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Group Annual Report
2021

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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	2021	2020
Order Intake	**231.7**	102.1
Revenue	**226.3**	151.2
Adjusted Gross Profit	**19.3**	11.9
Adjusted Gross Profit margin (in %)	**8.5**	7.9
Adjusted EBIT	**-5.2**	-12.5
Adjusted EBIT margin (in %)	**-2.3**	-8.3
Earnings Before Taxes (EBT)	**0.7**	-6.6
Group net loss for the year	**-1.1**	-8.0
EPS (in €)	**-0.02**	-0.16
Operating cash flow	**-12.6**	-11.7
Cash flow from investing activities	**9.1**	4.1
Cash flow from financing activities	**-2.0**	-1.9

in € million	Dec. 31, 2021	Dec. 31, 2020
Equity	**90.7**	89.1
Equity ratio (in %)	**29.9**	34.4
Cash and intercompany loans *	**160.3**	168.0
Net working capital **	**-37.5**	-47.7
Order Backlog	**252.1**	240.4
Employees	**737**	670

* Including intercompany loan of € 45 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

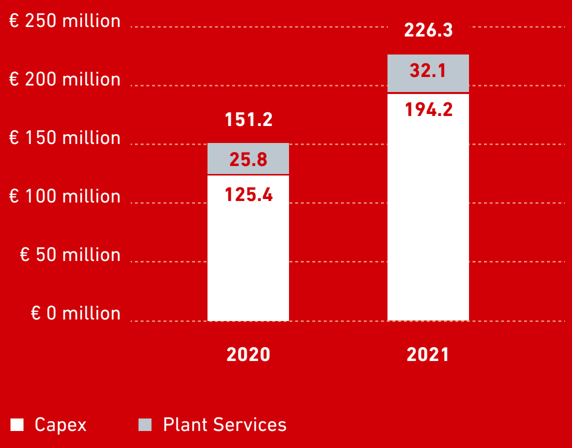
€ 231.7 million

Order Backlog

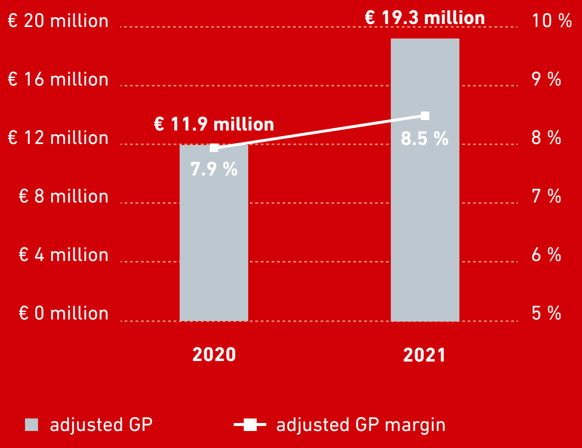
€ 252.1 million

- Strong order intake and revenue volume – significantly above prior-year level
- Positive earnings before taxes (EBT) of € 0,7 million
- Liquidity and equity ratio remain solid

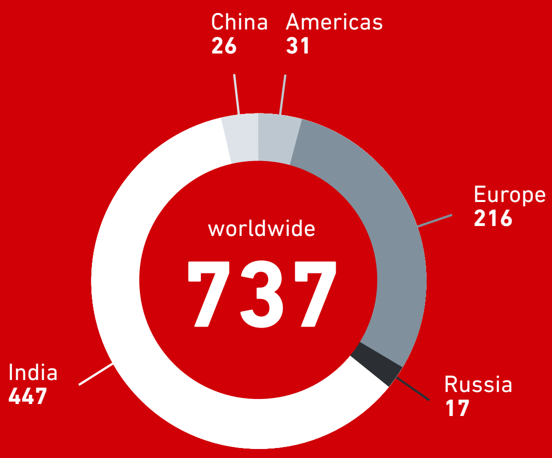
Revenue



Adjusted Gross Profit



Employees



Foreword by the Management Board

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

KHD achieved positive earnings before taxes for the first time since the 2014 financial year! When you consider the adverse circumstances under which this was achieved, it is not only the dedication of our employees that becomes clear ... much more so, you can see what potential KHD has for the future. We are far from being satisfied, we want more and we can do more!

Our customers are the focus of our business activities, i.e. we want to offer the technology and services that provide them with real added value. With innovative products such as PYROROTOR® and PYROREDOX® we demonstrate our claim to be the technology leader in the cement industry. In the coming years, the cement industry will need 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.

A revolution lies ahead of our customers and thus ahead of us: Green cement is the future – and KHD can and will be part of it – as one of the technology and innovation leaders. We are already in the unstoppable transformation to climate-neutral cement production. No cement producer can manage this transformation on its own. This is an overarching task in which KHD will make a very decisive contribution with engineering skills proven over many decades. On the way to decarbonizing the cement industry, we want to enable our customers with our products and solutions to achieve their climate targets but also to absorb higher operating costs.

The 2021 financial year was still burdened, albeit in a weakened form, by the COVID-19 pandemic and the resulting reluctance of customers to make investment decisions. The Indian market, which is very important for us and where we were able to further expand our position as market leader, showed what will also be possible for KHD in other markets in the future.

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 in the coming years – not least due to rigid requirements regarding emission reduction and energy efficiency in the current 5-year plan. In cooperation with our majority shareholder AVIC, we are excellently positioned to exploit this potential. We already reported extensively on our "Go China" initiative at the Annual General Meeting in May 2021. We are already looking forward to being able to report next year on our further steps in the successful implementation of our strategy.

Overall, KHD's business development in 2021 was significantly better than in the previous year in terms of the key performance indicators order intake and revenue. With a volume of € 231.7 million (€ 178.5 million for Capex and € 53.2 million for Plant Services), order intake in the 2021 financial year was more than twice as high as in the previous year. Our internal forecasts were also significantly exceeded. The excellent order intake not only enabled us to utilize existing capacities to the full in the 2021 financial year – with 737 employees, we have the highest number of employees since 2014. When building our workforce, we always observe the necessary balance between safeguarding technological competence at our headquarters in Cologne and expanding our capacities in India and China in a way that makes economic sense.

Sales amounted to € 226.3 million (previous year: € 151.2 million) and were thus significantly above our planning. Despite the impact of COVID-19 – for example in India in spring 2021 – we were able to achieve progress on current projects in line with our plans in close coordination with our customers.

As a result of the reorganization successfully completed in fiscal 2019, a leaner and at the same time more effective organization has laid the foundations for being able to generate sustainable positive results. Unfortunately, some unfavorable developments prevented a return to operating profitability, which would otherwise have been possible as early as in the 2021 financial year. However, with significantly reduced structural costs, KHD is no longer forced to accept orders with an unbalanced risk structure. We can concentrate on our strengths, with which we offer our customers the highest added value.

Earnings before taxes (EBT) improved significantly in the 2021 financial year, and at € 0.7 million was positive again for the first time since the 2013 financial year. Nevertheless, profitability remained at an unsatisfactory level. Increasing the performance and competitiveness of all KHD companies remains a top priority. We are convinced that our efforts will be clearly reflected in the figures in the current 2022 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 can lead KHD into a successful future despite persistently challenging general conditions.

KHD's equity ratio of 30% and high liquidity (including financial investments with affiliated companies) of € 160 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 basis for a possible return to operating profitability as early as the current fiscal year 2022.

We would like to thank in particular our customers, employees, and business partners as well as our shareholders and Supervisory Board for their trust and support in the 2021 financial year. We look forward to being able to report on further KHD successes next year. Stay well disposed towards us!

Yours sincerely,

Management Board – KHD Humboldt Wedag International AG

Report of the Supervisory Board

Dear Shareholders,

The second year of the COVID-19 pandemic was another year full of challenges for KHD Humboldt Wedag International AG, but especially the year in which past efforts to improve the economic situation demonstrably bore fruit. The KHD Group shows positive earnings before taxes again!

In the 2021 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. In doing so, the Supervisory Board was guided by the German Corporate Governance Code. It monitored and advised the Management Board on a continual basis and consulted with the Management Board in meetings and in numerous 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 Supervisory Board

At the end of the Annual General Meeting on May 20, 2021, the long-standing members of the Supervisory Board, Mr. Shaohua Jin and Ms. Yiqiong Zhang, resigned from their office as member of the Supervisory Board of KHD Humboldt Wedag International AG. The Supervisory Board owes an extraordinary debt of gratitude to the former Chairman, Mr. Jin, and to Ms. Zhang, who served as a financial expert for many years, for their work. At the Annual General Meeting on May 20, 2021, the shareholders elected Mr. Jiayan Gong, Mr. Xiaodong Wu and Mr. Jingnan Yang as new members of the Supervisory Board. The election of Mr. Yang became effective upon registration of the amendment to the Articles of Association relating to the expansion of the Supervisory Board in the commercial register on June 22, 2021. At the constituent meeting on May 25, the Supervisory Board elected Mr. Gong as Chairman and Mr. Beinhauer as Vice Chairman.

Meetings and Resolutions of the Supervisory Board

The restrictions associated with the COVID-19 pandemic did again not allow for any physical meetings in the 2021 financial year. In 2021, the Supervisory Board held five meetings via video conference, at which it dealt extensively with all issues of fundamental importance to the KHD Group. In addition, 18 resolutions were passed by telephone/video conference or by circulation procedure.

The Supervisory Board also exchanged views on individual topics in video or telephone conferences without members of the Management Board. All members of the Supervisory Board participated in the meetings by video conference and in the resolutions. The participation rate of the members of the Supervisory Board was 100% overall in the reporting year.

Individualized disclosure of Supervisory Board members' attendance at meetings

	Supervisory Board Meetings		Supervisory Board Resolutions	
	Number	Participation Rate	Anzahl	Participation Rate
Mr. Jiayan Gong (Chairman)	3/3	100%	9/9	100%
Mr. Gerhard Beinhauer (Vice Chairman)	5/5	100%	18/18	100%
Mr. Xiaodong Wu	3/3	100%	9/9	100%
Mr. Jingnan Yang	2/2	100%	8/8	100%
Mr. Shaohua Jin (former Chairman)	2/2	100%	9/9	100%
Ms. Yiqiong Zhang (former Member)	2/2	100%	9/9	100%

In its meeting on March 27, 2021, the Supervisory Board decided on the compensation system for the Management Board. The compensation system promotes the implementation of our business strategy and the sustainable, long-term development of KHD. It was presented to the Annual General Meeting on May 20, 2021 for the first-time resolution in accordance with Section 120a of the German Stock Corporation Act (AktG) and adopted with a majority of 99.64%.

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 2020. At the meeting convened to approve the financial statements on March 11, 2021, 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, 2020. 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 January, March, May, August, and November covered reports on business development, deviations of the actual business development from the budget and forecasts, the 2022 budget and the medium-term planning for 2023-26, discussions of the half-year report prior to publication, the compensation system for the Management Board, the determination of bonus targets for the Management Board as well as other Management Board matters, the discussion of the agenda 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. The Supervisory Board in the 2021 financial year once again focused on the discussion of the strategic development of the Group, improving competitiveness and development prospects. Operational topics focused in particular on risk management in relation to major projects and the impact of the COVID-19 pandemic.

The resolutions made by circulation procedure concerned transactions requiring approval by the Supervisory Board, revisions of management service contracts for members of the Management Board, proposed resolutions for the Annual General Meeting, 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 2020.

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 2022. 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 2021 financial year, training measures were only possible to a limited extent due to the restrictions resulting from the COVID-19 pandemic. In particular new developments were explained. The focus was on implications of the Financial Market Integrity Strengthening Act (FISG).

Separate Non-financial Group Report

The Management Board prepared the separate non-financial Group report for the 2021 financial year in accordance with Section 315b Paragraph 3 of the German Commercial Code (HGB). Before its publication, the Supervisory Board reviewed the separate non-financial Group report in accordance with Section 171 Section 1 of the German Stock Corporation Act (AktG).

Annual and Consolidated Financial Statements

The Management Board prepared the annual financial statements of KHD Humboldt Wedag International AG as of December 31, 2021 and the consolidated financial statements as of December 31, 2021 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 2021 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 May 20, 2021. 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 8, 2022. 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 2021 financial year and of the consolidated financial statements, including the combined management report, for the 2021 financial year, as well as of the Management Board's proposal on the appropriation of net retained profit for the 2021 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, 2021, 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.

Compensation Report

The Management Board and Supervisory Board have jointly prepared the compensation report in accordance with the requirements of Section 162 of the German Stock Corporation Act (AktG). The compensation report was separately audited by the auditor in accordance with the formal audit required by law (disclosures pursuant to Section 162 (1) and (2) AktG). The compensation report together with the auditor's report is published on the Company's website.

Management Board's report on the relationships with affiliated companies

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 employees for their successful work in a challenging business environment. Equal thanks are due to the Management Board, which has led KHD with great commitment through a challenging year that ended with positive earnings before taxes.

Cologne, March 8, 2022

Jiayan Gong
(Chairman of the Supervisory Board)

Members of the Supervisory Board

Jiayan Gong
Chair of the Supervisory Board (Member of the Supervisory Board since May 20, 2021)
Chairman of the Board of Directors of AVIC International Beijing Co. Limited

Gerhard Beinhauer
Vice Chairman 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

Xiaodong Wu
(Member of the Supervisory Board since May 20, 2021)
Chief Financial Officer of AVIC International Beijing Co. Limited

Jingnan Yang
(Member of the Supervisory Board since June 22, 2021)
Vice President of AVIC International Beijing Co. Limited

Shaohua Jin
(Member and Chairman of the Supervisory Board until May 20, 2021)
Retired

Yiqiong Zhang
(Member of the Supervisory Board until May 20, 2021)
Retired

COMBINED MANAGEMENT REPORT

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

The 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 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 report for the 2021 financial year into the Group Management Report, but instead to create a separate report that is published on the KHD website at https://www.khd.com/csr-report.html.

On November 14, 2019, the German Bundestag (parliament) passed federal government legislation for implementing the Second Shareholders' Rights Directive into law (ARUG II) The Bundesrat (federal council) ratified it on November 29, 2019. The law took effect when it was published in the Federal Law Gazette. One significant change concerns the compensation report specified in Section 162 AktG to be applied initially for the financial years that begin after December 31, 2020. The compensation report for KHD for the 2021 financial year is publicly available on the Company's website (https://www.khd.com/compensation-report.html).

FUNDAMENTAL PRINCIPLES OF KHD GROUP

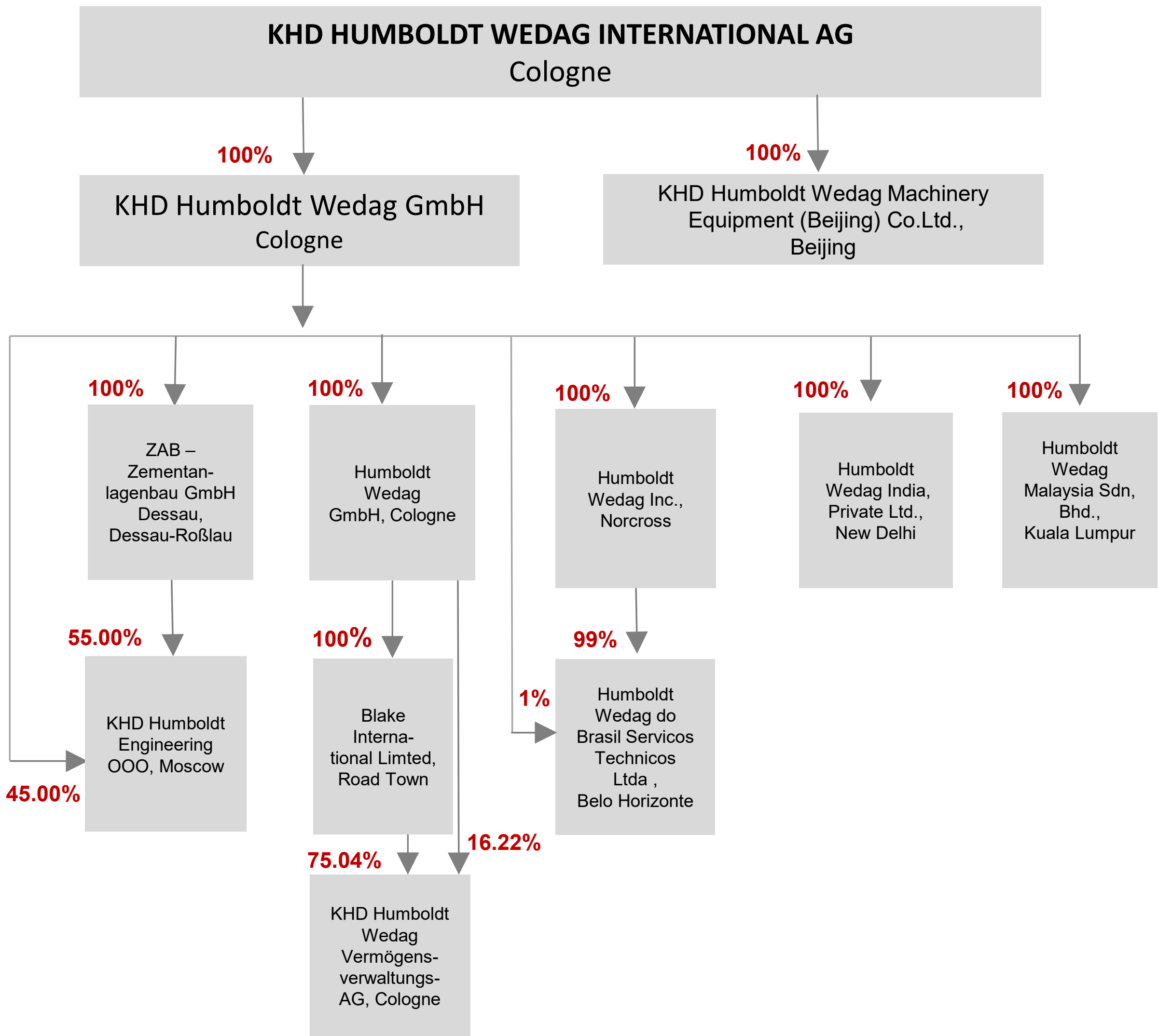
Business Model

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, optimizing, maintaining, and repairing cement plants, and training 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. Selected products are manufactured with the Group’s own production capacities in Faridabad, India. 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. The eleven KHD Group companies primarily focus on the business segment of industrial plant engineering as well as related services. KHD Humboldt Wedag Vermögensverwaltungs-AG (“KHD VV”), located in Cologne, focuses exclusively on managing its own portfolio. Humboldt Wedag Do Brasil Servicos Technicos Ltda. and Humboldt Wedag Malaysia Sdn., Bhd. did not undertake any operational business in the 2021 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.

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 a **representative office in Nanjing**, China. The office in Nanjing is not an independent company, but is legally part of KHD GmbH. The office in Nanjing performs important tasks in the implementation of Group strategy and provides critical support for utilizing the cost and efficiency advantages of the Chinese employment 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 270 engineers as of December 31, 2021, HW India not only executes its own orders, but it also increasingly supports the other KHD subsidiaries. HW India has its own facilities in Faridabad, near New Delhi, for producing some key components and refurbishing roller presses.

With a subsidiary in Moscow, **KHD Humboldt Engineering OOO** ("KHD OOO"), **ZAB – Zementanlagenbau GmbH Dessau** ("ZAB") in Dessau-Roßlau, Germany covers the eleven CIS countries 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.

KHD Humboldt Wedag Machinery Equipment (Beijing) Co. Ltd. ("KHD Beijing"), Beijing, plays a critical role in the increasing development of the Chinese market. Many activities are currently being undertaken together and with the support of HW GmbH and HW India.

Range of Products and Services

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

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®, a further development of traditional calciner technology, KHD is also providing technological solutions with which very coarse and poorly prepared secondary fuels can be used to manufacture cement.

The PYROREDOX® is KHD's gasification reactor for reducing emissions. Nitrogen oxide emissions (NO_X) can be reduced considerably without extensive catalytic technology or the use of ammonia. Moreover, KHD has developed a number of system automation products which are used together with process control systems to optimize plant performance.

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

Plant Services

KHD's services include the supply of spare and wear parts as well as various plant services. These include maintenance services such as refurbishing roller presses, technical inspections and audits, as well as consulting and assistance services. Significant here is consulting with regard to energy efficiency as well as lowering 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, 2021, unchanged from the previous year, the Management Board of KHD consisted of five members.

Supervisory Board

In correspondence dated March 31, 2021, Supervisory Board members Mr. Shaohua Jin and Ms. Yiqiong Zhang, resigned from the Supervisory Board, effective upon the conclusion of the Annual General Meeting on May 20, 2021.

At the Annual General Meeting on May 20, the following members were elected to the Supervisory Board:

- Mr. Jiayan Gong, Chairman of the Board of Directors, AVIC International Beijing Co. Limited, resident of Beijing, People's Republic of China
- Mr. Xiaodong Wu, Chief Financial Officer of AVIC International Beijing Co. Limited, resident of Beijing, People's Republic of China
- Mr. Jingnan Yang, Executive Vice President of AVIC International Beijing Co. Limited, resident of Beijing, People's Republic of China

In a resolution of the Annual General Meeting on May 20, 2021, Section 10 Paragraph 1 of the articles of association was modified to increase the number of Supervisory Board members from three to four. The election of Mr. Yang as a member of the Supervisory Board became effective when the amendment to the articles of association was entered into the commercial register on June 22, 2021.

Corporate Governance

The Company is managed and controlled in accordance with the standards set out in the German Corporate Governance Code ("GCGC"). The main aspects of corporate governance at KHD are listed in the declaration on corporate governance that also includes the declaration of compliance pursuant to Section 161 of the German Stock Corporation Act (AktG). The declaration of compliance and the declaration on corporate governance are available on KHD's website (https://www.khd.com/corporate-governance-statement.html). The declaration on corporate governance also includes the required information in accordance with Section 289f Paragraph 2 No. 1a of the German Commercial Code

(HGB). Likewise, the compensation report for the 2021 financial year and the auditor's notice in accordance with Section 162 of the AktG, the respective compensation system in accordance with Section 87a Paragraph 1 and 2 Sentence 1 of the AktG, and the most recent compensation resolution in accordance with Section 113 Paragraph 3 of the AktG are available on the Company's website at https://www.khd.com/compensation-report.html.

Objectives and Strategy

KHD is a full-service provider for cement plants and can provide the essential material 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, in addition to the preeminent subject of CO_2 reduction, KHD focuses strongly on energy efficiency, clean plants with minimal polluting emissions, long service life, and very easy maintenance.

A significant building block of our strategy is the "Go China" initiative. With this initiative, KHD is not only increasing the development of the Chinese market, but the Company is also using the Chinese supply market to a much greater advantage than before. KHD certifies / qualifies production companies in China, adapts core KHD products to meet local requirements in a targeted manner, and is increasingly accessing engineering expertise in China (e.g. plant planning). Actively marketing products that feature leading technology such as PYROREDOX® and PYROROTOR® (particularly with regard to environmental requirements in China) as well as the Company's expertise in the areas of increasing performance / modernization of cement plant open up significant market potential for KHD. The "Go China" initiative is taking place in close cooperation with AVIC Beijing.

As a lean organization, we have flexibility in dealing with individual customer requirements and can create efficient solutions.

Management and Control System

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

The primary financial performance indicators are defined and derived as follows:

- **Order intake and order backlog**
  The approval for project execution is important for recording order intake. Here, in addition to the legally binding implementation of a customer contract, other conditions must also be routinely met. These conditions include, for example, submission of a payment or the effective opening of a letter of credit. If the respective prerequisites are met, the contract value is recorded in the order intake. 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 tax expense. The EBIT margin is a relative indicator used to compare operational profitability. A ratio of EBIT to revenue is used to determine this figure. For Group management purposes, KHD adjusts EBIT as necessary with regard to special effects. Special effects are one-time-items or effects that are special in nature and/or magnitude, e.g. expenses for restructuring, reorganization or litigation as well as expenses related to under-utilization of capacity. The adjusted EBIT is more suitable for comparing the operating performance across several periods. The adjusted EBIT for the 2021 financial year is calculated as follows:

in € million	**2021**	**2020**
EBIT prior to adjustments	**-5.2**	**-13.3**
Idle capacity costs	0.0	0.8
Adjusted EBIT	**-5.2**	**-12.5**

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

Research and Development

In the 2021 financial year, the following trends continued to define the cement industry:

- Reduction of CO_2 emissions from cement plants,
- 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 2021 financial year amounted to € 2.8 million (previous year: € 2.7 million). This corresponds to 1.2% (previous year: 1.8%) of revenue.

A total of 16 patents – one of which was a registered design – (previous year: nine patents) were applied for in the reporting year. At the end of the year, KHD owned the rights to a total of 926 items of intellectual property, of which 355 were patents (previous year: 350), 558 were brands (previous year: 518), and 13 (previous year: 11) were registered designs.

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

With the installation of PYROREDOX® gasification reactors, KHD reached another milestone in reducing emissions for cement plants. With this innovation, which does not require extensive catalytic technology or the use of ammonia, KHD offers an option for meeting increasing requirements for significantly reducing nitrogen oxide emissions, even into the future. With the PYROREDOX® gasification reactor, 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 cements, resulting in a significant contribution to climate protection.

However, the development of convincing concepts for drastically reducing the CO_2 emissions of cement plants remains tremendously important. To minimize the CO_2 footprint, KHD continues to invest in the development of new technologies. In addition to the traditional subjects of energy efficiency, alternative fuels, and clinker substitutions, these include the following new technologies:

- Techniques for the calcination of alternatives to limestone, such as clay, which are more advantageous with respect to CO_2
- Oxyfuel plants,
- Re-Carbonization of used concrete,
- CCUS (carbon capture, utilization and storage).

ECONOMIC REPORT

Macroeconomic and Sector-related Conditions

Economic Environment

According to the International Monetary Fund (IMF), the global economy grew by 5.9% in 2021 (IWF: World Economic Outlook Update January 2022) following a slowdown in performance of 3.1% in 2020. Despite the continual resurgence of the COVID-19 pandemic, further recovery in the global economy is expected due to increasing rates of vaccination as well as tax-related and financial support.

Industry Environment

According to CW Research in the "Global Cement Volume Forecasts Report 2H2021 extended update" of November 2021, global cement demand is expected to increase by 1.3% in 2021 to a volume of 4.2 billion tons in this period.

The KHD Group depends indirectly on the development of global cement production and cement consumption. KHD's key markets demonstrated the following tendencies in relation to cement consumption in the 2021 financial year:

- For western Europe, CW Research is forecasting an increase in demand of 2.9%, following negative development in 2020 (decrease in cement demand of 3.0%). European economies are recovering slowly from the effects of the COVID-19 pandemic. An increase in cement demand of 1.0% is forecast for Germany. Residential construction is driving this demand. A 5.0% increase is expected in Italy, however, and even 8.5% in Spain.
- Following positive development in the construction sector in Turkey over the past two years, which also affected demand for cement, CW Research expects an increase in cement demand for 2021 in the amount of 8.0% to a total of 60.4 million tons.
- CW Research expects demand for cement to continue to increase in Russia as well. Due to the global economic recovery and the rising price of oil, following an increase of 2.0% in 2020, a gain of 4.0% is forecast for 2021.
- In 2020, India experienced a massive reduction in cement demand of 13.2% to a total of 289.1 million tons. CW Research forecasts a total cement demand of 320.9 million tons, or an increase of 11.0%, for 2021.
- Despite the continuing COVID-19 pandemic, cement demand in the USA for 2021 is expected to increase by 2.5% to 105.4 million tons. In the previous year, 2020, cement demand in the USA grew by 1.8% to 102.8 million tons.

- The ASEAN countries differ with respect to developments in 2021: For Indonesia and the Philippines, considerable growth in cement demand is expected in comparison with the previous year (Indonesia: +7.5%; the Philippines: +9.0%). For South Korea, however, CW Research is forecasting an increase in cement demand of just 2.5%.
- Among the world's significant national economies, China's was the only one that grew in 2020, despite the COVID-19 pandemic, by 2.3%. The IMF forecasts economic growth of 8.0% for China in 2021. Due to the high price of construction materials, CW Research expects a reduction in cement consumption of 1.2% for 2021. In contrast, an increase of 2.5% had still been reached in the previous year. In 2020, 58% of global cement demand was based in China. This amount could decrease to 56% in 2021.

Financial Market Environment

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

Compared with the closing rate for the previous year, as of December 31, 2021, the Indian rupee gained 5.5% with regard to the euro. However, at 87.20 rupees to the euro, the average rate was lower than the previous year's level (84.96 rupees to the euro). At the year-end rate, the US dollar increased in value with regard to the euro (7.0%). At 1.18 US dollars per euro, the average rate was lower than that of the previous year (1.15 US dollars per euro). As of December 31, 2021, the Chinese yuan increased 9.3% with regard to the euro based on the rate at the end of the previous year. The closing rate of the Russian ruble increased by 5.6% over the previous year. The average rate of 87.3 rubles per euro is also lower than that of the previous year (84.3 rubles per euro). Due to converting local financial statements into euros, exchange rate changes over the reporting year have had an overall positive impact on the KHD Group.

Overall Assessment of the Results of Operations and Economic Position of the Group

The negative effects of the COVID-19 pandemic, along with the resulting reluctance of customers with respect to investment decisions, continued into the 2021 financial year, though in a somewhat weakened form. Nevertheless, the economic development of the Group for 2021 as measured by the performance indicators of order intake and revenue has improved significantly in comparison with the same period in the previous year. In addition, EBIT as well as EBT improved considerably; EBT of € 0.7 million was positive again for the first time since the 2014 financial year. Profitability, however, remained at an unsatisfactory level.

At € 231.7 million, the volume of order intake in the reporting year corresponded with the forecast submitted in the most recent management report (significantly above the level of the previous year) and was significantly above the value for the 2020 financial year (€ 102.1 million) and above the internal planning figure.

As of December 31, 2021, order backlog was € 252.1 million, which is higher than the order backlog of the previous year (€ 240.4 million). Due to outstanding order intake, order backlog did not decrease significantly, in contrast to the forecast. Due to good order backlog and high order intake in the 2021 reporting year, existing capacities were utilized completely.

Revenue totaled € 226.3 million (previous year: € 151.2 million), a quite significant improvement over the previous year's figure. This met the target submitted in the forecast for revenue (considerably higher than the previous year's level).

Overall, the Group achieved EBIT of € -5.2 million (previous year: € -13.3 million), which corresponds with adjusted EBIT in the reporting year (previous year: € -12.5 million). The EBIT margin was -2.3% (previous year: -8.8%), which corresponds with the adjusted EBIT margin (previous year: -8.3%). Even though EBIT remains negative, however, it has significantly improved in comparison with the previous year, which corresponds with our forecast. The forecast for the adjusted EBIT margin (negative, but with considerable improvement over the previous year) was also achieved.

The cash flow from operating activities of € -12.6 million was considerably lower than the previous year's figure (€ -11.7 million) and therefore corresponded with the submitted forecast (negative cash flow from operating activities in the low double-digit millions). In the advanced phase of project execution for existing projects, the cash outflow, including payments made to suppliers, regularly exceeds further advance 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 € 178.5 million (previous year: € 75.2 million) met the forecast (considerably above the level of the previous year). Revenue in the 2021 financial year of € 194.1 million (previous year: € 125.4 million) met the forecast (considerably above the revenue level of the previous year). EBIT and adjusted EBIT in the amount of € -9.0 million (previous year: € -15.2 million and € -14.3 million) were negatively affected again in the 2021 financial year by unexpected additional costs in some projects. 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 € 53.1 million, considerably higher than the previous year's value of € 26.9 million and, as a result, met the submitted forecast (significant increase in order intake). In the Plant Services segment, revenue of € 32.1 million met our forecast (considerably higher revenue generated than in the same period in the previous year: € 25.8 million). EBIT in the amount of € 3.8 million (previous year: € 1.9 million) corresponded with the forecast as well (significantly positive).

Business and Earnings Position

Order Intake and Order Backlog

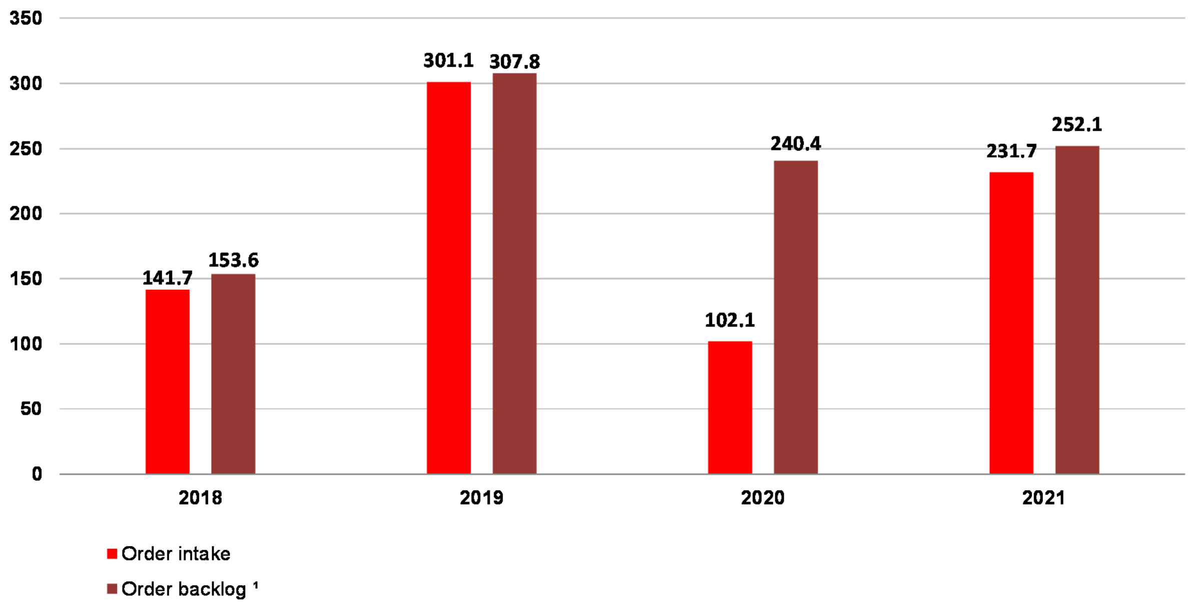
KHD achieved an order intake of € 231.7 million in the 2021 financial year, which was, in accordance with budget planning, considerably above than the previous year's volume (€ 102.1 million). Despite the continuing uncertainty due to the COVID-19 pandemic and customer restraint with regard to investment in individual markets, recovery effects were evident in some sales regions (particularly in India) due to investment decisions that had been postponed in 2020.

In the Capex segment, KHD achieved an order intake of € 178.5 million, which, as expected, was considerably above the previous year's figure for new business (€ 75.2 million). The markets of HW India (particularly India, Nepal, Bangladesh) made a significant contribution to order intake. Order intake in the Asia-Pacific region and in the Americas was also significantly higher than planned. In contrast, the EMENA region as well as Russia and the CIS countries did not meet expectations with regard to order intake in the 2021 financial year.

Following a total of € 26.9 million in the previous year, the spare parts and service business (Plant Services) contributed € 53.1 million to order intake. The normalization already apparent in the first half-year continued into the second half-year. The Americas, Russia, and the CIS countries experienced some effects in the second half-year which will unfortunately not continue into subsequent years at this level. The Plant Services segment was responsible for 22.9% of the total order intake (previous year: 26.4%) in the 2021 financial year.

Revenue (€ 226.3 million) and order intake (€ 231.7 million) were nearly at the same level in the reporting year. For this reason, order backlog as of December 31, 2021 was € 252.1 million, a value slightly above the previous year's figure of € 240.4 million. Adjustments due to the reduction of order values or cancellation of orders totaling € 6.4 million (previous year: € 1.4 million) are shown as an adjustment to order backlog. This also applies for the effects of exchange rate fluctuations of € 12.8 million (previous year: € -16.8 million).

Order intake and order backlog
in € million

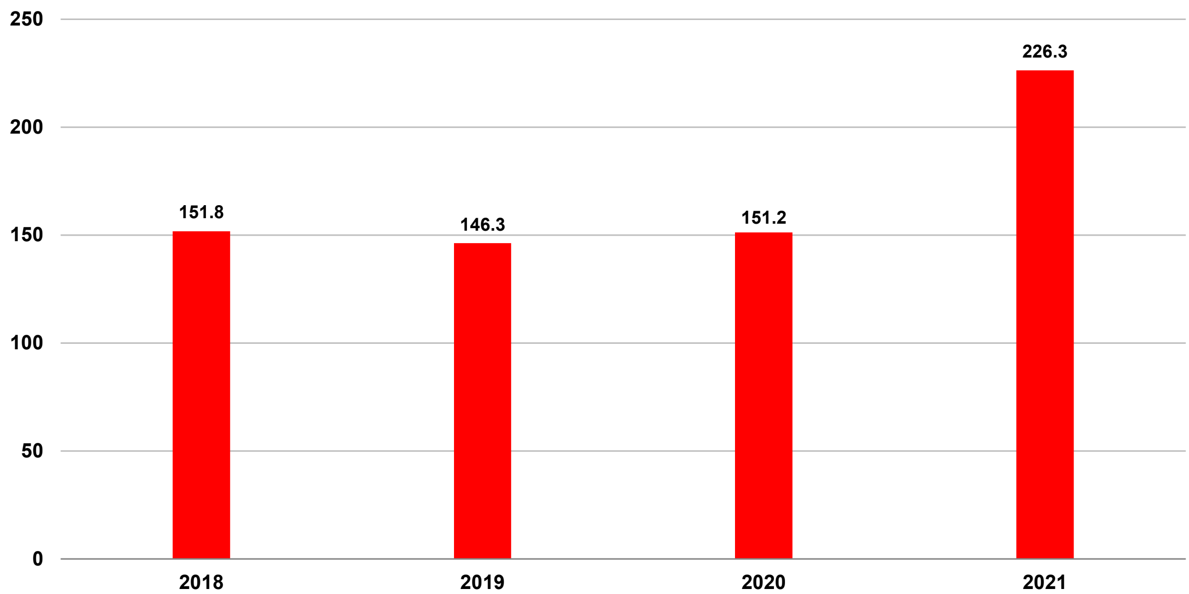


[1] at the end of the year

Group Revenue

In the 2021 financial year, KHD achieved revenue in the amount of € 226.3 million (previous year: € 151.2 million). Revenue has increased significantly in comparison with the previous year because projects in the backlog are progressing according to schedule. Projects in the USA, India, in China, and in the rest of Asia were the biggest contributors to revenue.

Group revenue
in € million



Group Earnings Position

The idle capacity costs of € 0.8 million reported in the previous financial year due to under-utilization of existing capacities were not incurred again in the 2021 financial year. Unexpected cost overruns in the execution of older projects impeded greater value creation as well as significant improvement in the gross profit margin. The costs of sales totaled € 207.0 million in the 2021 financial year (previous year: € 139.3 million – adjusted with regard to idle capacity costs). The total (adjusted) gross profit in the 2021 financial year amounted to € 19.3 million, following a total adjusted gross profit of € 11.9 million in the previous year.

At € 3.6 million, the other operating income is slightly above the figure for the previous year (€ 3.3 million). As in the previous year, it also includes primarily income from currency effects in the amount of € 2.1 million (previous year: € 2.7 million).

Sales expenses of € 9.6 million were slightly above the previous year's value (€ 9.4 million). This resulted in particular from increased tendering costs due to the greater amount of customer inquiries. As a result, even though severe limitations on travel continue, sales expenses remained at a high level due to ongoing, intensive sales activities.

General and administrative expenses increased in the 2021 financial year from € 12.3 million in the previous year to € 13.2 million, due primarily to increases in personnel expenses in administrative areas. The general and administrative costs include, in particular, legal and consulting costs, accounting costs, IT costs, Management Board remuneration, Supervisory Board remuneration, and costs related to the stock exchange listing.

Other expenses decreased slightly in comparison with the previous year (€ 5.3 million; previous year: € 6.0 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 € 2.1 million (previous year: € 1.3 million) and expenses for research and development of € 2.8 million (previous year: € 2.8 million). As a result, research and development activities remain at a high level in the 2021 financial year as well, illustrating the efforts of KHD to continue to expand its technological expertise. In the previous year, amortization and depreciation of goodwill in the amount of € 1.3 million were included in other expenses.

Despite a very considerable improvement with respect to the previous year, the negative EBIT of € -5.2 million (previous year: € -13.3 million) remains unsatisfactory in the 2021 financial year. The EBIT margin improved from -8.8% to -2.3%.

The Group's net finance income of € 5.9 million (previous year: € 6.7 million) remains at a satisfactory level. In particular, the net finance income includes interest income of € 4.9 million (previous year: € 5.7 million) from the two loans granted to AVIC Kairong. As of the balance sheet date, these totaled € 95.0 million (previous year: € 100.0 million). 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 € 0.8 million (previous year: € 1.2 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 years, the net finance income also made an important contribution compensating, at least in part, for the operating losses in the 2021 financial year.

The 2021 reporting year concluded with a positive earnings before tax (EBT) result in the amount of € 0.7 million, a considerable improvement in comparison with the 2020 financial year (previous year: € -6.6 million.

In the 2021 financial year, the Group incurred income tax expenses in the amount of € 1.8 million (previous year: € 1.3 million). 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 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 € -1.1 million (previous year: € -8.0 million). Basic and diluted earnings per share improved to € -0.02 (previous year: € -0.16).

Segment Earnings Situation

At € 194.1 million, revenue for the Capex segment was significantly higher than the previous year's figure (€ 125.4 million). The gross profit in the Capex business unit totaled € 10.1 million (previous year: € 2.9 million; gross profit margin of € 3.7 million in the previous year, adjusted by idle capacity costs of € 0.8 million). As a result, the gross profit margin amounted to 5.2% which was greater than the previous year's value (3.0%). Because considerable cost overruns in the execution of some projects must again be reported, although it improved, the gross profit was not yet satisfactory.

Other operating income of € 3.6 million (previous year: € 3.3 million) was allocated to the Capex business unit in the 2021 financial year. The segment's sales expenses were € 6.8 million (previous year: € 6.3 million) and the general and administrative expenses were € 10.6 million (previous year: € 10.0 million). The other expenses of the KHD Group (€ 5.3 million (previous year: € 6.0 million) were allocated in full (previous year: € 5.0 million) to the Capex business unit. Due to ongoing challenges in the market environment and unexpected cost overruns in connection with some projects, EBIT for the Capex segment amounted to € -9.0 million, following a total of € -15.2 million in the previous year. The EBIT margin amounted to -4.6%, following a result of -12.1% in 2020.

KHD Group revenue in the Plant Services segment totaled € 32.1 million, which was above the level of the 2020 financial year (€ 25.8 million). Revenue in the Capex segment was also above the 2020 level. Likewise, the gross profit in this business unit was € 9.2 million (previous year: € 8.3 million), another positive development. Sales expenses and general and administrative expenses in the Plant Services segment totaled € 5.4 million (previous year: € 5.4 million). In the previous year, other expenses were incurred due to amortization and depreciation of goodwill in the amount of € 1.3 million. As a result, the Plant Services business unit achieved EBIT of € 3.8 million (previous year: € 1.9 million). The EBIT margin for the 2021 financial year amounted to 11.9% (previous year: 7.2%).

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 targeted growth, 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 made available to AVIC Kairong in the form of two loans for a total € 95 million.

A loan for € 25 million from the Bank of China Limited, Frankfurt branch, was disbursed to KHD in November 2018. The loan had a fixed term, due for repayment by 2021, and was completely repaid on schedule. Another loan for € 25 million from the Bank of China Limited, Frankfurt branch, was granted to KHD effective November 12, 2021. The initial term of this loan runs to October 10, 2022, but if specific, primarily administrative conditions exist, it can be extended twice, each time for one year respectively. The interest rate agreed to for the loan is significantly lower than that obtained by KHD for the two loans granted to AVIC Kairong.

In accordance with the KHD financial strategy, Group companies are in the first instance responsible for accumulating liquidity surpluses to cover their financing requirements (principle of internal financing). However, KHD provides its subsidiaries with additionally required liquidity as needed.

The project business means that the KHD Group has to cope with a very cyclical market environment that is characterized by individual high-volume orders and varying financing structures. A high liquidity position is necessary in order to have sufficient cash and cash equivalents to meet Group companies' operational financing requirements at all times. Financial security is controlled via the operating cash flow and is largely measured by determining freely available liquidity and by using the equity ratio.

All operating companies in the KHD Group have access to bank guarantee credit facilities for various hedging instruments, such as guarantees via bank guarantee credit facilities with Deutsche Bank AG (€ 55.0 million). Furthermore, the KHD Group has a bank guarantee credit facility with the Bank of China Limited, Frankfurt branch, with a volume of € 6.0 million. In addition, the subsidiary HW India concluded a guarantee credit facility agreement locally for the equivalent of € 3.0 million. As of December 31, 2021 the bank guarantee credit facilities have been utilized in a total amount of € 55.8 million (previous year: € 46.3 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

At € 65.3 million, the total cash and cash equivalents as of the balance sheet date remained at approximately the same level as the previous year (€ 68.0 million). Besides the short-term liquidity in the form of cash and cash equivalents, KHD can, in case of additional need for liquidity, call in the loan granted to AVIC Kairong (€ 45 million) for repayment by giving 30 days' notice.

A bank loan for € 25 million and long-term pension benefit obligations of € 16.9 million offset cash and cash equivalents.

Cash Flow

Cash flow from operating activities in the amount of € -12.6 million was negative in the 2021 financial year (previous year: € -11.7 million). On one hand, the negative cash flow from operating activities reflect 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 advance payments made by customers.

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 2021 financial year	**in € thousand**
Cash flow from customer contacts with revenue recognition over time	-13,584
Cash flow from current liabilities/ invoices from subcontractors	34,541
Cash flow from changes in receivables	-18,613
Cash flow from utilization of provisions and long-term liabilities	-7,174
Cash inflow from result (EBITDA)	-2,255
Cash flow from tax payments made/ received	-1,869
Other cash inflows and outflows	-3,645
Cash flow from operating activities	**-12,599**

Cash flow from investing activities of € 9.1 million (previous year: € 4.1 million) mainly results from interest payments received on the loans granted to AVIC Kairong (€ 4.9 million, previous year: € 5.9 million) and the partial repayment of loans granted in the amount of € 5.0 million, which exceeded the cash outflow for granting loans in the reporting year. Outgoing payments during the same period for ongoing investments in property, plant and equipment and intangible assets resulted in cash outflow of € 2.2 million (previous year: € 1.8 million).

Cash flow from financing activities of € -2.0 million (previous year: € -1.9 million) includes the principal payments of the reported lease liabilities in the amount of € -1.6 million (previous year: € -1.4 million). Interest payments for a bank loan are reported as € -0.4 million (previous year: € -0.5 million).

Total Assets

The balance sheet total of the Group increased considerably from the figure at the end of 2020 (€ 258.9 million) by € 44.8 million to € 303.7 million. While the ratio of current assets to non-current assets was nearly balanced as of the balance sheet date in the previous year, as of December 31, 2021 the current assets were considerably higher, constituting 62.2% of the total assets. The reason for this development, along with the overall increase in total assets, is the significant increase in contract assets, which rose from € 17.2 million in the previous year to € 42.6 million as of December 31, 2021 in addition to the trade and other receivables, which rose from € 30.0 million to € 48.6 million. Cash and cash equivalents made up 21.5% of the total assets (previous year: 26.3%).

At € 114.9 million, non-current assets remained below the figure for the previous year (€ 120.1 million). As of December 31, 2021 the loans extended to AVIC Kairong amounted to € 95.0 million (previous year: € 100.0 million). At € 10.8 million, property, plant, and equipment is slightly above the previous year's level (€ 9.3 million). Rights of use according to IFRS 16 “Leases” totaled € 2.6 million (previous year: € 3.2 million) as of the balance sheet date for the reporting year. The non-current trade receivables and other receivables decreased again from € 1.0 million to € 0.3 million.

In addition to cash and cash equivalents and other items, current assets include, as mentioned above, trade and other receivables of € 48.6 million (previous year: € 30.0 million). The contract assets from customer contracts with revenue recognition over time in the amount of € 42.6 million (previous year: € 17.2 million) result from projects for which the costs incurred for these contracts as of the end of 2021 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. Advance payments increased considerably in comparison with the previous year’s figure from € 17.9 million to € 23.7 million. The reason for this is the execution stage of significant projects won in the previous years for which the supplier orders and the related advance payments have been carried out to a great extent as of the reporting date.

Financing

The Group’s equity increased slightly in comparison to the end of the previous year (€ 89.1 million) by € 1.6 million to € 90.7 million. Due to the increase in total assets, the equity ratio as of December 31, 2021 was 29.9% (previous year: 34.4%). It remains at a fully satisfactory level as of the balance sheet date.

The non-current liabilities as of the balance sheet date amounted to € 27.0 million (€ 26.3 million as of December 31, 2020). These liabilities primarily include pension benefit obligations (€ 16.9 million, previous year: € 18.3 million).

There was also a significant increase in current liabilities as of the balance sheet date for the reporting year. They amounted to € 143.4 million as of the balance sheet date in the previous year; at the end of 2021 they totaled € 186.0 million. This increase is due to significantly higher trade and other payables

(€ 108.5 million, compared with € 72.2 million in the previous year) in addition to a considerable increase in contract liabilities and advance payment received (€ 35.6 million, compared with € 21.2 million in the previous year). At € 16.3 million, the amount of current provisions was below the figure for the previous year (€ 24.4 million).

Net working capital – the difference between current assets (less cash and cash equivalents and short-term loans) and current liabilities – increased to € -37.5 million (December 31, 2020: € -47.7 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, and the systematic measurement 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 balance sheet date for 2021, KHD employed 737 people, 67 more than the previous year's total of 670. While the number of employees barely changed in the companies in Germany, the USA, China, and Russia, 59 more employees were hired in the Indian subsidiary. As of the end of 2021, approximately 29% of employees worked in Germany and 61% in India.

KHD's personnel expenses in the 2021 financial year totaled € 35.7 million (previous year: € 34.5 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 2021 as well.

ANNUAL FINANCIAL STATEMENTS OF KHD HUMBOLDT WEDAG INTERNATIONAL AG

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

Business Performance in 2021 and expected Development in 2022 with significant Risks and Opportunities

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

Liquidity and earnings before tax (excluding the effect of income from investments) are the performance indicators with key relevance. As a management holding company, KHD AG – unlike the operating Group companies – is not additionally controlled based on non-financial performance indicators. KHD AG did not meet the targets as submitted in the outlook for the 2021 financial year, resulting in a slightly positive result for earnings before tax (excluding the effect of income from investments). The higher revenue, which includes income from services provided to subsidiaries, did not compensate for the higher personnel expenses and other operating expenses. Other operating income and interest income were lower, which also contributed to this development.

The expected development of KHD AG in the 2022 financial year is determined to a large extent 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 2022 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) and received do not change significantly. The liquidity and financing of KHD AG continue to be ensured to their full extent.

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

Results of Operations

KHD AG achieved revenue in the amount of € 2,151 thousand in the 2021 financial year, resulting exclusively from internal Group services (previous year: € 1,578 thousand).

Other operating income of € 239 thousand was significantly below the previous year's level (€ 1,148 thousand). Crucial to this result were exchange rate forward contracts and exchange rate gains, which contributed just € 239 thousand to the other operating income in the reporting year (previous year: € 1,136 thousand).

As in the previous year, the expenses for purchased services in the amount of € 441 thousand in this reporting year mainly included external consulting services in connection with intragroup revenue (previous year: € 621 thousand).

Personnel expenses in the amount of € 2,045 thousand (previous year: € 1,140 thousand) included the compensation of the members of the Company's Management Board and employees. On average, the Company had six employees during the year (two employees in the previous year).

Other operating expenses increased by the amount of € 449 thousand to € 3,312 thousand in the 2021 financial year. This increase was primarily due to the measurement of existing foreign exchange forward contracts as well as exchange losses. Other operating expenses also include expenses for legal and other consultation, costs of preparing and auditing the annual financial statements, Supervisory Board compensation, costs related to the stock exchange listing, and other administrative costs.

Income from long-term loans in financial assets totaled € 4,869 thousand in the 2021 financial year (previous year: € 5,676 thousand) and corresponded with the interest income from the loans granted to AVIC Kairong. This amount is lower than the previous year's level in particular due to the interest rates for the loans granted to AVIC Kairong, which were adjusted to 5% p. a. in July and November of 2020, respectively. Interest and similar expenses totaling € 2,855 thousand (previous year: € 2,981 thousand) primarily resulted from interest for loans taken out by five subsidiaries (€ 2,172 thousand; previous year: € 2,198 thousand) as well as for bank guarantee fees and interest expenses from a bank loan.

Income from the reimbursement of income tax in the amount of € 85 thousand was reported in the 2021 financial year, while expenses for income tax and deferred tax totaling € 355 thousand were recorded in the previous year. After taxes, the net loss for the financial year under consideration amounted to € -1,263 thousand (previous year: net profit of € 471 thousand).

Financial Position and Net Assets

The assets of the Company, which functions as a management holding company, decreased slightly during the financial year from € 177,073 thousand to € 173,731 thousand, but they continue to be dominated by financial assets.

The most significant assets of KHD AG were – as in the previous years as well – the shares in KHD GmbH in the amount of € 70 million (previous year: € 70 million) and the two loans granted to AVIC Kairong totaling € 95 million as of the reporting date of December 31, 2021.

The total value of these financial investments equaled 95.2% of the total assets (previous year: 96.3%).

Current assets of € 8,016 thousand as of the reporting date of December 31, 2021 were € 1,538 higher than the previous year's figure. The Company's cash at banks, which more than doubled as they rose from € 1,853 thousand to € 3,809 thousand, were of particular significance here. Receivables and other assets decreased by € 4,715 thousand to € 4,297 thousand.

The 2021 financial year concluded with a net loss in the amount of € -1,263 thousand (previous year: net profit of € 471 thousand); as a result, the equity of KHD AG decreased from € 107,401 thousand to € 106,138 thousand. Nevertheless, due to the reduction of total assets in comparison with the previous year, the equity ratio increased slightly from 60.7% to 61.1%, so it continues to remain at a very high level.

The other provisions and accruals reported as of December 31, 2021 increased from € 1,065 thousand as of the previous year's balance sheet date to € 1,576 thousand. These provisions were established primarily for outstanding invoices, bonuses for management and others, unused vacation days, and audit costs. The liabilities as of the balance sheet date amounted to € 65,586 thousand (previous year: € 68,159 thousand). The liabilities almost exclusively comprised liabilities due to affiliated companies in the amount of € 41 million (previous year: € 43 million) and liabilities due to banks in the amount of € 25 million (previous year: € 25 million).

In contrast to the previous year, in this reporting period no deferred tax liabilities were generated from the tax expenses resulting from differences between the carrying amounts of assets, debts, prepayments and deferred expenses recognized by commercial law and their respective tax values which will likely decrease in later financial years (previous year: € 369 thousand).

The financing of KHD AG continues to be ensured to its full extent due to the available liquidity at the end of 2021, the option to require repayment of a loan for € 45 million granted to AVIC Kairong within 30 days, and the ongoing distribution potential of companies in the KHD Group. As a management holding company that functions as central financing unit, the Company can access and use liquid funds from other Group companies.

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 2021 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 2021 financial year indicate a net loss of € -1,263 thousand and an accumulated loss of € 8,365 thousand. The Management Board and the Supervisory Board will propose to the Annual General Meeting to be held on May 27, 2022 to carry forward the accumulated loss (determined in accordance with the German Commercial Code – HGB) to the new account.

Balance Sheet and Income Statement of KHD Humboldt Wedag International AG

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

Assets	**Dec. 31, 2021**	**Dec. 31, 2020**
	€ thousand	**€ thousand**
Fixed Assets	165,445	170,434
	165,445	**170,434**
Current Assets		
Receivables and other assets	4,297	4,715
Bank balances	3,809	1,853
	8,106	**6,568**
Prepayments and deferred expenses	**180**	**71**
Total assets	**173,731**	**177,073**

Equity and liabilities	**Dec. 31, 2021**	**Dec. 31, 2020**
	€ thousand	**€ thousand**
Equity		
Subscribed capital	49,704	49,704
Reserves	64,799	64,799
Accumulated loss	(8,365)	(7,102)
	106,138	**107,401**
Provisions and Accruals		
Accruals for taxes	431	78
Other provisions and accruals	1,576	1,065
	2,007	**1,143**
Liabilities		
Liabilities due to banks	25,020	25,059
Liabilities due to affiliated companies	40,529	43,032
Other liabilities	37	69
	65,586	**68,160**
Total equity and liabilities	**173,731**	**177,073**

Income Statement	2021	2020
	€ thousand	€ thousand
Revenue	2,151	1,578
Other operating income	239	1,148
Cost of purchased services	(441)	(621)
Depreciation and amortization	(9)	(2)
Personnel expenses	(2,045)	(1,140)
Other operating expenses	(3,312)	(2,863)
Interest income/expense	2,069	2,726
Income taxes	85	(355)
Net loss / net profit for the year	**(1,263)**	**471**
Loss carried forward from previous year	(7,102)	(7,573)
Net accumulated loss	**(8,365)**	**(7,102)**

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, 2021, 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 Co. 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, 2021, 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 Rights 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 Chairman 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 Chairman 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 the bilateral bank guarantee credit facilities with Deutsche Bank AG and Austrian Raiffeisen Bank International AG. In the event of a change of control under the agreement, the Company will immediately inform the banks of the change in control and enter into negotiations with the banks concerning the continuation of the bank guarantee credit facilities. The loan contract with the Bank of China includes comparable guidelines. After receiving notification regarding a change of control, the bank comes to a decision with respect to continuing its commitment.

Compensation Agreements that the Company has Entered into with Management Board Members or Employees in the Event of a Takeover Offer
The Company has not entered into any compensation agreements with Management Board members or employees in the event of a takeover offer.

COMPENSATION REPORT

The compensation report as applicable for German stock corporations in accordance with Section 162 AktG is available on KHD's website at (https://www.khd.com/compensation-report.html).

REPORT ON EVENTS AFTER THE REPORTING PERIOD

Significant developments or events of particular importance have not taken place since the reporting date of December 31, 2021.

RISK AND OPPORTUNITIES REPORT

Risk Management

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

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

Identification and evaluation of opportunities are not carried out as a separate category of the risk management system. Nevertheless, in addition to reducing the 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.

Exchange risks should be differentiated in two ways: on the one hand, between those currency risks related to the execution of projects in differing currency areas and those 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 2021, 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 that focus 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 recognition, measurement, and disclosure 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 2021 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

Little by little, since the second quarter of the 2020 financial year, the effects of the COVID-19 pandemic have 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 effects on the business of KHD are extremely difficult to predict. The 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 possible “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 coordinating the flow of information. At the same time, the responsible management areas in the respective KHD companies are authorized to implement the appropriate measures with regard to local circumstances. The various effects of COVID-19 are carefully monitored and alleviated, while emphasizing the health and safety of our employees and business continuity. Although the instruments of risk mitigation or minimization with regard to the COVID-19 pandemic are available to individual companies only to a limited extent, due to the significant reduction in uncertainty with regard to COVID-19 in comparison with the previous year, the remaining risk is classified as “medium” (previous year: "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 there are currently political risks, including a possible military escalation with Ukraine. This could result in severe consequences for the supply and service relationships with customers and suppliers in Russia. The business activities undertaken by KHD in Russia are currently at a low level in a multi-year comparison. Nevertheless, 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. A development process with defined milestones and a given budget for individual research and development projects allow potential deviations from targets to be identified as early as possible and the corresponding corrective measures taken. 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 that are 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 effect on the 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 established 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. The two loans totaled € 95 million as of December 31, 2021.

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. Other key opportunities include 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. In the section below, we examine the significant opportunities and potential for future development.

We expect additional positive effects on future growth from the expansion of our market activities in China and the rigorous implementation of our "Go China" strategy – based in no small part on our innovative products.

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 great advantages with regard to implementing our "Go China" strategy and 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 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. Above and beyond the cost advantages with regard to manufacturing existing products, further opportunities result from adapting KHD Group products to local manufacturing materials and standards.

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 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.

However, the development of convincing concepts for drastically reducing the CO_2 emissions of cement plants remains tremendously important. Here KHD sees a unique opportunity due to its the position as a technology leader. To minimize the CO_2 footprint, KHD continues to invest in the development of new technologies. In addition to the traditional subjects of energy efficiency, alternative fuels, and clinker substitutions, these include the following new technologies that, from KHD's perspective, hold significant market potential:

- Techniques for the calcination of alternatives to limestone, such as clay, which are more advantageous with respect to CO_2
- Oxyfuel plants,
- Re-Carbonization of used concrete,
- CCUS (carbon capture, utilization and storage of CO_2).

Global economic growth typically has 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.

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.

OUTLOOK

Projected Market Environment

In its World Economic Outlook for 2022, the IMF expects a reduction in global economic output from 5.9% in 2021 to 4.4% in 2022. According to the IMF, this is due to low growth expectations for the economies of the USA and China. With regard to the ongoing COVID-19 pandemic, the IMF sees access to vaccinations as the key to overcoming the pandemic and therefore as a driver of economic development. The IMF forecasts economic growth of 4.5% for highly developed countries in 2022. Also according to the forecast, less developed economies will experience growth of 5.4% in 2022.

According to CW Research, global growth in cement consumption of 1.7% is expected for 2022. However, if China is not taken into account, the expected global growth is 4.9%. In 2022, increases in cement consumption are expected in all of the regions and countries taken into consideration, though to various degrees. Moderate increases are forecast for western Europe (2.8%), Russia (3.0%), and Turkey (6.0%), but very significant growth can be expected in planned cement consumption in Asian countries such as India (9.0%), Bangladesh (5.0%), and the Philippines (9.0%). In North America, a moderate increase in cement consumption of 2.0% is expected.

Expected Business Development

KHD is planning for a positive result for earnings before tax for the 2022 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 of project execution. Moreover, the cost structures underwent sustainable adjustment. Overall, a foundation for achieving positive financial results again over the long term was established.

Due to ongoing general uncertainty – including the COVID-19 pandemic – the sensitivity of the cement markets and restraint among cement producers when it comes to larger investments, significant risks still exist, however, and 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 2022, 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. In comparison with the outstanding order intake in the 2021 financial year, we are expecting a weaker order intake for the 2022 financial year that is less than € 200 million. 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 production progress, order backlog at the end of 2022 will be significantly below the previous year’s value.

According to our planning, revenue for the 2022 financial year will be approximately equivalent to the previous year's level. Because the business environment remains highly competitive with margin pressure, we continue to expect an adjusted gross profit margin that is not entirely satisfactory, though significantly improved over the previous year. Because there are no effects expected in the 2022 financial year comparable to the high cost overruns in 2021, the expected adjusted gross profit is forecast to be considerably higher than that in the 2021 financial year.

Overall, KHD expects an improvement in the result of operations in comparison with the 2021 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 2022 financial year will likely 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 2022 financial year. Accordingly, both the EBIT margin and the adjusted EBIT margin will be slightly negative. Both figures, however, will continue to improve in comparison with the 2021 financial year. Taking the significantly positive financial result into account, according to our planning, the earnings before tax (EBT) will be positive and will improve in comparison with the financial year under review.
For operating cash flow in 2022 we expect a negative amount in the single-digit millions. The operative cash outflows are due to scheduled payments to suppliers as well as additional project costs from the 2021 financial year that will be cash-effective in the 2022 financial year.

Overall, because market conditions remain challenging, KHD expects that the result of operations for the 2022 financial year will not be entirely satisfactory. In order to achieve positive results over the medium term again, including for EBIT, further improvements in margin quality with regard to order intake as well as in project execution are crucial, in addition to implementing our "Go China" strategy. We forecast that KHD's financial and net assets position will remain stable and will probably not change significantly in the 2022 financial year (compared to the previous year). The ongoing sufficient 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

Because some markets were greatly affected in the 2021 financial year by recovery effects regarding customer investments, in the Capex segment we are expecting order intake that is significantly lower than the previous year's level. The conservatively 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 2022, KHD will continue to use the business opportunities it is offered 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 economic, financial and political unpredictability. Due to revenue recognition according to planned production process and the conservative order intake planning, the order backlog at the end of 2022 will be considerably less than the previous year's value.

Due to current order backlog and the expected order intake, the KHD Group expects revenue in the Capex segment for the 2022 financial year that is below the level of the 2021 financial year.

Despite the measures implemented in previous years toward cost optimization, in accordance with our planning, the Capex segment is once again reporting negative EBIT and adjusted EBIT as well as a negative EBIT margin and a negative adjusted EBIT margin due in particular to the low margins. Because there are no effects expected in the 2022 financial year comparable to the high cost overruns in previous years, further improvement is expected for these figures in comparison with the 2021 financial year.

Expected Economic Development of the Plant Services Segment

Due to the good potential with regard to spare parts and services, we plan to maintain our market position in this business unit successfully in the 2022 financial year. The Americas, Russia, and the CIS countries experienced unique occurrences in the second half-year 2021 which will unfortunately not continue into subsequent years at this level. According to our planning, for the Plant Services segment we expect a considerable reduction in order intake in comparison with the particularly good figure for the 2021 financial year (€ 53.1 million).

Due to high order intake in the financial year under review, we expect a considerable increase in revenue in the Plant Services segment in the 2022 financial year. In turn, a significantly positive EBIT figure that is considerably higher than that for the 2021 financial year is expected in the Plant Services business unit.

Opportunities and Risks Relating to the Outlook for the 2022 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 2022 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 significantly higher or significantly lower order intake.

The revenue outlook is mainly based on the order backlog as of December 31, 2021, on expected order intake for the initial months of the 2022 financial year in the Capex segment, and on the planning of the business in the Plant Services segment. Particularly with regard to expected order intake in the first six months of the 2022 financial year there are significant risks and opportunities in terms of the planned revenue figures. The planned revenue figure for the financial year can be directly affected by delays or accelerations in project execution as well as the risk that projects reflected in planned order intake do not materialize or are postponed or the possibility that additional projects not included in the budget are awarded to KHD.

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

Cologne, Germany, February 28, 2022

The Management Board

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

Group Income Statement for KHD Humboldt Wedag International AG for the Financial Year 2021

in € thousand	**Note**	**2021**	**2020**
Revenue	20	226,259	151,226
Cost of sales	21	(206,960)	(140,111)
Gross profit		**19,299**	**11,115**
Other operating income	22	3,610	3,328
Sales expenses	23	(9,576)	(9,399)
General and administrative expenses	24	(13,198)	(12,309)
Other expenses	25	(5,310)	(6,044)
Profit before interest and taxes (EBIT)		**(5,175)**	**(13,309)**
Finance income	26	6,617	7,821
Finance expenses	26	(757)	(1,151)
Net finance income		**5,860**	**6,670**
Profit before tax (EBT)		**685**	**(6,639)**
Income tax expense	27	(1,802)	(1,318)
Group net loss for the year		**(1,117)**	**(7,957)**
Of which are attributable to:			
Parent company shareholders		(1,139)	(7,963)
Non-controlling interests		22	6
		(1,117)	**(7,957)**

		2021	**2020**
Net loss attributable to shareholders (in € thousand)		(1,139)	(7,963)
Weighted average number of shares outstanding		49,703,573	49,703,573
Basic (undiluted) and diluted earnings per share (in €)	28	(0.02)	(0.16)

Group Statement of Comprehensive Income for KHD Humboldt Wedag International AG for the Financial Year 2021

in € thousand	2021	2020
Group net loss for the year	**(1,117)**	**(7,957)**
Items that will be reclassified subsequently to profit or loss when specific conditions are met		
Currency translation differences	2,395	(4,679)
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	305	94
Effects from the first-time adaption of IFRS 16	-	138
Other comprehensive income	**2,700**	**(4,447)**
Group comprehensive income	**1,583**	**(12,404)**
Of which attributable to:		
Parent company shareholders	1,561	(12,410)
Non-controlling interests	22	6
	1,583	**(12,404)**

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 by 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.

Group Balance Sheet for KHD Humboldt Wedag International AG as of December 31, 2021

ASSETS	Note	Dec. 31, 2021	Dec. 31, 2020
in € thousand			
Non-current assets			
Property, plant and equipment	5	10,806	9,330
Goodwill	6	3,851	3,851
Other intangible assets	6	1,162	1,278
Right of use	8	2,615	3,214
Trade and other receivables	7	297	1,012
Other financial assets	11	95,000	100,000
Future Income Tax Assets	8	1,150	1,447
Total non-current assets		**114,881**	**120,132**
Current assets			
Inventories	9	5,766	3,819
Contract assets	10	42,555	17,225
Trade and other receivables	7	48,616	29,971
Payments made in advance	10	23,718	17,943
Other financial assets	7	1,495	992
Income tax assets		1,386	806
Cash and cash equivalents	12	65,282	68,035
Total current assets		**188,818**	**138,791**
Total assets		**303,699**	**258,923**

EQUITY AND LIABILITIES	Note	Dec. 31, 2021	Dec. 31, 2020
in € thousand			
Equity			
Subscribed capital		49,704	49,704
Capital reserves		61,097	61,097
Currency translation differences recognized in equity		(10,737)	(13,132)
Retained earnings		(9,862)	(9,028)
Shares of equity attributable to shareholders of the parent company		90,202	88,641
Non-controlling interests		504	495
Total equity	13	**90,706**	**89,136**
Non-current liabilities			
Other liabilities	16	4,101	2,794
Lease Liabilities	16	1,703	2,145
Pension benefit obligation	14	16,867	18,328
Deferred tax liabilities	8	-	69
Provisions	15	4,308	2,997
Total non-current liabilities		**26,979**	**26,333**
Current liabilities			
Trade and other payables	16	108,495	72,212
Borrowings	16	25,000	25,000
Contract liabilities and advance payments received	17	35,608	21,222
Income tax liabilities	16	574	644
Provisions	15	16,337	24,376
Total current liabilities		**186,014**	**143,454**
Total equity and liabilities		**303,699**	**258,923**

Group Statement of Cash Flows for KHD Humboldt Wedag International AG for the Financial Year 2021

in € thousand	2021	2020
Cash flow from operating activities		
Group net loss for the year	(1,117)	(7,957)
Income tax expense recognized in the income	1,802	1,318
Net finance income recognized in the income statement	(5,860)	(6,670)
Earnings before interest and taxes (EBIT)	**(5,175)**	**(13,309)**
Amortization and depreciation of non-current assets	2,732	4,022
Book gain (-)/loss on disposal of fixed assets	(7)	1
Increase(-)/decrease in trade receivables and financial assets	(19,302)	3,326
Increase (-)/decrease in inventories and gross amount due from customers for contract work	(27,277)	(13,941)
Increase (-)/decrease in payments made in advance and other financial assets	(6,278)	(7,639)
Increase (+)/decrease in trade and other payables and contract liabilities and advance payments received	50,669	14,123
Increase (+)/decrease in pension benefit obligations	(1,156)	(1,187)
Increase (+)/decrease in provisions and non-current liabilities	(5,863)	2,116
Other non-cash-transactions	327	472
Other translation differences	(392)	439
Interest received	1,243	1,987
Interest paid	(251)	(252)
Income tax paid	(1,869)	(1,857)
Cash flow from operating activities	**(12,599)**	**(11,699)**
Cash flow from investing activities		
Cash outflow for intangible assets	(256)	(342)
Cash outflow for property, plant and equipment	(1,968)	(1,409)
Cash inflow from the disposal of property, plant and equipment	30	19
Interest received from Intercompany loans	6,279	5,851
Repayment of loans from affiliated companies	17,000	-
Extention of loans to affiliated companies	(12,000)	-
Non-cash increase of restricted cash	-	-
Cash flow from investing activities	**9,085**	**4,119**

in € thousand	2021	2020
Cash flow from financing activities		
Cash out for repayment of loans	(25,000)	-
Cash in for extension of loans	25,000	-
Redemption of lease liabilities	(1,593)	(1,409)
Dividends paid to parent company shareholders	(13)	-
Interest paid for loans	(420)	(480)
Cash flow from financing activities	**(2,026)**	**(1,889)**
Change in unrestricted cash and cash equivalents	**(5,540)**	**(9,469)**
Opening balance of unrestricted cash and cash equivalents	68,035	82,622
Exchange rate effects	2,787	(5,118)
Closing balance of unrestricted cash and cash equivalents	**65,282**	**68,035**

in € thousand	Dec. 31, 2021	Dec. 31, 2020
Composition of unrestricted cash and cash equivalents		
Current bank accounts and cash	44,305	35,588
Short-term bank deposits and restricted cash	20,977	32,447
Total cash and cash equivalents	**65,282**	**68,035**
Closing balance of unrestricted cash and cash equivalents	**65,282**	**68,035**

Cash and cash equivalents decreased in the financial year by € 2,753 thousand to € 65,282 thousand (previous year: € 68,035 thousand). The reason for this is particularly the cash outflow from operating activities of € 12,599 thousand (previous year: cash outflow of € 11,699 thousand). Cash inflows from investing activities in the amount of € 9,085 thousand (previous year: € 4,119 thousand) are offset by cash outflows from financing activities of €2,026 thousand (previous year: € 1,889 thousand). Cash flow from investing activities of € 9.1 million (previous year: € 4.1 million) mainly results from interest payments received on the loans granted to AVIC Kairong (€ 6,279 thousand, previous year: € 5,851 thousand) and the partial repayment of loans granted in the amount of € 5.0 million, which exceeded the cash outflow for granting loans in the reporting year. Cash and cash equivalents were affected by positive exchange rate effects in the amount of € 2,787 thousand (previous year: negative exchange rate effects in the amount of € 5,118 thousand) in the 2021 financial year. Unrestricted cash and cash equivalents, including exchange rate effects, decreased by € 2,753 thousand (previous year: reduction of € 14,587 thousand) to € 65,282 thousand (previous year: € 68,035 thousand) in the 2021 financial year.

Group Statement of Changes in Equity for KHD Humboldt Wedag International AG for the 2021 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
Dec. 31, 2019/ Jan. 1, 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)**
Dec. 31, 2020/ Jan. 1, 2021	**49,704**	**61,097**	**-**	**(13,132)**	**(9,028)**	**88,641**	**495**	**89,136**
Group net loss for the year	-	-	-	-	(1,139)	(1,139)	22	(1,117)
Actuarial gains and losses and other effects on the group comprehensive income	-	-	-	-	305	305	-	305
Currency translation differences	-	-	-	2,395	-	2,395	-	2,395
Group comprehensive income	**-**	**-**	**-**	**2,395**	**(834)**	**1,561**	**22**	**1,583**
Dividend payments	-	-	-	-	-	-	(13)	(13)
Dec. 31, 2021	**49,704**	**61,097**	**-**	**(10,737)**	**(9,862)**	**90,202**	**504**	**90,706**

Notes for KHD Humboldt Wedag International AG for the 2021 Financial Year

1. Summary of Major Accounting and Measurement Principles

Basis of Preparation and Other Notes

KHD Humboldt Wedag International AG with registered offices in Colonia-Allee 3, 51067 Cologne, Germany, 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, 2021	Jan.1 to Dec.31, 2021
	1 Euro =		
Australia	**AUD**	1.5653	1.5784
India	**INR**	84.4200	87.2010
USA	**USD**	1.1372	1.1800
Malaysia	**MYR**	4.7410	4.8663
Brazilia	**BRL**	6.3375	6.3843
Russia	**RUB**	85.3582	87.3321

Exchange rates used in the preceding financial year:

		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

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 it is measured at the lower of cost and recoverable amount (cost less impairment losses).

Rights of Use

After the new lease reporting according to IFRS 16 took effect as of January 1, 2019, rights of use from leases were 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 accumulated 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 accumulated, straight-line depreciation. In addition to the purchase price, acquisition costs also include costs directly attributable to bring the asset to the location and working condition for its intended use. The useful life of operating and office equipment and of other plants is generally between three and ten years. Properties are not depreciated. 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.

Repairs and maintenance costs 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 2021 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 indicate 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 are 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 for 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 measured as of the balance sheet date at the lower of cost and net realizable value. In general, raw materials, consumables and supplies are measured at moving average cost. 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 pension 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 Group companies include contributions for 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 2021, of 9.30% (previous year: 9.30%).

Provisions

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 likelihood 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 related 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. Due to the high degree of customer individuality, the contracts inherently meet the requirements of IFRS 15.35b. Some of the contracts also meet the requirements of IFRS 15.35c.

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 tests 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, the planned results from ordinary activities, the effects of the reversal of temporary differences that are to be taxed, and tax planning possibilities, among other items, are taken into consideration. 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

The assessment of provisions for contingent losses from orders, of warranty 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, in connection with these proceedings, an obligation will arise that 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 that occurred before 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

The following rules and amendments in EU law were adopted in the first half-year 2021:

- Amendments to IFRS 4 regarding replacement issues in the context of the IBOR Reform, published in August 2020, initial application in the 2021 financial year
- Amendments to IFRS 9 with regard to the initial application of IFRS 9 and IFRS 17, published in December 2021, applied with the initial application of IFRS 9
- Amendments to IFRS 17 with regard to the initial application of IFRS 17 and IFRS 9, published in December 2021, applied with the initial application of IFRS 17
- Amendments to IAS 39 regarding replacement issues in the context of the IBOR Reform, published in August 2020, initial application in the 2021 financial year

The application of these rules and amendments does not significantly affect 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.

- Amendment to IFRS 16 to extend the exemption from assessing whether a COVID-19-related rent concession is a lease modification, published in March 2021, initial application in the 2022 financial year
- 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 2023 financial year, endorsement into EU law still pending.
- Amendments to IAS 1: “Disclosure of Accounting and Measurement Principles”, published in February 2021, initial application in the 2023 financial year,
- Amendments to IAS 8: “Changes in Accounting Estimates”, published in February 2021, initial application in the 2023 financial year,
- Amendments to IAS 12: Amendments regarding deferred taxes on leases and decommissioning obligations, published in May 2021, initial application in the 2023 financial year

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, 2021

Name of company	Registered office	Main Buisness	Capital and voting rights in % Dec. 31, 2021	Capital and voting rights in % Dec. 31, 2020		Currency	Subscribed capital Dec. 31, 2021	Subscribed capital Dec. 31, 2020
KHD Humboldt Wedag GmbH	Cologne, Germany	Holding function	100.00	100.00	D	€	15,339,300	15,339,300
Humboldt Wedag GmbH	Cologne, Germany	Plant engineering	100.00	100.00	I	€	7,000,000	7,000,000
ZAB Zementanlagenbau GmbH Dessau	Dessau, Germany	Plant engineering	100.00	100.00	I	€	2,000,000	2,000,000
Blake International Ltd.	Road Town, British Virgin Islands	Holding function	100.00	100.00	I	USD	1,000	1,000
KHD Humboldt Wedag Vermögensverwaltungs-AG	Cologne, Germany	Asset management	91.26	91.26	I	€	3,600,000	3,600,000
Humboldt Wedag 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	Plant engineering	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

* Subscribed capital of HW India as of March 31, 2021 and March 31, 2020, respectively

KHD and AVIC International Engineering Holdings Pte. Ltd., ("AVIC Engineering"), Singapore, concluded a Share Purchase Agreement ("SPA") and a trust agreement regarding 51% of the shares in KHD Humboldt Wedag Machinery Equipment (Beijing) Co., Ltd. ("KHD Beijing") on August 14, 2020 which took effect on June 17, 2021. Based on the SPA, AVIC Engineering is the legal owner of 51% of the shares in KHD Beijing. The trust agreement establishes a fiduciary trusteeship between KHD (as the trustor) and AVIC Engineering (as the trustee) with regard to the 51% of the shares in KHD Beijing. Accordingly, 100% of the economic ownership remains with KHD.

Therefore, the scope of consolidation as of December 31, 2021 remains unchanged with respect to the previous year, and includes four domestic and seven foreign subsidiaries in addition to 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, 2021 in %**	**Dec. 31, 2020 in %**	**Dec. 31, 2021 in € thousand**	**Dec. 31, 2020 in € thousand**	**Dec. 31, 2021 in € thousand**	**Dec. 31, 2020 in € thousand**
KHD Humboldt Wedag Vermögensverwaltungs-AG	Cologne, Germany	8.74	8.74	22	6	504	495

The Group did not acquire any further shares in KHD VV during the 2021 financial year. The Group's share as of December 31, 2021 amounted to 91.26%, as in the previous year. Changes in KHD VV equity attributable to KHD are as follows in the 2021 financial year:

	€ thousand
Equity of shareholders of the parent company as of January 1, 2021	**5,165**
Change in comprehensive income attributable to shareholders of the parent company in 2021	226
Dividend payment	(130)
Equity of shareholders of the parent company as of December 31, 2021	**5,261**

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:

KHD Humboldt Wedag Vermögensverwaltungs-AG	**Dec 31, 2021 in € thousand**	**Dec 31, 2020 in € thousand**
Current assets	5,635	5,527
Non-current assets	234	234
Current liabilities	(27)	(21)
Non-current Liabilities	(77)	(80)
Share of equity attributable to shareholders of the parent company	5,261	5,165
Share of equity attributable to non-controlling interests	504	495

	Dec 31, 2021 in € thousand	**Dec 31, 2020 in € thousand**
Revenue	-	-
Expenses	248	76
Net profit for the year	248	76
	-	-
Net profit for the year attributable to shareholders of the parent company	226	70
Net profit for the year attributable to the non-controlling shareholders	22	6
Total net profit for the year	**248**	**76**
Other comprehensive income attributable to shareholders of the parent company	-	(1)
Other comprehensive income attributable to non-controlling shareholders	-	-
Total other comprehensive income	**-**	**(1)**
Comprehensive income attributable to shareholders of the parent company	226	69
Comprehensive income attributable to non-controlling shareholders	22	6
Comprehensive income	**248**	**75**
Dividends paid to non-controlling interests	(13)	-
Net cash flow from operating activities	(122)	(121)
Net cash flow from investment activities	34	281
Net cash flow from financing activities	(144)	-
Total net cash flow	**(232)**	**160**

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, 2021 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, the supervision of erection and commissioning of cement plants is allocated to this segment. General and administrative expenses, sales expenses and other expenses (particularly 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.

The key figures of the balance sheet and income statement in particular form the basis for the management and controlling of the KHD Group. For the operating segments, however, key figures are determined only for the income statement and for order intake, 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 2021 and 2020 financial years:

in € thousand	Capex Jan. 1 - Dec. 31, 2021	Plant Services Jan. 1 - Dec. 31, 2020	Total Group Jan. 1 - Dec. 31, 2021	Capex Jan. 1 - Dec. 31, 2020	Plant Services Jan. 1 - Dec. 31, 2021	Total Group Jan. 1 - Dec. 31, 2020
Order intake	178,525	53,138	231,663	75,201	26,945	102,146
Revenue	194,144	32,115	226,259	125,392	25,834	151,226
Cost of sales	(184,044)	(22,916)	(206,960)	(122,536)	(17,575)	(140,111)
Gross profit	10,100	9,199	19,299	2,856	8,259	11,115
Other operating income	3,610	-	3,610	3,328	-	3,328
Sales expenses	(6,770)	(2,806)	(9,576)	(6,307)	(3,092)	(9,399)
General administrative expenses	(10,611)	(2,587)	(13,198)	(9,996)	(2,313)	(12,309)
Reorganization costs	-	-	-	-	-	-
Other expenses	(5,310)	-	(5,310)	(5,043)	(1,001)	(6,044)
Earnings before interest and taxes (EBIT)	(8,981)	3,806	(5,175)	(15,162)	1,853	(13,309)
Net finance income			5,860			6,670
Profit before tax			685			(6,639)
for information:						
depreciation and amortization	-		*(2,732)*	-		*(4,022)*

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 various geographical areas according to the place of performance or delivery of the products and services.

	Revenue		Non-current assets	
in € thousand	**2021**	**2020**	**2021**	**2020**
North America	98,609	69,050	780	754
India	78,785	25,338	9,748	8,346
Rest Asia	18,520	16,151	-	-
China	13,141	13,727	104	229
Middle East	5,045	3,837	-	-
Rest of Europe	4,255	4,456	-	-
Russia	4,284	2,774	1,728	1,727
South America	1,929	1,427	-	-
Africa	1,580	1,675	-	-
Germany	(2,733)	8,314	6,074	6,617
Other	2,844	4,477	-	-
	226,259	**151,226**	**18,434**	**17,673**

	Order Intake		Order Backlog	
in € thousand	**2021**	**2020**	**2021**	**2020**
India	121,216	46,144	96,605	49,921
Rest of Asia	49,288	5,940	45,017	13,484
North America	26,912	13,059	72,494	137,571
Rest of Europe	10,296	3,302	7,014	2,382
Russia	8,734	4,007	13,242	8,770
China	5,786	20,330	5,832	12,340
Middle East	4,919	4,421	3,989	4,125
South America	1,912	356	400	432
Germany	1,595	2,012	1,137	1,609
Africa	429	2,494	4,866	6,014
Other	576	81	1,477	3,744
	231,663	**102,146**	**252,073**	**240,392**

Order backlog, or the amount of the revenue from the respective contract that is not yet reported, totaled € 252,073 thousand (previous year: € 240,392 thousand) as of December 31, 2021. Of this total, order backlog for the Capex segment is € 212,846 thousand (previous year: € 222,865 thousand) and order backlog for the Plant Services segment is € 39,227 thousand (previous year: € 17,527 thousand). 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. 70-80% of the order backlog in the next twelve months will be realized as sales revenue. Revenue recognition for the remaining 20-30% is expected within the following 24 months. For the Plant Services segment, revenue recognition for more than 90% of the current order backlog is expected within the next twelve months. KHD does not utilize the practical expedient provided in IFRS 15.121.

Information about Key Customers

In the financial year, revenue totaling € 149.3 million was attributable to three customers with which at least 10% of the Group revenue was achieved (previous year: revenue with a single customer in the amount of € 58.3 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, 2019 / Jan. 1, 2020	**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**
Additions	-	24	1,944	1,968
Disposals	-	-	(283)	(283)
Foreign currency translation and reclassification	182	210	134	526
Dec. 31, 2021	**3,324**	**3,084**	**12,324**	**18,732**
ACCUMULATED DEPRECIATION				
Dec. 31, 2019 / Jan. 1, 2020	**-**	**567**	**5,841**	**6,408**
Additions	-	135	824	959
Disposals	-	-	(176)	(176)
Currency differences	-	-	-	-
Dec. 31, 2020	**-**	**702**	**6,489**	**7,191**
	-	**-**	**-**	**-**
Additions	-	134	771	905
Disposals	-	-	(260)	(260)
Currency differences	-	-	90	90
Dec. 31, 2021	**-**	**836**	**7,090**	**7,926**
CARRYING AMOUNT	**0**	**0**	**0**	**0**
Dec. 31, 2020	**3,142**	**2,148**	**4,040**	**9,330**
Dec. 31, 2021	**3,324**	**2,248**	**5,234**	**10,806**

As in the previous financial year, the additions to property, plant, and equipment in the current financial year in the amount of € 1,968 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 € 905 thousand (previous year: € 959 thousand).

6. Goodwill and Other Intangible Assets

in € thousand	Goodwill	Licences and other intangible assets	Rights of use	Total
COST				
Dec. 31, 2019 / Jan. 1, 2020	**5,162**	**10,539**	**5,284**	**20,985**
Additions	-	342	740	1,082
Disposals	-	(30)	(31)	(61)
Currency differences and reclassification	-	(3)	-	(3)
Dec. 31, 2020	**5,162**	**10,848**	**5,993**	**22,003**
Disposals	-	-	(285)	(285)
Currency differences and reclassification	-	3	(15)	(12)
Dec. 31, 2021	**5,162**	**11,107**	**6,873**	**23,142**
ACCUMULATED AMORTIZATION				
Dec. 31, 2019 / Jan. 1, 2020	**-**	**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**
Additions	-	348	1,479	1,827
Disposals	-	-	-	-
Currency differences	-	27	-	27
Dec. 31, 2021	**1,311**	**9,945**	**4,258**	**15,514**
CARRYING AMOUNT	-	-	-	-
Dec. 31, 2020	**3,851**	**1,278**	**3,214**	**8,343**
Dec. 31, 2021	**3,851**	**1,162**	**2,615**	**7,628**

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.

The rights of use are primarily attributable to the rights of use with regard to rented real estate. In addition, rights of use for operating and office equipment are reported here. 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
COST			
Dec. 31, 2020	577	5,416	**5,993**
Addition	71	1,109	**1,180**
Disposals	(285)	0	**(285)**
Foreign currency translation and reclassification	-	(15)	**(15)**
Dec. 31, 2021	**363**	**6,510**	**6,873**
ACCUMULATED DEPRECIATION			
Dec. 31, 2020	249	2,530	**2,779**
Addition	59	1,420	**1,479**
Disposals	-	0	**-**
Dec. 31, 2021	**308**	**3,950**	**4,258**
CARRYING AMOUNT Dec. 31,2021	**55**	**2,560**	**2,615**

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 € 1,479 (previous year: € 1,423 thousand) were recognized in expenses in the 2021 financial year. In addition, the interest expenses for lease liabilities were € 184 thousand (previous year: € 226 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 € 1,663 thousand (previous year: € 1,653 thousand).

The Group's cash outflows for leases amounted to € 1,777 thousand in the 2021 financial year (previous year: € 1,635 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, 2021 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 options amounted to approx. € 3.6 million (previous year: € 2.4 million).

Goodwill

Goodwill as reported as of December 31, 2021 arises from acquisitions and was allocated to the respective cash generating units. Overall, the carrying amount of goodwill of € 3,851 thousand retained its value and remained unchanged compared with the previous year. As of December 31, 2021, the goodwill is attributable to the following cash generating units:

CGU	Carrying amount of goodwill allocated to CGU in € thousand	Proportion of total goodwill	Discounting interest rate (before tax) in %	Growth rate in %	Description of key assumptions of company valuation	Procedure used to determine key assumptions
Plant Services HWG	2,127	55.2%	10,5,%	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%	14.7%	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%	14.8%	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, the respective 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.

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 an impairment in the amount of € 164 thousand (previous year: € 127 thousand) and for the cash generating unit “Plant Services KHD OOO” to report an impairment loss in the amount of € 78 thousand (previous year: € 65 thousand). The cash generating unit "Capex KHD OOO" would be impaired if the capitalization rate were increased by 20% this year by € 371 thousand (previous year: € 289 thousand), and the cash generating unit “Plant Services KHD OOO” by € 183 thousand (previous year: € 141 thousand). There would not be an impairment loss for the cash generating unit “Plant Services HWG” due to the change to the key parameters.

7. Receivables and Financial Assets

in € thousand	Dec 31, 2021	Dec 31, 2020
Current financial assets		
Trade receivables	41,717	24,511
Less valuation allowances for impairment of receivables	(3,243)	(2,704)
Trade receivables - net	38,474	21,807
Intercompany receivables	3,527	5,072
Other financial assets	1,495	992
Financial receivables	2,234	1,404
Current financial assets	**45,730**	**29,275**
Other receivables	4,381	1,688
Current financial assets and other receivables	**50,111**	**30,963**
Non-current financial assets		
Trade receivables	297	1,012
Other non-current financial assets	95,000	100,000
Non-current financial assets	**95,297**	**101,012**

Trade receivables (gross amount – before deducting valuation allowances) increased in the financial year by € 17,206 thousand from € 24,511 thousand to € 41,717 thousand. Trade receivables do not include any receivables from license agreements (previous year: € 500 thousand). Intercompany receivables decreased by € 1,545 thousand, from € 5,072 thousand to € 3,527 thousand as of December 31, 2021.

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 increased by € 830 thousand, from € 1,404 thousand to € 2,234 thousand. Financial receivables as of December 31, 2021 mainly comprise costs backcharged to subcontractors, interest receivables, securities, insurance claims, and other financing receivables totaling € 1,265 thousand (previous year: € 764 thousand).

Other receivables in the amount of € 4,381 thousand (previous year: € 1,688 thousand) arise from reimbursement claims for value-added tax.

Two loans to AVIC Kairong, one for € 50,000 thousand and one for € 45,000 thousand (previous year: both for € 50,000), are reported under other non-current financial assets. During the year, € 17.0 million was called in for payment on one of the loans to AVIC Kairong for € 50.0 million, and at a later point in time, the loan to AVIC Kairong was increased by € 12.0 million.

Other non-current financial assets also include trade receivables in the amount of € 297 thousand (previous year: € 1,012 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, 2021.

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

in € thousand	Dec. 31, 2021	Dec. 31, 2020
61 to 90 days	506	614
91 to 180 days	827	238
181 to 365 days	757	702
Over 365 days	156	566
Total	**2,246**	**2,120**

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 € 2,246 thousand (previous year: € 2,120 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	2021	2020
Valuation allowances as of Jan. 1	2,704	3,004
Addition	815	568
Utilization	(98)	(626)
Currency translation differences	64	(73)
Reversal	(242)	(169)
Valuation allowances as of Dec. 31	**3,243**	**2,704**

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 € 316 thousand (previous year: € 301 thousand) in valuation allowances.

Foreign currency receivables (CNY) due from an indirect parent company in the amount of € 1,184 thousand are included in the current trade receivables (previous year: € 2,363 thousand). 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, 2021, KHD has a total amount of tax loss carry-forwards of € 164.2 million (previous year: € 149.6 million) for corporate income tax and comparable foreign income taxes. For trade tax, the total amount of tax loss carry-forwards is € 101.4 million (previous year: € 93.1 million). In the reporting of deferred tax assets as of December 31, 2021, tax loss carry-forwards of € 1.6 million (previous year: € 1.3 million) for corporate income tax and comparable foreign income taxes as well as € 0.9 million (previous year: € 1.9 million) for trade tax were recognized. If a future taxable result is probable, deferred tax assets are capitalized to the extent to which the taxable result is likely, based on the five-year business planning. 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 € 3.8 million (previous year: € 7.7 million) and tax loss carry-forwards mentioned above 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 € 53,302 thousand (previous year: € 47,853 thousand) will expire during the period from 2031 through 2039 and € 337 thousand (previous year € 869 thousand) will expire after the 2026 financial year.

The deferred taxes assets not recognized in profit and loss amount to € 307 thousand (previous year: € 307 thousand) as of December 31, 2021.

For temporary differences amounting to € 2.3 million (previous year: € 12.5 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, 2021	Dec. 31, 2020
Deferred tax assets		
Provisions	2,035	1,369
Resulting from tax loss carry-forwards	407	506
Offset with deferred tax liabilities	(1,292)	(428)
	1,150	**1,447**
Deferred tax liabilities		
Construction contracts / PoC method	(1,292)	(497)
Offset with deferred tax assets	1,292	428
	-	**(69)**

Of the reported deferred tax assets based on provisions in the amount of € 2,035 thousand, € 307 thousand are related to deferred tax assets for pension benefit obligations.

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

9. Inventories

in € thousand	Dec. 31, 2021	Dec. 31, 2020
Raw materials, consumables, and supplies	4,882	4,492
Work in progress	2,230	1,144
Finished goods and merchandise	258	199
Write-down to net realizable value	(1,604)	(2,016)
	5,766	**3,819**

In the financial year, inventories in the amount of € 5,583 thousand (previous year: € 2,573 thousand) were recorded as part of cost of sales. The finished goods and merchandise 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 € 1,604 thousand as of December 31, 2021 (previous year: € 2,016 thousand). These write-downs relate to raw materials, consumables, and supplies, the gross carrying amount of which is € 1,775 thousand (previous year: € 2,421 thousand).

10. Contract Assets and Advance Payments Made as well as 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 € 13,652 thousand (previous year: € 37,060 thousand), which was included in the balance of the contract liabilities at the beginning of the period, was recorded in the 2021 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, 2021	Dec. 31, 2020
Costs incurred to date for construction contracts with realization of revenues over time	260,655	154,769
Proportionate results under these contracts recognized to date	12,269	6,528
Total costs incurred and profits recognized	272,924	161,297
Less progress billings	(256,870)	(159,235)
Balance of contract assets and contract liabilities	**16,054**	**2,062**
This amount is comprised as follows:		
Contract assets	42,555	17,225
Contract liabilities	(26,501)	(15,163)
	16,054	**2,062**
Disclosure on the credit side of the balance sheet		
Contract liabilities	(26,501)	(15,163)
Advance payments received	(9,107)	(4,747)
Contract liabilities and advance payments received	**(35,608)**	**(19,910)**
Advance payments made	**23,718**	**17,943**

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 € 13,992 thousand from € 2,062 thousand to € 16,054 thousand as of the reporting date, December 31, 2021 due to progress in order execution and the status of progress billings.

Of the revenue recognized in the reporting period in the amount of € 226,259 thousand (previous year: € 151,266 thousand), € 193,525 thousand (previous year: € 122,543 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 when 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 2021 financial year.

Advance payments made increased by € 5,775 thousand, from € 17,943 thousand to € 23,718 thousand. The advance payments are primarily advance payments to suppliers in project business.

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. In accordance with contractual agreements concluded in 2020, the terms were extended by three years. During the year, € 17.0 million was called in for payment on one of the loans to AVIC Kairong for € 50.0 million, and at a later point in time, the loan to AVIC Kairong was increased by € 12 million. As of December 31, 2021, the first loan amounts to € 45,000 thousand. The second loan is reported at € 50,000 thousand as in the previous financial year. 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 the loan for € 45,000 thousand 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 € 65,282 thousand (previous year: € 68,035 thousand).

in € thousand	Dec. 31, 2021	Dec. 31, 2020
Bank balances and cash on hand	44,305	35,588
Short-term bank deposits	20,977	32,447
	65,282	**68,035**

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 € -9,862 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, 2021 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, 2021, the Group's pension benefit obligations amounted to € 18,225 thousand (previous year: € 19,729 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, 2021**	**Dec.31, 2020**
Discount rate	0.84	0.60
Pension trend	1.70	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 € 0 thousand in the financial year (previous year: € 22 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 approach. 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 € 821 thousand (previous year: € 921 thousand). If, however, the discount rate instead falls by 0.5%, the pension benefit obligations increase by € 892 thousand (previous year: € 1,001 thousand).
- If the pension trend increases by 0.25%, the pension benefit obligations rise by € 428 thousand (previous year: € 478 thousand). If the pension trend decreases by 0.25%, the pension benefit obligations are reduced by € 413 thousand (previous year: € 461 thousand).
- If life expectancy increases by one year for both men and women, the benefit obligation increases by € 1,210 thousand (previous year: € 1,288 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, 2021	Dec. 31, 2020
Defined benefit obligation on Jan. 1	19,729	21,039
Interest cost	114	142
Benefits actually paid (total)	(1,313)	(1,358)
Losses / (gains) due to experience adjustments	(75)	212
Actuarial (gains) / losses due to change in actuarial assumptions	(230)	(284)
Losses / (gains) due to demographic adjustments	-	(22)
Defined benefit obligation on Dec. 31	**18,225**	**19,729**

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, 2021, of the total obligations of € 18,225 thousand (previous year: € 19,729 thousand), an amount of € 189 thousand is attributable to active employees (previous year: € 193 thousand), € 1,822 thousand to former employees (previous year: € 2,065 thousand), and € 16,214 thousand to pensioners and surviving dependents (previous year: € 17,471 thousand).

As of December 31, 2021, the average term of the defined benefit obligation was 9.31 years (previous year: 9.64 years).

in T€	31.12.2021	31.12.2020
Anfangsbestand - Kumulierte Neubewertungen Gewinne (-) / Verluste	8,697	8,791
Versicherungsmathematische Gewinne (-) / Verluste	(305)	(94)
Endbestand Neubewertungen Gewinne (-) / Verluste	**8,392**	**8,697**

in € thousand	Dec. 31, 2021	Dec. 31, 2020
Defined benefit costs		
Current service cost	-	-
Net interest expense	**114**	**142**
Actuarial (gains) / losses due to experience adjustments	(75)	212
Actuarial (gains) / losses due to change in actuarial assumptions	(230)	(284)
Losses / (gains) due to demographic adjustments	-	(22)
Actuarial (gains) / losses recognized in other comprehensive income	**(305)**	**(94)**
Defined benefit costs	**(191)**	**48**

Interest expenses on pensions of € 114 thousand (previous year: € 142 thousand) were recognized under finance expenses for the financial year.

Expected benefit payments

in € thousand	2021	2020
in 2021	-	1,401
in 2022	1,362	1,376
in 2023	1,328	1,335
in 2024	1,294	1,298
in 2025	1,247	1,248
in 2026	1,196	-
2027 onwards (prior year: 2026 onwards)	11,798	13,071

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 € 1,358 thousand (previous year: € 1,401 thousand) is reported in the current provisions.

15. Provisions

in € thousand	Warranty	Tax and litigation risks	Impending losses	Pension benefit obligations	Provision for Reorganization	Total
Provisions as of Jan.1, 2021	15,879	719	8,917	1,401	457	27,373
Additions	6,928	600	99	-		7,627
Release	(1,796)	(288)	-	-		(2,172)
Currency translation effects	380	41	100	-		521
Utilization / reclassification	(3,976)	-	(8,505)	(43)		(12,704)
Provisions as of Dec. 31, 2021	**17,415**	**1,072**	**611**	**1,358**	**457**	**20,645**

in € thousand	Dec. 31, 2021	Dec. 31, 2020
Non-current (warranty)	4,308	2,997
Current	16,337	24,376
	20,645	**27,373**

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.

The effects from currency translation of € 521 thousand (previous year: € -913 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, 2021	Dec. 31, 2020
Current financial liabilities		
Trade payables	100,621	65,235
Liabilities due to affiliated companies	-	-
Current financial liabilities	20	59
Other current liabilities	5,918	5,198
Lease Liabilities	1,400	1,311
Bank loan	25,000	25,000
Current financial liabilities	**132,959**	**96,803**
Other liabilities		
Tax and social security	536	409
Income tax liabilities	574	644
Other liabilities	**1,110**	**1,053**
Current liabilities	**134,069**	**97,856**
Non Current financial liabilities		
Lease Liabilities	1,703	2,145
Non Current financial liabilities	**1,703**	**2,145**
Other non current liabilities		
Other non current liabilities	4,101	2,794
Other non current liabilities	**4,101**	**2,794**
Non current liabilities	**5,804**	**4,939**

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

The loan for € 25 million from the Bank of China Limited, Frankfurt branch, had a fixed term, due for repayment by 2021, and was completely repaid on schedule. Another loan for € 25 million from the Bank of China Limited, Frankfurt branch, was granted to KHD effective November 12, 2021.

Lease liabilities according to IFRS 16 and other liabilities are reported under other non-current liabilities as of December 31, 2021.

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	**2021**	**2020**
Wages and salaries	30,702	29,737
Social security contributions and costs, including pension costs	4,982	4,725
	35,684	**34,462**

	As of Mar. 31, 2021	**As of Jun. 30, 2021**	**As of Sept. 30, 2021**	**As of Dec. 31, 2021**
Salaried employees	575	590	595	605
Industrial employees	113	119	127	132
Total	**688**	**709**	**722**	**737**

As of December 31, 2021, the number of employees was 737 (previous year: 670). In the year under review, the average number of employees was 714, of whom 123 were industrial employees (previous year: 664 employees, of whom 90 were industrial).

Personnel expenses include employer contributions to statutory pension insurance in the amount of € 1,543 thousand (previous year: € 1,498 thousand) and expenses for contractually defined contribution plans of € 756 thousand (previous year: € 665 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 € 1,588 thousand in the 2021 financial year (previous year: € 1,276 thousand).

The compensation for members of the KHD Management Board in the 2021 financial year amounted to € 1,408 thousand (previous year: € 1,113 thousand). It can be attributed to the following categories in accordance with IAS 24.17:

- € 1,203 thousand (previous year: € 1,113 thousand) – short-term benefits,
- € 0 thousand (previous year: € 0 thousand) – post-employment benefits,
- € 205 thousand (previous year: € 0 thousand) – other long-term benefits,
- € 0 thousand (previous year: € 0 thousand) – termination benefits,
- € 0 thousand (previous year: € 0 thousand) – share-based compensation.

The total remuneration for members of the KHD Management Board in the 2021 financial year pursuant to Section 314 Paragraph 1 Number 6a of the German Commercial Code (HGB) in the amount of € 1,408 thousand (previous year: € 1,113 thousand) was reported as an expense. Total compensation for work performed in the financial year amounted to € 1,408 thousand (previous year: € 1,098 thousand) was reported as an expense. Compensation paid in the financial year, but which has never previously been reported in the financial statement totaled € 0 thousand (previous year: € 15 thousand).

As of December 31, 2021, a balance of € 0 thousand (previous year: € 63 thousand) of the remuneration of the Management Board is outstanding for payment. The compensation of Board members includes expenses for establishing provisions in the amount of € 383 thousand (previous year: € 135 thousand) for variable compensation and optional bonuses.
Dr. Matthias Jochem does not receive any Management Board compensation. KHD concluded a consulting contract in the 2019 financial year with 4-stream consulting GmbH, Roetgen, considered a related party because of its connection to Dr. Jochem. According to the contractual agreement, € 313 thousand (previous year: € 262 thousand) was reported by KHD in the 2021 financial year for consulting services provided.

The remuneration granted to members of the Supervisory Board for performing their duties in the 2021 financial year amounted to € 180 thousand (previous year: € 163 thousand). The compensation of the Supervisory Board members in the 2021 financial year relate in full (€ 180 thousand, previous year: € 163 thousand) to short-term benefits. As of December 31, 2021, a total balance of € 334 thousand (previous year: € 214 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 also describes the main aspects of the compensation system. The compensation report for KHD for the 2021 financial year is publicly available on the Company's website (https://www.khd.com/compensation-report.html).

20. Revenue and Revenue Recognition

The revenue in the 2021 financial year amounts to € 226,259 thousand (previous year: € 151,226 thousand) which can be divided into the Capex segment (project business) € 194,144 thousand (previous year: € 125,392 thousand) and the Plant Services segment € 32,115 thousand (previous year: € 25,834 thousand). Revenue for the Capex segment includes license revenue in the amount of € 1,021 thousand (previous year: € 1,483 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:
  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 previous year.

in € thousand	**2021**	**2020**
Normal cost of sales	206,960	139,266
Cost of idle capacity	-	845
	206,960	**140,111**

22. Other Operating Income

in € thousand	**2021**	**2020**
Exchange gains	2,092	2,677
Other income	1,518	651
	3,610	**3,328**

Other operating income includes exchange gains and exchange rate forward contracts in the amount of € 2,092 thousand (previous year: € 2,677 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 increased over the previous year by € 177 thousand, from € 9,399 thousand to € 9,576 thousand. Sales expenses include costs for tendering of € 5,405 thousand (previous year: € 4,720 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 increased by € 889 thousand, from € 12,309 thousand to € 13,198 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	**2021**	**2020**
Research and development	2,806	2,772
Exchange rate losses and expenses from derivatives	2,140	1,328
Impairment loss goodwill	-	1,311
Miscellaneous expenses	364	633
	5,310	**6,044**

Other expenses decreased with respect to the previous year by € 734 thousand, from € 6,044 thousand to € 5,310 thousand. Included here are expenses for foreign exchange forward contracts and exchange rate losses, which increased by € 812 thousand, from € 1,328 thousand in the previous year to € 2,140 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 slightly by € 34 thousand from € 2,772 thousand in the previous year to € 2,806 thousand. A clearer focus on promising development projects continued in the 2021 financial year as well.

No amortization or depreciation of goodwill was reported in the 2021 financial year (previous year: € 1,311 thousand).

Miscellaneous expenses decreased by € 269 thousand, from € 633 thousand to € 364 thousand. Miscellaneous expenses include expenses for non-recoverable taxes, fees, and insurance premiums.

26. Net Finance Income

Net finance income is composed as follows:

in € thousand	**2021**	**2020**
Interest income	6,151	7,821
Total interest income	**6,151**	**7,821**
Dividend income	56	-
Gains on securities	410	-
Finance income	**6,617**	**7,821**
Interest related to pension benefit obligations, provisions and other non-current liabilities	(114)	(161)
Losses on securities	-	(258)
Interest expense of leasing liabilities	(184)	(226)
Interest expense	(459)	(506)
Finance expenses	**(757)**	**(1,151)**
Net finance income	**5,860**	**6,670**

Interest income includes interest income from bank deposits and cash equivalents as well as interest income from extension agreements totaling € 1,282 thousand (previous year: € 2,145 thousand). Interest income from loans to an affiliated company amounted to € 4,869 thousand (previous year: € 5,676 thousand). Total interest income decreased by € 1,670 thousand from € 7,821 thousand to € 6,151 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 profit of € 410 thousand in the financial year (previous year: loss of € 258 thousand).

Finance expenses include interest related to pension benefit obligations in the amount of € 114 thousand (previous year: € 142 thousand). In the financial year, interest expenses of € 0 thousand (previous year: € 19 thousand) were incurred due to interest on provisions and other non-current liabilities. Interest expenses in the amount of € 394 thousand (previous year: € 506 thousand) were recorded for a bank loan.

27. Income Tax Expenses

The income tax expense of € 1,802 thousand incurred in the 2021 financial year (previous year: € 1,318 thousand) is composed as follows:

in € thousand	**2021**	**2020**
Current tax expense	(1,526)	(1,747)
Deferred tax expense / income	(276)	429
Tax expense for the year	**(1,802)**	**(1,318)**

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

in € thousand	**2021**	**2020**
Earnings before income tax	685	(6,639)
Expected tax result while applying an average tax rate of 32.45 % (previous year: 32.45 %)	(222)	2,154
Effects of tax-free income	2,645	73
Effects of non-tax-deductible expenses	(2,603)	(2,779)
Effects of unutilized deferred tax losses not recognized as deferred assets recognized tax losses and offset possibilities	(512)	483
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	(832)	(1,239)
Effects of subsidiaries' divergent tax rates	312	290
Adjustments for previous years' taxes recognized in the current period	(290)	(69)
Other non-tax-effective additions and deductions	(300)	(231)
Tax expense for the year	**(1,802)**	**(1,318)**

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 tax rate is -263.07% (previous year: -19.85%).

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.

28. Earnings and Dividends per Share

Earnings per Share

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

	2021	2020
Group net loss for the year attributable to shareholders (in € thousand)	(1,139)	(7,963)
Weighted average number of shares outstanding	49,703,573	49,703,573
Basic (undiluted) and diluted earnings per share (in €)	(0.02)	(0.16)

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.

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

As in the previous year, the auditor for the 2021 financial year is Ernst & Young GmbH Wirtschafts-prüfungsgesellschaft.

The total fees charged by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft for the 2021 financial year are comprised as follows:

in € thousand	**2021**	**2020**
Financial statement audit services	382	358
	382	**358**

The total remuneration for the auditor for the 2021 financial year is € 292 thousand (previous year: € 275 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 2021 financial year include auditing services in the context of the audit of the annual financial statements for the 2020 financial year in the amount of € 89 thousand (previous year: € 83 thousand in connection with the annual financial statements for the 2019 financial year).

30. 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, 2021	Dec. 31, 2020
Within one year	2,725	2,443
Between two and five years	5,450	5,022
After five years	4,369	5,247
Total lease and rental commitments	**12,544**	**12,712**

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

Expenses for leased and rented office space and office equipment recognized in the Group income statement amount to € 2,621 thousand in the 2021 financial year (previous year: € 2,296 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 charge back claims 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.

31. Additional Notes on Financial Instruments

FINANCIAL RISK FACTORS

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

CAPITAL MANAGEMENT

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

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

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

KHD is subject to the minimum capital requirements applicable to German stock corporations. Compliance with these requirements is monitored continuously. KHD was in compliance with these requirements in 2021.

in € thousand	Dec. 31, 2021	Dec. 31, 2020
Equity	90,706	89,136
Total assets	303,699	258,923
Equity ratio (in %)	29.9	34.4

The equity ratio decreased by 4.5 percentage points compared with the previous year from 34.4% to 29.9%.

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 € 4,727 thousand (previous year: € 12,001 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 € 319 thousand (previous year: € 811 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 € 4,624 thousand (previous year: € 4,112 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: € 0 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 of 2020, the term of the two loans was extended by three years. As of December 31, 2021, the first loan amounts to € 45,000 thousand. The second loan is reported at € 50,000 thousand as in the previous financial year. 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 € 100,621 thousand (previous year: € 65,235 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 € 55.8 million (previous year: € 46.3 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, 2021, would have been € 220 thousand (previous year: € 230 thousand) higher or lower, respectively. As of December 31, 2021, 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, 2021 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, 2021 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:

2021	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	-	-	(815)	-	-	(815)
Interest Income / expense	-	-	6,151	-	(459)	5,692
Other net earnings	-	76	535	-	-	611
Net earnings	**-**	**76**	**5,871**	**-**	**(459)**	**5,488**

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**

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, 2021	**Financial assets Measurment according to IFRS 9**				**Financial liabilities Measurment according to IFRS 9**				
in € thousand	Fair value throught OCI	Fair value throught P&L	Amortized cost	Not in IFRS 9 application area	Fair value throught P&L	Amortized cost	Not in IFRS 9 application area	Carrying amount Dec. 31, 2021	Fair value Dec. 31, 2021
Non-current financial assets	-	-	95,297	-		-	-	95,297	94,928
Trade receivables	-	-	38,474	-		-	-	38,474	-
Related party receivables	-	-	3,527	-		-	-	3,527	-
Contract assets	-	-	42,555	-	-	-	-	42,555	-
Other financial assets	-	1,168	327	-		-	-	1,495	1,168
Derivatives	-	-	-	-		-	-	-	-
Other receivables	-	-	2,234	4,381		-	-	6,615	-
Cash and cash equivalents	-	-	65,282	-		-	-	65,282	-
Total financial assets	**-**	**1,168**	**247,696**	**4,381**		**-**	**-**	**253,245**	**96,096**
Financial liabilities		-	-	-		20	-	20	-
Loan	-	-	-	-		25,000	-	25,000	25,000
Contract liabilities	-	-	-	-	-	35,608		35,608	-
Other liabilities	-	-	-	-		5,918	4,101	10,019	-
Derivatives	-	-			-	62		62	62
Trade payables	-	-	-	-		100,621	-	100,621	-
Total financial liabilities	**-**	**-**	**-**	**-**	**-**	**167,229**	**4,101**	**171,330**	**25,062**

Dec. 31, 2020	**Financial assets Measurment according to IFRS 9**				**Financial liabilities Measurment according to IFRS 9**				
in € thousand	Fair value throught OCI	Fair value throught P&L	Amortized cost	Not in IFRS 9 application area	Fair value throught P&L	Amortized cost	Not in IFRS 9 application area	Carrying amount Dec. 31, 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**

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, 2021	Dec. 31, 2020			
Derivatives	Financial assets: € 0 thousand Financial liabilities: € 62 thousand	Financial assets: € 460 thousand Financial liabilities: € 0 thousand	Level 2	Discounted cash flow	N/A
Securities	Financial assets: € 1.168 thousand	Financial assets: € 758 thousand	Level 1	Listed price on active market	N/A

SECURITIES HELD FOR TRADING

Securities held for trading amounted to € 1,168 thousand (previous year: € 758 thousand). A 10% variance in the market price would change Group earnings by € 111 thousand (previous year: € 72 thousand).

RECEIVABLES

Overdue Group receivables, including receivables for which valuation allowances were made, amounted to € 5,004 thousand (previous year: € 4,411 thousand). After deducting securities (letters of credit and Hermes coverage), the Group values the resulting risk at € 5,004 thousand (previous year: € 4,411). 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 € -62 thousand (previous year: € 460 thousand). A 10% change in the exchange rate hedged by the derivative would affect earnings by € 102 thousand (previous year: € 1,293 thousand). The total amount of underlying transactions allocated to foreign exchange forward contracts amounts to € 1.5 million (previous year: € 19.1 million).

Foreign exchange forward contracts amounting to € 0 million (previous year: € 17.6 million) are due within one year.

OFFSETTING
In the KHD Group there are offsetting agreements with the corresponding banks for derivative financial instruments. In accordance with these framework agreements, the amounts owed by each respective party with respect to transactions in the same currency that are still outstanding on a specific date of maturity are offset to reach a net amount. The derivative financial instruments concluded as of the reporting date and as of the previous year's reporting date have a negative fair value of € 62 thousand (previous year: positive fair value of € 460 thousand).

32. Related Party Disclosures

As defined by IAS 24, in addition to the subsidiaries of KHD, the related companies also include both 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 the aforementioned companies. Because 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 INTL 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, 2021, AVIC Beijing indirectly holds the majority of KHD shares with 89.02% (unchanged from the previous year). Among others, the strategic partnership between AVIC and KHD resulted in numerous joint projects in various sales regions all over the world. The focus of the cooperation in recent years was the increasing development of the Chinese market for KHD technology.

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. Jochem. According to the contractual agreement, € 313 thousand (previous year: € 262 thousand) was reported by KHD in the 2021 financial year for consulting services provided. The liabilities due to 4-stream consulting GmbH amounted to € 24 thousand as of December 31, 2021 (previous year: € 24 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. According to the contractual agreement of 2020, the term of the two loans was extended by three years. As of December 31, 2021, the first loan amounts to € 45,000 thousand. The second loan is reported at € 50,000 thousand as in the previous financial year. 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 the first loan (€ 45,000 thousand) 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	**2021**	**2020**
Indirect parent company	11,446	9,340
Other related companies	4,869	5,676
	16,315	15,016

Income with indirect parent companies amounted to € 11,446 thousand in the financial year (previous year: € 9,340 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 € 4,869 thousand (previous year: € 5,676 thousand) is reported under income with other affiliated companies.

Expenses

Expenses arising from transactions with indirect parent companies amounted to € 0 thousand in the 2021 financial year (previous year: € 12 thousand).

in € thousand	**2021**	**2020**
Indirect parent company	-	12
	-	12

Current Assets

In the financial year under review, there were current assets due from companies of the AVIC Group in the amount of € 3,526 thousand (previous year: € 5,073 thousand). These are exclusively the result of project receivables. In the previous year, these resulted exclusively from project receivables and interest receivables.

in € thousand	**2021**	**2020**
Indirect parent company	3,526	3,752
Other related companies	-	1,321
	3,526	5,073

In addition, loans to other affiliated companies amounting to a total of € 95,000 thousand (previous year: € 100,000 thousand) were recognized under non-current assets as of the balance sheet date.

Liabilities

As in the previous year, no liabilities due from other affiliated companies were reported under the liabilities from project contracts. Liabilities due from indirect parent companies in the amount of € 2,789 thousand are reported (previous year: € 2,213 thousand).

in € thousand	**2021**	**2020**
Indirect parent company	2,789	2,213
	2,789	2,213

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.

33. Corporate Governance

The Management Board and Supervisory Board of KHD issued the statement required pursuant to Section 161 of the German Stock Corporation Act (AktG) on February 4, 2022, 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, 2022, and also made it permanently publicly available to shareholders on this KHD VV website (https://www.khd-vv.de/corporate-governance.html).

34. Events after the Reporting Period

Significant developments or events of particular importance have not taken place since the reporting date of December 31, 2021.

35. Release for Publication by the Management Board

These group financial statements were released for publication by the Management Board resolution of February 28, 2022. The Supervisory Board approval is due to be issued at the Supervisory Board meeting on March 8, 2022.

Cologne, Germany, February 28, 2022

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, Germany, February 28, 2022

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 2021 to 31 December 2021, the consolidated statement of financial position as at 31 December 2021, consolidated statement of cash flows and consolidated statement of changes in equity for the fiscal year from 1 January 2021 to 31 December 2021, 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 2021 to 31 December 2021. In accordance with the German legal requirements, we have not audited the company information that is provided outside of the annual report, the content of the management declaration (statement on corporate governance) pursuant to Sec. 315d HGB and the remuneration report pursuant to Sec. 162 AktG ["Aktiengesetz": German Stock Corporation Act], which are published on the website stated in the group management report and are 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 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 2021 and of its financial performance for the fiscal year from 1 January 2021 to 31 December 2021, 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 or the content of the remuneration report 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 2021 to 31 December 2021. 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 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 on the electronic rendering of the consolidated financial statements and the group management report prepared for publication purposes in accordance with Sec. 317 (3a) HGB

Opinion

We have performed assurance work in accordance with Sec. 317 (3a) HGB to obtain reasonable assurance about whether the rendering of the consolidated financial statements and the group management report (hereinafter the “ESEF documents”) contained in the attached file “KHD_AG_KAuLB-2021-12-31.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 work extends only 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 within these renderings nor to any other information contained in the file identified above.

In our opinion, the rendering of the consolidated financial statements and the group management report contained in the file identified above and prepared for publication purposes complies in all material respects with the requirements of Sec. 328 (1) HGB for the electronic reporting format. Beyond this assurance opinion and our audit opinions on the accompanying consolidated financial statements and the accompanying group management report for the fiscal year from 1 January 2021 to 31 December 2021 contained in the “Report on the audit of the consolidated financial statements and of the group management report” above, we do not express any assurance opinion on the information contained within these renderings or on the other information contained in the file identified above.

Basis for the opinion

We conducted our assurance work on the rendering of the consolidated financial statements and the group management report contained in the enclosed file identified above in accordance with Sec. 317 (3a) HGB and the IDW Assurance Standard: Assurance on the Electronic Rendering of Financial Statements and Management Reports Prepared for Publication Purposes in Accordance with Sec. 317 (3a) HGB (IDW AsS 410) (10.2021). Our responsibility in accordance therewith is further described in the “Group auditor’s responsibilities for the assurance work on the ESEF documents” section. Our audit firm applies the IDW Standard on Quality Management 1: Requirements for Quality Management in the Audit Firm (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 rendering 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 determined necessary to enable the preparation of ESEF documents that are free from material intentional or unintentional non-compliance with the requirements of Sec. 328 (1) HGB for the electronic reporting format.

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 intentional or unintentional non-compliance with the requirements of Sec. 328 (1) HGB. We exercise professional judgment and maintain professional skepticism throughout the assurance work. We also:

- Identify and assess the risks of material intentional or unintentional non-compliance with the requirements of Sec. 328 (1) HGB, 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 file containing the ESEF documents meets the requirements of Commission Delegated Regulation (EU) 2019/815, in the version in force at the date of the financial statements, on the technical specification for this file.

- Evaluate whether the ESEF documents enable an XHTML rendering 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) in accordance with the requirements of Arts. 4 and 6 of Commission Delegated Regulation (EU) 2019/815, in the version in force at the date of the financial statements, enables an appropriate and complete machine-readable XBRL copy of the XHTML rendering.

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

We were elected as group auditor by the Annual General Meeting on 20 May 2021. We were engaged by the Supervisory Board on 24 September 2021. 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).

Other matter – Use of the auditor's report

Our auditor's report must always be read together with the audited consolidated financial statements and the audited group management report as well as the assured ESEF documents. The consolidated financial statements and the group management report converted to the ESEF format – including the versions to be published in the *Bundesanzeiger* [German Federal Gazette] – are merely electronic renderings of the audited consolidated financial statements and the audited group management report and do not take their place. In particular, the ESEF report and our assurance opinion contained therein are to be used solely together with the assured ESEF documents made available in electronic form.

German Public Auditor responsible for the engagement

The German Public Auditor responsible for the engagement is Titus Zwirner."

Cologne, 28 February 2022

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Zwirner	Ormanns
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 International	AVIC International Holdings Limited, Hong Kong, Hong Kong
EPC	Engineering, Procurement and Construction
HWG	Humboldt Wedag GmbH, Cologne
HW India	Humboldt Wedag India Private Ltd., New Delhi, India
HW Inc.	Humboldt Wedag, Inc., Norcross (Georgia), USA
KHD AG	KHD Humboldt Wedag International AG, Cologne, Germany
KHD GmbH	KHD Humboldt Wedag GmbH, Cologne, Germany
KHD Beijing	KHD Humboldt Wedag Machinery Equipment (Beijing) Co. Ltd., Beijing, China
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