costs less all accumulated amortization and impairment expenses and corrected by each revaluation of the lease liability. The costs of the rights of use include the reported lease liabilities and the initial direct costs generated as well as the lease payments made during or before the provision of the rights of use less any lease incentives received. Rights of use are regularly amortized straight-line over the shorter of the two terms and the expected useful life of the lease.

KHD uses the transitional provisions of IFRS 16 on short-term lease contracts and leases for assets with low value. Rights of use are not capitalized for these leases; instead, lease expenses are recognized straight-line over the term of the lease.

Corresponding with a right-of-use approach, KHD reports lease liabilities at the present value of the lease payments that must be made over the term of the lease. KHD uses the marginal capital interest rate to calculate the present value of the lease liability because the underlying interest rate cannot be readily determined. In the context of the subsequent measurement, the lease liability is increased in order to take greater interest expense into account and decreased to take the lease payments made into account. Furthermore, the carrying amount of the lease liability is remeasured if the lease is changed, if the term of the lease is changed, or if the lease payments change.

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. The properties are not depreciated straight-line. 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.

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 2020 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
In accordance with IFRS 9, the classification and measurement of financial assets based on the characteristics of the cash flow accompanying the financial assets (cash flow conditions) as well as the underlying business model (business model condition). This results in three possible measurement categories:

- Measurement based on amortized costs for debt instruments,
- Measurement at fair value without affecting profit and loss for debt instruments (with recycling) and for equity instruments (without recycling),
- Measurement at fair value through profit or loss 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. The subsequent measurement is performed according to the rules of the respective measurement category. At KHD, the majority of the financial assets are measured at amortized cost. Only those financial assets held for trading and the derivatives acquired for hedging purposes are allocated to the 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 are 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 primary financial 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 at nominal value. To the extent that they are due for repayment in the short term, draft facilities are included in the cash equivalents. Restricted cash is stated separately. Cash on hand and bank balances are measured at amortized cost.

- Loans and receivables
  Loans and receivables are non-derivative financial assets with fixed or determinable payments and which are not quoted in an active market. They include receivables from loans, trade and other receivables as well as other assets. They arise if KHD provides money, goods, or services directly to a debtor. They are classified as current assets, except for those that come due more than twelve months after the balance sheet date, or which are classified as non-current on the basis of their economic structure. These are reported 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
  The Group holds a limited amount of financial assets for trading 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. Economic hedges are not depicted as balance sheet hedges in the context of hedge accounting. The option to use IFRS 9 for reporting hedges in the balance sheet is not utilized. As a result, the changes in value of the derivative financial instruments concluded by KHD 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. A valuation of financial liabilities with regard to their effect on net income is only performed for derivative financial instruments. The fair value option is not utilized.

Impairment of Financial Assets
In the impairment model of IFRS 9, not only losses that have occurred, but also losses that have already been expected are reported (expected loss model). KHD determines the expected credit default based on information that is externally available regarding the credit worthiness of the respective debtor and the credit rating 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.

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

Claims or obligations from customer contracts with revenue recognition over time are determined according to the rules of IFRS 15. In these cases, KHD specifies the result and revenue based on the stage of completion of the respective customer contract based on the proportion of project costs already incurred to the estimated overall project costs. In this way, revenue recognition over time for customer contracts is equivalent to profit recognition according to performance progress. Expected losses from customer contracts are immediately recorded in their entirety as an expense. Customer contracts with revenue recognition over time are reported, depending on the amount of progress billings, under contract assets or under 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 contracts are reported under contract assets. If there is a negative balance after deducting progress billings, this balance is reported 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 them. Losses from onerous customer contracts are reported exclusively according to the rules of IAS 37 and not as part of contract assets or contract liabilities.

Pension Benefit Obligations and Retirement Benefit Plans

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

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

In addition, there is a defined contribution plan for all employees of the Group companies in Germany within the scope of the German statutory pension scheme, with a current employer contribution rate, which is unchanged for 2020, of 9.30% (previous year: 9.30%).

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 contingent losses from onerous contracts are established if the expected economic benefit resulting from the contract is less than the costs that are unavoidable for contract fulfillment.

Provisions are measured at the expected settlement value, taking into consideration all recognizable risks. The settlement value is determined based on the best possible estimate. The expected outflow of resources embodying economic benefits for all products covered by warranty terms is estimated by the Group as of the balance sheet date. In the calculation of provisions, individual warranty obligations for which the probability of occurrence is greater 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 and 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 based on the respective local tax laws 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 with regard to deferred tax liabilities that can be offset. 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 generally recognized based on a specific 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 according to performance progress 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 an expense or income on an accrual basis.

Project income and expenses arising in connection with customer contracts that meet the requirements for revenue recognition over time in accordance with IFRS 15.35 are recognized according to performance progress as of the balance sheet date as revenue and expenses. An expected loss on a construction contract is recognized immediately as an expense.

Cost of sales primarily includes costs of purchased materials and services, transportation costs, wages and salaries, production-related 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 as well as the utilization of 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:

Completion Date of Performance Obligations for Customer Contracts with Revenue Recognition over Time

KHD operates in the area of long-term plant engineering and determines the completion date of performance obligations for customer contracts with revenue recognition over time according to performance progress. The point in time that revenue and profit are recognized is based on the stage of completion. At KHD, the determination of the stage of completion is made based on the cost-to-cost method, which calculates the stage of completion from the proportion of contract costs incurred to the estimated total contract costs. According to management's estimation, the determination of performance progress based on the input-oriented cost-to-cost method provides a realistic and faithful illustration of the transfer of goods and services to customer because the costs applied correspond 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 are established in contractually agreed upon fixed price contracts. In general, there are no variable revenue arrangements which are influenced by estimation. An allocation of the total revenue to several service components might not be carried out due to the specific features of KHD's plant engineering business because the individual components of a plant cannot be identified separately as goods and services as defined by IFRS 15.

The estimation of the total contract costs and the project risks is given special significance. The estimation of total contract costs is influenced to a high degree by the technical and expert estimates 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. The respective estimates by the employees responsible for the projects are checked by persons not connected with the project for plausibility and reliability in a standardized process and are constantly adjusted.

For customer contracts for which there is a specific completion date of performance obligations, revenue is recognized when control of the assets is transferred based on delivery documentation. In principle, there is no significant discretionary decision-making associated with these projects.

Impairment of Goodwill

Once a year and as warranted, 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 forecast 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 36.30 et seq. is carried out based on discounted cash flow valuation. These discounted cash flows are based on five-year budgets built upon financial forecasts. The forecasts 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, 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 projects 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 projects that will lose money with continuous controlling of 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.

Initial Application of Accounting Standards

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

Initial Application of Recently Published Standards

KHD has already made a detailed statement regarding the initial application of IFRS 16 "Leases" and its effect on the net assets, financial position, and result of operations in the IFRS consolidated financial statements as of December 31, 2019 on page 74 et seq.

The following rules and amendments in EU law were adopted in 2020:

- Amendment to IFRS 3: "Definition of a Business", published in October 2018, endorsed into EU law in April 2020;
- Amendments to IFRS 9, IAS 39, and IFRS 7: According to the "Interest Benchmark Reform", existing interest benchmarks such as "IBOR" are to be replaced by new, less risky benchmarks developed by the Financial Stability Board (FSB). This affects hedge accounting rules, for example, and the continuation of hedge accounting in the balance sheet. Endorsed into EU law in January 2020;
- IFRS 16 “Covid-19-Related Rent Concessions”, published in May 2020, endorsed into EU law in June 2020.

The application of these rules and amendments does not result in any significant effects on the Group's net assets, financial position and result of operations.

Published Standards for Which Application is Not Yet Required

In the current reporting period, the IASB has published a variety of standards, interpretations and changes to standards and interpretations, the application of which is not yet mandatory and which, in part, still require endorsement into EU law.

- Amendments to IFRS 3, IAS 16, and IAS 37: Published in May 2020, initial application in the 2022 financial year, endorsement into EU law still pending;
- Amendments to IAS 1: “Classification of liabilities as current or non-current”, published in January 2020, initial application in the 2022 financial year, endorsement into EU law still pending;
- Amendments to IFRS 9, IAS 39, and IFRS 7: “Interest Rate Benchmark Reform” (Phase 2); published in April 2020, initial application in the 2021 financial year, endorsed into EU law in August 2020.

KHD does not expect these amendments to result in any significant effects on the Group's net assets, financial position and result of operations.

2. Subsidiaries of KHD Humboldt Wedag International AG as of December 31, 2020

Name of company	Registered office	Main Buisness	Capital and voting rights in % Dec. 31, 2020	Capital and voting rights in % Dec. 31, 2019		Currency	Subscribed capital Dec. 31, 2020	Subscribed capital Dec. 31, 2019
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	Services	91.26	91.26	I	€	3,600,000	3,600,000
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	D	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	Sales	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, 2020, the scope of consolidation included four domestic and seven foreign subsidiaries in addition to KHD. There were no changes in comparison with the previous year.

During the financial year under consideration, 100% of the shares in KHD Humboldt Wedag Machinery Equipment (Beijing) Co., Ltd. were transferred from KHD HW to KHD in a Share Purchase Agreement. Since this time, KHD Humboldt Wedag Machinery Equipment (Beijing) Co. Ltd. is a direct holding of KHD.

The only Group company in which there are 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, 2020 in %**	**Dec. 31, 2019 in %**	**Dec. 31, 2020 in € thousand**	**Dec. 31, 2019 in € thousand**	**Dec. 31, 2020 in € thousand**	**Dec. 31, 2019 in € thousand**
KHD Humboldt Wedag Vermögensverwaltungs-AG	Cologne, Germany	8.74	8.74	7	41	495	489

The Group did not acquire any further shares in KHD VV during the 2020 financial year. The Group's share as of December 31, 2020 amounted to 91.26%, as in the previous year. Changes in KHD VV equity attributable to KHD are as follows in the 2020 financial year:

	in € thousand
Equity of shareholders of the parent company as of January 1, 2020	**5,096**
Change in comprehensive income attributable to shareholders of the parent company in 2020	69
Equity of shareholders of the parent company as of December 31, 2020	**5,165**

The following, summarized financial information for KHD VV in accordance with IFRS may differ from financial statements prepared as per the German Commercial Code (HGB). The summary of financial information corresponds to the amounts before intragroup eliminations:

	Dec 31, 2020 in € thousand	Dec 31, 2019 in € thousand
Revenue	-	-
Income	76	474
Net profit for the year	76	474
	-	-
Net profit for the year attributable to shareholders of the parent company	70	433
Net profit for the year attributable to the non-controlling shareholders	6	41
Total net profit for the year	**76**	**474**
Other comprehensive income attributable to shareholders of the parent company	(1)	(10)
Other comprehensive income attributable to non-controlling shareholders	-	1
Total other comprehensive income	**(1)**	**(9)**
Comprehensive income attributable to shareholders of the parent company	69	423
Comprehensive income attributable to non-controlling shareholders	6	42
Comprehensive income	**75**	**465**
Dividends paid to non-controlling interests	-	(852)
Net cash flow from operating activities	(121)	(195)
Net cash flow from investment activities	281	308
Net cash flow from financing activities	-	(9,752)
Total net cash flow	**160**	**(9,639)**

3. Changes to the Scope of Consolidation

Regarding the change to the scope of consolidation of KHD, reference is made to Item 2 of the Notes.

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, i.e. it is based on the management approach.

The business activities of the two reportable segments as of December 31, 2020 include the following activities and 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 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 2020 and 2019 financial years:

in € thousand	Capex Jan. 1- Dec. 31, 2020	Plant Services Jan. 1- Dec. 31, 2020	Total Group Jan. 1- Dec. 31, 2020	Capex Jan. 1- Dec. 31, 2019	Plant Services Jan. 1- Dec. 31, 2019	Total Group Jan. 1- Dec. 31, 2019
Order intake	75,201	26,945	102,146	265,809	35,286	301,095
Revenue	125,392	25,834	151,226	104,156	42,133	146,289
Cost of sales	(122,536)	(17,575)	(140,111)	(106,166)	(29,845)	(136,011)
Gross profit	2,856	8,259	11,115	(2,010)	12,288	10,278
Other operating income	3,328	-	3,328	3,312	-	3,312
Sales expenses	(6,307)	(3,092)	(9,399)	(8,165)	(3,404)	(11,569)
General administrative expenses	(9,996)	(2,313)	(12,309)	(10,168)	(2,508)	(12,676)
Reorganization	-	-	-	(5,653)	(707)	(6,360)
Other expenses	(5,043)	(1,001)	(6,044)	(5,633)	-	(5,633)
Earnings before interest and taxes (EBIT)	(15,162)	1,853	(13,309)	(28,317)	5,669	(22,648)
Net finance income			6,670			7,583
Profit before tax			(6,639)			(15,065)
for information:						
depreciation and amortization			*(4,022)*			*(2,731)*

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	**2020**	**2019**	**2020**	**2019**
North America	69,050	7,661	754	186
India	25,338	23,609	8,346	9,406
Rest Asia	16,151	46,866	-	2
China	13,727	3,389	229	218
Germany	8,314	10,920	6,617	7,203
Other	4,477	187	-	-
Rest Europe	4,456	13,075	-	-
Middle East	3,837	11,447	-	-
Russia	2,774	3,755	1,727	3,042
Africa	1,675	21,764	-	-
South America	1,427	3,616	-	-
	151,226	**146,289**	**17,673**	**20,057**

	Order Intake		Order Backlog	
in € thousand	**2020**	**2019**	**2020**	**2019**
India	46,144	39,032	49,921	30,637
China	20,330	7,803	12,340	5,763
North America	13,059	212,992	137,571	206,558
Rest Asia	5,940	15,805	13,484	25,890
Middle East	4,421	3,549	4,125	3,541
Russia	4,007	3,675	8,770	7,724
Rest Europe	3,302	4,189	2,382	3,535
Africa	2,494	1,415	6,014	5,200
Germany	2,012	3,033	1,609	9,291
South America	356	1,298	432	1,519
Other	81	8,304	3,744	8,142
	102,146	**301,095**	**240,392**	**307,800**

Order backlog, or the amount of the revenue from the respective contract that is not yet reported, totaled € 240,392 thousand (previous year: € 307,800 thousand) as of December 31, 2020. Of this, an order backlog of € 222,865 (previous year: € 291,344 thousand) is attributable to the Capex segment and an order backlog of € 17,527 thousand (previous year: € 16,456 thousand) to the Plant Services segment. KHD will realize the existing order backlog as revenue to the extent that the project-specific deliveries and services are provided. In the Capex segment, according to budget planning approx. 50-60% of the order intake in the next twelve months will be realized as sales revenue. Revenue recognition for the remaining 40-50% is expected within the following 24 months. For the Plant Services segment, revenue recognition for the current order backlog is expected within the next twelve months. KHD does not utilize the helpful tool for IFRS 15.121.

Information about Key Customers

In the financial year, revenue of € 58.3 million was attributable to a single customer with which at least 10% of the Group revenue was achieved (previous year: revenue with a single customer in the amount of € 17.2 million). 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, 2018 / Jan. 1, 2019	**3,523**	**2,820**	**10,413**	**16,756**
Additions	-	250	939	1,189
Disposals	-	-	(1,682)	(1,682)
Foreign currency translation and reclassification	(18)	(27)	(80)	(125)
Dec.31, 2019	**3,505**	**3,043**	**9,590**	**16,138**
Additions	-	-	1,431	1,431
Disposals	-	-	(196)	(196)
Foreign currency translation and reclassification	(363)	(193)	(296)	(852)
Dec 31, 2020	**3,142**	**2,850**	**10,529**	**16,521**
Accumulated depreciation				
Dec. 31, 2018 / Jan. 1, 2019	**-**	**440**	**6,703**	**7,143**
Additions	-	127	820	947
Disposals	-	-	(1,673)	(1,673)
Currency differences	-	-	(9)	(9)
Dec.31, 2019	**-**	**567**	**5,841**	**6,408**
	-	**-**	**-**	**-**
Additions	-	135	824	959
Disposals	-	-	(176)	(176)
Dec 31, 2020	**-**	**702**	**6,489**	**7,191**
Carrying amount				
Dec.31, 2019	**3,505**	**2,476**	**3,749**	**9,730**
Dec 31, 2020	**3,142**	**2,148**	**4,040**	**9,330**

As in the previous financial year, the additions to property, plant, and equipment in the current financial year in the amount of € 1,431 thousand primarily result from investments in the technical equipment and machines for the production facility in India and replacement investments in IT hardware. Total depreciation in the financial year amounted to € 959 thousand (previous year: € 947 thousand).

6. Goodwill and Other Intangible Assets

in € thousand	Goodwill	Licences and other intangible assets	Right of use	Total
Cost				
Dec. 31, 2018 / Jan. 1, 2019	**5,162**	**10,477**	**-**	**15,639**
Additions IFRS 16 implementation	-	-	7,182	7,182
Additions	-	299	256	555
Disposals	-	(237)	(2,154)	(2,391)
Dec.31, 2019	**5,162**	**10,539**	**5,284**	**20,985**
Disposals	-	(30)	(31)	(61)
Currency differences and reclassification	-	(3)	-	(3)
Dec 31, 2020	**5,162**	**10,848**	**5,993**	**22,003**
Accumulated amortisation				
Dec. 31, 2018 / Jan. 1, 2019	**-**	**9,179**	**-**	**9,179**
	-	**-**	**-**	**-**
Additions	-	328	1,456	1,784
Disposals	-	(237)	(68)	(305)
Dec.31, 2019	**-**	**9,270**	**1,388**	**10,658**
Additions	1,311	330	1,423	3,064
Disposals	-	(30)	(32)	(62)
Dec 31, 2020	**1,311**	**9,570**	**2,779**	**13,660**
Carrying amount	**-**	**-**	**-**	**-**
Dec.31, 2019	**5,162**	**1,269**	**3,896**	**10,327**
Dec 31, 2020	**3,851**	**1,278**	**3,214**	**8,343**

As was the case in the previous year, the additions to licenses and other intangible assets are largely investments in software. Rights of use are reported with the application of IFRS 16. Depreciation of goodwill in the amount of € 1,311 thousand is explained under “Goodwill”.

The rights of use recorded for the first time as of January 1, 2020 are primarily attributable to the rights of use with regard to rented real estate in addition to rights of use for operating and office equipment. The carrying amounts of the rights of use reported in the balance sheet developed as follows in the financial year:

in € thousand	Other property, plant and equipment	Real Estate	Total
ACQUISITION COSTS			
Status as of Dec. 31, 2019	577	4,707	**5,284**
Additions	-	740	**740**
Disposals	-	(31)	**(31)**
Status as of Dec. 31, 2020	**577**	**5,416**	**5,993**
ACCUMULATED DEPRECIATION			
Status as of Dec. 31, 2019	186	1,202	**1,388**
Additions	63	1,360	**1,423**
Disposals	-	(32)	**(32)**
Status as of Dec. 31, 2020	**249**	**2,530**	**2,779**
Net book value Dec. 31, 2020	**328**	**2,886**	**3,214**

The lease contracts for the operating and office equipment are depreciated over a period of up to three years. The leases for real estate have contract terms of up to seven years.

Depreciation of rights of use totaling € 1,423 (previous year: € 1,456 thousand) were recognized in expenses in the 2020 financial year. In addition, the interest expenses for lease liabilities were € 226 thousand (previous year: € 264 thousand). Expenses for short-term leases and leases for assets of low value are of minor importance in the financial year. The total expenses in connection with leases recognized in profit or loss totaled € 1,653 thousand (previous year: € 1,720 thousand).

The Group's cash outflows for leases amounted to € 1,635 thousand in the 2020 financial year (previous year: € 1,791 thousand).

For individual leases for real estate there were extension options that favor KHD in the financial year which were not taken into consideration in the determination of rights of use as of December 31, 2020 because exercising the extension options was considered unlikely. The undiscounted potential future lease payments for periods after the point in time for exercising the extension option amounted to approx. € 2.4 million (previous year: € 2.5 million).

New lease contracts were concluded in the 2020 financial year, but these will be reported only after the application of the rights of use has begun.

Goodwill

Goodwill as reported as of December 31, 2020 arises from acquisitions and was allocated to the respective cash generating units. The annual impairment test resulted in an impairment loss in accordance with IAS 36 in the amount of € 310 thousand for ZGE "Capex KHD OOO" and € 1,001 thousand for ZGE "Plant Services KHD OOO". Overall, the carrying amount of goodwill decreased by € 1,311 thousand to € 3,851 thousand (previous year: € 5,162 thousand). As of December 31, 2020, 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 HW GmbH	2,127	55.2%	11.3%	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	604	15.7%	16.9%	1.0%	- Growth rates of the respective markets - Industry-specific cycles - Selling prices - Procurement prices	- Intercompany estimate of the responsible sales and purchasing departments - Economic conditions expected by KHD AG and external market research
Capex KHD OOO	1,120	29.1%	16.8%	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

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 five-year period. The capitalization rates were derived from market data, taking into account the risk situation of the respective cash generating unit, while taking various risk premiums for country risks into consideration. Because the carrying amount exceeded the calculated value in use in two cash generating units (including goodwill), an impairment loss pursuant to IAS 36 in the amount of € 1,311 thousand had to be reported for these two cash generating units.

A change to the key measurement parameters, such as a reduction in the expected cash flows by 10% would make it necessary for the cash generating unit "Capex KHD OOO" to report another impairment in the amount of € 127 thousand (previous year: € 0 thousand) and for the cash generating unit "Plant Services KHD OOO" to report an additional impairment loss in the amount of € 65 thousand (previous year: € 0 thousand). The cash generating unit "Capex KHD OOO" would be impaired if the capitalization rate were increased by 20% this year by an additional € 289 thousand (previous year: € 0 thousand), and the cash generating unit "Plant Services KHD OOO" by € 141 thousand (previous year: € 100 thousand). There would not be an impairment loss for the cash generating unit "Plant Services HW GmbH" due to the change to the key parameters.

7. Receivables and Financial Assets

in € thousand	Dec 31, 2020	Dec.31, 2019
Current financial assets		
Trade receivables	24,511	26,346
Less valuation allowances for impairment of receivables	(2,704)	(3,004)
Trade receivables - net	**21,807**	**23,342**
Intercompany receivables	5,072	3,855
Other financial assets	992	101,103
Financial receivables	1,404	1,712
Current financial assets	**29,275**	**130,012**
Other receivables	1,688	3,165
Current financial assets and other receivables	**30,963**	**133,177**
Non-current financial assets		
Trade receivables	1,012	2,252
Other non-current financial assets	100,000	-
Non-current financial assets	**101,012**	**2,252**

Trade receivables (gross amount – before deducting valuation allowances) decreased in the financial year by € 1,835 thousand from € 26,346 thousand to € 24,511 thousand. Trade receivables includes receivables from license contracts in the amount of € 500 thousand (previous year: € 0 thousand). Intercompany receivables increased by € 1,217 thousand, from € 3,855 thousand to € 5,072 thousand as of December 31, 2020.

As in the previous year, the largest share of the valuation allowances relates 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 slightly by € 308 thousand, from € 1,712 thousand to € 1,404 thousand. Financial receivables as of December 31, 2020 mainly comprise costs back-charged to subcontractors, interest receivables, securities, insurance claims, and other financing receivables totaling € 764 thousand (previous year: € 631 thousand).

Other receivables in the amount of € 1,688 thousand (previous year: € 3,165 thousand) arise from reimbursement claims for value-added tax.

Two loans to AVIC Kairong, each for € 50,000 thousand, are reported under other non-current financial assets. The loans were reported in the previous year under other current assets. Because the two loans were extended for three years, they are reported as of December 31, 2020 under other non-current financial assets again.

Other non-current financial assets also include trade receivables in the amount of € 1,012 thousand (previous year: € 2,252 thousand) due from customers with whom deferral agreements were agreed. The deferred receivables incur interest at usual market conditions.

In general, other non-current financial assets also include capitalized costs of order acquisition from contracts with customers in the area of project business with an expected project duration of more than twelve months. The capitalized expenses are depreciated on a pro rata basis over the period of the respective customer contract. At KHD, the costs of order acquisition are contractual representative commissions. As in the previous year, both the amortized costs of order acquisition and the corresponding depreciation are of minor importance as of December 31, 2020.

Age Structure of Overdue Receivables for Which No Valuation Allowance Was Recognized

in € thousand	Dec.31, 2020	Dec.31, 2019
61 to 90 days	614	1,200
91 to 180 days	238	587
181 to 365 days	702	264
Over 365 days	566	812
Total	**2,120**	**2,863**

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

For trade receivables in the amount of € 2,120 thousand (previous year: € 2,863 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.

in € thousand	2020	2019
Valuation allowances as of Jan.1	3,004	3,487
Addition	569	888
Utilization	(626)	(134)
Currency translation differences	(74)	(151)
Reversal	(169)	(1,086)
Valuation allowances as of Dec.31	**2,704**	**3,004**

Valuation allowances correspond to the net value (excluding VAT) of the impaired receivables. KHD recorded valuation allowances on receivables due to expected credit losses pursuant to IFRS 9 in the amount of € 301 thousand (previous year: € 148 thousand) in valuation allowances.

A foreign currency receivable (CNY) due from an indirect parent company in the amount of € 2,363 thousand is included in the current and non-current trade receivables. There were no significant foreign currency receivables in the previous year.

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 standard IAS 12, the extent to which convincing, substantial indications of future, taxable profits exist is taken into account.

As of December 31, 2020, KHD has a total amount of tax loss carry-forwards of € 149.6 million (previous year: € 149.0 million) for corporate income tax and comparable foreign income taxes. For trade tax, the total amount of tax loss carry-forwards is € 93.1 million (previous year: € 94.7 million). In the reporting of deferred tax assets as of December 31, 2020, tax loss carry-forwards of € 1.3 million (previous year: € 0.9 million) for corporate income tax and comparable foreign income taxes as well as € 1.9 million (previous year: € 1.8 million) for trade tax were recognized. To the degree that it is probable that a future, taxable result will be available, deferred tax assets are capitalized to the extent that, based on the 5-year business planning, a future taxable result will be available. The basis for the expected future taxable profit is KHD's estimation regarding the development of its subsidiaries. Deferred tax assets, however, are capitalized at least to the extent that corresponding deferred tax liabilities are recognized.

The probable taxable profits 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 € 7.7 million (previous year: € 1.8 million) and tax loss carry-forwards for which the future utilization is not sufficiently probable. In principle, the tax loss carry-forwards of the German companies can be carried forward with no time limit. The utilization of tax loss carry-forwards for foreign companies is subject to some time limits. Unutilized loss carry-forwards for foreign companies in the amount of € 47,853 thousand (previous year: € 52,466 thousand) will expire during the time period from 2030 through 2038 and € 869 thousand (previous year: € 0 thousand) after the 2025 financial year.

The deferred taxes assets not recognized in profit and loss amount to € 307 thousand (previous year: € 307 thousand) as of December 31, 2020.

For temporary differences amounting to € 12.5 million (previous year: € 1.5 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, 2020	Dec.31, 2019
Deferred tax assets		
Provisions	1,369	437
Resulting from tax loss carry-forwards	506	1,370
Offset with deferred tax liabilities	(428)	(715)
	1,447	**1,092**

in € thousand	Dec.31, 2020	Dec.31, 2019
Deferred tax liabilities		
Construction contracts / PoC method	(497)	(733)
Offset with deferred tax assets	428	715
	(69)	**(18)**

Of the reported deferred tax assets on provisions in the amount of € 1,369 thousand, € 307 thousand relate 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, 2020	Dec 31, 2019
Raw materials, consumables, and supplies	4,491	2,895
Work in progress	1,144	819
Finished goods and merchandise	199	1,076
Write-down to net realizable value	(2,016)	(1,441)
	3,819	**3,349**

In the financial year, inventories in the amount of € 2,573 thousand (previous year: € 7,547 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 amount to € 2,016 thousand as of December 31, 2020 (previous year: € 1,441 thousand). These write-downs relate to raw materials, consumables, and supplies, the gross carrying amount of which is € 2,421 thousand (previous year: € 1,888 thousand).

10. Contract Assets and Contract Liabilities and Advance Payments Received

Claims or obligations from customer contracts with revenue recognition over time are presented under the item contract assets or contract liabilities and advance payments received.

Contract assets represent conditional claims to a payment from the customer for satisfying contractual performance obligations. Receivables are recorded only after the claim to receipt of the payment becomes unconditional.

This is usually the case if contractually agreed upon milestones for settlement are reached. When these milestones are reached, the contract assets are reclassified under receivables in the amount of the respective progress billings.

Contract liabilities arise when customer payments based on the agreed upon milestones exceed the contractual obligations that have already been satisfied. The contract liabilities are recorded as revenue only if KHD provides the contractual service. Revenue in the amount € 37,060 thousand (previous year: € 18,790 thousand), which was included in the balance of the contract liabilities at the beginning of the period, was recorded in the 2020 financial year.

Costs incurred plus a proportionate profit depending on the stage of completion less progress billings are taken into consideration in the measurement of the contracts with revenue recognition over time.

The development of the contract balances form customer contracts is shown as follows:

in € thousand	**Dec. 31, 2020**	**Dec. 31, 2019**
Costs incurred to date for construction contracts with realization of revenues over time	154,769	102,247
Proportionate results under these contracts recognized to date	6,528	4,820
Total costs incurred and profits recognized	161,297	107,067
Less progress billings	(159,235)	(144,961)
Balance of contract assets and contract liabilities	**2,062**	**(37,894)**

This amount is comprised as follows:

Contract assets	17,225	3,754
Contract liabilities	(15,163)	(41,648)
	2,062	**(37,894)**

Disclosure on the credit side of the balance sheet

Contract liabilities	(15,163)	(41,648)
Advance payments received	(6,059)	(4,747)
Vertragsverbindlichkeiten und erhaltene Anzahlungen	**(21,222)**	**(46,395)**

In general, the customer contracts are designed such that the completion date of performance obligations corresponds with the contractually agreed upon progress billings and customer payments. As of the reporting date, projects demonstrate a contract asset or contract liability due from the respective customer in the balance depending on the respective project status in addition to the individually agreed upon settlement schedule.

The balance of the contract assets and contract liabilities rose in total by € 39,956 thousand from € -37,894 thousand to € 2,062 thousand as of the reporting date, December 31, 2020 due to progress in order execution.

Of the revenue recognized in the reporting period in the amount of € 151,266 thousand (previous year: € 146,289 thousand), € 122,543 thousand (previous year: € 114,907 thousand) is attributable to customer contracts for which revenue was recognized based on stage of completion.

Impairment losses on contract assets for expected credit-related losses according to IFRS 9 are of minor significance.

The measurement of customer contracts with revenue recognition over time is affected by estimations with respect to project revenue and project costs. Here, particularly costs to complete and, therefore, total estimated costs are subject to changes in estimates. Changes in estimates for projects are considered while calculating the amount of revenue and expenses recognized in profit or loss for the period in which the change 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 € 6.0 – 10.0 million in the 2020 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. Because they were originally due for repayment in July and November 2020, these loans were recognized in the current assets as of December 31, 2019. According to the contractual agreement, the term of the two loans was extended by three years, so they were reclassified under the non-current assets. Interest on the loans as of the beginning of the extended terms (July 22, 2020 and November 13, 2020) amounts to 5% per annum, respectively.

KHD has the right to demand full or partial repayment of a loan at any time before the due date with a notification period of 30 days. Both loans are secured by a corporate guarantee from AVIC.

12. Cash and Cash Equivalents

The Group reports cash and cash equivalents in the amount of € 68,035 thousand (previous year: € 82,622 thousand).

in € thousand	**Dec 31, 2020**	**Dec 31, 2019**
Bank balances and cash on hand	35,588	51,889
Short-term bank deposits	32,447	30,733
	68,035	**82,622**

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 the company's own shares.

Retained earnings amounting to € -9,028 thousand comprise revenue reserves and accumulated Group losses 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, as in the previous year, effects from the initial application of IFRS 16 are recorded in equity in the financial year without affecting profit and loss.

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

14. Pension Benefit Obligations

The pension benefit obligations from the pension scheme granted to employees in the Group relate as of December 31, 2020 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, 2020, the Group's pension benefit obligations amounted to € 19,729 thousand (previous year: € 21,039 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 applied are as follows:

in %	**Dec.31, 2020**	**Dec.31, 2019**
Discount rate	0.60	0.70
Pension trend	1.50	1.50
Employee turnover rate	0.00	0.00

For the financial year, the unchanged mortality tables 2018 G by Dr. Klaus Heubeck form the biometric basis for calculating these obligations. As a result of using the mortality tables, there were actuarial losses based on demographic changes of € 22 thousand in the financial year (previous year: € 0 thousand).

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 € 921 thousand (previous year: € 1,007 thousand). If, however, the discount rate instead falls by 0.5%, the pension benefit obligations increase by € 1,001 thousand (previous year: € 1,098 thousand).
- If the pension trend increases by 0.25%, the pension benefit obligations rise by € 478 thousand (previous year: € 522 thousand). If the pension trend decreases by 0.25%, the pension benefit obligations are reduced by € 461 thousand (previous year: € 503 thousand).
- If life expectancy increases by one year for both men and women, the benefit obligation increases by € 1,288 thousand (previous year: € 1,309 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, 2020**	**Dec.31, 2019**
Defined benefit obligation on Jan. 1	21,039	20,840
Interest cost	142	312
Benefits actually paid (total)	(1,358)	(1,386)
Losses / (gains) due to experience adjustments	212	1,664
Actuarial (gains) / losses due to change in actuarial assumptions	(284)	(391)
Losses / (gains) due to demographic adjustments	(22)	-
Defined benefit obligation on Dec.31	**19,729**	**21,039**

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, 2020, of the total obligations of € 19,729 thousand (previous year: € 21,039 thousand), an amount of € 193 thousand is attributable to active employees (previous year: € 214 thousand), € 2,065 thousand to former employees (previous year: € 2,305 thousand), and € 17,471 thousand to pensioners and surviving dependents (previous year: € 18,521 thousand).

As of December 31, 2020, the average term of the defined benefit obligation was 9.64 years (previous year: 10.22 years).

Cumulative remeasurement recorded in comprehensive income:

in € thousand	**Dec.31, 2020**	**Dec.31, 2019**
Opening balance - cumulative remeasurement gains (-) / losses	8,791	7,518
Actuarial gains (-) / losses	(94)	1,273
Closing balance - cumulative remeasurement gains (-) / losses	**8,697**	**8,791**

in € thousand	**Dec.31, 2020**	**Dec.31, 2019**
Defined benefit costs		
Net interest expense	**142**	**312**
Actuarial (gains) / losses due to experience adjustments	212	1,664
Actuarial (gains) / losses due to change in actuarial assumptions	(284)	(391)
Losses / (gains) due to demographic adjustments	(22)	-
Actuarial (gains) / losses recognized in other comprehensive income	**(94)**	**1,273**
Defined benefit costs	**48**	**1,585**

Interest expenses on pensions of € 142 thousand (previous year: € 312 thousand) were recognized under finance expenses for the financial year.

Expected Benefit Payments

in € thousand	**2020**	**2019**
in 2020	-	1,430
in 2021	1,401	1,410
in 2022	1,376	1,380
in 2023	1,335	1,343
in 2024	1,298	1,306
in 2025	1,248	-
2026 onwards (prior year: 2025 onwards)	13,071	14,170

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 in the amount of € 1,401 thousand (previous year: € 1,430 thousand) is reported in the current provisions.

15. Provisions and Accruals

in € thousand	Warranty	Tax and litigation risks	Impending losses	Pension benefit obligations	Provision for Reorganization	Total
Provisions as of Jan.1, 2020	14,469	802	6,466	1,430	1,802	24,969
Additions	5,991	-	4,826	-	-	10,817
Release	(1,314)	-	-	-	-	(1,314)
Interest accrual	19	-	-	-	-	19
Currency translation effects	(812)	(83)	(18)	-	-	(913)
Utilization / reclassification	(2,474)	-	(2,357)	(29)	(1,345)	(6,205)
Provisions as of Dec 31, 2020	**15,879**	**719**	**8,917**	**1,401**	**457**	**27,373**

in € thousand	Dec 31, 2020	Dec. 31, 2019
Non-current (warranty)	2,997	2,904
Current	24,376	22,065
	27,373	**24,969**

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.

The provisions for tax and litigation risks primarily involve the risks for legal disputes.

Outstanding obligations in the amount of € 457 thousand (previous year: € 1,802 thousand) from the reorganization implemented in the 2019 financial year are reported under the provisions as of the reporting date.

The effects from currency translation of € -913 thousand (previous year: € 75 thousand) are, as in the previous year, mainly attributable to the translation of the local currencies of HW India and HW Inc.

16. Liabilities

in € thousand	Dec.31, 2020	Dec.31, 2019
Current financial liabilities		
Trade payables	65,235	25,890
Liabilities due to affiliated companies	-	192
Current financial liabilities	59	57
Other current liabilities	5,198	5,190
Lease Liabilities	1,311	1,497
Loan	25,000	-
Current financial liabilities	**96,803**	**32,826**
Other liabilities		
Tax and social security	409	275
Income tax liabilities	644	395
Other liabilities	**1,053**	**670**
Current liabilities	**97,856**	**33,496**
Other non-current liabilities		
Other non-current liabilities	2,794	3,082
Lease Liabilities	2,145	2,627
Loan	-	25,000
Other non-current liabilities	**4,939**	**30,709**

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

A loan that is due and payable in October 2021 is reported in the current financial liabilities. In the previous year, due to the remaining term, it was reported as part of the other non-current liabilities. Lease liabilities according to IFRS 16 and other liabilities are reported under other non-current liabilities as of December 31, 2020.

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 contains the contract liabilities from customer contracts, which are determined with the application of IFRS 15 and presented in Note 10. Furthermore, this item includes advance payments recognized in accordance with IFRS 15, i.e. advance payments made by customers after acceptance of the contract as long as KHD is not expected to already have provided services with respect to the respective project.

18. Personnel Expenses

in € thousand	2020	2019
Wages and salaries	29,737	32,368
Social security contributions and costs, including pension costs	4,725	5,294
	34,462	**37,662**

Number of Employees

	As of Mar.31, 2020	As of Jun. 30, 2020	As of Sept. 30, 2020	As of Dec. 31, 2020
Salaried employees	579	569	574	572
Industrial employees	82	84	96	98
Total	**661**	**653**	**670**	**670**

As of December 31, 2020, the number of employees was 670 (previous year: 664). In the year under review, the average number of employees was 664, of whom 90 were industrial employees (previous year: 672 employees, of whom 74 were industrial).

Personnel expenses include employer contributions to statutory pension insurance in the amount of € 1,498 thousand (previous year: € 1,524 thousand) and expenses for contractually defined contribution plans of € 665 thousand (previous year: € 617 thousand).

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

The compensation for key management personnel amounted to € 1,276 thousand in the 2020 financial year (previous year: € 1,175 thousand).

The compensation for members of the KHD Management Board in the 2020 financial year amounted to € 1,113 thousand (previous year: € 995 thousand). It can be attributed to the following categories in accordance with IAS 24.17:

- € 1,113 thousand (previous year: € 985 thousand) – short-term benefits,
- € 0 thousand (previous year: € 0 thousand) – post-employment benefits,
- € 0 thousand (previous year: € 0 thousand) – short-term employee benefits,
- € 0 thousand (previous year: € 10 thousand) – termination benefits,
- € 0 thousand (previous year: € 0 thousand) – share-based compensation.

The total remuneration for members of the KHD Management Board in the 2020 financial year pursuant to Section 314 Paragraph 1 Number 6a of the German Commercial Code (HGB) amounted to € 1,113 thousand (previous year: € 995 thousand). For work performed in the financial year, total compensation amounted to € 1,098 thousand (previous year: € 995 thousand). Compensation paid in the financial year, but which has never previously been reported in the financial statement totaled € 15 thousand (previous year: € 0 thousand).

As of December 31, 2020, a balance of € 63 thousand (previous year: € 0 thousand) of the remuneration of the Management Board is outstanding for payment. The compensation of Management Board members includes expenses for establishing an accrual in the amount of € 135 thousand (previous year: € 180 thousand) for variable compensation and discretionary bonus.

Dr. Matthias Jochem shall not receive any Management Board compensation. KHD concluded a consulting contract in the 2019 financial year with 4-stream consulting GmbH, Roetgen, considered an affiliated company because of its connection to Dr. Matthias Jochem (Management Board member since June 1, 2019). According to the contractual agreement, € 262 thousand (previous year: € 105 thousand) was reported by KHD in the 2020 financial year for consulting services provided.

The remuneration granted to members of the Supervisory Board for performing their duties in the 2020 financial year amounted to € 163 thousand (previous year: € 180 thousand). The compensation of the Supervisory Board members in the 2020 financial year relate in full (€ 163 thousand, previous year: € 180 thousand) to short-term benefits. As of December 31, 2020, a balance of € 214 thousand (previous year: € 239 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 Recording Revenues

The revenue in the 2020 financial year amounts to € 151,226 thousand (previous year: € 146,289 thousand) which can be divided into the Capex segment (project business) € 125,392 thousand (previous year: € 104,156 thousand) and the Plant Services segment € 25,834 thousand (previous year: € 42,133 thousand). The revenue in the Capex segment includes license revenue in the amount of € 1,483 thousand (previous year: 254 thousand). For further classification of the revenue, reference is made to the segment report in section 4.

- Capex (Project Business):
  Due to the contract conditions, the revenue realized in the Capex segment is primarily related to revenue that is recognized over time based on the stage of completion using the cost-to-cost method. For this reason, revenue is realized depending on the progress in services rendered by KHD, which is determined methodically based on the proportion of the internal and external costs incurred to the overall costs. The payment conditions in project business are linked to contractually agreed-upon milestones. When the agreed upon milestones are reached, KHD issues progress billings that are due for payment within 14 to 90 days, depending on the individual contract.

- Plant Services area:
  The revenue in the Plant Services segment is attributable to both the spare parts business and services. Revenue in the spare parts area is realized either over time or based on a specific point in time. In this way, spare parts business individualized per customer is generally the prerequisite for revenue recognition over time; for spare parts business with standardized products, revenue is recognized at a specific point in time when control is transferred to the customer. Services in the Plant Services segment are also realized at a specific point in time to the extent that the service has been provided. The payment conditions for spare parts supply and services are agreed upon individually with customers and vary from advance payment agreements to terms of payment of 90 days.

In both project business and the spare parts business, KHD grants mechanical guarantees based on performance as well as wear-related guarantees. With respect to duration and scope, the guarantees granted go beyond the legal and/or general industry standards and generally do not present any performance obligations as defined by IFRS 15 that must be reported separately.

To determine and classify revenue, KHD uses a practical tool. In this way, KHD foregoes the capitalization of the costs of contract initiation if the respective project period is not greater than one year. These contract initiation costs are recorded directly as expenses at the point of time they are incurred.

21. Cost of Sales

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

in € thousand	**2020**	**2019**
Normal cost of sales	139,266	134,159
Cost of idle capacity	845	1,852
	140,111	**136,011**

22. Other Operating Income

in € thousand	**2020**	**2019**
Exchange gains	2,677	2,223
Other income	651	1,089
	3,328	**3,312**

Other operating income includes exchange gains and exchange rate forward contracts in the amount of € 2,677 thousand (previous year: € 2,223 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 reported 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 in comparison with the previous year by € 2,170 thousand from € 11,569 thousand to € 9,399 thousand. Sales expenses include costs for tendering of € 4,720 thousand (previous year: € 5,797 thousand). Furthermore, the sales expenses also include costs for trade show appearances and customer events as well as sales-related expenses.

24. General and Administrative Expenses

Administrative expenses decreased slightly by € 367 thousand, from € 12,676 thousand to € 12,309 thousand in the current financial year. 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	**2020**	**2019**
Research and development	2,772	2,108
impairment loss Goodwill	1,311	-
Exchange rate losses and expenses from derivatives	1,328	2,436
Miscellaneous expenses	633	1,089
	6,044	**5,633**

Other expenses increased with respect to the previous year by € 411 thousand from € 5,633 thousand to € 6,044 thousand. This includes the expenses from foreign exchange forward contracts and exchange rate losses, which decreased by € 1,108 thousand from € 2,436 thousand in the previous year to € 1,328 thousand. The foreign exchange forward contracts were used exclusively to hedge foreign currency receivables. Expenses arising from foreign exchange forward contracts offset revenue from currency 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 increased by € 664 thousand from € 2,108 thousand in the previous year to € 2,772 thousand. A clearer focus on promising development projects was established in the 2020 financial year as well.

Amortization and depreciation of goodwill totaling € 1,311 (previous year: € 0 thousand) was reported in the 2020 financial year.

Miscellaneous expenses decreased by € 456 thousand, from € 1,089 thousand to € 633 thousand. Miscellaneous expenses include expenses for non-creditable taxes, fees, and insurance premiums.

26. Reorganization Expenses

No further expenses were incurred in the 2020 financial year in the context of the reorganization implemented in the 2019 financial year at the subsidiary HW GmbH (previous year: € 6,360 thousand).

27. Net Finance Income

Net finance income is composed as follows:

in € thousand	2020	2019
Interest income	7,821	8,599
Total interest income	**7,821**	**8,599**
Dividend income	-	42
Gains on securities	-	5
Interest related to non current assets	-	5
Finance income	**7,821**	**8,651**
Interest related to pension benefit obligations, provisions and other non-current liabilities	(161)	(327)
Interest expense of leasing liabilities	(226)	(264)
Interest expense	(506)	(477)
Finance expenses	**(1,151)**	**(1,068)**
Net finance income	**6,670**	**7,583**

Interest income includes interest income from bank deposits and cash equivalents as well as interest income from deferral agreements totaling € 2,145 thousand (previous year: € 2,668 thousand). Interest income from loans to an affiliated company amounted to € 5,676 thousand (previous year: € 5,931 thousand). Total interest income decreased by € 778 thousand from € 8,599 thousand to € 7,821 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 € 258 thousand in the financial year (previous year: profit of € 5 thousand).

Finance expenses include interest related to pension benefit obligations in the amount of € 142 thousand (previous year: € 312 thousand). In the financial year, interest expenses of € 19 thousand (previous year: € 15 thousand) were incurred due to interest on provisions and other non-current liabilities. Interest expenses in the amount of € 506 thousand (previous year: € 477 thousand) were recorded for a bank loan.

28. Income Tax Expenses

The income tax expense of € 1,318 thousand incurred in the 2020 financial year (previous year: € 3,769 thousand) is composed as follows:

in € thousand	2020	2019
Current tax expense	(1,747)	(3,668)
Deferred tax expense / income	429	(101)
Tax expense for the year	**(1,318)**	**(3,769)**

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

in € thousand	**2020**	**2019**
Earnings before income tax	(6,639)	(15,065)
Expected tax result while applying an average tax rate of 32.45 % (Previous year: 32.45 %)	2,154	4,888
Effects of tax-free income	73	695
Effects of non-tax-deductible expenses	(2,779)	(256)
Effects of unutilized deferred tax losses not recognized as deferred assets recognized tax losses and offset possibilities	483	(8,931)
Effects of originally unrecognized unutilized tax losses and offset possibilities, which are now reported as deferred tax assets and effects arising from changes to tax loss carryforwards	(1,239)	411
Effects of subsidiaries' divergent tax rates	290	511
Effects of subsidiaries changes in tax rates	-	(766)
Adjustments for previous years' taxes recognized in the current period	(69)	(25)
Other non-tax-effective additions and deductions	(231)	(296)
Tax expense for the year	**(1,318)**	**(3,769)**

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 -19.85% (previous year: -25.02%).

The income tax expense is due to the varying profitability of the subsidiaries. While some subsidiaries achieved 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.

29. Earnings and Dividends per Share

Earnings per Share

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

	2020	2019
Group net loss for the year attributable to shareholders (in € thousand)	(7,964)	(18,875)
Weighted average number of shares outstanding	49,703,573	49,703,573
Basic (undiluted) and diluted earnings per share (in €)	(0.16)	(0.38)

Dividend per Share

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

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

As in the previous year, the auditor for the 2020 financial year is Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft.

The total fees charged by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft for the 2020 financial year are comprised as follows:

in € thousand	**2020**	**2019**
Financial statement audit services	358	241
	358	**241**

The total remuneration for the auditor for the 2020 financial year is € 275 thousand (previous year: € 241 thousand). The financial statement audit services mainly include the fees for the audits of the annual financial statements and consolidated financial statements of KHD AG as well as the audits of the annual financial statements for two other German subsidiaries. Expenses in the 2020 financial year include auditing services in the context of the audit of the annual financial statements for the 2019 financial year in the amount of € 83 thousand (previous year: € 35 thousand).

31. Commitments and Contingent Liabilities and Assets

COMMITMENTS FOR OPERATING LEASES

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

in € thousand	Dec.31, 2020	Dec.31, 2019
Within one year	2,443	2,924
Between two and five years	5,022	3,448
After five years	5,247	-
Total lease and rental commitments	**12,712**	**6,372**

Other contingent liabilities from current contracts amount to € 294 thousand (previous year: € 303 thousand).

Expenses for leased and rented office space and office equipment recognized in the Group income statement amount to € 2,296 thousand in the 2020 financial year (previous year: € 3,047 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 items 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 back-charges against subcontractors.

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

32. 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 2020.

in € thousand	Dec.31, 2020	Dec.31, 2019
Equity	89,136	101,540
Total assets	258,923	256,736
Equity ratio (in %)	34.4	39.6

The equity ratio decreased by 5.2 percentage points compared with the previous year from 39.6% to 34.4%.

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 are minimized by using derivative financial instruments. The only derivative financial instruments used are foreign exchange forward contracts.

The Group recognized assets and liabilities denominated in foreign currencies translated to a carrying amount of € 12,001 thousand (previous year: € 8,099 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 € 811 thousand (previous year: € 547 thousand).

The individual financial statements prepared by the foreign subsidiaries are translated into euros in line with the functional currency principle. The Group's functional currency is the euro. Assets and liabilities are translated at the balance sheet closing rate. Currency translation differences resulting from translating the assets and liabilities of foreign subsidiaries denominated in local currencies into the Group's functional currency may have an impact on Group equity. A 10% change in foreign currency exchange rates would change Group equity by € 4,112 thousand (previous year: € 4,181 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 increased 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 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).

No securities for receivables were reported in the financial year (previous year: € 261 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. According to the contractual agreement, the term of the two loans was extended by three years. 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 € 65,235 thousand (previous year: € 25,890 thousand) are payable within 60 days.

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

Within the scope of its normal business transactions, the Group has commitments due to advance guarantees, performance bonds, and guarantees for warranty obligations. KHD 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 € 46.3 million (previous year: € 44.9 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, 2020, would have been € 230 thousand (previous year: € 279 thousand) higher or lower, respectively. As of December 31, 2020, 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, 2020 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, 2020 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:

2020		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	-	-	(568)	-	-	(568)
Interest Income / expense	-	-	7,821	-	(506)	7,315
Other net earnings	-	398	861	-	-	1,259
Net earnings	**-**	**398**	**8,114**	**-**	**(506)**	**8,006**

2019		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	-	-	(888)	-	-	(888)
Interest Income / expense	-	-	8,599	-	(477)	8,122
Other net earnings	-	19	858	-	-	877
Net earnings	**-**	**19**	**8,569**	**-**	**(477)**	**8,111**

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, 2020	**Financial assets Measurment according to IFRS 9**				**Financial liabilities Measurment 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, 2020	Fair value Dec. 31, 2020
Non-current financial assets	-	-	101,012	-		-	-	101,012	100,346
Trade receivables	-	-	21,807	-		-	-	21,807	-
related party receivables	-	-	5,072	-		-	-	5,072	-
contract assets	-	-	17,225	-	-	-	-	17,225	-
Other financial assets	-	758	234	-	-	-	-	992	758
Derivatives	-	460	-	-	-	-	-	-	460
Other receivables	-	-	944	1,688	-	-	-	2,632	-
Cash and cash equivalents	-	-	68,035	-	-	-	-	68,035	-
Total financial assets	**-**	**1,218**	**214,329**	**1,688**	**-**	**-**	**-**	**216,775**	**101,564**
Financial liabilities		-	-	-	-	59	-	59	-
Loan	-	-	-	-	-	25,000	-	25,000	25,000
Contract liabilities	-	-	-	-	-	21,222	-	21,222	-
Other liabilities	-	-	-	-		5,198	2,794	7,992	-
Derivatives	-	-	-	-	-	-	-	-	-
Trade payables	-	-	-	-		65,235	-	65,235	-
Total financial liabilities	**-**	**-**	**-**	**-**	**-**	**116,714**	**2,794**	**119,508**	**25,000**

Dec.31, 2019	Financial assets Measurment according to IFRS 9				Financial liabilities Measurment 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, 2019	Fair value Dec. 31, 2019
Non-current financial assets	-	-	2,252	-	-	-	-	2,252	-
Trade receivables	-	-	23,342	-	-	-	-	23,342	-
related party receivables	-	-	3,855	-	-	-	-	3,855	-
contract assets	-	-	3,754	-	-	-	-	3,754	-
Other financial assets	-	1,017	100,086	-	-	-	-	101,103	101,074
Derivatives	-	53	-	-	-	-	-	-	53
Other receivables	-	-	1,659	3,165	-	-	-	4,824	-
Cash and cash equivalents	-	-	82,622	-	-	-	-	82,622	-
Total financial assets	**-**	**1,070**	**217,570**	**3,165**	**-**	**-**	**-**	**221,752**	**101,127**
Financial liabilities	-	-	-	-	-	57	-	57	-
Loan	-	-	-	-		25,000	-	25,000	25,000
Contract liabilities	-	-	-	-	-	46,395	-	46,395	-
Other liabilities	-	-	-	-		5,190	3,082	8,272	-
Derivatives	-	-	-	-	-	-	-	-	-
Trade payables	-	-	-	-	-	26,082	-	26,082	-
Total financial liabilities	**-**	**-**	**-**	**-**	**-**	**102,724**	**3,082**	**105,806**	**25,000**

The carrying amounts reported as of the reporting date generally correspond to the fair values in the instances where there is no explicit disclosure.

The fair values of financial assets and financial liabilities held for trading were determined according to the following procedure:

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

Financial assets and financial liabilities	Fair value		Level	Measurement method	significant unobservable input(s)
	Dec. 31, 2020	Dec. 31, 2019			
Derivatives	Financial assets: € 460 thousand Financial liabilities: € 0 thousand	Financial assets: € 53 thousand Financial liabilities: € 0 thousand	level 2	Discounted cash flow	N/A
Securities	Financial assets: € 758 thousand	Financial assets: € 1,017 thousand	level 1	listed price on active market	N/A

SECURITIES HELD FOR TRADING

Securities held for trading amounted to € 758 thousand (previous year: € 1,017 thousand). A 10% variance in the market price would change Group earnings by € 72 thousand (previous year: € 97 thousand).

RECEIVABLES

Overdue Group receivables, including receivables for which valuation allowances were made, amounted to € 4,411 thousand (previous year: € 5,527 thousand). After deducting securities (letters of credit and Hermes coverage), the Group values the resulting risk at € 4,411 thousand (previous year: € 5,527). The receivables for which valuation allowances have been made are generally more than 90 days overdue.

DERIVATIVES

The only derivative financial instruments used are 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 € 460 thousand (previous year: € -53 thousand). A 10% change in the exchange rate hedged by the derivative would affect earnings by € 1,293 thousand (previous year: € 1,056 thousand). The total amount of underlying transactions allocated to foreign exchange forward contracts amounts to € 19.1 million (previous year: € 15.6 million).

Foreign exchange forward contracts amounting to € 17.6 million (previous year: € 15.4 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 total fair value of € 460 thousand (previous year: negative fair value of € 53 thousand).

33. Related Party Disclosures

As defined by IAS 24, in addition to the subsidiaries of KHD, the related companies also include those companies that have a controlling or joint management interest in KHD or exercise considerable influence as well as those other related companies of AVIC Group that are affiliated with these. As business transactions between KHD and its consolidated subsidiaries were eliminated in the consolidation process, the following presents only the transactions with respect to direct and indirect parent companies of KHD and the other related companies or persons that were not eliminated. These are primarily business transactions with companies of the AVIC Group and the members of the Management Board and Supervisory Board. Transactions with indirect parent companies relate to AVIC International and AVIC Beijing. Transactions with other affiliated companies took place with 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, 2020, AVIC Beijing indirectly holds the majority of KHD shares with 89.02% (unchanged from the previous year). The strategic partnership between AVIC and KHD resulted in joint projects in China, Malaysia, Venezuela, and Turkey, among others.

KHD concluded a consulting contract in the 2019 financial year with 4-stream consulting GmbH, Roetgen, considered an affiliated company because of its connection to Dr. Matthias Jochem (Management Board member since June 1, 2019). According to the contractual agreement, € 262 thousand (previous year: € 105 thousand) was reported by KHD in the 2020 financial year for consulting services provided. The liabilities due to 4-stream consulting GmbH amounted to € 24 thousand as of December 31, 2020 (previous year: € 15 thousand).

Other Transactions with Affiliated Companies of the AVIC Group

KHD granted two loans to AVIC International Kairong Limited (AVIC Kairong), Hong Kong, each for € 50,000 thousand, in the 2017 financial year. Because they were originally due for repayment in July and November 2020, these loans were recognized in the current assets as of December 31, 2019. According to the contractual agreement, the term of the two loans was extended by three years, so they were reclassified under the non-current assets. Interest on the two loans as of the beginning of the extended terms (July 22, 2020 and November 13, 2020) amounts to 5% per annum.

KHD has the right to demand full or partial repayment of a loan at any time before the due date with a notification period of 30 days. Both loans are secured by a corporate guarantee from AVIC.

The following business transactions with affiliated companies of the AVIC Group took place during the reporting year:

Income

in € thousand	**2020**	**2019**
Indirect parent company	9,340	4,161
Other related companies	5,676	5,988
	15,016	10,149

Income with indirect parent companies amounted to € 9,340 thousand in the financial year (previous year: € 4,161 thousand). Income in the current year largely relates to income generated from project business. Interest income from the loans extended to AVIC Kairong in the amount of € 5,676 thousand (previous year: € 5,988 thousand) is reported under income with other affiliated companies.

Expenses

Expenses arising from transactions with indirect parent companies amounted to € 12 thousand in (previous year: € 2,511 thousand).

in € thousand	**2020**	**2019**
Indirect parent company	12	2,511
	12	2,511

Current Assets

In the financial year under review, there were current assets due from companies of the AVIC Group in the amount of € 5,073 thousand (previous year: € 4,500 thousand). These are exclusively the result of project receivables and interest receivables. In the previous year, these resulted exclusively from project receivables, reimbursement claims, and interest receivables.

in € thousand	**2020**	**2019**
Indirect parent company	3,752	3,005
Other related companies	1,321	1,495
	5,073	4,500

In addition, loans to other affiliated companies amounting to a total of € 100,000 thousand were recognized under non-current assets as of the balance sheet date. In the previous year, due to the remaining term, they were reported under current assets.

Liabilities

As in the previous year, no liabilities due from other affiliated companies were reported under the liabilities from project contracts. Liabilities in the amount of € 2,213 thousand (previous year: € 984 thousand) are reported as due from indirect parent companies.

in € thousand	**2020**	**2019**
Indirect parent company	2,213	984
	2,213	984

Relationships with Related Parties

Related parties 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.

34. 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 5, 2021, 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 20, 2021, and also made it permanently publicly available to shareholders on this KHD VV website (https://www.khdis.de/corporate-governance.html).

35. Events after the Reporting Period

On February 11, 2021, Humboldt Wedag India Private Ltd., New Delhi, India, concluded business with an Indian customer regarding an order package including three new kiln lines, a new raw meal grinding facility with two KHD roller presses, and the performance improvement of five existing clinker grinding facilities with KHD roller presses. The order volume of more than € 30 million (after currency translation) includes engineering and equipment as well as services regarding erection and commissioning.

Other significant developments or events of particular importance have not taken place since the reporting date of December 31, 2020.

36. Release for Publication by the Management Board

These group financial statements were released for publication by the Management Board resolution of March 4, 2021. The Supervisory Board approval is due to be issued at the Supervisory Board meeting on March 11, 2021.

Cologne, March 4, 2021

The Management Board

Jianlong Shen (Chairman)	Jürgen Luckas	Dr. Matthias Jochem
Tao Xing	Matthias Mersmann	

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 4, 2021

The Management Board

Jianlong Shen (Chairman)	Jürgen Luckas	Dr. Matthias Jochem
Tao Xing	Matthias Mersmann	

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 and consolidated statement of comprehensive income for the fiscal year from 1 January 2020 to 31 December 2020, the consolidated statement of financial position as at 31 December 2020, consolidated statement of cash flows and consolidated statement of changes in equity for the fiscal year from 1 January 2020 to 31 December 2020, 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 2020 to 31 December 2020. In accordance with the German legal requirements, we have not audited the content of the management declaration (group statement on corporate governance) pursuant to Sec. 315d HGB which is published on the website stated in and is part 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 2020 and of its financial performance for the fiscal year from 1 January 2020 to 31 December 2020, 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 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 2020 to 31 December 2020. 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:

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 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 possible 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" of the notes to the consolidated financial statements.

Other information

The Supervisory Board is responsible for the Report of the Supervisory Board. The executive directors and the Supervisory Board are responsible for the declaration pursuant to Sec. 161 AktG ["Aktiengesetz": German Stock Corporation Act] on the German Corporate Governance Code, which is part of the group statement on corporate governance. In all other respects, the executive directors are responsible for the other information. The other information comprises the management declaration (group statement on corporate governance) referred to above. In addition, the other information comprises the group non-financial report, of which we obtained a version prior to issuing this auditor's report. Furthermore, the other information comprises additional parts to be included in the annual report, of which we obtained a version prior to issuing this auditor's report, in particular:

- the responsibility statement pursuant to Sec. 264 (2) Sentence 3 HGB in conjunction with Sec. 297 (2) Sentence 4 and Sec. 315 (1) Sentence 5 HGB,

but not the consolidated financial statements, not the group management report disclosures whose content is audited and not our auditor's report thereon.

Furthermore, the other information includes all remaining parts of the annual report, which we expect to be provided with after the auditor's report has been issued, in particular:

- "Key Figures at a Glance," "Facts & Figures" as well as the foreword by the Management Board and

- the report of the Supervisory Board.

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 applicableGerman 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

Report on the assurance in accordance with Sec. 317 (3b) HGB on the electronic reproduction of the consolidated financial statements and the group management report prepared for publication purposes

Opinion

We have performed assurance work in accordance with Sec. 317 (3b) HGB to obtain reasonable assurance about whether the reproduction of the consolidated financial statements and the group management report (hereinafter the “ESEF documents”) contained in the attached electronic file KHD_AG_KA+KLB_ESEF-2020-12-31.ZIP and prepared for publication purposes complies in all material respects with the requirements of Sec. 328 (1) HGB for the electronic reporting format (“ESEF format”). In accordance with German legal requirements, this assurance only extends to the conversion of the information contained in the consolidated financial statements and the group management report into the ESEF format and therefore relates neither to the information contained in this reproduction nor to any other information contained in the abovementioned electronic file.

In our opinion, the reproduction of the consolidated financial statements and the group management report contained in the abovementioned attached electronic file and prepared for publication purposes complies in all material respects with the requirements of Sec. 328 (1) HGB for the electronic reporting format. We do not express any opinion on the information contained in this reproduction nor on any other information contained in the abovementioned file beyond this reasonable assurance opinion and our audit opinion on the accompanying consolidated financial statements and the accompanying group management report for the fiscal year from 1 January 2020 to 31 December 2020 contained in the “Report on the audit of the consolidated financial statements and of the group management report” above.

Basis for the opinion

We conducted our assurance work on the reproduction of the consolidated financial statements and the group management report contained in the abovementioned attached electronic file in accordance with Sec. 317 (3b) HGB and Exposure Draft of IDW Assurance Standard: Assurance in Accordance with Sec. 317 (3b) HGB on the Electronic Reproduction of Financial Statements and Management Reports Prepared for Publication Purposes (ED IDW AsS 410). Our responsibilities under that standard are further described in the “Group auditor's responsibilities for the assurance work on the ESEF documents” section. Our audit firm applied the standards for the quality assurance system set forth in IDW Standard on Quality Control: “Requirements for Quality Control in Audit Firms” (IDW QS 1).

Responsibilities of the executive directors and the Supervisory Board for the ESEF documents

The executive directors of the Company are responsible for the preparation of the ESEF documents including the electronic reproduction of the consolidated financial statements and the group management report in accordance with Sec. 328 (1) Sentence 4 No. 1 HGB and for the tagging of the consolidated financial statements in accordance with Sec. 328 (1) Sentence 4 No. 2 HGB.

In addition, the executive directors of the Company are responsible for such internal control as they have considered necessary to enable the preparation of ESEF documents that are free from material non-compliance with the requirements of Sec. 328 Abs. 1 HGB for the electronic reporting format, whether due to fraud or error.

The executive directors of the Company are also responsible for the submission of the ESEF documents together with the auditor's report and the attached audited consolidated financial statements and the audited group management report as well as other documents to be published to the operator of the *Bundesanzeiger* [German Federal Gazette].

The supervisory board is responsible for overseeing the preparation of the ESEF documents as part of the financial reporting process.

Group auditor's responsibilities for the assurance work on the ESEF documents

Our objective is to obtain reasonable assurance about whether the ESEF documents are free from material non-compliance with the requirements of Sec. 328 (1) HGB, whether due to fraud or error. We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material non-compliance with the requirements of Sec. 328 (1) HGB, whether due to fraud or error, design and perform assurance procedures responsive to those risks, and obtain assurance evidence that is sufficient and appropriate to provide a basis for our assurance opinion.

- Obtain an understanding of internal control relevant to the assurance on the ESEF documents in order to design assurance procedures that are appropriate in the circumstances, but not for the purpose of expressing an assurance opinion on the effectiveness of these controls.

- Evaluate the technical validity of the ESEF documents, i.e., whether the electronic file containing the ESEF documents meets the requirements of Delegated Regulation (EU) 2019/815, in the version valid as of the reporting date, on the technical specification for this electronic file.

- Evaluate whether the ESEF documents enable an XHTML reproduction with content equivalent to the audited consolidated financial statements and to the audited group management report.

- Evaluate whether the tagging of the ESEF documents with Inline XBRL technology (iXBRL) enables an appropriate and complete machine-readable XBRL copy of the XHTML reproduction.

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

We were elected as group auditor by the Annual General Meeting on 6 October 2020. We were engaged by the Supervisory Board on 20 October 2020. We have been the group auditor of KHD Humboldt Wedag International AG without interruption 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.

Cologne, 9 March 2021

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Zwirner	Esbach
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

List of Abbreviations

AVIC Beijing	AVIC International Beijing Company Limited, Beijing, China
AVIC Kairong	AVIC International Kairong Limited, Hong Kong, Hong Kong
AVIC Engineering	AVIC International Engineering Holding Pte. Ltd., Singapore, Singapore
AVIC HK	AVIC International Holdings (HK) Limited, Hong Kong
AVIC International	AVIC International Holdings Limited, Hong Kong, Hong Kong
AVIC Malaysia	AVIC Cement Sdn. Bhd., Kuala Lumpur, Malaysia
EPC	Engineering, Procurement and Construction
HW GmbH	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 GmbH	KHD Humboldt Wedag GmbH, Cologne
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