

**KHD Humboldt Wedag
International AG, Cologne**



**Separate Non-Financial Group Report
in accordance with Section 315b, Paragraph 3 of the
German Commercial Code (HGB)
for the 2023 Financial Year**

SEPARATE NON-FINANCIAL GROUP REPORT

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For the sake of improved readability, in this report KHD may occasionally make reference to people using grammatically masculine terminology. These references to persons in general apply to all genders equally: masculine, feminine, or other.

SEPARATE NON-FINANCIAL GROUP REPORT

GENERAL INFORMATION

To implement guidelines in line with European requirements, the German legislature issued regulations in 2017 to strengthen non-financial reporting for companies. The CSR Directive Implementation Act concerning corporate social responsibility (CSR), which governs the reporting of non-financial information for certain capital market-oriented companies, became effective on April 19, 2017. KHD Humboldt Wedag International AG (“KHD AG”) must provide this non-financial report for the KHD Group in accordance with Section 315b Paragraph 1 of the German Commercial Code (HGB). For this reason, unless otherwise indicated, this information applies to the Group associated with KHD AG (“KHD Group” or “KHD”), i.e. the global activities of the KHD Group.

The Management Board of KHD AG is responsible for the preparation of this non-financial report. In accordance with the specifications of Section 315b, Paragraph 3 of the HGB, the Management Board decided not to integrate the non-financial report for the 2023 financial year into the Group Management Report, but instead to create a separate, independent report that is published on the KHD website.

In accordance with the specifications of Section 171, Paragraph 1 of the German Stock Corporation Act (AktG), the Management Board presented the non-financial report to the Supervisory Board for audit before publication. The Supervisory Board audited the separate non-financial Group report in accordance with the legal requirements.

SUSTAINABILITY CONCEPT

Principles

For the KHD Group, acting in line with the principles of sustainability has been and remains a central business precept as this is vitally important for both the reputation and the long-term economic success and continuation of the Group. Therefore, sustainability matters play an important role in decision-making processes in various areas, and they are also incorporated into the operational processes throughout the KHD companies.

KHD currently does not use a specific reporting framework to prepare the non-financial report; instead, as in the previous year as well, it is based on the legal requirements of Section 315 et seq. of the HGB.

Although the use of an established reporting framework in accordance with Section 315c in connection with Section 289d of the German Commercial Code (HGB) is recommended, German law does not specify a mandatory form. In the context of this recommendation, KHD has assessed the national and international reporting frameworks. Because the existing reporting frameworks are still heterogeneous in nature and so many are available, choosing a specific reporting framework did not seem useful. Due to the implementation of the Corporate Sustainability Reporting Directive (CSRD), starting in the 2024 financial year, KHD will disclose a sustainability report according to the European Sustainability Reporting Standards (ESRS).

This non-financial report for 2023 was prepared in the initial months of the 2024 financial year taking into consideration the legal specifications and the mandatory formalized reporting with regard to non-financial matters. In accordance with the legal requirements for non-financial reporting, the report includes an introductory description of the business model in addition to significant and / or necessary information for understanding business development, business performance, the position of the KHD Group, and the effects that KHD activities have on the specific non-financial matters. The matters discussed in this report include:

- Environmental matters,
- Employee matters,
- Social matters,
- Respect for human rights,
- Anti-corruption and anti-bribery matters,
- Sustainability matters in the supply chain.

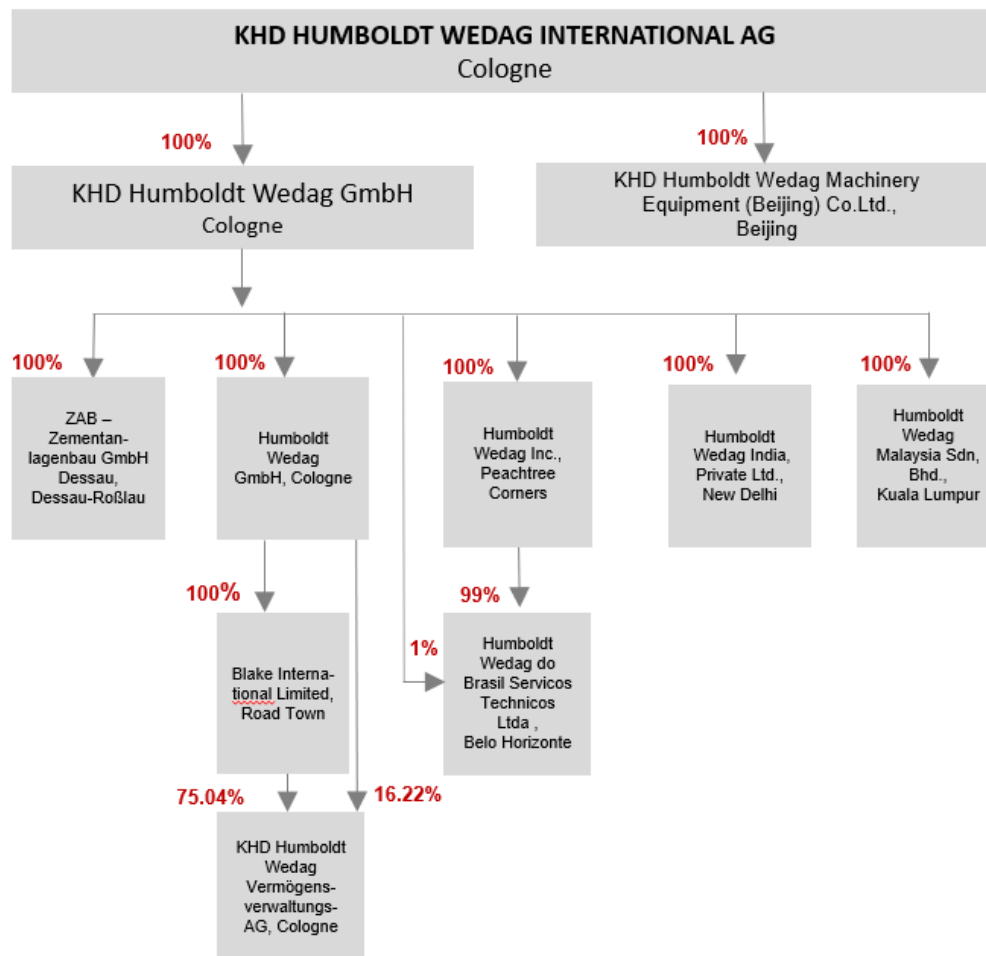
The process for determining the significant non-financial matters was implemented in the year 2018 in the context of an internal project that included consultation with internal experts from a variety of competent departments, such as Human Resources, Sales, Procurement, Controlling, Quality, and Research and Development, among others. The entire process was managed by a project team under the responsibility of the Chief Financial Officer of KHD AG. In the context of preparing this report, a review and update were conducted in the current financial year. There were no significant changes with regard to the non-financial matters in comparison with the previous year.

Organization and Business Model

With its subsidiaries in Europe, the Americas, and Asia, KHD AG, 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, and 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 (e.g. with our mobile welding system for maintaining roller presses), and training plant personnel. The KHD Group focuses mainly on knowledge-intensive areas. The manufacturing of plant equipment is predominantly outsourced to quality-certified, external manufacturers who work in accordance with KHD's specifications. KHD successfully concluded the expansion of its own production capacities in India in the 2018 financial year. Since then and increasingly, selected products are manufactured with the Group's own production capacities.

In its capacity as the ultimate holding company of the Group, KHD AG holds a 100% investment in KHD Humboldt Wedag GmbH ("KHD GmbH"), Cologne, Germany, which functions as a holding company with no operating business activities. As of December 31, 2023, the Group comprised 11 companies (previous year: 12). The operating KHD Group companies focus on the business segment of industrial plant engineering as well as related services.

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.

Business Model

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

Capex (Project Business)

The scope in the Capex business unit encompasses process technology, design, engineering, project management, and the supply of technology and equipment (grinding, pyro process, system automation). Supervision of the erection and commissioning of cement plants and related equipment (Field Services) that is directly connected with the project business is also

allocated to this segment. The KHD Group also organizes training for cement plant personnel. For this purpose, KHD draws on its own e-learning program, SIMULEX®, with which all processes in a cement plant can be simulated and controlled by the course participants. In this way, the Capex segment comprises essential deliveries and services directly connected with a plant engineering project.

The core range of technologies developed and equipment supplied by KHD includes systems for grinding and pyro processing, which are essential elements of every cement plant. Our grinding technology is used for grinding raw material, clinker, and clinker substitute and comprises crushing, grinding, and separation equipment as well as fans. The amount of grinding processes along with the arrangement and specific coordination of the individual plant components are crucial aspects for thermal and electrical energy consumption. The KHD Group's pyro processing equipment covers all of the key components of the kiln line, such as preheaters, calciner systems, burners, process fans, rotary kilns, and clinker coolers. With the PYROROTOR®, an advanced development of traditional calciner technology, KHD also provides technological solutions that allow very coarse and poorly prepared alternative fuels to be used to manufacture cement. With the market introduction of the PYROREDOX® gasification reactor in 2018, 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 the increasing requirements in terms of a significant reduction of nitrogen oxide emissions, even in the future. With the PYROREDOX® gasification reactor, KHD customers can realize reductions in both investment and operating costs. Moreover, the KHD Group 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 relatively low energy consumption, low service and maintenance costs, and reduced vibrations and noise emissions as well as minimal wear.

Plant Services

The range of services offered by KHD in the Plant Services segment includes the supply of spare and wear parts as well as various plant support services. These include maintenance services such as refurbishing roller presses, technical inspections, and audits as well as consulting and assistance services. In this respect, consulting on energy efficiency as well as reducing emissions and decreasing operating costs (e.g. fuel substitution by alternative fuels) when modernizing plants are increasingly important. The portfolio of digital service products is being expanded systematically. KHD's ProMax® integrates existing cement plant data and systems into a cloud-based suite of digital optimization solutions. Based on state-of-the-art technologies for digital twins and machine learning, KHD's ProMax® enables the optimized

operation of cement plants. Ultimately, such optimization results in lower costs, lower energy consumption, and reduced emissions.

Objectives and Strategy

The KHD Group is a full service provider for cement plants and can offer the essential, material key components of a cement plant with its own products. Since its establishment more than 160 years ago, KHD has set itself apart with machines and plants developed in Germany and with leading technology. In product development, KHD focuses strongly on energy efficiency and environmentally friendly systems with minimal pollutant emissions and a long service life and are very easy to maintain. In its thermal line portfolio (Pyro Systems), KHD offers customers not only innovative products and solutions such as clay calcination with the Flash Calciner as well as PYROROTOR® and PYROREDOX®, but also proven products such as heat exchangers, rotary kilns, burners and clinker coolers. In terms of grinding technology, complete grinding plants from KHD are based on roller press technology which is especially efficient and our static and dynamic separator. KHD also offers a portfolio of products in the field of automation.

With our lean, quick organization we have flexibility in dealing with individual customer requirements and can create efficient solutions.

The KHD Group is consistently working on the six areas of activity for strategy implementation which were already presented in May 2023 during the Annual General Meeting:

1. Profiting from the “Green Transition”;
2. Go China/India and improving our presence in selected markets;
3. EPC (engineering, procurement and construction) with strategic partnerships;
4. Expanding the service portfolio and digitalization;
5. Improving competitiveness on the cost side and excellence in execution;
6. Modernizing / upgrade of cement plants.

The six areas of activity are closely interrelated and incorporate sustainability aspects which are becoming increasingly important in the context of restructuring of the cement industry; moreover, if successfully implemented, they ensure the future performance of the KHD Group.

SUSTAINABILITY MATTERS

The KHD Group has introduced a Code of Conduct as a central document that is mandatory for all employees. The Code of Conduct outlines explicit regulations or requirements to be observed with regard to non-financial matters. A Code of Ethics has been introduced for the top management level at KHG AG and KHD companies as well. It governs obligations that are above and beyond those in the Code of Conduct. For example, top management is required to promote ethical conduct actively and to report known violations of the Code of Conduct and the Code of Ethics proactively to the Supervisory Board of KHD AG.

KHD has identified the following sustainability issues as significant. Information is provided about the conceptual strategy and the key goals with respect to these issues. Explanations regarding how KHD ensures that the respective targets are actually met are also provided. Due diligence processes are described to the extent that they are important to the identification, prevention, and mitigation of negative effects.

In addition to the results (i.e. achievement of targets, implementation of measures) of the approaches pursued, explanations are provided regarding the significant risks in connection with the reported non-financial matters associated with our own business activities, business relationships, and our products and services. In the information about the significant risks, the KHD Group takes a net approach, i.e. in the assessment of the significant risks, the values specified are those that remain after considering the risk mitigation or risk limitation measures.

If non-financial performance indicators exist for the respective sustainability issue, these are explained. Significant non-financial performance indicators are those communicated to the Management Board internally for the purposes of Group management (known as the “management approach”).

Environmental Matters

One of the principles in the Code of Conduct emphasizes that KHD feels a responsibility towards the environment. Particularly in the area of enhanced product development, environmental matters play a central role at KHD because the Group’s business model is based on providing the most energy efficient and environmentally sensitive technologies for producing clinker and cement.

Energy-efficient plants for reducing operating costs, using alternative fuels, and – to a continuously increasing degree – limiting CO₂ emissions are highly important for customers of KHD. With the roller press, KHD not only has the most energy-efficient grinding technology, but also the most efficient solution for grinding slag. As our customers use slag and other clinker substitutes, KHD indirectly contributes to a considerable reduction in CO₂ emissions by supplying the technology required to process these clinker substitutes, thus preventing the CO₂ emissions that would otherwise occur during the pyro process related to the use of limestone. Another advantage of the KHD grinding technology with the roller press is that it uses significantly less process water in comparison with other technologies. Increasingly, our customers are requesting solutions that use alternative raw and residual materials as substitutes for limestone, which is carbon dioxide-intensive. Since the PYROCLON® calciner was introduced, KHD has been offering 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 CO₂ footprint of cements, which provides a significant contribution to climate protection.

For this reason, product development within KHD focuses on these critical environmental matters. The emphasis here is on the development of new technologies and the ongoing evolution and optimization of the existing product portfolio. Solutions for using alternative fuels and clinker substitutes as well as digitalization and carbon capture technologies are of key importance here. The focus on energy and emissions efficiency as well as resource preservation in the advanced development of our products is an important way for KHD to differentiate itself from competitors, particularly compared with companies from countries with low cost structures. In this respect, integrating these aspects successfully is highly significant to the commercial success of KHD as well.

The targeted advanced development of KHD products is carried out systematically and regularly with reference to specific customer projects. The key controlling instrument for these activities is the annual budget for research and development. In addition to the amount of the budget for product development, specific development targets are defined. The total expenses for research and development in the 2023 financial year amounted to € 4.1 million (previous year: € 2.9 million).

The use of natural resources is not a key subject in KHD companies because the manufacturing of KHD products is predominantly outsourced to certified suppliers. However, due to the long lifetime and the comparatively low need for repair and maintenance, KHD does indirectly contribute to using natural resources mindfully.

In contrast to production companies, our own consumption of energy and resources is not a significant aspect for KHD. In KHD companies, the most significant amount of energy consumption is related to the leased office buildings, so possibilities for savings are limited for KHD.

There are no significant risks associated with our own business activities or business relationships or KHD products and services that are highly likely to have serious, negative effects on environmental matters. Indirect risks are associated with the business activities and products of KHD, i.e. if KHD is not able to develop particularly beneficial products with regard to energy efficiency, climate-relevant emissions and resource consumption, or to sell these products to customers, this will probably have negative results with regard to environmental aspects. One way that KHD manages these risks is to market the products not only with respect to price, but also, and very consciously, with respect to their environmental advantages.

For KHD, environmental matters are not a non-financial performance indicator used for controlling the Group even if they play an important role in product development and sales, for example. However, environmental matters are indirectly related to the management and controlling of KHD Group because the predominant share of revenue is earned with energy-efficient and environmentally conscious products.

Employee Matters

In addition to complying with all of the legal requirements with respect to employee matters, the KHD Group addresses the following matters, among others, in the binding Code of Conduct:

- The KHD Group trusts in the loyalty of its employees.
- KHD treats employees fairly, courteously, and respectfully.
- KHD is committed to equal treatment and equal and fair opportunities for all employees.
- We refrain from any type of discrimination or harassment.

At KHD, compliance with the rights of trade unions is ensured in accordance with legal provisions. The inclusion and participation of employees with respect to important company matters is ensured due to our employee suggestion system, but also through the works council and the economic committee that are established at the level of Humboldt Wedag GmbH.

For KHD, as a specialized supplier of equipment and services for the cement industry, the personal dedication and the professional expertise of each individual as well as the effective and efficient cooperation in teams are key success factors for the overall financial performance of the KHD Group. For this reason, an important task for KHD is to guarantee a working atmosphere and working conditions at the respective locations in which employees can fully realize their performance potential in a positive manner.

The basic prerequisites for a working atmosphere and working conditions that promote performance include an open, fair management culture and equal opportunities along with possibilities for flexible rules related to work time, encouragement and development of employees, and fair, performance-related compensation. The aspects important to KHD here are:

- Flexibility in organizing work time and mobile working options have become considerably more important in recent years for long-term employee retention. KHD ensures flexibility with regard to work time by setting up work time accounts and part time work schemes, for example. Employees also have the opportunity to take time off to meet individual needs such as childcare, caring for relatives, and personal coaching or training. During the particularly critical phases of the COVID-19 pandemic, the KHD Group promoted mobile working to the greatest extent possible, which also allowed employees the flexibility often required to take care of children. Even after the end of the pandemic, concepts introduced at KHD such as "working from home" (mobile working) provide employees with opportunities to work outside the office.
- With regard to the compensation structure, we acknowledge competitive conditions for remuneration, taking the respective applicable local legal framework and the local salary structure into consideration.
- In KHD companies, employee development is customized and integrated into the annual feedback process carried out by the directly responsible manager with the respective employee. In these discussions, specific internal and external measures for further development in the coming year are defined. In the 2023 financial year, external expenses for training and employee development in the KHD Group amounted to € 147 thousand (previous year: € 95 thousand). Part of this employee development also includes seminars for members of the extended management team.

- Timely succession planning is also an important employee matter. In this regard, passing on the respective professional expertise in a structured and complete manner is very important. The KHD Management Board is directly involved in succession planning – particularly for management positions and knowledge-intensive expert positions.

There are no significant risks associated with our own business activities or business relationships or KHD products and services that are highly likely to have serious, negative effects on employee matters.

For KHD, employee matters are not a non-financial performance indicator used for controlling the Group even if they play an important role with regard to company success.

Social Matters

Dialog at the community and regional levels is taken seriously by KHD companies, e.g. donations made have a regional connection. For example, in the 2023 financial year emergency aid was provided for the earthquake victims in Turkey. In the crisis situation caused by the flood in the Ahr valley, container donations helped meet the need for enclosed space and the storage of goods. Furthermore, social institutions, including medical research and care institutions, are supported annually at the suggestion of employees. With respect to social matters, KHD has very consciously decided to focus on India. The KHD entity in India has been supporting the “Prime Minister National Relief Fund” for several years. This fund supports people affected by natural and human-caused disasters. The fund also supports medical treatment for cancer, kidney transplantation, and heart surgery in India.

The target is to donate at least 2% of the average net profit of the KHD entity in India over the last three years for activities in the area of corporate social responsibility. After currency translation, € 101 thousand was donated in the 2023 financial year (previous year: € 86 thousand).

There are no significant risks associated with our own business activities or business relationships or KHD products and services that are highly likely to have serious, negative effects on social matters.

For the KHD Group, social matters are not a non-financial performance indicator used for controlling the Group. However, there is a clearly defined target for the KHD entity in India for activities in the area of corporate social responsibility, and compliance with this target is monitored by management.

Respect for Human Rights

KHD confirms its unlimited commitment with regard to respecting human rights. This includes preventing child labor, forced labor, and any form of exploitation as well as complying with prohibitions on discrimination. In Europe, the observation of human rights is primarily ensured in national and European legislation in most countries, where compliance is strictly monitored. However, KHD is also active in countries in which human rights are not legally or effectively protected to the same extent as they are in western, industrialized nations. Compliance with human rights in these regions as well is important to KHD and is ensured for KHD companies by the Code of Conduct. Matters that relate to compliance with human rights in suppliers' organizations are described in the sections titled "Employee Matters", "Social Matters", and "Sustainability Matters in the Supply Chain". In addition to the existing compliance management structures, we are committed to the standards of the UN Global Compact Initiative, which we joined as a member in 2023.

There are no significant risks associated with our own business activities or business relationships or KHD products and services that are highly likely to have serious, negative effects on respect for human rights.

For KHD, respect for human rights is not a non-financial performance indicator used for controlling the Group, even though respect for human rights is very important to KHD.

Anti-Corruption and Anti-Bribery Matters

Impeccable ethical conduct is a fundamental principle at KHD and is defined in the Code of Conduct. The Code of Conduct is a preventative measure in which KHD has very consciously established internal company rules in addition to compliance with laws and guidelines. The KHD Group is active worldwide, including in countries where adhering to compliance principles is not as pronounced as in western, industrialized nations. For this reason, it is important to raise awareness, especially among those employees with external contacts, with regard to the principles of the Code of Conduct.

All KHD employees are instructed to make sure that there are no violations of the Code of Conduct in their respective area of responsibility.

The mandatory KHD Code of Conduct governs the following matters, among others:

- The Code of Conduct specifies rules for ethical behavior.
- The Code of Conduct represents a guideline for appropriate behavior in a series of sensitive areas that is expected of all KHD employees in all locations around the world.
- Management is expected to provide an example; a high level of social and ethical competency is expected from them.
- The trust of our business partners, customers and shareholders, the authorities, and the public in the conscientious conduct of all KHD employees is crucial for the reputation and success of our company.
- The KHD Group encourages employees to request advice and support from the respective supervisor or department if they have questions regarding their own conduct or in case of questionable incidents in their area of activity.

All employees as well as the managing directors and members of the Management Board receive a copy of the Code of Conduct; it is a mandatory attachment to the employment contract or service contract. Every year, KHD requires that all employees in senior management and all employees in departments with increased risk with regard to irregularities, corruption, and bribery (e.g. Sales, Procurement, Accounting), group wide, at all KHD companies, provide a written confirmation that they comply with the Code of Conduct. The top management level at KHD AG and KHD companies provides annual confirmation of compliance with not only the Code of Conduct, but also the Code of Ethics.

A whistleblowing system ("Whistleblower Policy") has been implemented at the KHD Group as an important element of the compliance management system regarding violations or possible disputable actions, questionable accounting methods (including accounting and valuation), or insufficient controls or audits in finance and accounting. The whistleblowing system enables employees – also anonymously, if desired – to report concerns related to possible violations or disputable actions. In December 2023, the legal requirements of the Whistleblower Protection Act were fully implemented for the subsidiary Humboldt Wedag GmbH, Cologne. Accordingly, in addition to the whistleblower policy anchored in the Code of Conduct, whistleblowers can also use the internal reporting channel or one of the external reporting offices established by law in the event of violations within the meaning of the Whistleblower Protection Act.

All of the employees addressed in writing in the 2023 financial year confirmed their compliance with the Code of Conduct in writing. All members of the top management level confirmed their compliance with both the Code of Conduct and the Code of Ethics. Moreover, no reports were received through the existing whistleblowing system.

For each project, an estimation of risks related to corruption and bribery must be prepared early on during the tendering process. If certain risk indicators are identified or specified risk values are exceeded, a mandatory risk mitigation strategy must be developed. In the risk register related to the respective project, the identified risks with regard to corruption and bribery are updated and monitored throughout the entire project life cycle.

The (strategic) risk register for the KHD Group also explicitly monitors fraud risks, which also include risks with regard to corruption and bribery. These risks are addressed with clearly defined measures for preventing and fighting against fraud. This risk register is made available and explained in detail to the Supervisory Board of KHD AG twice a year in order to enable the Supervisory Board to assess the effectiveness of the risk management system.

There are no significant risks associated with our own business activities or business relationships or KHD products and services that are highly likely to have serious, negative effects on anti-corruption and anti-bribery matters.

For KHD, anti-corruption and bribery is not a non-financial performance indicator used for controlling the Group even though the effective implementation of measures for prevention and detection of corruption and bribery is important to KHD. The risk assessment for individual projects is also presented to company management for approval based on specifically defined limits before providing a binding proposal. The (strategic) risk register for the KHD Group is updated quarterly and reported to the Management Board of KHD AG.

Sustainability Matters in the Supply Chain

The KHD Group supplies equipment and provides services for the cement industry. With the exception of a workshop in India, where key components for our technologies are manufactured, KHD does not have production capacities of its own.

The KHD Group uses specialized and certified manufacturing companies to produce its products and plant components. Due to the high quality and technical requirements placed on suppliers, they are evaluated by internal specialists before an order is placed for the first time in accordance with a predefined inspection and evaluation process. KHD employees with the respective qualifications visit potential new suppliers, evaluate the organizational structures and the workflow, and look at the specific production conditions in the production facilities. If, for example, unacceptable working conditions, gross disregard for environmental matters, or indications of child labor or forced labor are determined, the supplier is disqualified.

In addition, existing suppliers are subject to regular and event-driven follow-up certifications. KHD is engaged in regular dialog with its most important suppliers in order to identify risks and opportunities and to continuously address the need for action as well as improvements to the resilience of the supply chains.

Large, globally active cement producers are among KHD's important customers. Some of these customers have introduced comprehensive systems to address the subjects of corporate social responsibility and sustainability, which also include important suppliers. In every case in which KHD was included as an important supplier or supplier of key technology in the assessment of corporate social responsibility and sustainability, the required information was provided in full. KHD was subsequently informed that the stipulations according to the assessment criteria of the respective customer were met by KHD.

There are no significant risks associated with our own business activities or business relationships or KHD products and services that are highly likely to have serious, negative effects on sustainability matters in the supply chain.

TAXONOMY REGULATION OF THE EUROPEAN UNION

Reporting Framework and Scope

The goal of the European Green Deal is absolute climate neutrality for the European Union by 2050. In order to achieve the economic orientation and financing for this goal, the EU Commission developed the Sustainable Finance Action Plan. The EU Taxonomy Regulation (EU 2020/852) is an established measure of this action plan with the goal of promoting investments in sustainable economic activities. It defines an economic activity as potentially ecologically sustainable – and therefore eligible for taxonomy – only if it contributes substantially to reaching at least one of the six environmental objectives specified in the Taxonomy Regulation:

- (1) Climate change mitigation
- (2) Climate change adaptation
- (3) Sustainable use and protection of water and marine resources
- (4) Transition to a circular economy
- (5) Pollution prevention and control
- (6) Protection and restoration of biodiversity and ecosystems

The EU has established technical assessment criteria that serve to define and identify sustainable economic activities. At the same time, in order to be considered ecologically sustainable and therefore taxonomy-compliant (aligned), the economic activity must both fulfil the technical assessment criteria and not significantly harm any of the other environmental objectives (Do No Significant Harm (DNSH)). Minimum social and business standards must be complied with, i.e. the performance of the economic activity must be in line with the minimum requirements in the areas of labor standards and human rights.

Until the 2022 financial year, the non-financial Group report was only required to report on the first two environmental objectives, i.e. climate change mitigation and climate change adaptation. Since the 2023 financial year, the reporting obligation includes all six environmental objectives.

Companies subject to the EU Taxonomy Regulation must report the proportion (in percent) of the economic activities that are taxonomy-eligible and taxonomy-aligned for three key performance indicators: revenue, capital expenditures (CapEx), and operating expenditures (OpEx). Reporting regarding taxonomy eligibility has been in effect since the 2021 financial year and regarding taxonomy alignment since the 2022 financial year.

An economic activity is considered taxonomy-eligible if it is described in the delegated acts associated with the environmental objectives of the EU Taxonomy. Consequently, activities

that are not listed among the delegated acts cannot be classified as taxonomy-eligible. The KHD Group generates its revenue in cement plant engineering and with related services, i.e. our economic activities are not explicitly specified in the Regulation (as are, for example, the production of renewable energies or the manufacture of materials for the energy system transformation). Nevertheless, our products and technologies ensure that our customers achieve their climate objectives and can meet the increasingly strict regulations with regard to greenhouse gas emissions and water consumption. As a plant engineering company for the cement industry, with our machines and technologies we enable our customers to make substantial contributions toward achieving Net Zero. Such economic activities can be classified as “enabling activities” with respect to one of the six environmental objectives.

In the 2023 financial year, KHD analyzed the Group’s business activities along the entire value chain, taking the expanded reporting criteria (all six environmental objectives) into consideration, in order to demonstrate the contribution and potential of the Group’s machines/technology portfolio toward reaching Net Zero. With regard to the economic activities of the KHD Group, in terms of the six environmental objectives, activities identified were solely those that make a substantial contribution toward achieving environmental objective “(1) Climate change mitigation”.

Under the leadership of the Senior Manager Sustainability & Compliance, a project team consisting of members from the areas of Product Management, Research & Development, Sales, Controlling, and Accounting gathered the information required for reporting purposes. In so doing, processes for identifying and assessing the criteria were implemented and contents for data collection (product-specific and technical data collection), controlling, and evaluation / assessment were defined across the Group.

Approach, assessment method and assumptions

A multistep approach was used to assess which of the business activities are taxonomy-eligible, whether these are enabling or transitional activities, and the extent to which they make a substantial contribution to achieving one of the environmental objectives and to which the other criteria for taxonomy alignment are complied with. The individual steps are shown below along with the respective results of each step. The results clarify where and to what extent revenue, CapEx, and OpEx related to taxonomy-eligible economic activities were generated in the Group during the 2023 reporting year.

Taxonomy Eligibility

The review of the Group's existing activities, products, and services along the value chain followed the classification systems of the industries in the European Union (known as NACE codes) with a subsequent identification of the taxonomy-eligible activities according to the EU Taxonomy codes.

In the KHD Group, a total of six products and/or product groups for technical (sub-)processes in cement production were classified as enabling technologies for the economic activity "3.6. Manufacture of other low-carbon technologies". These products and product groups (preheater, Pyrorotor®, Pyroredox®, Pyrofloor²®, roller press with separators, Oxyfuel) are identified as activities, which can be considered as carbon-efficient solutions due to their energy efficiency and in connection with other technologies that reduce CO₂ emissions and conserve resources, and therefore they make a substantial contribution toward achieving the environmental objective "(1) Climate change mitigation". KHD ProMax® – the digital twin of a cement plant – is a product that can be classified as a taxonomy-eligible economic activity within activity "8.2 Data-driven solutions for GHG emissions reductions". Individual renovation measures for improving energy efficiency and pollutant emissions at administrative and production sites correspond with classification code "7.3 Installation, maintenance, and repair of energy efficiency equipment".

The respective products and/or product groups were documented in a list of products classified as taxonomy-eligible with quantitative key performance indicators for measuring effectiveness.

Taxonomy Alignment

Significant contribution to environmental objectives

Another step examined whether the products and/or product groups make substantial contribution to achieving the environmental objective "(1) Climate change mitigation", and if so, in which phase of the life cycle and how, along with the respective scope. On the grounds of immateriality, no further assessments were carried out with regard to the other five environmental objectives. No thresholds are specified in the Taxonomy for assessing a substantial contribution to climate change mitigation; furthermore, the requirements allow for a wide scope of interpretation and discretionary judgement. As a result, companies are required to make appropriate and reasonable assumptions with regard to their economic activities.

The following assumptions were made at KHD:

- A contribution is substantial if it enables – either relatively or absolutely – considerable reductions of CO₂ emissions in comparison with the predecessor product or with the current average consumption values accepted as market standard.
- The period under consideration is that during which the projects and/or product groups are in use or operation. The predominant share of the CO₂ emissions occur during this phase of the expected life cycle. In comparison to this period, the emissions during the manufacturing process are marginal with a share of less than 0.1%.
- The basis of assessment is the average electrical energy consumption of the respective technological processes such as grinding raw meal, grinding cement, and pyro processing. The source of the comparative figures/data is the consumption data collected by the Association of German Cement Manufacturers (VDZ) for existing cement plants in Germany for 2017 through 2021.
- This base data was compared with consumption data for the KHD products and/or product groups that enable the respective processes, which is available particularly as consumption data from performance tests. The result of the comparison demonstrated that, in comparison with the standard market data for the installed, technological processes of cement plants, the consumption values can be substantially reduced when KHD technologies / machines are used.

To determine the scope of the product and/or project group, all of its components were subsequently assessed with regard to their functionalities. All of those components with a direct connection to the process and required for proper function were included in the assessment.

The results confirmed that for a total of two products and/or product groups, a substantial contribution to reducing CO₂ emissions in the operation of plants is made possible by using KHD technology in the processes. The materials and design of the relevant KHD products and/or product groups are oriented toward enabling additional savings with regard to resources and consumables.

These products were identified as potentially taxonomy-aligned based on the comparison with consumption values and market data and are subsequently assessed regarding whether the other criteria for Taxonomy alignment are complied with.

DNSH Assessment Criteria

In the assessment of DNSH criteria, a climate risk and vulnerability assessment of the economic activities related to environmental objective “(2) Climate change adaptation” in accordance with Appendix A must be carried out. This assessment evaluates which of the climate risks resulting from climate change specified in Appendix A can have a negative impact on the performance of the products (economic activities) during the expected life cycle. Because the taxonomy-eligible activities of KHD are classified as “enabling”, the site of the cement plants is relevant for the assessment. The result was able to exclude negative effects of climate risks on the performance of the taxonomy-eligible KHD products and/or product groups.

The risks related to the performance of our products in operation in the cement plants were estimated based on the climate risk assessments of our customers. In the process, risk reports from the published annual reports of our customers were evaluated.

DNSH criteria were also met with respect to environmental objectives “(3) Sustainable use and protection of water and marine resources”, “(4) Transition to a circular economy”, “(5) Pollution prevention and control” and “(6) Protection and restoration of biodiversity and ecosystems”. For example, KHD product design facilitates a circular economy due to high durability, easy disassembly, and the ability to maintain and adapt the manufactured products.

Adherence to Minimum Safeguards

Internationally established standards for human rights and labor rights apply at all locations of the KHD Group. KHD has been a member of the UN Global Compact Initiative since 2023 and pledged to comply with and promote these standards in the context of a Zero Tolerance culture.

In addition to complying with all of the legal requirements with respect to employee matters and human rights, the KHD Group addresses important matters explicitly in the binding Code of Conduct. In the context of a Group-wide compliance program, compliance with principles, standards, and rights is ensured and monitored. In the supply chain, suppliers are certified before the first order is placed and compliance with standards with regard to employee matters and human rights is noted. Key suppliers are routinely visited and reassessed by KHD employees with the respective qualifications. It cannot be ruled out that business partners in certain countries do not comply fully with some aspects of the standards. We address these risks proactively with established processes and systems which will be enhanced across the Group. These processes and systems are in place to identify potential risks and violations.

Key Performance Indicators and Reporting

The taxonomy-eligible economic activities of the KHD Group make a substantial contribution to achieving the environmental objective “(1) Climate change mitigation”, do not substantially limit the other environmental objectives, and comply with the minimum social and business standards. In the result, all of the economic activities classified as taxonomy-eligible were also classified as taxonomy-aligned.

Materiality considerations as well as cost-benefit perspectives were taken into account in the analysis of the key performance indicators reported in the framework of the EU Taxonomy. As a result, only the substantial environmental contributions in the Capex segment (project business) were assessed with regard to taxonomy-eligible economic activities.

Key Performance Indicators for the 2023 Financial Year

(in € thousand)	total	taxonomy-eligible	taxonomy-aligned
revenues	224,677	43,799	40,124
in %		19.5%	17.9%
capital expenditure (CapEx)	2,740	218	218
in %		8.0%	8.0%
operational expenditure (OpEx)	7,010	1,186	1,186
in %		16.9%	16.9%

In the following templates, the taxonomy-eligible and taxonomy-aligned activities, with key performance indicators (KPIs) regarding revenue, CapEx, and OpEx are shown in detail according to the disclosure requirements of the EU Regulation.

Definition of Key Performance Indicators

The definition of the key performance indicators for revenue, OpEx, and CapEx corresponds with the EU Taxonomy Regulation.

Revenue

Revenue (denominator of the KPI) corresponds with the revenue of the KHD Group as reported in the Group income statement. The accounting and valuation principles as shown in the Group notes apply accordingly. The numerator corresponds with the total revenue identified by the Group companies as taxonomy-eligible and/or taxonomy-aligned.

Capital Expenditures (CapEx)

The denominator of the KPI corresponds with the total additions to property, plant, and equipment and other intangible assets in the 2023 financial year as reported in the Group notes. The accounting and valuation principles as shown in the Group notes apply accordingly. The numerator corresponds with the part of the capital expenditures that were identified as taxonomy-relevant and that enable the Group to reduce greenhouse gases and CO₂ when the economic activities are carried out.

Operational Expenditures (OpEx)

The denominator comprises the direct, uncanceled expenditures related to research and development as well as leasing expenses. The numerator includes research and development costs which are directly and exclusively classified as taxonomy-relevant products, technologies, and applications.

Cologne, Germany, February 29, 2024

The Management Board

(s) Jianlong Shen
(Chairman)

(s) Jürgen Luckas

(s) Dr. Matthias Jochem

(s) Matthias Mersmann

Appendix: Templates according to the EU Taxonomy Regulation

Financial year N		Year			Substantial Contribution Criteria					DNSH criteria ("Do Not Significantly Harm") (h)								Minimum Safeguards (17)	Proportion of Taxonomy aligned (A.1.) or eligible (A.2.) turnover, year N-1 (18)	Category enabling activity (19)	Category transitional activity (20)
Economic activities(1)	Code (a) (2)	Turnover (3)	Proportion of Turnover, year N (4)	Climate change mitigation (5)	Climate change adaptation (6)	Water (7)	Pollution (8)	Circular Economy (9)	Biodiversity (10)	Climate change mitigation (11)	Climate change adaptation (12)	Water (13)	Pollution(14)	Circular Economy (15)	Biodiversity (16)						
<i>Text</i>		<i>in Euro m.</i>	%	Y; N; N/EL (b) (c)	Y; N; N/EL (b) (c)	Y; N; N/EL (b) (c)	Y; N; N/EL (b) (c)	Y; N; N/EL (b) (c)	Y; N; N/EL (b) (c)	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	%	<i>E</i>	<i>T</i>		
A. TAXONOMY-ELIGIBLE ACTIVITIES																					
A.1. Environmentally sustainable activities (Taxonomy-aligned)																					
Manufacture of other low carbon technologies	CCM 3.6.	40.1	17.9%	Y	N	N	N	N	N	Y	Y	Y	Y	Y	Y	Y	%				
Turnover of environmentally sustainable activities (Taxonomy-aligned) (A.1)		40.1	17.9%	%	%	%	%	%	%	Y	Y	Y	Y	Y	Y	Y	%				
Of which Enabling		40.1	17.9%	%	%	%	%	%	%	Y	Y	Y	Y	Y	Y	Y	%			E	
Of which Transitional			0.0%	%						Y	Y	Y	Y	Y	Y	Y	%		T		
A.2. Taxonomy-Eligible but not environmentally sustainable activities (not Taxonomy-aligned activities) (g)																					
				EL; N/EL (f)	EL; N/EL (f)	EL; N/EL (f)	EL; N/EL (f)	EL; N/EL (f)	EL; N/EL (f)												
Manufacture of other low carbon technologies	CCM 3.6.	3.7	1.6%	EL	EL			EL													
Turnover of Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities) (A.2)		3.7	1.6%	%	%	%	%	%	%												
A. Turnover of Taxonomy eligible activities (A.1+A.2)		43.8	19.5%	%	%	%	%	%	%												
B. TAXONOMY-NON-ELIGIBLE ACTIVITIES																					
Turnover of Taxonomy-non-eligible activities		180.9	80.5%																		
TOTAL		224.7	100.0%																		

Financial year N				Year		Substantial Contribution Criteria						DNSH criteria						Minimum Safeguards (17)	Proportion of Taxonomy aligned (A.1) or eligible (A.2) CapEx, year N-1 (18)	Category enabling activity (19)	Category transitional activity (20)
Economic activities(1)	Code(s) (2)	CapEx (3)	Proportion of CapEx, year N (4)	Climate change mitigation (5)	Climate change adaptation (6)	Water (7)	Pollution (8)	Circular Economy (9)	Biodiversity(10)	Climate change mitigation (11)	Climate change adaptation (12)	Water (13)	Pollution (14)	Circular Economy (15)	Biodiversity (16)						
Text		in Euro m.	%	Y; N; N/EL (b) (c)	Y; N; N/EL (b) (c)	Y; N; N/EL (b) (c)	Y; N; N/EL (b) (c)	Y; N; N/EL (b) (c)	Y; N; N/EL (b) (c)	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	%	E	T		
A. TAXONOMY-ELIGIBLE ACTIVITIES																					
A.1. Environmentally sustainable activities (Taxonomy-aligned)																					
Installation, maintenance and repair of energy efficiency equipment	CCM 7.3.	0.2	8.0%	Y	N	N	N	N	N	Y	Y	Y	Y	Y	Y	Y	%				
CapEx of environmentally sustainable activities (Taxonomy-aligned) (A.1)		0.20	8.0%	100%	–	–	–	–	–	Y	Y	Y	Y	Y	Y	Y	%				
Of which Enabling		0.20	8.0%	100%						Y	Y	Y	Y	Y	Y	Y	%	E			
Of which Transitional										Y	Y	Y	Y	Y	Y	Y	%		T		
A.2. Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities)																					
				EL; N/EL (f)	EL; N/EL (f)	EL; N/EL (f)	EL; N/EL (f)	EL; N/EL (f)	EL; N/EL (f)												
CapEx of Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities) (A.2)				–	%	%	%	%	%											%	
A. CapEx of Taxonomy eligible activities (A.1+A.2)					%	%	%	%	%											%	
B. TAXONOMY-NON-ELIGIBLE ACTIVITIES																					
CapEx of Taxonomy-non-eligible activities(B)		2.5	92.0%																		
TOTAL		2.7	100%																		

Economic activities(1)	Code (a) (2)	OpEx (3)	Proportion of OpEx, year N (4)	Climate change mitigation (5)	Climate change adaptation (6)	Water(7)	Pollution (8)	Circular economy (9)	Biodiversity(10)	Climate change mitigation (11)	Climate change adaptation (12)	Water (13)	Pollution (14)	Circular economy (15)	Biodiversity (16)	Minimum Safeguards (17)	Proportion of Taxonomy aligned (A.1) or eligible (A.2) OpEx, year N-1 (18)	Category enabling activity (19)	Category transitional activity (20)		
Text		in Euro m.	%	Y; N; N/EL (b) (c)	Y; N; N/EL (b) (c)	Y; N; N/EL (b) (c)	Y; N; N/EL (b) (c)	Y; N; N/EL (b) (c)	Y; N; N/EL (b) (c)	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	%	E	T		
A. TAXONOMY-ELIGIBLE ACTIVITIES																					
A.1. Environmentally sustainable activities (Taxonomy-aligned)																					
Manufacture of other low carbon technologies	CCM 3.6.	0.8	11.5%	Y	N	N	N	N	N	Y	Y	Y	Y	Y	Y	Y	%				
Data-driven solutions for GHG emissions reductions	CCM 8.2.	0.4	5.4%	Y	N	N	N	N	N	Y	Y	Y	Y	Y	Y	Y	%	E			
																			T		
OpEx of environmentally sustainable activities (Taxonomy-aligned) (A.1)		1.2	16.9%	100%	–	–	–	–	–	Y	Y	Y	Y	Y	Y	Y	%				
Of which Enabling		1.2	16.9%	100%	%	%	%	%	%	Y	Y	Y	Y	Y	Y	Y	%	E			
Of which Transitional			%	%						Y	Y	Y	Y	Y	Y	Y	%		T		
A.2. Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities)																					
				EL; N/EL (f)	EL; N/EL (f)	EL; N/EL (f)	EL; N/EL (f)	EL; N/EL (f)	EL; N/EL (f)												
Activity 1			%																	%	
OpEx of Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities) (A.2)		–	%	%	%	%	%	%	%											%	
Total (A.1+A.2)		1.2	16.9%	100%	%	%	%	%	%												
B. TAXONOMY-NON-ELIGIBLE ACTIVITIES																					
OpEx of Taxonomy-non-eligible activities(B)		5.8	83.1%																		
TOTAL		7.0	100%																		