中航國際控股股份有限公司
AVIC INTERNATIONAL HOLDINGS LIMITED

(formerly known as CATIC Shenzhen Holdings Limited (深圳中航集團股份有限公司))
(a joint stock limited company incorporated in the People's Republic of China)
(Stock Code: 00161)

OVERSEAS REGULATORY ANNOUNCEMENT

The document attached hereof is the 2019 annual report of KHD Humboldt Wedag International AG ("**KHD**") posted on the website of www.KHD.com by KHD, a subsidiary of AVIC International Holdings Limited (the "**Company**").

TAKEOVERS CODE IMPLICATIONS

Pursuant to Rule 10 of the Takeovers Code, the annual results of KHD for the year ended 31 December 2019 set out in this announcement constitutes a profit forecast containing unaudited profit figures ("**Unaudited Profit Figures**"), which is required to be reported on by both the Company's financial advisers and auditors or consultant accountants in accordance with the requirements set out in Rule 10.9 of the Takeovers Code. However, pursuant to Practice Note 2 issued by the Executive, such Unaudited Profit Figures are exempted from compliance with Rule 10.9 since KHD is listed on the Deutshe Börse Group and such Unaudited Profit Figures are published in accordance with the listing rules of the Deutshe Börse Group, the German laws and regulations and requirements of the Deutshe Börse Group.

Shareholders and investors of the Company should note that the Unaudited Profit Figures does not meet the standard required by Rule 10 of the Takeovers Code. Shareholders and investors of the Company are advised to exercise caution in placing reliance on the Unaudited Profit Figures and when dealing in the shares of the Company and in assessing the merits and demerits of the Merger. Persons who are in doubt as to the action they should take should consult their stockbroker, bank manager, solicitor or other professional adviser.

By Order of the Board
AVIC International Holdings Limited
Liu Hong De
Chairman

Shenzhen, the People's Republic of China, 20 March 2020

As at the date of this announcement, the board of directors of AVIC International Holdings Limited comprises a total of 9 directors, Mr. Liu Hong De, Mr. Lai Wei Xuan, Mr. You Lei, Mr. Liu Jun, Mr. Fu Fang Xing and Mr. Chen Hong Liang as executive directors; and Ms. Wong Wai Ling, Mr. Wu Wei and Mr. Wei Wei as independent non-executive directors.

The directors of the Company jointly and severally accept full responsibility for the accuracy of the information contained in this announcement and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this announcement have been arrived at after due and careful consideration and there are no other facts not contained in this announcement, the omission of which would make any of the statements in this announcement misleading.

2019
Annual Report

get more out of your plant

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

Key Figures at a Glance

in € million	2019	2018
Order intake	301.1	141.7
Revenue	146.3	151.8
Adjusted gross profit	12.1	-0.6
Adjusted gross profit margin (in %)	8.3	-0.4
Adjusted EBIT	-14.4	-28.6
Adjusted EBIT margin (in %)	-9.8	-18.8
EBT	-15.1	-23.9
Group net loss for the year	-18.8	-25.3
EPS (in €)	-0.38	-0.51
Operating cash flow	10.8	-13.5
Cash flow from investing activities	3.0	2.8
Cash flow from financing activities	-2.9	-0.4

in € million	Dec. 31, 2019	Dec. 31, 2018
Equity	101.5	123.1
Equity ratio (in %)	39.6	45.5
Cash and intercompany loans *	182.6	172.2
Net working capital **	-51.2	-22.5
Order backlog	307.8	153.6
Employees	664	703

* Including intercompany loan of € 50 million with entitlement to call for early repayment by giving 30 days' notice.

** Balance of current assets (less cash equivalents and current loans granted) and current liabilities.

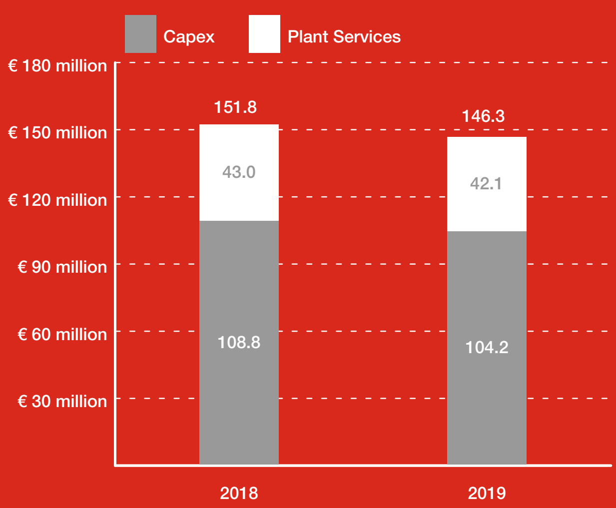
Facts & Figures

- Slight decline in revenues with significant improvement in adjusted gross profit margin
- Operating result remains unsatisfactory during unchanged and tough market conditions
- Significant increase in order intake and order backlog due to a majore order in the USA
- The reorganization in 2019 substantially reduced structural cost and raised competitiveness

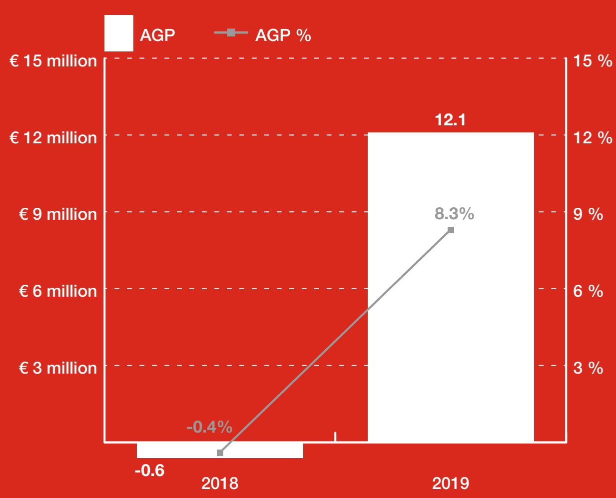
€ 301.1 million
Order Intake (+112.5%)

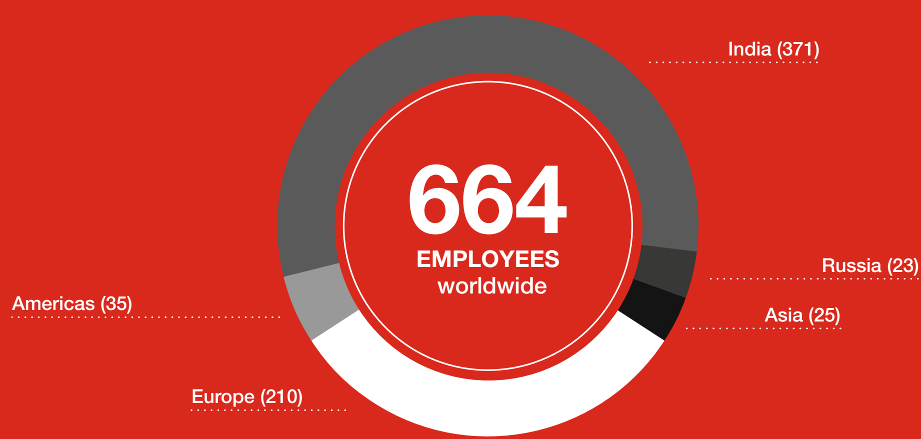
€ 307.8 million
Order Backlog (+100.4%)

Revenue



Adjusted Gross Profit Margin





Foreword by the Management Board

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

The past financial year 2019 was still challenging for KHD. Since global cement demand and thus investment activity in the cement industry has been stagnating for several years, we have to contend with persistently difficult market conditions. Problems in the execution of some projects as well as expenses for the reorganization of the subsidiary Humboldt Wedag GmbH, Cologne, had a negative impact, so that KHD reports earnings before taxes (EBT) of € -15.1 million. However, the result is in line with the Annual Budget of the Group.

Despite the unsatisfactory earnings situation, we also see quite considerable successes in the past financial year. The successful implementation of the reorganization of the subsidiary Humboldt Wedag GmbH announced in the last annual report, is to be mentioned as a particular step forward. As painful as the staff reductions associated with the reorganization have been, the leaner and at the same time more effective organization of Humboldt Wedag GmbH is the central building block for the recovery of the entire KHD Group. With very significantly reduced structural costs, we are no longer forced to aggressively take orders, but can concentrate on projects which match our strengths.

Our customers are at the center of our business activities, i.e. we want to offer the technologies and services that enable us to provide real added value. Last year we already focused on new products that generate added value for customers – not that much as individual products but predominantly as a comprehensive solution. Sales successes in the 2019 financial year encourages us to continue along this path. The PYROROTOR® enables the use of very coarse and poorly processed secondary fuels in cement production. By co-processing waste materials, our customers can drastically reduce their energy costs and also make a contribution to waste utilization. PYROREDOX® reduces nitrogen oxide emissions without the high investment and operation cost of the complex catalyst technology, so that even particularly strict limit values are met. Due to the strict nitrogen oxide limits in China, we expect high demand for PYROREDOX® in the coming years.

Last year, we were also able to celebrate success with our traditional business activities. In July 2019, KHD signed one of the largest contracts in its corporate history. The EP (Engineering and Procurement) contract includes engineering, supply of equipment and structural steel as well as advisory services related to the erection and commissioning of a cement plant in North America. Together with other projects, this contract proves our customers' confidence in KHD as one of the leading plant engineering companies for the cement industry.

In order to improve the quality of project execution, we have established a PMO (Project Management Office), which makes an important contribution to risk evaluation and risk management as well as to process compliance. Since June 2019, in addition to the PMO, the management of the operational functions has been under the responsibility of the COO (Chief Operating Officer), Dr. Matthias Jochem. Since February 2020, Matthias Mersmann has been a member of the Management Board as CTO (Chief Technology Officer). In this way, the issues of technology and research & development, which are crucial for our future, are represented at the highest decision-making level. Furthermore, KHD has established a representative office in Nanjing / China. Through this office, all KHD companies can use highly qualified engineering services and also gain significantly improved access to the Chinese procurement market.

KHD's equity ratio of 40% remains strong and provides a good basis for improvements in all areas and for a successful turnaround in the current financial year. We are convinced that we will be able to achieve positive earnings before taxes (EBT) again as early as 2020. The liquidity (including financial assets with affiliated companies) of € 182.6 million and the support of our majority shareholder AVIC give us the confidence to successfully master the difficult situation in the market for equipment suppliers to the cement industry.

In particular, we would like to thank our customers, employees and business partners as well as our shareholders and the Supervisory Board for their trust and support in the 2019 financial year and look forward to reporting on KHD's success next year!

Best Regards,

The Management Board – KHD Humboldt Wedag International AG

Report of the Supervisory Board

Dear Shareholders,

In the 2019 financial year, the Supervisory Board of KHD Humboldt Wedag International AG comprehensively performed supervisory and advisory functions as required by law, the articles of association, and the rules of procedure. It monitored and advised the Management Board on a continual basis and consulted with the Management Board in numerous meetings and in discussions outside of these meetings. The Supervisory Board requested the Management Board to report regularly, in a timely manner, and comprehensively, both in writing and verbally, about intended business policy and strategy, fundamental issues concerning financial, investment, and personnel planning, the course of business and the profitability of the Group and of the material Group companies. The Management Board also reported on the strategic alignment of the Group and the status of strategy implementation.

The Supervisory Board was involved in all decisions of fundamental importance to the KHD Group.

Cooperation between the Management Board and the Supervisory Board has always been constructive. The Chair of the Supervisory Board was in regular contact with the Management Board and particularly the Chief Executive Officer over and above the regular meetings and discussed the Group's strategy, risk situation, and risk management. The Chief Executive Officer immediately notified the Chair of the Supervisory Board of any important events, which were essential for assessing the situation and development of the KHD Group.

Personnel Changes in the Management Board

Mr. Dian Xie resigned from the Management Board effective June 30, 2019. With a resolution of the Supervisory Board dated May 31, 2019, Dr. Matthias Jochem was appointed as further member of the Management Board, effective June 1, 2019. As Chief Operating Officer, Dr. Jochem will focus on further improvements in operational processes from the tendering to project execution. On December 18, 2019, the Supervisory Board decided to appoint Matthias Mersmann as a further member of the Management Board with effect from February 1, 2020. As Chief Technology Officer, Mr. Mersmann is responsible in particular for expanding the leading technology position of the KHD Group.

Meetings and Resolutions of the Supervisory Board

In the 2019 financial year, the Supervisory Board held a total of four meetings that took place in person, in which all matters of fundamental importance for the KHD Group were comprehensively discussed. In addition, one meeting was held by telephone conference. Furthermore, 17 resolutions were passed by circulation procedure.

The Supervisory Board concerned itself with the monitoring of the financial reporting process and, in the presence of the auditors and the Management Board, with the annual and consolidated financial statements for 2018. At the meeting convened to approve the financial statements on April 2, 2019, the Supervisory Board held a thorough discussion of the annual and consolidated financial statements of KHD Humboldt Wedag International AG for the financial year ended December 31, 2018. The Supervisory Board approved the financial statements and the proposal for the appropriation of net retained profit. In addition, the Supervisory Board discussed its proposal for the selection of the independent auditors by the Annual General Meeting of shareholders.

The agendas of the Supervisory Board meetings that took place in person in March, April, August, and October covered reports on business development, deviations of the actual business development from the budget and forecasts, the 2020 budget and the medium-term planning for 2021-24, discussions of the half-year report prior to publication, discussion of proposed resolutions for the Annual General Meeting of shareholders, the internal control system, the risk management system as well as discussions related to Corporate Governance and organizational matters of the Supervisory Board. In addition to the implementation of the reorganization of the subsidiary Humboldt Wedag GmbH, the Supervisory Board in the 2019 financial year once again focused on the discussion of the strategic development of the Group, improving competitiveness and development perspectives, organizational changes, and further operational issues.

The resolutions made by circulation procedure concerned transactions requiring approval by the Supervisory Board, the appointment of Management Board members, management service contracts for members of the Management Board and the termination of such contracts, as well as the approval of the Declaration of Compliance with the German Corporate Governance Code and the separate non-financial Group report (CSR report) for 2018.

Responsibilities as Defined by Section 107 Paragraph 3 of the German Stock Corporation Act (AktG)
Responsibilities that would otherwise be passed on to an Audit Committee have been carried out by the full Supervisory Board. The Supervisory Board issued the audit mandate to the auditors and discussed and agreed upon the focal points of the audit as well as the audit fees with the auditors. Furthermore, the Supervisory Board monitored the independence, qualification, rotation, and efficiency of the auditors as well as the services provided in addition to the audit of financial statements. The Supervisory Board also dealt with issues of corporate governance, including the preparation of the Declaration of Compliance with the German Corporate Governance Code. On the basis of reports from the Management Board, the Head of Risk Management, and the Head of Internal Audit, the Supervisory Board concerned itself with the internal control system and was informed about the effectiveness and further development of the Group-wide risk management system. Significant opportunities and risks, including the risk situation, risk identification, and risk monitoring as well as the compliance structure and compliance issues within the KHD Group were discussed. The Supervisory Board assessed the effectiveness of the internal control system, the risk management, and the internal audit system.

Corporate Governance and Declaration of Compliance
There were no conflicts of interest among the members of the Supervisory Board or Management Board during the reporting year. According to its own assessment, the Supervisory Board included an appropriate number of independent members as defined by the German Corporate Governance Code at all times during the reporting year.

The Supervisory Board monitors the development of corporate governance standards on a continual basis, as well as the implementation of the recommendations of the German Corporate Governance Code at KHD Humboldt Wedag International AG. The Management Board and Supervisory Board issued the annual declaration of compliance pursuant to Section 161 of the German Stock Corporation Act (AktG) in February 2020. This has since been published and made permanently available to shareholders on the Company's website at www.khd.com. Further information on corporate governance can be found in the Corporate Governance Report that is also available on the website.

Separate Non-financial Group Report

The Management Board generated the separate non-financial Group report for the 2018 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, 2019 and the consolidated financial statements as of December 31, 2019 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 2019 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 28, 2019. 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 10, 2020. 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 2019 financial year and of the consolidated financial statements, including the combined management report, for the 2019 financial year, as well as of the Management Board's proposal on the appropriation of net retained profit for the 2019 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, 2019, as prepared by the Management Board. The annual financial statements of KHD Humboldt Wedag International AG are therefore adopted. The Supervisory Board consents to the appropriation of net retained profit proposed by the Management Board.

The Management Board's report on the relationships with affiliated companies (Dependent Company Report) was audited by the auditors and issued with the following unqualified audit opinion:

„Based on our audit performed in accordance with professional standards and our professional judgment, we confirm that

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

The Management Board presented the Dependent Company Report to the Supervisory Board, which also reviewed the Dependent Company Report. After considering the final results of its own review, the Supervisory Board has no objections to raise with respect to the Management Board's final declaration in the Dependent Company Report or with respect to the result of the audit by the auditors.

Expression of Thanks

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

Cologne, March 10, 2020

Shaohua Jin
(Chair of the Supervisory Board)

Members of the Supervisory Board

Shaohua Jin

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

Gerhard Beinhauer

Deputy Chair of the Supervisory Board,
Managing Director of BBI Beteiligungs- und Handelsgesellschaft mbH
Membership in supervisory boards and other governing bodies:

- BIEGLO Holding GmbH & Co. KGaA, Hamburg, Chair of the Supervisory Board
- Gold Cache Inc., Thunder Bay, Canada, non-executive Member of the Board

Yiqiong Zhang

Chief Financial Officer of AVIC International Beijing Co. Limited

COMBINED MANAGEMENT REPORT

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

The Guidelines Implementation Law concerning corporate social responsibility (CSR) became effective on April 19, 2017. This law governs the reporting on non-financial information for certain capital market-oriented companies. KHD is subject to these non-financial reporting requirements and complies with its obligation by preparing a special non-financial report in accordance with Section 315b, Paragraph 3 of the German Commercial Code (HGB). In accordance with the specifications of Section 315b Paragraph 3 HGB, the Management Board decided not to integrate the non-financial report for the 2019 financial year into the Group Management Report, but instead to create a separate report that is published on the KHD website.

FUNDAMENTAL PRINCIPLES OF KHD GROUP

Business Model

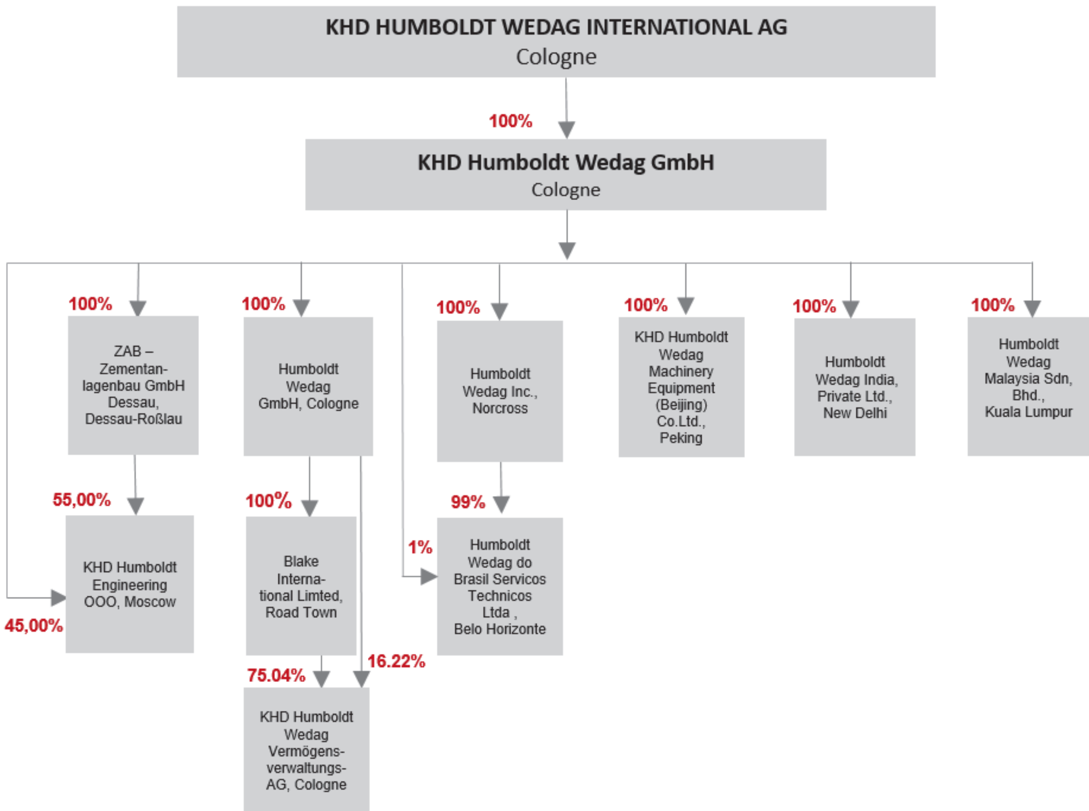
Organizational Structure and Locations

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 technical equipment as well as supervising the erection and commissioning of cement plants and related equipment. It also includes customer services such as supplying spare parts, the optimization, maintenance and repair of cement plants (e.g. with our mobile welding system for reprocessing roller presses), and training of plant personnel. KHD focuses mainly on knowledge-intensive areas. The manufacturing of plant equipment is predominantly outsourced to quality-certified, external manufacturers who work in accordance with KHD's specifications. In the past two financial years, KHD invested in the expansion of its own production capacities in India and officially opened a new production facility in Faridabad, India, in the autumn of 2018. For this reason, selected products will also be manufactured increasingly with the Group's own production capacities.

In its capacity as the ultimate holding company of the Group, KHD AG holds a 100 % investment in KHD Humboldt Wedag GmbH ("KHD HW"), Cologne, Germany, which functions as a holding company with no operating business activities. The eleven KHD AG 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, no longer provides services in cement plant engineering since May 2017, but instead focuses exclusively on managing its own portfolio. As in the previous years, Humboldt Wedag Do Brasil Servicos Technicos Ltda. did not undertake any operational business in the 2019 financial year. The liquidation of Humboldt Wedag Australia Pty. Ltd. initiated in the previous year was concluded in the 2019 financial year. Except for the liquidation of the Australian subsidiary, within KHD neither the Group structure nor the scope of business of individual Group companies have changed.

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

Group Structure



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

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

Within the KHD Group, in addition to technological leadership through the Center of Excellence (CoE), HW GmbH assumes important central functions and serves as a contact for specialist and organizational matters. The markets in Europe, the Middle East and North Africa as well as the Asia-Pacific region (with the exception of China) are managed directly from Cologne by HW GmbH. The other regions – Russia/CIS, India, the Americas and China – are managed locally by the respective subsidiaries.

At the request of the Cologne headquarters, an **office in Nanjing, China** was established in the 2019 financial year. The office in Nanjing is not an independent company, but is legally part of KHD HW and, since autumn 2019, provides engineering and (strategic) purchasing services across the entire Group for both operating subsidiaries and the holding company of the Group. Since its establishment, the office in Nanjing has been performing important tasks in the implementation of Group strategy and focusing on the more intense use of the cost and efficiency advantages of the Chinese employment 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 170 engineers as of December 31, 2019, HW India not only executes its own orders, but it also increasingly supports the other KHD subsidiaries. HW India has its own facilities in Faridabad, near New Delhi, for producing some key components and for refurbishment of roller presses.

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

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

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 the process technology, design, engineering, project management, and the supply of technical 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. In this respect, consulting on energy efficiency as well as emissions reduction and reduction of operating costs (e.g. fuel substitution by alternative fuels) when modernizing plants are important subjects.

Management and Supervision

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

Management Board

The rules of procedure implemented for the Management Board by the Supervisory Board govern the fundamental principles of the Management Board's work. The assignment of functional responsibilities for individual Management Board members is laid out in the schedule of responsibilities. As of December 31, 2019, the Management Board of KHD consisted of four members.

Mr. Dian Xie resigned from the Management Board effective June 30, 2019. With a resolution of the Supervisory Board dated May 31, 2019, Dr. Matthias Jochem was appointed as a further member of the Management Board, effective June 1, 2019. As Chief Operating Office, Dr. Jochem is focused on further improving operating procedures from the tendering process up to project execution. On December 18, 2019 the Supervisory Board resolved to appoint Mr. Matthias Mersmann as a further member of the Management Board, effective February 1, 2020. As Chief Technology Officer, one of Mr. Mersmann's specific responsibilities is expanding the position of the KHD Group as a technology leader.

Corporate Governance

The Company is managed and controlled in accordance with the standards set out in the German Corporate Governance Code ("GCGC"). The main aspects of corporate governance at KHD are listed in the declaration on corporate governance that also includes the declaration of compliance pursuant to Section 161 of the German Stock Corporation Act (AktG). The corporate governance report (see Section 3.10 of the GCGC) provides further details concerning corporate governance. The declaration of compliance and the corporate governance report (including the declaration on corporate governance in accordance with Section 315d in connection with Section 289f of the German Commercial Code (HGB)) are available on KHD's website (http://www.khd.com/corporate-governance-645.html).

Objectives and Strategy

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

Since its establishment more than 160 years ago, KHD has set itself apart with technologically superior machines and plants developed in Germany. In product development, KHD focuses strongly on energy efficiency, clean plants with minimal polluting emissions, long service life and very easy maintenance.

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

Management and Control System

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

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

- Order intake and order backlog
  The approval for project execution is relevant 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, the receipt of an advance payment or the effective opening of a letter of credit. If the respective prerequisites are met, the contract value is recorded in the order intake. With this recording in order intake, the order backlog increases accordingly. This means that the order backlog represents the total of the binding, concluded contracts, which are still to be executed by KHD. It changes continually based on the recorded order intake and progressing execution of the existing backlog (revenue recognition according to completion 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 2019 financial year is calculated as follows:

in € million	**2019**	**2018**
EBIT prior to adjustments	**-22.6**	**-31.2**
Idle capacity costs	1.8	2.6
Reorganization expenses	6.4	-
Adjusted EBIT	**-14.4**	**-28.6**

- 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 2019 financial year, the following trends continued to define the cement industry:

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

Research and development activities at KHD are focused on the development of convincing responses to the trends listed above. The expenses for research and development in the 2019 financial year amounted to € 2.1 million (previous year: € 1.9 million). This corresponds to 1.4 % (previous year: 1.3 %) of revenue.

A total of 15 patents – three of which were registered designs – (previous year: 13 patents) were applied for in the reporting year. At the end of the year, KHD owned the rights to a total of 974 items of intellectual property, of which 423 were patents (previous year: 405), 539 were brands (previous year: 528), and 12 were registered designs (previous year: 10).

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

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

With the 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 the increasing requirements in terms of a significant reduction of nitrogen oxide emissions, even in the future. With the PYROREDOX® gasification reactors, KHD customers can realize reductions in both investment and operating costs.

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

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

ECONOMIC REPORT

Macroeconomic and Sector-related Conditions

Economic Environment

In October 2019, the International Monetary Fund (IMF) predicted global growth of 3.0 % for 2019 (previous year: 3.7 %), the lowest value since 2008/2009. The growth forecast is 0.3 percentage points less than it was back in April 2019. Following a considerable slowdown in growth in the latter quarters of 2018, global economic growth stabilized at a low level in the first half-year 2019. Trade restrictions, which had just eased up at the beginning of the year, increased again significantly later in 2019. This is clearly demonstrated by the higher customs duties between the USA and China, which affect the global business environment and economic activity as a result.

Industry Environment

According to the October 2019 CW Research forecast, global cement demand in 2019 is expected to increase by 1.2 % to 4.15 billion tons in this period. In 2018, on the other hand cement demand declined by 0.8 % compared to the previous year.

The KHD Group depends indirectly on the development of global cement production and cement consumption. KHD's key markets demonstrated very different tendencies in relation to cement consumption in the 2019 financial year:

- According to CW Research, following the positive development in previous years, growth in cement consumption of about 1.7 % is also expected for 2019 in Western Europe. Moderate growth of 1.0 % to 1.5 % is forecasted for Germany and France. In the countries of southern Europe, particularly in Spain, however, an increase in cement production of 6.0 % is expected due to a backlog in the real estate sector.

- Development in the cement sector in Turkey declined in 2019, and in the first four months alone, domestic turnover in cement decreased 41 % in comparison with the same period in the previous year. In particular, the weak housing market and the general economic downturn in the country have contributed in a reduction in domestic cement consumption of 25 % (CW Research), which is supposed to decrease to 48.4 million tons as a result.
- In Russia, following a few years in which cement consumption decreased, a moderate increase in consumption of 2.0 % is expected for the first time again in 2019, starting from a low level. Cement consumption is supposed to increase to a total of 56.5 million tons.
- The Indian analysts at ICRA Limited attribute the slowdown in growth to the elections in mid-2019, among other factors. In the six months between April and September 2019, cement demand decreased due to delays in government projects in the northern, eastern, and central areas of India. According to CW Research, cement consumption in 2019 is expected to total 343.2 tons, equivalents to an increase of 5.5 % with respect to the previous year. ICRA Limited asserts that housing construction for the poorer social classes is the driving force for future cement consumption in the country.
- In United States, an improvement in the cement market situation is expected for the 2019 financial year. For example, deliveries of Portland cement have increased by 2.4 % within the first eight months of 2019 in comparison with the equivalent period in the previous year. CW Research is forecasting an increase in cement consumption of 2.0 % to 102.2 million tons for the entire year of 2019.
- Moderate growth is expected for the ASEAN countries in 2019; however, trends in individual countries will differ markedly. For example, for cement consumption in the Philippines, a significant increase of 7.0 % to 31.3 tons is expected.
- In China, cement revenue increased by 5.0 % in the first six months of 2019 compared with the previous year. According to a forecast by CW Research, 2019 ends with an increase in cement consumption of 1.0 % to 2.32 billion tons.

Financial Market Environment

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

Compared with the closing rate for the previous year, as of December 31, 2019, the Indian rupee fell 0.5 % with regard to the euro. However, at 78.7 rupees to the euro, the average rate was greater than the previous year’s level (80.6 rupees to the euro). In contrast, the closing rate of the US dollar gained ground with respect to the euro (2.0 %). At 1.12 US dollars per euro, the average rate was also greater than that of the previous year (1.18 US dollars per euro). The year-end rate of the Russian ruble against the euro increased considerably by 10.2 % in the financial year. The average rate of 72.3 rubles per euro is also greater than that of the previous year (74.1 rubles per euro). Due to converting local financial statements into euros, exchange rate changes over the reporting year have had a slightly negative impact overall on the KHD Group.

Overall Assessment of the Results of Operations and Economic Position

Based on EBIT, adjusted EBIT and EBT, the business development of the Group following the 2018 financial year was also unsatisfactory in 2019. Nevertheless, crucial targets for significant performance indicators were met.

The growth of cement consumption in KHD's core markets remained, as expected, at a relatively low level and, in some markets, even decreased in the 2019 financial year as well. The reason for this, in particular, was continuing political and economic uncertainty. This unsatisfactory growth, together with the ongoing difficulties of customers in terms of project financing, contributed significantly to the restraint among cement producers when it comes to larger investments. Particularly as a result of a large project in the USA, KHD achieved order intake of € 301.1 million (previous year: € 141.7 million), even though market conditions remain difficult. As a result, order intake was considerably above the forecast submitted in the most recent annual report (the same level as the previous year) and met the updated forecast in the 2019 half-year financial reporting (above the level of the previous year).

As of December 31, 2019, order backlog was € 307.8 million, which is considerably higher than the order backlog of the previous year (€ 153.6 million) and above the forecast submitted in the previous year (the same level as the previous year). Order backlog met the updated forecast in the 2019 half-year financial reporting (above the level of the previous year). Due to the significant increase in order backlog and the reduction in staff associated with the reorganization of the subsidiary HW GmbH, capacity utilization is ensured to a greater extent in the 2020 financial year than in the previous years. Because of the great differences in the regional distribution of the order backlog, for some subsidiaries of KHD, the recovery of the cement markets and further order intake remain important in order to guarantee capacity utilization over the entire 2020 financial year and to prevent idle capacity costs.

Revenue totaled € 146.3 million (previous year: € 151.8 million), which was below both the previous year's revenue and the amount in the submitted forecast (slightly above the previous year's value). The reasons for the slight decrease in revenue were the low order intake in the first half-year 2019 and delays in the execution of some orders.

Overall, the Group achieved EBIT of € -22.6 million (previous year: € -31.2 million), adjusted EBIT of € -14.4 million (previous year: € -28.6 million) and a significantly negative EBIT margin of -15.5 % (previous year: -20.6 %) and adjusted EBIT margin of -9.8 % (previous year: -18.8 %). Adjusted EBIT is about € 14.2 million greater than the previous year's value and therefore corresponds with the submitted forecast (significantly negative adjusted EBIT, but also a significant improvement over the previous year). The adjusted EBIT margin improved considerably in the 2019 financial year with respect to the previous year's value, but is nevertheless negative. The forecast for the adjusted EBIT margin (considerable improvement over the previous year) was achieved. The reasons for the negative adjusted EBIT and adjusted EBIT margin are, in particular, high unplanned extra expenses associated with executing some projects that were contracted under high competitive pressure before the fourth quarter of 2018. The significantly negative EBIT and EBIT margin are also affected negatively by the one-time costs of the reorganization (€ 6.4 million) of the subsidiary HW GmbH as well as idle capacity costs due to the unsatisfactory order intake in the first half-year 2019.

The cash flow from operating activities of € 10.8 million was considerably higher than the submitted forecast (negative cash flow from operating activities). An important reason for this was the advance payments of customers on the high order intake in the 2019 financial year, which was far greater than the submitted forecast. In the early phase of project execution, the advance payments of customers are exceeding the project-related cash outflow considerably, which results in a positive cash flow. 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 € 265.8 million (previous year: € 98.6 million) exceeded the forecast (about the level of the previous year) by a considerable margin. The significant increase of order intake is primarily due to a large project from the USA. Revenue of € 104.2 million (previous year: € 108.8 million) allowed the forecast (about the level of the previous year) to be met. EBIT and adjusted EBIT totaling € -28.3 million and € 20.8 million (previous year: € -36.4 million and € -33.8 million) were negatively affected by unexpected additional costs in several projects in the 2019 financial year. Nevertheless, the Capex segment fully met the forecast for adjusted EBIT (significantly negative, but a considerable improvement over the previous year).

Order intake in the Plant Services business unit totaled € 35.3 million, considerably less than the previous year's value of € 43.1 million, so it did not meet the submitted forecast (significant increase in order intake). Revenue in the amount of € 42.1 million (previous year: € 43.0 million) also did not meet the targets. Only with respect to EBIT in the amount of € 5.7 million (previous year: € 5.2 million) was the forecast (significantly above the previous year) nearly met.

Business and Earnings Position

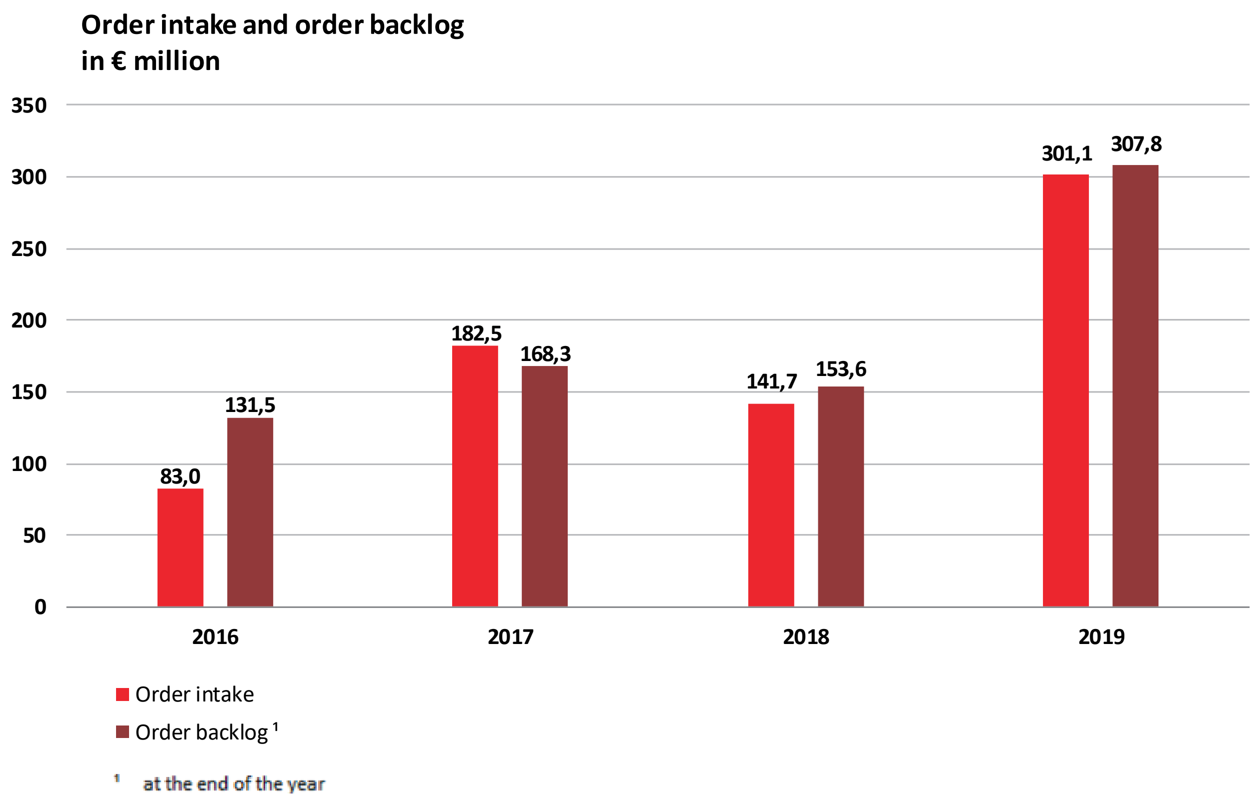
Order Intake and Order Backlog

KHD achieved an order intake of € 301.1 million in the 2019 financial year, which more than doubled the previous year's value of € 141.7 million. The reason for this positive development is primarily a large order from the USA. However, the continuing political and economic insecurity in markets important to KHD, such as Russia and parts of the EMEA region, and the renewed introduction of U.S. sanctions against Iran, together with the difficulties of our customers with regard to project financing resulted in order intake in other regions that was not fully satisfactory.

In the Capex segment, KHD achieved a total order intake of € 265.8 million, which was considerably above the previous year's value for new business (€ 98.6 million). The markets of HW India (India, Nepal, Bangladesh) did not fully meet expectations, but did make a significant contribution to order intake. The markets in Turkey, in Russia, in the Asia-Pacific region, and in Africa remained significantly below expectations.

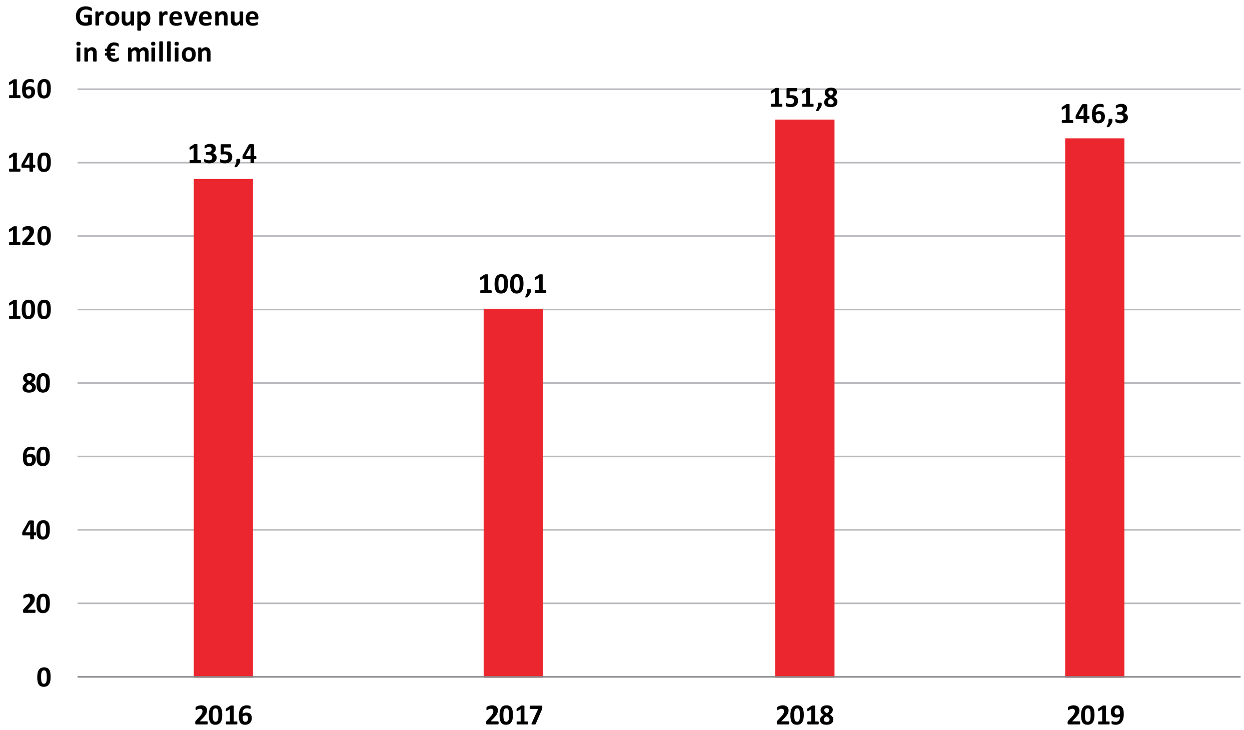
Following a total of € 43.1 million in 2018, the spare parts and service business (Plant Services) contributed a significant share, € 35.3 million, to the total order intake. However, development in all regions was disappointing, not least due to the significant reduction in inquiries. The Plant Services segment was responsible for just 11.7 % of the total order intake (previous year: 30.4 %) in the financial year.

Because the order intake was considerably higher than revenue, order backlog as of December 31, 2019 reached a value of € 307.8 million, which is significantly above the previous year's value of € 153.6 million. Adjustments due to the reduction of order values or cancellation of orders as well as adjustments due to the suspension of project execution totaling € 1.7 million (previous year: € 1.8 million) are shown as an adjustment to order backlog. This also applies for the effects of exchange rate fluctuations of € 1.1 million (previous year: € -2.8 million). Due to the significant increase in order backlog and the reduction in staff associated with the reorganization of the subsidiary HW GmbH, capacity utilization is ensured to a greater extent in the 2020 financial year than in the previous years. Because of the great differences in the regional distribution of the order backlog, for some subsidiaries of KHD, further order intake remains important in order to guarantee capacity utilization – particularly in the second half-year 2020 – and to prevent idle capacity costs.



Group Revenue

In the 2019 financial year, KHD achieved revenue in the amount of € 146.3 million (previous year: € 151.8 million). The slight reduction in revenue with respect to the previous year's value is primarily the result of low order intake in the first six months of the 2019 financial year. Projects in Asia, India, Africa, and Europe were the biggest contributors to revenue.



Group Earnings Position

The costs of sales comprise € 1.8 million (previous year: € 2.6 million) in idle capacity costs that resulted from incomplete utilization of existing capacities. Because these costs are not directly related to cost of sales, they are adjusted in the determination of the adjusted gross profit. In addition, the costs of sales include high, unplanned cost overruns due to difficulties in executing several projects. The costs of sales – adjusted with regard to idle capacity costs – totaled € 134.2 million in the 2019 financial year. The total adjusted gross profit in the 2019 financial year was positive in an amount of € 12.1 million, following € -0.6 million in the previous year.

At € 3.3 million, the other operating income exceeds the level of the previous year by 22 % (€ 2.7 million). In 2019, it also includes primarily income from exchange rate fluctuations in the amount of € 2.2 million (previous year: € 1.2 million).

Despite the decrease in sales expenses by 12.1 % to € 11.6 million (previous year: € 13.2 million), expenses remained at a high level due to ongoing, intensive sales activities, even in industry comparisons.

General and administrative expenses of € 12.7 million were nearly unchanged in the 2019 financial year at following € 12.4 million in the previous year. The slight increase is mainly due to higher consulting expenses in connection with the reorganization implemented in the 2019 financial year and the strategic alignment of the Group.

In addition, the general and administrative costs include, in particular, legal and consulting costs, accounting costs, Management Board remuneration, Supervisory Board remuneration, and costs related to the KHD Group's stock exchange listing.

Both the cost of sales and the administrative expenses include amortization of the capitalized, lease-related rights of use in the amount of € 1.5 million for the first time in the 2019 financial year due to the initial application of IFRS 16.

The one-time expenses in the amount of € 6.4 million incurred in connection with the reorganization are reported as a separate item in the income statement. Other expenses increased slightly from € 5.1 million in the previous year to € 5.6 million now. In particular, other expenses include currency exchange rate fluctuations and changes in market value of foreign exchange forward contracts for hedging exposure on foreign currency receivables of € 2.4 million (previous year: € 2.1 million) and expenses for research and development of € 2.1 million (previous year: € 1.9 million). As a result, research and development activities remain at a high level, illustrating the efforts of KHD to continue to expand its technological expertise.

Despite a very considerable improvement with respect to the previous year, the EBIT of € -22.6 million (previous year: € -31.2 million) remains unsatisfactory. The EBIT margin improved from -20.6 % to -15.5 %. Without considering idle capacity costs and reorganization expenses, the adjusted EBIT amounts to € -14.4 million and the adjusted EBIT margin to -9.8 %.

The Group's net finance income of € 7.6 million (previous year: € 7.3 million) remains at a high level. In particular, the net finance income includes interest income of € 5.9 million from the two loans granted to AVIC Kairong, each for € 50 million. The largest items under finance expenses, which totaled € 1.1 million (previous year: € 1.3 million), are the interest related to pension benefit obligations, the interest expenses for a bank loan, and interest expenses resulting from the discounting of provisions and other non-current liabilities. The net finance income also made an important contribution to compensate for at least a portion of the operating losses in the 2019 financial year.

Earnings before tax (EBT) did improve significantly to € -15.1 million (previous year: € -23.9 million), but still remains at an unsatisfactory level. Despite the negative earnings before tax, the Group accounted for income tax expenses of € 3.8 million (previous year: € 1.4 million) in the 2019 financial year. The income tax expense is due to the varying profitability of the KHD subsidiaries. Some subsidiaries achieved positive EBT that resulted in income tax expenses, whereas other subsidiaries sustained significant losses. KHD capitalizes deferred tax assets on temporary differences and tax loss carry-forwards only to a limited extent, so that only a low compensation effect on current income tax expenses could be recognized. The group net loss for the year amounted to € -18.8 million (previous year: € -25.3 million). Basic and diluted earnings per share improved to € -0.38 (previous year: € -0.51).

Segment Earnings Situation
At € 104.2 million, revenue for the Capex segment was slightly below the previous year's amount (€ 108.8 million). The adjusted gross profit in the Capex business unit (adjusted by idle capacity costs of € 1.8 million, previous year: € 2.6 million) amounted to € -0.2 million (previous year: € -12.0 million). The adjusted gross profit margin of -0.2 % was negative, but significantly better than in the previous year (-11.0 %). Although considerable extra expenses were recorded again in the execution of some projects, the gross profit margin of € -2.0 million is significantly improved with respect to the previous year (€ - 14.6 million). Despite this improvement, the gross profit remains unsatisfactory.

Other operating income of € 3.3 million (previous year: € 2.7 million) was allocated to the Capex business unit. The segment's sales expenses were € 8.2 million (previous year: € 9.6 million) and the general and administrative expenses were € 10.2 million (previous year: € 9.9 million). Across the entire KHD Group, reorganization expenses totaling € 6.4 million were reported in the 2019 financial year. The majority of these, € 5.7 million, is attributable to the Capex segment. The other expenses of the KHD Group (€ 5.6 million (previous year: € 5.1 million) were allocated in full to the Capex business unit. Due to major challenges in the market environment and the overall unsatisfactory development, EBIT for the Capex segment amounted to € -28.3 million (previous year: € -36.4 million) and EBIT margin amounted to -27.2 % (previous year: -33.5 %). Adjusted EBIT of € -20.8 million (previous year: € -33.8 million) was also significantly negative.

KHD Group revenue in the Plant Services segment totaled € 42.1 million, remaining at approximately the same level of the 2018 financial year (€ 43.0 million). The gross profit in this business unit was € 12.3 million (previous year: € 11.4 million), a positive development despite a slight decrease in revenue. As a result, the adjusted EBIT margin increased from 12.1 % in the previous year to 13.5 % in the 2019 financial year.

The total of sales expenses and general and administrative expenses in the Plant Services segment amounted to € 5.9 million (previous year: € 6.1 million). Despite the expenses for reorganization mentioned above, of which expenses in the amount of € 0.7 million is attributable to the Plant Services segment, EBIT for the business unit of € 5.7 million improved in comparison with the previous year (€ 5.2 million).

Financial Position and Net Assets

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

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

A loan for € 25 million from the Bank of China Limited, Frankfurt branch, was disbursed to KHD in November 2018. The loan has a fixed term and is due for repayment by 2021. The interest rate agreed to for the loan is significantly lower than that obtained by KHD for the two loans granted to AVIC Kairong.

In accordance with the KHD financial strategy, Group companies are in the first instance responsible for accumulating liquidity surpluses to cover their financing requirements (principle of internal financing). However, KHD provides its subsidiaries with additionally required liquidity 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 million). Furthermore, the KHD Group has a bank guarantee credit facility with the Bank of China Limited, Frankfurt branch, with a volume of € 6 million and a bank guarantee credit facility with Zurich Insurance plc. for € 5 million. As of December 31, 2019 the bank guarantee credit facilities have been utilized in a total amount of € 44.9 million (previous year: € 45.3 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

Total cash and cash equivalents increased by € 10.4 million from € 72.2 million to €82.6 million during the reporting year. Besides the short-term liquidity in the form of cash and cash equivalents, KHD can, in case of additional need for liquidity, call in the € 50 million loan that was granted to AVIC Kairong in July 2017 for repayment by giving 30 days' notice.

A bank loan for € 25 million and long-term pension benefit obligations of € 19.6 million offset cash and cash equivalents.

Cash Flow

The positive cash flow from operating activities totaled € 10.8 million in the financial year (previous year: € -13.5 million). An important reason for the positive cash flow from operating activities was the advance payments of customers on the high order intake in the 2019 financial year. In the early phase of project execution, the advance payments of customers are exceeding the project-related cash outflow considerably, which results in a positive cash flow. Counteracting this is the operating loss, which also includes project costs that did not impact cash flow (not cash effective) until December 31, 2019.

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

Cash flow effect from operating activities for the year 2019	in € thousand
Cash flow from customer contacts with revenue recognition over time	46,840
Cash flow from current liabilities/ invoices from subcontractors	(14,115)
Cash flow from changes in receivables	2,219
Cash flow from utilization of provisions and long term liabilities	(6,210)
Cash outflow from result (EBITDA)	(19,917)
Cash flow from tax payments made/ received	(1,764)
Other cash inflows and outflows	3,765
Cash flow from operating activities	**10,818**

Cash flow from investing activities of € 3.0 million (previous year: € 2.8 million) mainly results from interest payments received (€ 4.4 million, previous year: € 5.9 million) on the loans granted to AVIC Kairong and outgoing payments during the same period for investments in property, plant and equipment and intangible assets of € 1.5 million (previous year: € 3.2 million).

Cash flow from financing activities of € -2.9 million (previous year: € -0.4 million) results from interest payments of € -0.5 million (previous year: € -0.4 million) for a bank loan. In addition, with the introduction of IFRS 16 in the 2019 financial year, the principal payments (€ -1.5 million) of the lease liabilities, which were recorded in the balance sheet for the first time on January 1, 2019, were reported in cash flow from financing activities. Furthermore, the dividend payment of a subsidiary with outside shareholders resulted in cash outflows in the amount of € -0.9 million in the 2019 financial year.

Total Assets

The balance sheet total of the Group decreased slightly from the figure at the end of 2018 (€ 270.4 million) by € 13.7 million to € 256.7 million. While the ratio of current assets to non-current assets was nearly balanced as of the 2018 balance sheet date, at the end of 2019 there was a preponderance of current assets, which make up approx. 91 % of the total assets. This resulted from the reclassification of two loans granted to AVIC Kairong into the current assets. In accordance with the contractual agreements, these are due for repayment in July and November 2020. Cash and cash equivalents made up 32.2 % of the total assets (previous year: 26.7 %).

At € 23.4 million, non-current assets are significantly below the level of the previous year by € 100.3 million, which is primarily due to the above-mentioned reclassification of the loans. At € 9.7 million, property, plant, and equipment is at the previous year's level (€ 9.6 million). Due to the initial application of IFRS 16

"Leases", KHD is reporting the respective rights of use in the amount of € 3.9 million on the underlying assets in the balance sheet for the first time in this reporting year. The non-current trade receivables and other receivables decreased from € 5.2 million to € 2.3 million. These also include deferred trade receivables in the amount of € 1.0 million (previous year: € 3.7 million). The deferred receivables incur interest at usual market conditions.

In addition to cash and cash equivalents and the loans to affiliated companies mentioned above, which are due for repayment in 2020, current assets include, among others, non-current trade receivables and other receivables of € 32.1 million (previous year: € 41.6 million). The contract assets from customer contracts with revenue recognition over time in the amount of € 3.8 million (previous year: € 15.6 million) result from projects for which the costs incurred for these contracts as of the end of 2019 plus proportionate profits recognized exceeded progress billings. The considerable decrease 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. Despite the higher volume of projects in execution, advance payments are nearly unchanged with respect to the previous year's value as of the reporting date of December 31, 2019. The reason for this is the relatively early execution stage of significant projects won in the 2019 financial year for which the scope of supplier orders and the related advance payments is still relatively limited as of the reporting date.

Financing

Equity saw a decrease from € 123.1 million at the end of 2018 by € 21.6 million to € 101.5 million. The decrease was primarily caused by the net loss for the financial year. Despite the decrease in equity, the equity ratio as of December 31, 2019 amounted to 39.6 % (previous year: 45.5 %) and remains at a fully satisfactory level.

The non-current liabilities at the end of the year were € 53.2 million (previous year: € 50.3 million) and primarily include pension benefit obligations (€ 19.6 million, previous year: € 19.4 million) as well as a bank loan (€ 25.0 million, previous year: € 25.0 million). Due to the initial application of IFRS 16 "Leases", KHD is reporting the respective liabilities in the amount of € 2.6 million on the underlying leases in the balance sheet for the first time in this reporting year.

There was also a slight increase in current liabilities. They amounted to € 96.9 million as of the reporting date in the previous year; at the end of 2019 they totaled € 101.9 million. Significantly lower provisions (€ 22.1 million, compared with € 28.3 million in the previous year) and trade and other payables (€ 33.1 million, compared with € 46.0 million in the previous year) were more than compensated by considerable increases in contract liabilities and advance payments received. The provisions include an amount of € 1.8 million for reorganization expenses. The increase of € 24.3 million is primarily associated with projects won in the 2019 financial year which are in an early phase of execution as of the reporting date. In the early phase of project execution, the progress billings exceed project-related costs.

Net working capital – the difference between current assets (less cash and cash equivalents and short-term loans) and current liabilities – improved to € -51.2 million (end of 2018: € -22.5 million). The primary reason for this is the balance of contract assets and contract liabilities (including advance payments received), which changed from € -6.7 million in the previous year to € -42.6 million.

Non-financial Performance Indicators

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

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

Employees

Personnel Development

As of the end of 2019, KHD employed 664 people, 39 less than the previous year's total of 703. The reduction in staff affects the German companies in particular. In comparison with the end of 2018, there are 77 fewer employees in Germany as of the reporting date. The increase in staff occurred primarily in India (+19 employees) and China (+15 employees). As of the end of 2019, approximately 32 % of employees worked in Germany and 55 % in India.

KHD's personnel expenses in the financial year amounted to € 37.7 million, following a total of € 40.1 million) in the previous year. The reason that personnel expenses were lower is the reduction in staff associated with reorganization and carried out over the course of the reporting year. Reorganization expenses amounting to € 6.4 million are not included in the personnel expenses of € 37.7 million.

Development of Team and Leadership Skills

Our employees undergo a variety of internal and external training programs. This is intended to ensure that the knowledge, skills, and working practices are adapted to continuously changing conditions and to customers' growing expectations. Seminars for our managers also have been part of internal training since the 2019 financial year. Internal feedback sessions for the evaluation and development of employees continued in 2019 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 2019 and Expected Development in 2020 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 key performance indicators. As a management holding company, KHD AG – unlike the operating Group companies – is not additionally controlled based on non-financial performance indicators. KHD AG fully achieved the targets as submitted in the outlook for the 2019 financial year, resulting in a slightly positive result for earnings before tax (before the effect of income from investments). In addition to the income from services provided to subsidiaries, particularly the significantly positive net finance income contributed to achieving this target. The forecasted improvement in the liquidity situation was not met in the 2019 financial year. The liquidity of KHD AG remains satisfactory, though it did decrease due to the partial repayment of a loan to a subsidiary during the year.

The expected development of KHD AG in the 2020 financial year is also determined by the operating success and dividend policy of the direct and indirect subsidiaries and, therefore, the development of the KHD Group. To this extent, the statements in the outlook for the Group also apply indirectly to the future development of KHG AG. With respect to the significant performance indicators, KHD AG expects a slightly positive result for earnings before tax (before the effect of income from investments) in the 2020 financial year as well. This guidance is based on the assumption that the operating subsidiaries will continue to receive services from the bond arrangement agreement via KHD AG in the planned volume and that the Group charges for the services provided (management tasks of the Management Board members performed for KHD subsidiaries) and received do not change significantly. Furthermore, the outlook also assumes that from the available liquidity and the loans granted, interest income can be generated at a level equal to that of the previous year. This assumes that the cash from the repayment of the loans granted to AVIC Kairong, which are due and payable in the 2020 financial year, can either be invested again at comparable conditions or that the loans will be extended. KHD AG does not expect any significant reduction in liquid assets. The liquidity and financing of KHD AG continue to be ensured to their full extent.

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

Results of Operations

KHD AG reports revenue from internal Group services in the amount of € 1,825 thousand (previous year: € 1,993 thousand) for the 2019 financial year.

Other operating income in the amount of € 76 thousand (following € 912 thousand in the previous year) primarily includes prior period income from the release of other provisions in the amount of € 42 thousand (previous year: € 251 thousand) and exchange rate gains of € 17 thousand (previous year: € 43 thousand). Exchange rate forward contracts in the amount of € 600 thousand contributed significantly to the other operation income in the previous year.

The expenses for purchased services in the amount of € 622 thousand (previous year: € 344 thousand) mainly include external consulting services. These third-party services also take place relating to intragroup revenue.

Personnel expenses in the amount of € 1,172 thousand (previous year: € 1,497 thousand) primarily relate to the compensation of the members of the Company's Management Board. In the previous year there were expenses for severance payments in the amount of € 470 thousand, but in contrast, severance payments in the financial year amounted to just € 10 thousand.

Other operating expenses increased by the amount of € 679 thousand in the 2019 financial year in comparison with 2018. The increase is primarily due to additional consulting services in connection with the strategic alignment of the Group. In addition, other operating expenses include Group charges, travel expenses, legal and consulting costs, costs of preparing and auditing the annual financial statements, Supervisory Board compensation, costs related to the Annual General Meeting, investor relations costs, and other administrative costs.

Income from long-term loans in financial assets (€ 5,931 thousand, previous year: € 5,931 thousand) is equivalent to the interest income from the loans granted to AVIC Kairong for a total of € 100 million. Interest and similar expenses totaling € 3,019 thousand (previous year: € 4,123 thousand) primarily resulted from interest for loans taken out by four subsidiaries (€ 2,233 thousand, previous year: € 3,330 thousand), bank guarantee fees and interest expenses from a bank loan for € 25 million.

After considering income taxes of € 357 thousand (previous year: € 552 thousand), net profit for the year is € 261 thousand (previous year: € 871 thousand), which resulted in an accumulated loss of € 7,834 thousand after taking into account the loss carried forward from the previous year of € 7,573 thousand.

Financial Position and Net Assets

The Company's total assets decreased slightly in this financial year from € 171,358 thousand to € 169,387 thousand.

The assets of the Company, which functions as a pure management holding company, are dominated by fixed assets. The most significant assets of KHD AG are – as in the previous year as well – the shares in KHD HW in the amount of € 63 million (previous year: € 63 million) and the two loans granted in the 2017 financial year to AVIC Kairong, each in the amount of € 50 million. The loan is due for repayment in 2020 and KHD is aiming for a prolongation or reinvestment. The total value of these financial investments is equal to 96.5 % of the total assets (previous year: 95.3 %).

In the current assets, receivables and other assets increased by € 2,247 thousand to € 2,934 thousand as of the closing date for 2019. The main reason for this is the outstanding interest receivables due from the affiliated company AVIC Kairong in the amount of € 1,495 thousand as of the reporting date.

The decrease in bank balances by € 4,085 thousand to € 2,862 thousand (previous year: € 6,947 thousand) primarily resulted from partial repayments of loans granted to affiliated companies.

The equity of KHD AG increased in the amount of the net profit generated by € 261 thousand from € 106,669 thousand to € 106,930 thousand. As a result, and due also to the slightly lower total assets when compared to the previous year, the equity ratio increased in the financial year from 62.2 % to the current figure of 63.1 %.

The total amount of liabilities decreased by just about 4 % in comparison to the previous year (€ 61,305 thousand; previous year: € 63,718 thousand). The liabilities almost exclusively comprise liabilities due to affiliated companies (€ 36 million) and liabilities due to banks (€ 25 million). Consequently, the debt ratio of KHD AG (the ratio of total liabilities to equity) decreased to 58.4 % (after a figure of 60.6 % on the previous year's reporting date).

The financing of KHD AG continues to be ensured to its full extent due to the available liquidity at the end of 2019, the option to require repayment of the loan granted in July 2017 to AVIC Kairong in the amount of € 50 million within 30 days, and the ongoing distribution potential of companies in the KHD Group.

Relations with Affiliated Companies

The Management Board of KHD AG has prepared a report on relations with affiliated companies – a dependent company report – in accordance with Section 312 of the German Stock Corporation Act (AktG) for the 2019 financial year. The KHD Management Board issued the following concluding declaration in the Company's dependent company report:

"With respect to the legal transactions listed and in view of the facts known to us at the time at which the transactions were made, our Company received appropriate consideration for each transaction in the report for the 2019 financial year regarding relations with affiliated companies. There were no other transactions or measures at the request of or in the interest of the controlling companies or one of their affiliated companies in the 2019 financial year."

Accumulated Loss

The annual financial statements of KHD Humboldt Wedag International AG for the 2019 financial year indicate a net profit of € 261 thousand and an accumulated loss of € 7,573 thousand. The Management Board and the Supervisory Board will propose to the Annual General Meeting to be held on May 12, 2020 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, 2019 € thousand	Dec. 31, 2018 € thousand
Fixed assets	163,412	163,414
	163,412	**163,414**
Current assets		
Receivables and other assets	2,934	687
Bank balances	2,862	6,947
	5,796	**7,634**
Prepaid expenses	**179**	**310**
Total assets	**169,387**	**171,358**

Equity and liabilities	Dec. 31, 2019 € thousand	Dec. 31, 2018 € thousand
Equity		
Subscribed capital	49,704	49,704
Reserves	64,799	64,799
Accumulated loss	-7,573	-7,834
	106,930	**106,669**
Provisions and accruals		
Provisions for taxes	384	305
Other provisions and accruals	768	666
	1,152	**971**
Liabilities		
Liabilities due to banks	25,057	25,059
Liabilities due to affiliated companies	36,168	38,617
Other liabilities	80	42
	61,305	**63,718**
Total equity and liabilities	**169,387**	**171,358**

Income Statement	**2019**	**2018**
	€ thousand	**€ thousand**
Revenue	1,825	1,993
Other operating income	76	912
Cost of purchased services	-622	-344
Depreciation and amortization, on fixed assets and current assets	-2	-3
Personnel expenses	-1,172	-1,497
Other operating expenses	-2,400	-1,721
Interest income/expense	2,913	2,083
Income taxes	-357	-552
Profit for the year	**261**	**871**
Loss carried forward from previous year	-7,834	-8,705
Accumulated loss	**-7,573**	**-7,834**

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, 2019, and is divided into 49,703,573 no-par-value ordinary shares. All shares are ordinary bearer shares and grant the same rights. The rights and obligations arising from the shares are derived from statutory regulations.

Restrictions affecting Voting Rights or the Transfer of Shares

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

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

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

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

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

The Management Board was not informed of any other shareholders whose voting rights directly or indirectly exceeded 10 % of the total voting rights as of the reporting date December 31, 2019, or at the time of the preparation of the financial statements.

Shares with Special Rights granting Control Authorizations

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

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

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

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

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

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

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

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

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

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

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

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

COMPENSATION REPORT

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

Compensation System for Members of the Management Board

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

The Supervisory Board has extensively studied the legal requirements laid down by the German Act on the Appropriateness of Management Board Compensation (VorstAG) and the recommendations made by the GCGC. Total compensation of individual Management Board members is set by the Supervisory Board.

The compensation system for the Management Board has been decided by the Supervisory Board and, together with the level of the compensation, is subject to regular evaluation.

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

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

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

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

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

In order to gear the variable compensation components towards sustainable corporate growth and to create a long-term incentive effect, the financial targets are generally based on a two-year assessment period in relation to key performance indicators of the KHD Group. Only once the two-year assessment period has expired a final assessment on the target achievement is made. The achievement for the individual target is determined based on the average target achievement across the entire assessment period. The targets for the current assessment period (January 1, 2019 through December 31, 2020) were set at the beginning of the 2019 financial year.

For Yizhen Zhu, appointed as Chief Executive Officer effective December 2, 2018, the Supervisory Board agreed upon variable compensation rules that differ from those of the compensation system. For Mr. Zhu, the Supervisory Board can set only personal targets, only financial targets (quantitative, based on key performance indicators), or any combination of personal and financial targets. The achievement of the targets is evaluated based on three defined levels (0 % / 50 % / 100 %). Each target is considered separately here, i.e. exceeding a target value (target achievement > 100 %) cannot be used to compensate for other target values (target achievement < 100 %). If the average target achievement does not reach at least 80 %, no variable compensation will be paid. With regard to the original appointment of Mr. Zhu until December 31, 2019, the evaluation period in the management service contract that applies for the 2019 financial year was limited to the 2019 financial year.

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

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

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

Total Compensation paid to Management Board Members

Overview of key data concerning the Management Board (in the 2019 financial year):

Name	Management Board member since:	Management Board member until:
Yizhen Zhu	Dec. 2, 2018	
Jürgen Luckas	April 10, 2015	
Tao Xing	Dec. 2, 2018	
Dr. Matthias Jochem	June 1, 2019	
Dian Xie	July 1, 2017	June 30, 2019

Mr. Dian Xie resigned from the Management Board of KHD Humboldt Wedag International AG effective June 30, 2019. With a resolution of the Supervisory Board dated May 31, 2019, Dr. Matthias Jochem was appointed as a further member of the Management Board, effective June 1, 2019.

The total compensation for members of the KHD Management Board active in the financial year under review amounted to € 995 thousand in the 2019 financial year (previous year: € 1,225 thousand).

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

With respect to the benefits granted, it is especially important to consider that under the rules of the German Corporate Governance Code, a “target value” is shown for the both the one-year and multi-year variable compensation instead of the compensation actually earned. This target value can differ substantially from the compensation actually earned with regard to the variable compensation. At KHD, the target value is principally defined as 50 % of the maximum achievable one-year and multi-year variable compensation. Due to the different rule in the contract, the target value for Mr. Zhu is defined as 80 % of the maximum achievable variable compensation.

The benefits granted to the Management Board members in the 2019 and 2018 financial years can be seen in the following overview:

Benefits granted (in €)	Yizhen Zhu* Chief Executive Officer Management Board member since December 2, 2018				Jürgen Luckas Chief Financial Officer Management Board member since April 10, 2015			
	FY 2018	FY 2019	FY 2019 (Min)	FY 2019 (Max)	FY 2018	FY 2019	FY 2019 (Min)	FY 2019 (Max)
Fixed compensation	0	240,000	240,000	240,000	220,000	220,000	220,000	220,000
Fringe benefits	2,307	63,438	63,438	63,438	23,295	23,600	23,600	23,600
Total	**2,307**	**303,438**	**303,438**	**303,438**	**243,295**	**243,600**	**243,600**	**243,600**
One-year variable compensation	0	84,000	0	105,000	22,500	22,500	0	45,000
Discretionary bonus	0	0	0	45,000	0	20,000	0	50,000
Multi-year variable compensation								
Bonus for financial targets (Jan. 1, 2017 to Dec. 31, 2018)	0	0	0	0	52,500	0	0	0
Bonus for financial targets (Jan. 1, 2019 to Dec. 31, 2020)	0	0	0	0	0	52,500	0	105,000
Total	**2,307**	**387,438**	**303,438**	**453,438**	**318,295**	**338,600**	**243,600**	**443,600**
Service cost	0	0	0	0	0	0	0	0
Total compensation	**2,307**	**387,438**	**303,438**	**453,438**	**318,295**	**338,600**	**243,600**	**443,600**

Benefits granted (in €)	Tao Xing Executive Vice President Management Board member since December 2, 2018				Dian Xie ex-Executive Vice President Management Board member July 1, 2017 to June 30, 2019			
	FY 2018	FY 2019	FY 2019 (Min)	FY 2019 (Max)	FY 2018	FY 2019	FY 2019 (Min)	FY 2019 (Max)
Fixed compensation	0	116,667	116,667	116,667	200,000	100,000	100,000	100,000
Severance	0	0	0	0	0	10,000	10,000	10,000
Fringe benefits	0	8,970	8,970	8,970	23,443	11,981	11,981	11,981
Total	**0**	**125,637**	**125,637**	**125,637**	**223,443**	**121,981**	**121,981**	**121,981**
One-year variable compensation	0	14,584	0	29,167	0	0	0	0
Discretionary bonus	0	0	0	50,000	0	0	0	16,667
Multi-year variable compensation								
Financial and individual targets (Jan. 1, 2018 to Dec. 31, 2019)	0	0	0	0	40,000	20,000	0	25,000
Total	**0**	**140,221**	**125,637**	**204,804**	**263,443**	**141,981**	**121,981**	**163,648**
Service cost	0	0	0	0	0	0	0	0
Total compensation	**0**	**140,221**	**125,637**	**204,804**	**263,443**	**141,981**	**121,981**	**163,648**

* For the 2018 financial year Mr. Zhu waived his contractual entitlement for a fixed compensation of € 20,000.

In contrast to the benefits granted, the following table shows the Management Board compensation according to allocation for the 2019 and 2018 financial years:

Allocation (in €)	Yizhen Zhu Chief Executive Officer		Jürgen Luckas Chief Financial Officer	
	FY 2018	FY 2017	FY 2018	FY 2017
Fixed compensation	240,000	0	220,000	220,000
Fringe benefits	63,438	2,307	23,600	23,295
Total	**303,438**	**2,307**	**243,600**	**243,295**
One-year variable compensation	0	0	45,000	45,000
Discretionary bonus	0	0	20,000	0
Multi-year variable compensation				
Bonus for financial targets (Jan. 1, 2017 to Dec. 31, 2018)	0	0	0	0
Total	**303,438**	**2,307**	**308,600**	**288,295**
Service cost	0	0	0	0
Total compensation	**303,438**	**2,307**	**308,600**	**288,295**

Allocation (in €)	Tao Xing Executive Vice President		Dian Xie ex-Executive Vice President	
	FY 2018	FY 2017	FY 2018	FY 2017
Fixed compensation	116,667	0	100,000	200,000
Severance	0	0	10,000	0
Fringe benefits	8,970	0	11,981	23,443
Total	**125,637**	**0**	**121,981**	**223,443**
One-year variable compensation	0	0	0	0
Multi-year variable compensation				
Financial and individual targets (Jan. 1, 2018 to Dec. 31, 2019)	0	0	0	0
Total	**125,637**	**0**	**121,981**	**223,443**
Service cost	0	0	0	0
Total compensation	**125,637**	**0**	**121,981**	**223,443**

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

2019 Financial Year

- Establishment of an accrual for a one-year variable compensation for the 2019 financial year for Mr. Zhu in the amount of € 105,000;
- Payment of a one-year variable compensation for the 2018 financial year for Mr. Luckas in the amount of € 45,000 for which an accrual in the full amount was established, i.e. net expense in the amount of € 0 in the 2019 financial year;
- Establishment of an accrual for a one-year variable compensation for the 2019 financial year for Mr. Luckas in the amount of € 45,000;
- Establishment of an accrual for a one-year variable compensation for the 2019 financial year for Mr. Xing in the amount of € 30,000;

2018 Financial Year

- Payment of a one-year variable compensation for the 2017 financial year for Mr. Luckas in the amount of € 45,000 for which an accrual in the amount of € 30,000 was established, i.e. net expense in the amount of € 15,000 in the 2019 financial year;
- Establishment of an accrual for a one-year variable compensation for the 2019 financial year for Mr. Luckas in the amount of € 45,000;
- Establishment of an accrual for a one-year variable compensation for the 2019 financial year for Mr. Xie in the amount of € 15,000.

The amounts listed above as 'establishment of an accrual' are reported as part of the total remuneration for Management Board members in the 2019 and 2018 financial years; however, they are not shown in the "Allocation" table because the final payment amount has (had) not yet been determined at the time the compensation report was prepared.

Compensation of Supervisory Board Members

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

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

The total compensation of each member of the Supervisory Board for the 2019 financial year is shown in the following table:

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

[1] Chair of the Supervisory Board

[2] Deputy Chair of the Supervisory Board

[3] Member of the Supervisory Board

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

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

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

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

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

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

[4] Member of the Supervisory Board

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

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, 2019.

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 sustainably increase the Group's value over the long term.

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

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

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

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

Risk Management Organization, Responsibilities, Instruments, and Reporting

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

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

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

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

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

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

Risk Assessment

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

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

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

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

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

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

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

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

Risk Management for Financial Instruments

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

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

Interest rate risks arise through market-related fluctuations in interest rates. As of the balance sheet date, the KHD Group is reporting a continuous high level of cash and cash equivalents and large loans granted to the AVIC Group, but also significant interest-bearing liabilities. In the fourth quarter of 2018, KHD took out a bank loan with a term of three years and a variable interest rate. Transactions for hedging the variable interest rate were not concluded because the KHD Group does not expect a significant increase in the interest rate until the maturity date of the bank loan. The interest rates for the loans to the AVIC Group have been firmly fixed for the applicable term. This means that there is no interest rate risk for the loans.

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

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

Accounting-related Internal Control System

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

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

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

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

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

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

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

In summary, it may be concluded that the risks identified do not pose a threat to the Company and to the KHD Group as a going concern, either individually or in combination. From an organizational standpoint, the foundations have been laid to ensure that changes in the risk position are recognized in good time. Overall the risk position has not changed significantly compared with the previous year. With regard to measurable specific risks, valuation allowances and balance sheet provisions have been set up to the extent required in the 2019 financial year.

Risk Areas

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

Risks from Underlying Economic Conditions

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

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

Country Risks

As a globally operating group, the KHD Group is exposed to country risks. These include legal risks, capital transaction prohibitions, other regulatory restrictions, defaults on trade receivables, war, and other social unrest, as well as health risks in the form of regional or supra-regional epidemics and diseases - especially in tropical regions. Country risks affect the KHD Group due to the continuing high degree of political risks and increasingly also due to health risks.

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

Procurement Risks

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

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

Innovation Risks

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

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

Project Risks

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

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

Personnel Risks

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

OUTLOOK

Projected Market Environment

The International Monetary Fund (IMF) is expecting growth in the world economy of 3.4 % in 2020. In fact, planned growth in developing and emerging countries will compensate for the expected decline in growth in the developed, industrialized countries primarily due to slower economic growth in the USA and China.

According to CW Research, global growth in cement consumption of 0.5 % is expected for 2020. However, if China is not taken into account, expected global growth is 2.5 %. Moderate growth in western Europe (1.9 %), Russia (2.0 %), and North America (2.0 %) is compensated by a significant increase in planned cement consumption is some Asian countries, such as India (4.0 %), Bangladesh (8.0 %), and the Philippines (6.0 %). In Turkey, traditionally a strong market for KHD, a considerable decrease in cement consumption (-15.5 %) is expected.

Expected Business Development

For the first time in several years, KHD is expecting a slightly positive result for earnings before tax for the 2020 financial year. In particular, due to the successful implementation of an extensive reorganization of the subsidiary HW GmbH, cost structures were adapted for the long term. The modified focus of sales activities will result in improvements with respect to margin quality while significantly reducing the risks of project execution. Overall, a foundation for achieving positive financial results again over the long term was established.

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

In 2020, KHD will implement its sales activities in a targeted manner with regard to business opportunities in which the position of KHD as a technology leader can be applied appropriately. We are expecting an order intake for the 2020 financial year that is significantly below that of the previous year, 2019. However, the exclusive reason for this is that a single large project contributed more than 50 % to the entire order intake. 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 with respect to purely volume related growth. Due to the planned production progress for existing projects, order backlog at the end of 2020 will be below the previous year's value. Due to the higher order backlog and the successful implementation of the reorganization and the related adjustments with regard to staff at the subsidiary HW GmbH, capacity utilization is ensured to a greater extent in the 2020 financial year than in the previous years.

Revenue for the 2020 financial year will be considerably higher than the previous year's level. Since revenue in the 2020 financial year will also be generated through projects won in a highly competitive environment with margin pressure, we again expect gross profit margin that is not entirely satisfactory, though significantly improved over the previous year. Because there are no effects expected in the 2020 financial year that would be comparable to the very high cost overruns in 2019, the adjusted gross profit is expected to be considerably higher than the previous year's value.

Overall, KHD expects a significant improvement in the result of operations in comparison with the 2019 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 2020 financial year is not expected to be sufficient to cover all of the costs of the KHD Group. For this reason, KHD again expects slightly negative values for the EBIT as well as for the adjusted EBIT for the current year, 2020. Accordingly, both the EBIT margin and the adjusted EBIT margin will be slightly negative. Both figures, however, will improve significantly in comparison with the 2019 financial year, so that, taking the significantly positive financial result into account, there should be earnings (profit) before tax (EBT). This forecast takes into consideration that the cash from the repayment of the loans granted to AVIC Kairong, which are due and payable in the 2020 financial year, can either be invested again at comparable conditions or that the loans will be extended.

For operating cash flow in 2020 we expect a negative figure in the low, double-digit millions. The operative cash outflows are due to scheduled payments to suppliers as well as additional project costs from the 2019 financial year that will be cash-effective in the 2020 financial year.

Overall, due to the ongoing difficult market conditions, KHD expects that the result of operations for the 2020 financial year will not be entirely satisfactory. In order to achieve sustainably positive results over the long term again, including for EBIT, improvements in project execution and in margin quality with regard to order intake are crucial. We forecast that KHD's financial and net assets position will remain stable and will probably not change significantly in the 2020 financial year (compared to the previous year). This, 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 order intake in the 2019 financial year was greatly affected by a single large project, in the Capex segment we are expecting an order intake that is significantly lower than the level of the previous year. 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 with respect to purely volume related growth. In 2020, KHD will use the business opportunities it is offered in a targeted manner with regard to the 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 production process, the order backlog at the end of 2020 will be considerably less than the previous year’s value. Due to the successful implementation of the reorganization and the related adjustments with regard to staff at the subsidiary HW GmbH, capacity utilization is ensured for the most part in the 2020 financial year.

Due to current order backlog and the expected order intake, the KHD Group expects revenue in the Capex segment for the 2020 financial year that is significantly higher than the level of the 2019 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 or adjusted EBIT and a negative EBIT margin or adjusted EBIT margin. This is, in particular, due to the low margins in the current order backlog. Because there are no effects expected in the 2020 financial year that would be comparable to the very high cost overruns in 2019, considerable improvement is expected in comparison with the 2019 financial year.

Expected Economic Development of the Plant Services Segment

Following an unsatisfactory 2019 financial year, in the current year we expect improvements in the Plant Services segment. Due to the good potential with regard to spare parts and services, we plan to expand our market position in this business unit in the 2020 financial year. In accordance with our planning, for this segment we are expecting a considerable increase in order intake compared to the 2019 financial year (€ 35.3 million).

The low order intake in the previous year will result in a reduction of revenue in the Plant Services segment in the 2020 financial year. In turn, a significantly positive EBIT is expected in the Plant Services business unit.

Opportunities and Risks Relating to the Outlook for the 2020 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 2020 financial year. Despite close collaboration with customers during the tendering process, customers' investment decision and the awarding of individual projects to the KHD Group can only be forecast with substantial uncertainty, possibly leading to either a significantly higher or significantly lower order intake.

The revenue outlook is mainly based on the order backlog as of December 31, 2019 and expected order intake for the initial months of the 2020 financial year in the Capex segment and on the planning of the relatively stable business in the Plant Services segment. Particularly with regard to the expected order intake in the first six months of the 2020 financial year there are significant risks and opportunities in terms of the planned revenue figures. Delays or accelerations in project execution can directly affect the planned revenue figure for the financial year in addition to the risk that projects reflected in planned order intake do not materialize or are postponed and the possibility that additional projects not included in the budget are awarded to KHD.

In addition to sales volume effects, the planned result (adjusted EBIT) is materially affected by project-related risks. These arise from unexpected technical problems, supply bottlenecks or quality problems at suppliers of important components, delays in project execution, legal disputes and unforeseeable developments during the erection and commissioning phase on site. There are also warranty risks after the commissioning of the plant. Health risks in the form of regional or national epidemics and diseases can also have a negative impact on order processing. 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.

Additional opportunities with regard to the forecast in the 2020 financial year are also based on the extensive reorganization measures at the subsidiary HW GmbH. The successful implementation of the reorganization resulted in a long term adjustment of the cost structures and improvements in efficiency, under which positive financial results can be achieved again in the medium term.

Cologne, Germany, February 28, 2020

The Management Board

Yizhen Zhu | Jürgen Luckas | Dr. Matthias Jochem

Tao Xing | Matthias Mersmann

1 Group Income Statement for KHD Humboldt Wedag International AG for the Financial Year 2019

in € thousand	Note	2019	2018
Revenue	20	146,289	151,766
Cost of sales	21	(136,011)	(154,990)
Gross profit		**10,278**	**(3,224)**
Other operating income	22	3,312	2,714
Sales expenses	23	(11,569)	(13,234)
General and administrative expenses	24	(12,676)	(12,398)
Reorganization costs	26	(6,360)	-
Other expenses	25	(5,633)	(5,054)
Profit before interest and taxes (EBIT)		**(22,648)**	**(31,196)**
Finance income	27	8,651	8,634
Finance expenses	27	(1,068)	(1,297)
Net finance income		**7,583**	**7,337**
Profit before tax (EBT)		**(15,065)**	**(23,859)**
Income tax expense	28	(3,769)	(1,441)
Group net loss for the year		**(18,834)**	**(25,300)**
Of which are attributable to:			
Parent company shareholders		(18,875)	(25,312)
Non-controlling interests		41	12
		(18,834)	**(25,300)**

	Note	2019	2018
Net loss attributable to shareholders (in € thousand)		(18,875)	(25,312)
Weighted average number of shares outstanding		49,703,573	49,703,573
Basic (undiluted) and diluted earnings per share in €	29	(0.38)	(0.51)

2 Group Statement of Comprehensive Income for KHD Humboldt Wedag International AG for the Financial Year 2019

GROUP STATEMENT OF COMPREHENSIVE INCOME
for the Financial Year 2019

in € thousand	2019	2018
Group net loss for the year	(18,834)	(25,300)
Items that will be reclassified subsequently to profit or loss when specific conditions are met		
Currency translation differences	(258)	(1,559)
Items that will not be reclassified subsequently to profit or loss		
Actuarial gains and losses related to defined benefit obligations less - deferred taxes related thereto	(1,272)	484
Effect from the first-time adaoption of IFRS 16	(357)	-
Effect from the first-time adaoption of IFRS 9	-	(261)
Other comprehensive income	**(1,887)**	**(1,336)**
Group comprehensive income	**(20,721)**	**(26,375)**
Of which attributable to:		
Parent company shareholders	(20,762)	(26,649)
Non-controlling interests	41	13
	(20,721)	**(26,636)**

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

The actuarial gains and losses recognized in other comprehensive income are reduced in principle to the related deferred tax assets and deferred tax liabilities, which are also recognized in other comprehensive income in their entirety, without affecting profit and loss. The actuarial gains and losses do not include any deferred taxes in either the financial year or the previous year.

3 Group Balance Sheet for KHD Humboldt Wedag International AG as of December 31, 2019

ASSETS	Note	Dec. 31, 2019	Dec. 31, 2018
in € thousand			
Non-current assets			
Property, plant and equipment	5	9,730	9,613
Goodwill	6	5,162	5,162
Other intangible assets	6	1,269	1,298
Right of use*	6	3,896	-
Trade and other receivables	7	2,252	5,230
Other financial assets	11	-	100,005
Deferred tax assets	8	1,092	2,428
Total non-current assets		**23,401**	**123,736**
Current assets			
Inventories	9	3,349	4,405
Contract assets	10	3,754	15,565
Trade and other receivables	7	32,074	41,634
Payments made in advance		10,046	10,796
Other financial assets	11	101,103	1,097
Income tax assets		387	932
Cash and cash equivalents	12	82,622	72,228
Total current assets		**233,335**	**146,657**
Total assets		**256,736**	**270,393**

* For a description of the effects of IFRS 16 see
at 1) "First Application of New Accounting Standards" in the notes.
The figures for the corresponding period in the previous year are not adjusted.

EQUITY AND LIABILITIES	Note	Dec. 31, 2019	Dec. 31, 2018
in € thousand			
Equity			
Subscribed capital		49,704	49,704
Capital reserves		61,097	61,097
Currency translation differences recognized in equity		(8,453)	(8,195)
Retained earnings		(1,297)	19,207
Shares of equity attributable to shareholders of the parent company		101,051	121,813
Non-controlling interests		489	1,299
Total equity	13	**101,540**	**123,112**
Non-current liabilities			
Other liabilities	16	3,082	3,120
Lease liabilities*	16	2,627	-
Loan	16	25,000	25,000
Pension benefit obligations	14	19,609	19,381
Deferred tax liabilities	8	18	51
Provisions	15	2,904	2,795
Total non-current liabilities		**53,240**	**50,347**
Current liabilities			
Trade and other payables	16	33,101	46,032
Contract liabilities and advanced payments receive(	17	46,395	22,257
Income tax liabilities	16	395	299
Provisions	15	22,065	28,346
Total current liabilities		**101,956**	**96,934**
Total equity and liabilities		**256,736**	**270,393**

* For a description of the effects of IFRS 16 see
at 1) "First Application of New Accounting Standards" in the notes.
The figures for the corresponding period in the previous year are not adjusted.

4 Group Statement of Cash Flows for KHD Humboldt Wedag International AG for the Financial Year 2019

in € thousand	**2019**	**2018**
Cash flow from operating activities		
Group net loss for the year	(18,834)	(25,300)
Income tax expense recognized in the income statement	3,769	1,441
Net finance income recognized in the income statement	(7,583)	(7,337)
Earnings before interest and taxes (EBIT)	**(22,648)**	**(31,196)**
Amortization and depreciation of non-current assets	2,731	1,241
Book gain (-)/loss on disposal of fixed assets	1	(96)
Increase(-)/decrease in trade receivables and financial assets	13,513	18,428
Increase (-)/decrease in inventories and contract assets	12,867	(12,213)
Increase (-)/decrease in payments made in advance and other financial assets	744	(2,807)
Increase (+)/decrease in trade and other payables and contract liabilities and advance payments received	9,710	7,066
Increase (+)/decrease in pension benefit obligations	(1,045)	(1,579)
Increase (+)/decrease in provisions and non-current liabilities	(6,210)	10,227
Other non-cash-transactions	(270)	(115)
Other translation differences	266	(788)
Interest received	3,188	1,838
Interest paid	(264)	(137)
Income tax received	145	99
Income tax paid	(1,910)	(3,420)
Cash flow from operating activities	**10,818**	**(13,452)**
Cash flow from investing activities		
Cash outflow for intangible assets	(299)	(811)
Cash outflow for property, plant and equipment	(1,189)	(2,396)
Cash inflow from the disposal of property, plant and equipment	8	115
Interest received from Intercompany loans	4,436	5,931
Cash flow from investing activities	**2,956**	**2,839**

in € thousand	2019	2018
Cash flow from financing activities		
Inflows from the receipt of loans	-	25,000
Outflow from repayment of bank loans	-	(25,000)
Redemption of lease liabilities	(1,527)	-
Dividends paid to parent company shareholders	(852)	(13)
Interest paid for loans	(477)	(416)
Cash flow from financing activities	**(2,856)**	**(429)**
Change in unrestricted cash and cash equivalents	**10,918**	**(11,042)**
Opening balance of unrestricted cash and cash equivalents	**72,228**	**84,041**
Exchange rate effects	(524)	(771)
Closing balance of unrestricted cash and cash equivalents	**82,622**	**72,228**

in € thousand	Dec. 31, 2019	Dec. 31, 2018
Composition of unrestricted cash and cash equivalents		
Current bank accounts and cash	51,889	49,389
Short-term bank deposits and restricted cash	30,733	22,839
Total cash and cash equivalents	**82,622**	**72,228**
Closing balance of unrestricted cash and cash equivalents	**82,622**	**72,228**

Cash and cash equivalents increased in the financial year by € 10,394 thousand to € 82,622 thousand (previous year: € 72,228 thousand). The reason for this is, in particular, is the cash inflow from operating activities of € 10,818 thousand (previous year: cash outflow of € 13,452 thousand). Cash inflows from investing activities in the amount of € 2,956 thousand (previous year: € 2,839 thousand) are offset by cash outflows from financing activities of €2,856 thousand (previous year: € 429 thousand). Cash and cash equivalents were affected by negative exchange rate effects in the amount of € 524 thousand (previous year: negative exchange rate effects in the amount of € 771 thousand) in the 2019 financial year. Unrestricted cash and cash equivalents, including the currency effects, increased by € 10,394 thousand (previous year: reduction of € 11,813 thousand) to € 82,622 thousand (previous year: € 72,228 thousand) in the 2019 financial year.

5 Group Statement of Changes in Equity for KHD Humboldt Wedag International AG for the 2019 Financial Year

Group Statement of Changes in Equity for KHD Humboldt Wedag International AG for the financial year 2019

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, 2017 / Jan. 1, 2018	**49,704**	**61,097**	**-**	**(6,636)**	**44,296**	**148,461**	**1,300**	**149,761**
Group net loss for the year	-	-	-	-	(25,312)	(25,312)	12	**(25,300)**
Actuarial gains and losses and other effects on the group comprehensive income*	-	-	-	-	222	222	1	**223**
Currency translation differences	-	-	-	(1,559)	-	(1,559)	-	**(1,559)**
Group comprehensive income	**-**	**-**	**-**	**(1,559)**	**(25,090)**	**(26,649)**	**13**	**(26,636)**
Other changes	-	-	-	-	1	1	(1)	**-**
Didivend payments	-	-	-	-	-	-	(13)	**(13)**
Dec. 31, 2018 / Jan. 1, 2019	**49,704**	**61,097**	**-**	**(8,195)**	**19,207**	**121,813**	**1,299**	**123,112**
Group net loss for the year	-	-	-	-	(18,875)	(18,875)	41	**(18,834)**
Actuarial gains and losses and other effects on the group comprehensive income*	-	-	-	-	(1,629)	(1,629)	-	**(1,629)**
Currency translation differences	-	-	-	(258)	-	(258)	-	**(258)**
Group comprehensive income	**-**	**-**	**-**	**(258)**	**(20,504)**	**(20,762)**	**41**	**(20,721)**
Other changes	-	-	-	-	-	-	1	**1**
Didivend payments	-	-	-	-	-	-	(852)	**(852)**
Dec. 31, 2019	**49,704**	**61,097**	**-**	**(8,453)**	**(1,297)**	**101,051**	**489**	**101,540**

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

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

6 Notes to the Group Financial Statements of KHD Humboldt Wedag International AG for the Financial Year 2019

1. Summary of Major Accounting and Measurement Principles

Basis of Preparation and Other Notes

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

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

KHD's group financial statements have been prepared according to uniform accounting and measurement principles. The group financial statements have been prepared in accordance with prevailing International Financial Reporting Standards (IFRS) and their related interpretations as applicable in the EU, and are in line with the statutory obligations that are applicable to companies which are required to submit mandatory reports to the capital markets pursuant to Section 315e Paragraph 1 of the German Commercial Code (HGB) together with Article 4 of the Regulation (EC) No. 1606/2002 of the European Parliament and Council of July 19, 2002, relating to the application of current international accounting standards in their current version (IAS Regulation). These group financial statements have been prepared in euros. All amounts, including figures used for comparison from the previous year, are generally stated in thousands of euros (€ thousand). All amounts have been rounded according to normal commercial practice. The Group income statement has been prepared using the 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 power to control, is exposed to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. This is regularly the case if KHD holds, directly or indirectly, more than 50 % of the voting rights, or controls the business activities in another manner. These companies are, as a general rule, consolidated. Subsidiaries are consolidated from the date when actual control is transferred to KHD and are deconsolidated from the date when control no longer exists.

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

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

Currency Translation

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

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

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

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

Exchange rates used in the preceding financial year:

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

Intangible Assets

Goodwill

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

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

Rights of Use

As the new IFRS 16 Leases Standard takes effect as of January 1, 2019, rights of use from leases will 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. For an illustration of these effects on KHD's group financial statements, reference is made to the section "Initial application of accounting standards".

KHD is using 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 the approach of a right of use, 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 decrease to take the lease payments made into account. Furthermore, the carrying amount of the lease liability is remeasured if the lease is changed, if the term of the lease is changed, or if the lease payments change.

Other Intangible Assets

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

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

Property, Plant, and Equipment

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

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

Borrowing Costs

Borrowing costs are capitalized in the KHD Group to the extent that they are attributable to the purchase or production of qualifying assets. Borrowing costs are otherwise expensed through the income statement under net finance income. As in the previous year, no borrowing costs were capitalized in the 2019 financial year.

Impairment Test on Non-current Assets

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

Financial Instruments:

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

- Measurement based on amortized costs for debt instruments,
- Measurement at fair value without affecting profit and loss for debt instruments (with recycling) and for equity instruments (without recycling),
- Measurement at fair value through profit or loss for debt instruments, derivatives, and equity instruments.

Financial assets are designated to a measurement category at the time of initial recognition. Financial assets are measured at fair value on initial recognition. The subsequent measurement is performed according to the rules of the respective measurement category. At KHD, the majority of the financial assets are measured at amortized cost. Only those financial assets held for trading and the derivatives acquired for hedging purposes are allocated to the category "measured at fair value through profit or loss". To date, the Group has not utilized 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 carried at cost. In general, raw materials, consumables and supplies are measured at moving average cost. The amount of any write-down to net realizable value is recognized. The net realizable value is composed of the estimated selling price in the ordinary course of business less the estimated cost of completion and costs necessary to make the sale. In case of an increase in net realizable value of inventories that have been written-down the compulsory reversal of write-down is recognized as a reduction in the amount of inventories recognized as an expense.

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

Claims or obligations from customer contracts with revenue recognition over time are determined according to the rules of IFRS 15. In these cases, KHD specifies the result and revenue based on the stage of completion of the respective customer contract based on the proportion of project costs already incurred to the estimated overall project costs. In this way, revenue recognition over time is equivalent to profit recognition according to performance progress. Expected losses from customer contracts are immediately recorded in their entirety as an expense. Customer contracts with revenue recognition over time are reported, depending on the amount of progress billings, under contract assets or under contract liabilities and advance payments received. They are measured at cost incurred plus a proportionate profit depending on the stage of completion. To the extent that contract revenue (contract costs incurred plus recognized contract profits) exceeds the progress billings, customer contracts are reported under contract assets. If there is a negative balance after deducting progress billings, this balance is reported as a liability under contract liabilities and advance payments received. Expected contract losses are recognized through valuation allowances or loss order provisions and all identifiable risks are taken into consideration in determining them. Losses from onerous customer contracts are reported exclusively according to the rules of IAS 37 and not as part of contract assets or contract liabilities.

Pension Benefit Obligations and Retirement Benefit Plans

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

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

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

Provisions and Accruals

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

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

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

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

Income Tax Expenses

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

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

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

Recognition of Income and Expenses
Revenue and other operating income are generally recognized based on a specific point in time and only if the service has been provided or the goods or products have been delivered and the risk has therefore passed to the customer. Revenue from rendering of services is recognized according to performance progress and revenue from licenses is recognized straight-line over the period of the relevant agreement. Operating expenses are recognized as an expense upon receipt of the service or at the time they are incurred.

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

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

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

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

Completion Date of Performance Obligations for Customer Contracts with Revenue Recognition over Time
KHD operates in the area of long-term plant engineering and determines the completion date of performance obligations for customer contracts with revenue recognition over time according to performance progress. The point in time that revenue and profit are recognized is based on the stage of completion. At KHD, the determination of the stage of completion is made based on the cost-to-cost method, which calculates the stage of completion from the proportion of contract costs incurred to the estimated total contract costs. According to management's estimation, the determination of performance progress based on the input oriented cost-to-cost method provides a realistic and faithful illustration of the transfer of goods and services to customer because the costs applied correspond to the output provided to the customer.

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

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

Income Tax Expenses

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

Accounting for Employee Benefits

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

Provisions and Accruals

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

KHD is facing litigation and regulatory proceedings in various jurisdictions. As a result of these proceedings, KHD could be subject to possible criminal or civil sanctions, fines, claims for damages or other claims or disgorgement of profits. KHD establishes provisions for litigation if it is likely for an obligation to arise in connection with these proceedings, which is likely to result in cash outflows, the amounts of which can be reliably estimated. Litigation is frequently based on complex, legal issues associated with considerable uncertainty.

Accordingly, the assessment as to whether or not a current obligation has resulted from an event in the past as of the reporting date, and as to whether or not a future cash outflow is likely and the obligation can be reliably estimated, is based on considerable discretion. KHD regularly assesses the respective status of a legal procedure, with the involvement of experts as well as internal and external lawyers. An assessment can change due to new information. It can become necessary to adjust the amount of a provision for ongoing proceedings in the future based on new developments. Changes in estimates and assumptions can significantly affect the future results of operations over the course of time.

Initial Application of Accounting Standards

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

Initial Application of recently published Standards

The IASB published IFRS 16 "Leases" in January 2016. After its adoption into European law in October 2017, KHD applied the new standard for the first time as of January 1, 2019. Due to the fundamentally new redefinition of lease reporting based on the right of use model, effective January 1, 2019, KHD reported leases previously reported off-balance sheet as on-balance sheet. This means that the difference between financing and operating leasing contracts as previously required under IAS 17 is eliminated for the lessee starting in the 2019 financial year.

Starting January 1, 2019, in accordance with IFRS 16, KHD, as the lessee, shall report for all leases a lease liability on the balance sheet in the amount of the cash value of future lease payments in addition to the directly attributable costs and, at the same time, shall capitalize an according right of use on the underlying asset. During the term of the lease contract, the lease liability shall be mathematically projected, similar to the regulations of the previous IAS 17 for finance leases, while the right of use shall be systematically depreciated over the useful life of the lease. There are simplifications for short term leases and low value leased items.

The effects on the presentation of the net assets, financial position and result of operations in these 2019 Group Financial Statements are shown below. There were effects from the application of IFRS 16, particularly with regard to contracts for long term real estate rentals. In the initial application of IFRS 16, KHD exercised the right to forego the separation of lease and non-lease components in the respective contracts, i.e. non-lease components in the respective contracts are also presented as part of the lease. In the context of the introduction of the standard, KHD used the modified, retrospective initial application as of January 1, 2019, i.e. the figures of the corresponding period of the previous year were not adjusted. To this extent, comparability is limited.

In principle, IFRS 16 stipulates that existing (old) contracts be reexamined at the time of the initial application to check whether they are leases – according to the definition criteria of IFRS 16. KHD is exercising the right to forego this reassessment of old contracts, i.e. old contracts that already contain a lease according to IAS 17 shall also be recognized according to IFRS 16.

In the context of the initial application, the following effects were apparent as of January 1, 2019:

- With the initial application of IFRS 16 on January 1, 2019, KHD reported lease-related rights of use of € 7.2 million. Because the leases were previously reported off-balance, this resulted in an increase in financial liabilities in the amount of € 7.5 million. The difference of € 0.3 million between the lease-related rights of use and the financial liabilities was recognized in equity without affecting profit and loss.
- Due to the initial recognition of the lease-related financial liabilities, the equity ratio of KHD decreased by approx. 1.3 percentage points to 44.2 % as of January 1, 2019.
- The transition of the obligations from operating lease contracts of € 7.8 million as of December 31, 2018 to the lease-related financial liabilities of € 7.5 million as of January 1, 2019, which were reported for the first time, resulted in a difference of € 0.3 million. This difference is primarily attributable to the discounting effects of the lease payments over the specific contract term. In addition, low-value and short-term leases are not included in the financial liabilities. The weighted discount rate of the lease payments in the KHD Group is approx. 5 % as of January 1, 2019.
- The lease-related rights of use amounted to € 3.9 million as of December 31, 2019. The financial liabilities arising from leases amounted to € 4.1 million and are divided into a long-term share of € 2.6 million and a short-term share of € 1.5 million.
- In the income statement, depreciation from the pro rata amortization of the rights of use in the amount of € 1.5 million and interest expenses from the compounding of the lease liabilities of € 0.3 million was reported as a result of the initial application of IFRS 16 in 2019 in the 2019 financial year. The operating result and, therefore, the key performance indicator "adjusted EBIT" improved due to the initial adoption of IFRS 16 at the expense of the net finance income in the amount of € 0.3 million. The effect on comprehensive income due to the application of the new standard is of minor significance.
- In the cash flow statement, the repayment portion of the lease payments totaling € 1.5 million decreased cash flow from financing activities. Operating cash flow improved accordingly.

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

- IFRIC 23, "Uncertainty over Income Tax Treatments": Published in June 2017, initial application in the 2019 financial year, endorsed into EU law in October 2018.
- Amendment to IFRS 9, "Prepayment features with negative compensation": Published in October 2017, initial application in the 2019 financial year, endorsed into EU law in March 2018.
- Amendment to IAS 28, "Long-term interests in Associates and Joint Ventures" - Published in October 2017, initial application in the 2019 financial year, endorsed into EU law in February 2019.
- Amendment to IAS 19, "Plan Amendment, Curtailment or Settlement" - Published in February 2018, initial application in the 2019 financial year, endorsed into EU law in March 2019.
- Annual Improvement Process 2015 – 2017 - Published in December 2017, initial application in the 2019 financial year, endorsed into EU law in March 2019.

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

Published Standards that are not yet applicable

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, in part, still require endorsement into EU law. The list appended below is limited to the standards, interpretations and changes to standards and interpretations that are of fundamental importance to the Group. Currently KHD does not surmise that the application and changes of these standards, interpretations will have a significant influence on the presentation of the financial statements.

- In March 2018, the IASB published a revised concept for financial reporting. The revised concept must be applied for reporting periods beginning on or after January 1, 2020. Endorsement into EU law is still pending. The revised concept includes definitions of assets and liabilities and new guidelines for remeasurement and derecognition, presentation, and notes.
- Amendments to IAS 1 and IAS 8: "Definition of Material", Published in October 2018, initial application in the 2020 financial year, endorsement into EU law still pending.
- Amendment to IFRS 3: "Definition of a Business", Published in October 2018, initial application in the 2020 financial year, endorsement into EU law still pending.
- Amendments to IFRS 9, IAS 39, and IFRS 7: According to the "Interest Benchmark Reform", existing interest benchmarks such as "IBOR" are to be replaced by new, less risky benchmarks developed by the Financial Stability Board (FSB). This would affect hedge accounting rules, for example, and the continuation of hedge accounting in the balance sheet.

2. Subsidiaries of KHD Humboldt Wedag International AG as of December 31, 2019

Name of company	Registered office	Main Buisness	Capital and voting rights in % Dec. 31, 2019	Capital and voting rights in % Dec. 31, 2018		Currency	Subscribed capital Dec. 31, 2019	Subscribed capital Dec. 31, 2018
KHD Humboldt Wedag GmbH	Cologne, Germany	Holding function	100.00	100.00	D	€	15,339,300	15,339,300
Humboldt Wedag GmbH	Cologne, Germany	Plant engineering	100.00	100.00	I	€	7,000,000	7,000,000
ZAB Zementanlagenbau GmbH Dessau	Dessau, Germany	Plant engineering	100.00	100.00	I	€	2,000,000	2,000,000
Blake International Ltd.	Road Town, British Virgin Islands	Holding function	100.00	100.00	I	USD	1,000	1,000
KHD Humboldt Wedag Vermögensverwaltungs-AG	Cologne, Germany	Asset management	91.26	91.26	I	€	3,600,000	3,600,000
Humboldt Wedag Inc.	Norcross, USA	Plant engineering	100.00	100.00	I	USD	1,000	1,000
Humboldt Wedag India Private Ltd.	New Delhi, India	Plant engineering	100.00	100.00	I	INR	19,200,000	19,200,000
KHD Humboldt Wedag Machinery Equipment (Beijing) Co. Ltd	Beijing, China	Sales	100.00	100.00	I	USD	2,100,000	2,100,000
KHD Humboldt Engineering OOO	Moscow, Russia	Plant Engineering	100.00	100.00	I	RUB	3,722,222	3,350,000
Humboldt Wedag Malaysia Sdn. Bhd.	Kuala Lumpur, Malaysia	Sales	100.00	100.00	I	MYR	500,000	500,000
Humboldt Wedag Do Brasil Servicos Technicos Ltda	Belo Horizonte, Brazil	Sales	100.00	100.00	I	BRL	801,847	801,847

D = directly owned
I = indirectly owned

As of December 31, 2019, the scope of consolidation included four (December 31, 2018: four) domestic and seven (December 31, 2018: eight) foreign subsidiaries in addition to KHD.

The company Humboldt Wedag Australia Pty Ltd, a wholly owned subsidiary of KHD, was liquidated in the 2019 financial year. In the context of deconsolidation, there were neither proceeds nor losses on disposal. There were no fixed assets or liabilities at the time of the liquidation.

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

Name of the company	Registered office	Interest and voting rights share of non-controlling interests		Gain or loss attributable to non-controlling interests		Accumulated attributable to non-controlling interests	
		Dec. 31, 2019 in %	Dec. 31, 2018 in %	Dec. 31, 2019 in € thousand	Dec. 31, 2018 in € thousand	Dec. 31, 2019 in € thousand	Dec. 31, 2018 in € thousand
KHD Humboldt Wedag Vermögensverwaltungs-AG	Cologne, Germany	8.74	8.74	41	12	489	1,299

The Group did not acquire any further shares in KHD VV during the 2019 financial year. The Group's share as of December 31, 2019 amounted to 91.26 %, as in the previous year. Changes in KHD VV equity attributable to KHD are as follows in the 2019 financial year:

	in € thousand
Equity of shareholders of the parent company as of January 1, 2019	**13,573**
Dividend payment	(8,900)
Change in comprehensive income attributable to shareholders of the parent company in 2019	423
Equity of shareholders of the parent company as of December 31, 2019	**5,096**

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

KHD Humboldt Wedag Vermögensverwaltungs-AG	**Dec. 31, 2019 in € thousand**	**Dec. 31, 2018 in € thousand**
Current assets	5,402	15,032
Non-current assets	293	-
Current liabilities	(29)	(86)
Non-current Liabilities	(81)	(74)
Share of equity attributable to shareholders of the parent company	5,096	13,573
Share of equity attributable to non-controlling interests	489	1,299

	2019 in € thousand	**2018 in € thousand**
Revenue	-	-
Expenses	474	140
Net profit / loss for the year	**474**	**140**
Net profit for the year attributable to shareholders of the parent company	433	128
Net profit for the year attributable to the non-controlling shareholders	41	12
Total net profit / loss for the year	**474**	**140**
Other comprehensive income attributable to shareholders of the parent company	(10)	1
Other comprehensive income attributable to non-controlling shareholders	1	-
Total other comprehensive income	**(9)**	**1**
Comprehensive income attributable to shareholders of the parent company	423	129
Comprehensive income attributable to non-controlling shareholders	42	12
Comprehensive income	**465**	**141**
Dividends paid to non-controlling interests	**(852)**	**(13)**
Net cash flow from operating activities	(195)	20
Net cash flow from investment activities	308	327
Net cash flow from financing activities	(9,752)	(144)
Total net cash flow	**(9,639)**	**203**

3. Changes to the Scope of Consolidation

Regarding the change to the scope of consolidation of KHD, reference is made to No. 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 and is based on the management approach.

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

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

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

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

The following table provides an overview of the business for the 2019 and 2018 financial years:

in € thousand	Capex Jan. 1- Dec. 31, 2019	Plant Services Jan. 1- Dec. 31, 2019	Total Group Jan. 1- Dec. 31, 2019	Capex Jan. 1- Dec. 31, 2018	Plant Services Jan. 1- Dec. 31, 2018	Total Group Jan. 1- Dec. 31, 2018
Order intake	265,809	35,286	301,095	98,596	43,094	141,690
Revenue	104,156	42,133	146,289	108,785	42,981	151,766
Cost of sales	(106,166)	(29,845)	(136,011)	(123,364)	(31,626)	(154,990)
Gross profit	(2,010)	12,288	10,278	(14,579)	11,355	(3,224)
Other income	3,312	-	3,312	2,714	-	2,714
Sales expenses	(8,165)	(3,404)	(11,569)	(9,592)	(3,642)	(13,234)
General and administrative expenses	(10,168)	(2,508)	(12,676)	(9,895)	(2,503)	(12,398)
Reorganization	(5,653)	(707)	(6,360)	-	-	-
Other expenses	(5,633)	-	(5,633)	(5,054)	-	(5,054)
Earnings before interest and taxes (EBIT)	(28,317)	5,669	(22,648)	(36,406)	5,210	(31,196)
Net finance income			7,583			7,337
Profit before tax			(15,065)			(23,859)
for information:						
depreciation and amortization			*(2,731)*			*(1,241)*

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

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

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

	Revenue		Non-current assets	
in € thousand	**2019**	**2018**	**2019**	**2018**
Rest Asia	46,866	28,894	2	3
India	23,609	47,808	9,406	7,184
Africa	21,764	15,478	-	-
Rest of Europe	13,075	15,803	-	-
Middle East	11,447	12,888	-	-
Germany	10,920	2,297	7,203	5,814
North Armerica	7,661	6,696	186	21
Russia	3,755	7,817	3,042	3,043
South America	3,616	12,330	-	4
China	3,389	1,620	218	4
Other	187	135	-	-
	146,289	**151,766**	**20,057**	**16,073**

	Order Intake		Order Backlog	
in € thousand	**2019**	**2018**	**2019**	**2018**
North Armerica	212,992	3,502	206,558	3,324
India	39,032	23,233	30,637	15,581
Rest Asia	15,805	46,255	25,890	55,443
China	7,803	1,716	5,763	1,077
Rest of Europe	4,189	4,169	3,535	12,947
Russia	3,675	3,368	7,724	7,709
Middle East	3,549	19,250	3,541	11,908
Germany	3,033	18,949	9,291	17,177
Africa	1,415	6,147	5,200	25,442
South America	1,298	15,068	1,519	2,846
Other	8,304	33	8,142	176
	301,095	**141,690**	**307,800**	**153,630**

Order backlog, or the amount of the revenue from the respective contract that is not yet reported, totaled € 307,800 thousand (previous year: € 153,630 thousand) as of December 31, 2019. Of this, an order backlog of € 291,344 thousand (previous year: € 130,594 thousand) is attributable to the Capex segment and an order backlog of € 16,456 thousand (previous year: € 23,036 thousand) to the Plant Services segment. KHD will realize the existing order backlog as revenue to the extent that the project-specific deliveries and services are provided. In the Capex segment, according to budget planning approx. 60 % of the order intake in the next twelve months will be realized as sales revenue. Revenue recognition for the remaining 40 % is expected within the following 24 months. For the Plant Services segment, revenue recognition for the current order backlog is expected within the next twelve months. KHD did not utilize the helpful tool for IFRS 15.121.

Information about Key Customers

In the financial year, revenue of € 17.2 million was attributable to a single customer with which at least 10 % of the Group revenue was achieved (previous year: revenue with a single customer in the amount of € 16.9 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
Dec. 31, 2017 / Jan. 1, 2018	**1,865**	**1,650**	**10,238**	**13,753**
Additions	1,727	1,264	1,111	4,102
Disposals	-	-	(950)	(950)
Foreign currency translation and reclassification	(69)	(94)	14	(149)
Dec. 31, 2018	**3,523**	**2,820**	**10,413**	**16,756**
Additions	-	250	939	1,189
Disposals	-	-	(1,682)	(1,682)
Foreign currency translation and reclassification	(18)	(27)	(80)	(125)
Dec. 31, 2019	**3,505**	**3,043**	**9,590**	**16,138**
ACCUMULATED DEPRECIATION				
Dec. 31, 2017 / Jan. 1, 2018	**-**	**356**	**6,884**	**7,240**
Additions	-	84	750	834
Disposals	-	-	(931)	(931)
Dec. 31, 2018	**-**	**440**	**6,703**	**7,143**
Additions	-	127	820	947
Disposals	-	-	(1,673)	(1,673)
Currency differences	-	-	(9)	(9)
Dec. 31, 2019	**-**	**567**	**5,841**	**6,408**
Carrying amount				
Dec. 31, 2018	**3,523**	**2,380**	**3,710**	**9,613**
Dec. 31, 2019	**3,505**	**2,476**	**3,749**	**9,730**

The additions to property, plant, and equipment of € 1,727 thousand in the previous year were related to investments in the construction of a production facility in India. The additions to property, plant, and equipment in the financial year primarily result from investments in the operating and office equipment of the production facility in India as well as replacement investments in IT hardware. Total depreciation in the financial year amounted to € 947 thousand (previous year: € 834 thousand).

6. Goodwill and other Intangible Assets

in € thousand	Goodwill	Licences and other intangible assets	Right of use	Total
Cost				
Dec. 31, 2017 / Jan. 1, 2018	**5,162**	**9,978**	**-**	**15,140**
Additions	-	811	-	811
Disposals	-	(309)	-	(309)
Currency differences and reclassification	-	(3)	-	(3)
Dec. 31, 2018	**5,162**	**10,477**	**-**	**15,639**
Additions IFRS 16 implementation	-	-	7,182	7,182
Additions	-	299	256	555
Disposals	-	(237)	(2,154)	(2,391)
Dec. 31, 2019	**5,162**	**10,539**	**5,284**	**20,985**
Accumulated amortisation				
Dec. 31, 2017 / Jan. 1, 2018	**-**	**9,081**	**-**	**9,081**
Additions	-	407	-	407
Disposals	-	(309)	-	(309)
Dec. 31, 2018	**-**	**9,179**	**-**	**9,179**
Additions	-	328	1,456	1,784
Disposals	-	(237)	(68)	(305)
Dec. 31, 2019	**-**	**9,270**	**1,388**	**10,658**
Carrying amount				
Dec. 31, 2018	**5,162**	**1,298**	**-**	**6,460**
Dec. 31, 2019	**5,162**	**1,269**	**3,896**	**10,327**

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 for the first time with the application of IFRS 16. For more specific details about the application of IFRS 16, reference is made to 1) “First Application of New Accounting Standards” of the Notes.

The rights of use recorded for the first time as of January 1, 2019 are primarily attributable to the rights of use with regard to rented real estate in addition to rights of use for operating and office equipment. The carrying amounts of the rights of use reported in the balance sheet developed as follows in the financial year:

in € thousand	Other Property, plant and equipment	Real Property	Total
Cost			
As of Jan. 1, 2019	597	6,584	7,182
Additions	58	198	256
Disposals	(78)	(2,076)	(2,154)
As of Dec. 31, 2019	**577**	**4,707**	**5,284**
Accumulated amortisation			
As of Jan. 1, 2019	-	-	-
Additions	254	1,202	1,456
Disposals	(68)	-	(68)
As of Dec. 31, 2019	**186**	**1,202**	**1,388**
Carrying amount Dec. 31, 2019	**391**	**3,505**	**3,896**

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 € 1,456 thousand (previous year: € 0 thousand) were recognized in the cost of sales and administrative expenses in the 2019 financial year. In addition, the interest expenses for lease liabilities were € 264 thousand (previous year: € 0 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 € 1,720 thousand (previous year: € 0 thousand).

The Group's cash outflows for leases amounted to € 1,791 thousand in the 2019 financial year.

For individual leases for real estate there are extension options that favor KHD which were not taken into consideration in the determination of rights of use as of December 31, 2019 because exercising the extension options was considered unlikely. The undiscounted potential future lease payments for periods after the point in time that the extension option has been exercised amount to approx. € 2.5 million.

Goodwill

Goodwill as reported as of December 31, 2019 arises from acquisitions and was allocated to the respective cash generating units. Overall, the carrying amount of goodwill of € 5,162 thousand remained unchanged compared with the previous year. As of December 31, 2019, the goodwill is attributable to the following cash generating units:

CGU	Carrying amount of goodwill allocated to CGU in € thousand	Proportion of total goodwill	Discounting interest rate (before tax) in %	Growth rate in %	Description of key assumptions of company valuation	Procedure used to determine key assumptions
Plant Services HW GmbH	2,127	41.2%	9.2%	1.0%	- Growth rates of the respective markets - Industry-specific cycles - Selling prices - Procurement prices	- Intercompany estimate of the responsible sales and purchasing departments - Economic conditions expected by KHD AG and external market research
Plant Services KHD OOO	1,605	31.1%	15.3%	1.0%	- Growth rates of the respective markets - Industry-specific cycles - Selling prices - Procurement prices	- Intercompany estimate of the responsible sales and purchasing departments - Economic conditions expected by KHD AG and external market research
Capex KHD OOO	1,430	27.7%	15.2%	1.0%	- Growth rates of the respective markets - Industry-specific cycles - Selling prices - Procurement prices	- Intercompany estimate of the responsible sales and purchasing departments - Economic conditions expected by KHD AG and external market research

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

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

A change to the key measurement parameters, such as a reduction in the expected cash flows by 10 % would not affect the measurement as of December 31, 2019. An increase of the capitalization rate by 20 % would make it necessary for the cash generating unit "Plant Services KHD OOO" to recognize an impairment loss in the amount of € 100 thousand (previous year: € 0 thousand). The cash generating unit "Capex KHD OOO" would not be impaired if the capitalization rate were increased by 20 % this year (previous year: impairment of € 28 thousand). There is no need for the other cash generating units to recognize an impairment loss.

7. Receivables and Financial Assets

in € thousand	**Dec. 31, 2019**	**Dec. 31, 2018**
Current financial assets		
Trade receivables	26,346	40,218
Less valuation allowances for impairment of receivables	(3,004)	(3,487)
Trade receivables - net	**23,342**	**36,731**
Intercompany receivables	3,855	383
Other financial assets	101,103	1,097
Financial receivables	1,712	2,108
Current financial assets	**130,012**	**40,319**
Other receivables	3,165	2,412
Current financial assets and other receivables	**133,177**	**42,731**
Non-current financial assets		
Trade receivables	2,252	5,230
Other non-current financial assets	-	100,005
Non-current financial assets	**2,252**	**105,235**

Trade receivables (gross amount – before deducting valuation allowances) decreased in the financial year by € 13,872 thousand from € 40,218 thousand to € 26,346 thousand. Trade receivables do not include any receivables from license agreements (previous year: € 899 thousand). Intercompany receivables increased by € 3,472 thousand, from € 383 thousand to € 3,855 thousand as of December 31, 2019.

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

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

Financial receivables decreased slightly by € 396 thousand, from € 2,108 thousand to € 1,712 thousand. Financial receivables as of December 31, 2019 mainly comprise costs backcharged to subcontractors, interest receivables, securities, insurance claims, and other financing receivables totaling € 631 thousand (previous year: € 792 thousand).

Other receivables in the amount of € 3,165 thousand (previous year: € 2,412 thousand) arise from reimbursement claims for value-added tax.

Two loans to AVIC Kairong, each for € 50,000 thousand, are reported under other assets. The loans were reported in the previous year under non-current other financial assets. Because the two loans are due for repayment in the 2020 financial year, they are reported as of December 31, 2019 under current other financial assets.

Other non-current financial assets include trade receivables against customers in an amount of € 2,252 thousand (previous year: € 3,661 thousand), with whom deferral agreements were agreed. The deferred receivables incur interest at usual market conditions.

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, 2019.

Age Structure of overdue Receivables for which no Valuation Allowance was recognized

in € thousand	Dec. 31, 2019	Dec. 31, 2018
61 to 90 days	1,200	582
91 to 180 days	587	1,588
181 to 365 days	264	481
Over 365 days	812	80
Total	**2,863**	**2,731**

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 € 2,863 thousand (previous year: € 2,731 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.

Movement in valuation allowances on trade receivables

in € thousand	2019	2018
Valuation allowances as of Jan.1	3,487	3,328
Addition	888	2,121
Utilization	(134)	(988)
Currency translation differences	(151)	(79)
Reversal	(1,086)	(895)
Valuation allowances as of Dec. 31	**3,004**	**3,487**

Valuation allowances correspond to the net value (excluding VAT) of the impaired receivables. KHD recorded valuation allowances on receivables due to expected credit losses according to IFRS 9 in the amount of € 148 thousand (previous year: € 102 thousand) through profit or loss.

As in the previous year, the current and non-current trade receivables do not include significant foreign currency receivables.

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 exists is taken into account.

As of December 31, 2019, KHD has a total amount of tax loss carry-forwards of € 149.0 million (previous year: € 126.8 million) for corporate income tax and comparable foreign income taxes. For trade tax, the total amount of tax loss carry-forwards is € 94.7 million (previous year: € 72.2 million). In the reporting of deferred tax assets as of December 31, 2019, tax loss carry-forwards of € 0.9 million (previous year: € 1.8 million) for corporate income tax and comparable foreign income taxes as well as € 1.8 million (previous year: € 1.8 million) for trade tax were recognized. To the degree that it is probable that a future, taxable result will be available, deferred tax assets are capitalized to the extent that based on the 5-year business planning a future taxable result will be available. The basis for the expected future taxable profit is KHD's estimation regarding the development of its subsidiaries. Deferred tax assets, however, are capitalized at least to the extent that corresponding deferred tax liabilities are recognized.

The probable taxable profit in the future are determined for the respective subsidiary based on business planning done for Group purposes. No deferred tax assets were recognized based on temporary differences in the amount of € 1.8 million (previous year: € 1.8 million) and tax loss carry-forwards for which the future utilization is not sufficiently probable. In principle, the tax loss carry-forwards of the German companies can be carried forward with no time limit. The utilization of tax loss carry-forwards for foreign companies is subject to some time limits. Unutilized loss carry-forwards for foreign companies in the amount of € 52,466 thousand (previous year: € 51,886 thousand) will expire during the time period from 2029 through 2037.

The deferred taxes assets not recognized in profit and loss amount to € 307 thousand (previous year: € 307 thousand) as of December 31, 2019.

For temporary differences amounting to € 1.5 million (previous year: € 1.0 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, 2019**	**Dec. 31, 2018**
Deferred tax assets		
Provisions	437	619
Resulting from tax loss carry-forwards	1,370	2,683
Offset with deferred tax liabilities	(715)	(874)
	1,092	**2,428**
Deferred tax liabilities		
Construction contracts / PoC method	(733)	(925)
Offset with deferred tax assets	715	874
	(18)	**(51)**

Of the reported deferred tax assets on provisions in the amount of € 437 thousand, € 307 thousand relate to deferred tax assets for pension benefit obligations.

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

9. Inventories

in € thousand	Dec. 31, 2019	Dec. 31, 2018
Raw materials, consumables, and supplies	2,895	3,601
Work in progress	819	2,493
Finished goods and merchandise	1,076	86
Write-down to net realizable value	(1,441)	(1,775)
	3,349	**4,405**

In the financial year, inventories in the amount of € 7,547 thousand (previous year: € 8,768 thousand) were recorded as part of cost of sales. The manufactured products and services are mainly spare parts stocked by customers, but for which transfer of ownership to the customer occurs only when the customer retrieves a part. Write-downs to net realizable value of the inventories amount to € 1,441 thousand as of December 31, 2019 (previous year: € 1,775 thousand). These write-downs relate to raw materials, consumables, and supplies, the gross carrying amount of which is € 1,888 thousand (previous year: € 2,743 thousand).

10. Contract Assets and Contract Liabilities and Advance Payments received

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

Contract assets represent conditional claims to a payment from the customer for satisfying contractual performance obligations. Receivables are recorded only after the claim to receipt of the payment becomes unconditional. This is usually the case if contractually agreed upon milestones for settlement are reached. When these milestones are reached, the contract assets are reclassified under receivables in the amount of the respective progress billings.

Contract liabilities arise when customer payments based on the agreed upon milestones exceed the contractual obligations that have already been satisfied. The contract liabilities are recorded as revenue as soon as KHD provides the contractual service. Revenue in the amount € 18,790 thousand (previous year: € 18,603 thousand), which was included in the balance of the contract liabilities at the beginning of the period, was recorded in the 2019 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, 2019**	**Dec. 31, 2018**
Costs incurred to date for construction contracts with realization of revenues over time	102,247	117,256
Proportionate results under these contracts recognized to date	4,820	7,148
Total costs incurred and profits recognized	107,067	124,404
Less progress billings	(144,961)	(129,833)
Balance of contract assets and contract liabilities	**(37,894)**	**(5,429)**
This amount is comprised as follows:		
Contract assets	3,754	15,565
Contract liabilities	(41,648)	(20,994)
	(37,894)	**(5,429)**
Disclosure on the credit side of the balance sheet		
Contract liabilities	(41,648)	(20,994)
Advance payments received	(4,747)	(1,263)
Contract liabilities and advance payments received	**(46,395)**	**(22,257)**

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 reduced due to high progress billings by € -32,465 thousand from € -5,429 thousand to € -37,894 thousand as of the reporting date, December 31, 2019.

Of the revenue recognized in the reporting period in the amount of € 146,289 thousand (previous year: € 151,766 thousand), € 114,907 thousand (previous year: € 120,436 thousand) is attributable to customer contracts for which revenue was recognized based on stage of completion.

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

The measurement of customer contracts with revenue recognition over time is affected by estimations with respect to project revenue and project costs. Here, particularly costs to complete and, therefore, total estimated costs are subject to changes in estimates. Changes in estimates for projects are considered while calculating the amount of revenue and expenses recognized in profit or loss for the period in which the change was made as well as in the following periods. In this way, changes in estimates have a direct effect on the recognized result from customer contracts with revenue recognition over time. There were negative effects from changes in estimates in the range of € 10.0 – € 15.0 million in the 2019 financial year.

11. Other Financial Assets

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

Based on the fixed term of three years, both loans are due for repayment in the 2020 financial year. Because the remaining term of the loans is less than twelve months, they are reported as of December 31, 2019 under other current financial assets. In the previous financial year, they were reported under other non-current financial assets.

12. Cash and Cash Equivalents

The Group reports cash and cash equivalents in the amount of € 82,622 thousand
(previous year: € 72,228 thousand).

in € thousand	Dec. 31, 2019	Dec. 31, 2018
Bank balances and cash on hand	51,889	49,389
Short-term bank deposits	30,733	22,839
	82,622	**72,228**

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 € -1,297 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, effects from the initial application of IFRS 16 are recorded in equity in the financial year without affecting profit and loss. In the previous year, effects from the initial application of IFRS 9 were also recorded in the other retained earnings 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, 2019 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, 2019, the Group's pension benefit obligations amounted to € 21,039 thousand (previous year: € 20,840 thousand).

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

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

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

The most important actuarial assumptions made are as follows:

in %	**Dec. 31, 2019**	**Dec. 31, 2018**
Discount rate	0.70	1.55
Pension trend	1.50	1.50
Employee turnover rate	0.00	0.00

For the financial year, the unchanged mortality tables 2018 G by Dr. Klaus Heubeck form the biometric basis for calculating these obligations. As a result of using the mortality tables, there were no actuarial losses due to demographic changes in the financial year (previous year: € 305 thousand).

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

- If the discount rate increases by 0.5 %, the pension benefit obligations decrease by € 1,007 thousand (previous year: € 968 thousand). If, however, the discount rate instead falls by 0.5 %, the pension benefit obligations increase by € 1,098 thousand (previous year: € 1,053 thousand).
- If the pension trend increases by 0.25 %, the pension benefit obligations rise by € 522 thousand (previous year: € 190 thousand). If the pension trend decreases by 0.25 %, the pension benefit obligations are reduced by € 503 thousand (previous year: € 485 thousand).
- If life expectancy increases by one year for both men and women, the benefit obligation increases by € 1,309 thousand (previous year: € 1,190 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, 2019	Dec. 31, 2018
Defined benefit obligation on Jan. 1	20,840	22,480
Interest cost	312	304
Benefits actually paid (total)	(1,386)	(1,460)
Losses / (gains) due to experience adjustments	1,664	(488)
Actuarial (gains) / losses due to change in actuarial assumptions	(391)	(301)
Losses / (gains) due to demographic adjustments	-	305
Defined benefit obligation on Dec. 31	**21,039**	**20,840**

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, 2019, of the total obligations of € 21,039 thousand (previous year: € 20,840 thousand), an amount of € 214 thousand is attributable to active employees (previous year: € 539 thousand), € 2,305 thousand to former employees (previous year: € 1,967 thousand), and € 18,521 thousand to pensioners and surviving dependents (previous year: € 18,334 thousand).

As of December 31, 2019, the average term of the defined benefit obligation was 10.22 years (previous year: 9.39 years).

Cumulative remeasurement recorded in comprehensive income:

in € thousand	Dec. 31, 2019	Dec. 31, 2018
Opening balance - cumulative remeasurement gains (-) / losses	7,518	8,002
Actuarial gains (-) / losses	1,273	(484)
Closing balance - cumulative remeasurement gains (-) / losses	**8,791**	**7,518**

in € thousand	Dec. 31, 2019	Dec. 31, 2018
Net interest expense	**312**	**304**
Actuarial (gains) / losses due to experience adjustments	1,664	(488)
Actuarial (gains) / losses due to change in actuarial assumptions	(391)	(301)
Losses / (gains) due to demographic adjustments	-	305
Actuarial (gains) / losses recognized in other comprehensive income	**1,273**	**(484)**
Defined benefit costs	**1,585**	**(180)**

Interest expenses on pensions of € 312 thousand (previous year: € 304 thousand) were recognized under finance expenses for the financial year.

Expected Benefit Payments

in € thousand	2019	2018
in 2019	-	1,459
in 2020	1,430	1,455
in 2021	1,410	1,432
in 2022	1,380	1,401
in 2023	1,343	1,364
in 2024	1,306	13,729
2025 onwards (prior year: 2024 onwards)	14,170	

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

The portion of pension benefit obligations expected to be paid out in the following financial year in the amount of € 1,430 thousand is reported in the current provisions.

15. Provisions and Accruals

Provisions

in € thousand	Warranty	Tax and litigation risks	Impending losses	Pension benefit obligations	Provision for Reorganization	Total
Provisions as of Jan. 1, 2019	17,779	902	11,001	1,459	-	31,141
Additions	7,439	-	47	-	1,802	9,288
Release	(6,088)	(98)	(134)	-	-	(6,320)
Interest accrual	12	-	-	-	-	12
Currency translation effects	70	(2)	7	-	-	75
Utilization / reclassification	(4,743)	-	(4,455)	(29)	-	(9,227)
Provisions as of Dec. 31, 2019	**14,469**	**802**	**6,466**	**1,430**	**1,802**	**24,969**

in € thousand	Dec. 31, 2019	Dec. 31, 2018
Non-current (warranty)	2,904	2,795
Current	22,065	28,346
	24,969	**31,141**

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.

Outstanding obligations in the amount of € 1,802 thousand from the reorganization implemented in 2019 are reported under the provisions as of the reporting date.

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

The effects from currency translation of € 75 thousand (previous year: € -12 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, 2019	Dec. 31, 2018
Current financial liabilities		
Trade payables	25,890	39,738
Liabilities due to affiliated companies	192	1,140
Current financial liabilities	57	59
Other current liabilities	5,190	5,055
Lease Liabilities	1,497	-
Current financial liabilities	**32,826**	**45,992**
Other liabilities		
Tax and social security	275	40
Income tax liabilities	395	299
Other liabilities	**670**	**339**
Current liabilities	**33,496**	**46,331**
Other non-current liabilities		
Other non-current liabilities	3,082	3,120
Lease Liabilities*	2,627	-
Loan	25,000	25,000
Other non-current liabilities	**30,709**	**28,120**

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

The other non-current liabilities relate to a bank loan which is due for payment in 2021. Furthermore, lease liabilities according to IFRS 16 and other liabilities are reported under other non-current liabilities. With regard to the initial application of IFRS 16, reference is made to 1) "First Application of New Accounting Standards" of the Notes.

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	2019	2018
Wages and salaries	32,368	34,355
Social security contributions and costs, including pension costs	5,294	5,713
	37,662	**40,068**

Number of Employees

	As of Mar. 31, 2019	As of Jun. 30, 2019	As of Sep. 30, 2019	As of Dec. 31, 2019
Salaried employees	636	582	590	584
Industrial employees	66	72	79	80
Total	**702**	**654**	**669**	**664**

As of December 31, 2019, the number of employees was 664 (previous year: 703). In the year under review, the average number of employees was 672, of whom 74 were industrial employees (previous year: 687 employees, of whom 58 were industrial).

Personnel expenses include employer contributions to statutory pension insurance in the amount of € 1,524 thousand (previous year: € 1,968 thousand) and expenses for contractually defined contribution plans of € 617 thousand (previous year: € 790 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 € 1,175 thousand in the 2019 financial year (previous year: € 1,405 thousand).

The compensation for members of the KHD Management Board in the 2019 financial year amounted to € 995 thousand (previous year: € 1,225 thousand). It can be attributed to the following categories in accordance with IAS 24.17:

- € 985 thousand (previous year: € 755 thousand) – short-term benefits,
- € 0 thousand (previous year: € 0 thousand) – post-employment benefits,
- € 0 thousand (previous year: € 0 thousand) – short-term employee benefits,
- € 10 thousand (previous year: € 470 thousand) – termination benefits,
- € 0 thousand (previous year: € 0 thousand) – share-based payment.

Total compensation according to Section 314 Paragraph 1 No. 6a of the German Commercial Code (HGB) for members of the Management Board amounted to € 995 thousand in the 2019 financial year (previous year: € 1,225 thousand).

As of December 31, 2019 balances amounting to € 180 thousand (previous year: € 75 thousand) of the remuneration of the Management Board are outstanding for payment. The balances outstanding for payment comprise € 180 thousand (previous year: € 75 thousand), short-term benefits, and € 0 thousand (previous year: € 0 thousand) other long-term benefits.

Dr. Matthias Jochem shall not receive any Management Board compensation. KHD concluded a consulting contract in the 2019 financial year with 4-stream consulting GmbH, Roetgen, a company related to Management Board member Dr. Matthias Jochem (since June 1, 2019) as an affiliated company. According to the contractual agreement, € 105 thousand was recorded by KHD as expenses for consulting service provided in the period from June 1 through December 31, 2019.

The remuneration granted to members of the Supervisory Board for performing their duties in the 2019 financial year amounted to € 180 thousand (previous year: € 180 thousand). The compensation of the Supervisory Board members in the 2019 financial year relate in full (€ 180 thousand, previous year: € 180 thousand) to short-term benefits. As of December 31, 2019, a balance amounting to € 0 thousand (previous year: € 371 thousand) of the remuneration of members of the Supervisory Board is outstanding for payment.

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

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

20. Revenue and Recording Revenues

The revenue in the 2019 financial year amounts to € 146,289 thousand (previous year: € 151,766 thousand) which can be divided into the Capex segment (project business) € 104,156 thousand (previous year: € 108,785 thousand) and the Plant Services segment € 42,133 thousand (previous year: € 42,981 thousand). The revenue in the Capex segment includes license revenue in the amount of € 254 thousand (previous year: 1,000 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 he 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 partial billings that are due for payment within 14 to 90 days, depending on the individual contract.

- Plant Services segment:
  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 separate performance obligations as defined by IFRS 15.

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

21. Cost of sales

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

in € thousand	2019	2018
Normal cost of sales	134,159	152,374
Cost of idle capacity	1,852	2,616
	136,011	**154,990**

22. Other Operating Income

in € thousand	2019	2018
Exchange gains	2,223	1,227
Other income	1,089	1,487
	3,312	**2,714**

Other operating income includes exchange gains and exchange rate forward contracts in the amount of € 2,223 thousand (previous year: € 1,227 thousand). The exchange gains are mainly the result of exchange rate fluctuations between the US dollar and the euro. Exchange gains include both realized and unrealized exchange rate effects. Regarding exchange gains it should be considered that from an economic perspective, due to the foreign currency hedging performed, the expenses from foreign exchange forward contracts that are presented under other expenses and a portion of exchange rate losses should be offset against the income from exchange rate fluctuations.

23. Sales expenses

Sales expenses decreased with respect to the previous year by € 1,665 thousand, from € 13,234 thousand to € 11,569 thousand. Sales expenses include costs for tendering of € 5,797 thousand (previous year: € 6,421 thousand). Furthermore, the sales expenses include costs for trade show appearances and customer events as well as sales-related expenses.

24. General and Administrative Expenses

Administrative expenses increased slightly by € 278 thousand, from € 12,398 thousand to € 12,676 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	**2019**	**2018**
Research and development	2,108	1,942
Exchange rate losses and expenses from derivatives	2,436	2,091
Miscellaneous expenses	1,089	1,021
	5,633	**5,054**

Other expenses increased with respect to the previous year by € 579 thousand, from € 5,054 thousand to € 5,633 thousand. Included here are expenses for foreign exchange forward contracts and exchange rate losses, which increased by € 345 thousand, from € 2,091 thousand in the previous year to € 2,436 thousand. The foreign exchange forward contracts were used exclusively to hedge foreign currency receivables. Expenses arising from foreign exchange forward contracts offset revenue from currency effects. Since the derivative financial instruments used by the KHD Group do not meet the strict requirements of hedge accounting, the economic hedge relationship is not reflected by using hedge accounting in the consolidated financial statements.

Expenses for research and development increased by € 166 thousand, from € 1,942 thousand in the previous year to € 2,108 thousand. A clearer focus on promising development projects was established in the 2019 financial year as well.

Miscellaneous expenses include, among other items, expenses for non-recoverable taxes, consultancy services, fees, and insurance premiums. Other miscellaneous expenses are at about the previous year's level and increased slightly by € 68 thousand, from € 1,021 thousand to € 1,089 thousand.

26. Reorganization Expenses

Expenses in the amount of € 6,360 thousand (previous year: € 0 thousand) were incurred in the context of the reorganization implemented in the 2019 financial year at the subsidiary HW GmbH.

27. Net Finance Income

Net finance income is composed as follows:

in € thousand	**2019**	**2018**
Interest income	8,599	8,564
Total interest income	**8,599**	**8,564**
Dividend income	42	28
Gains on securities	5	-
Interest related to non current assets	5	42
Finance income	**8,651**	**8,634**
Interest related to pension benefit obligations, provisions and other non-current liabilities	(327)	(351)
Losses on securities	-	(356)
Interest expense of leasing liabilities	(264)	-
Interest expense	(477)	(590)
Finance expenses	**(1,068)**	**(1,297)**
Net finance income	**7,583**	**7,337**

Interest income includes interest income from bank deposits and cash equivalents as well as interest income from deferral agreements of € 2,668 thousand (previous year: € 2,633 thousand). Interest income from loans to an affiliated company amounted to € 5,931 thousand (previous year: € 5,931 thousand). The total interest income increased slightly by € 35 thousand, from € 8,564 thousand to € 8,599 thousand. Interest income results from financial assets that are measured at amortized cost. Due to price development, the fair value measurement of listed shares held as financial assets gains on securities resulted in a profit of € 5 thousand (previous year: loss of € 356 thousand) in the financial year.

Finance expenses include interest related to pension benefit obligations in the amount of € 312 thousand (previous year: € 304 thousand). In the financial year, interest expenses of € 15 thousand (previous year: € 47 thousand) were incurred due to interest on provisions and other non-current liabilities. Interest expenses in the amount of € 477 thousand (previous year: € 475 thousand) were recorded for a bank loan.

28. Income Tax Expenses

The income tax expense of € 3,769 thousand incurred in the 2019 financial year (previous year: € 1,441 thousand) is composed as follows:

in € thousand	**2019**	**2018**
Current tax expense	(3,668)	(1,635)
Deferred tax income / expense	(101)	194
Tax expense for the year	**(3,769)**	**(1,441)**

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

in € thousand	**2019**	**2018**
Earnings before income tax	(15,065)	(23,859)
Expected tax result while applying an average tax rate of 32.45 % (Previous year: 32.45 %)	4,888	7,742
Effects of tax-free income	695	278
Effects of non-tax-deductible expenses	(256)	(364)
Effects of unutilized deferred tax losses not recognized as deferred assets recognized tax losses and offset possibilities	(8,931)	(8,913)
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	411	6
Effects of subsidiaries' divergent tax rates	511	(207)
effect from reversal of deferred tax assets created in previous year	(766)	-
Adjustments for previous years' taxes recognized in the current period	(25)	77
Other non-tax-effective additions and deductions	(296)	(60)
Tax expense for the year	**(3,769)**	**(1,441)**

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

The effective Group taxation rate is -25.02 % (previous year: -6.04 %).

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

29. Earnings and Dividends per Share

Earnings per Share

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

	2019	**2018**
Group net loss for the year attributable to shareholders (in € thousand)	(18,875)	(25,312)
Weighted average number of shares outstanding	49,703,573	49,703,573
Basic (undiluted) and diluted earnings per share (in €)	(0.38)	(0.51)

Dividend per Share

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

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

As in the previous year, the auditor for the 2019 financial year is Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft.

The total fees charged by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft for the 2019 financial year are comprised as follows:

in € thousand	2019	2018
Financial statement audit services	241	213
	241	**213**

The total remuneration for the auditor for the 2019 financial year is € 206 thousand (previous year: € 213 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 2019 financial year include auditing services in the context of the audit of the annual financial statements for the 2018 financial year in the amount of € 35 thousand.

31. Commitments and Contingent Liabilities and Assets

Commitments for Operating Leases

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

in € thousand	Dec. 31, 2019	Dec. 31, 2018
Within one year	2,924	2,814
Between two and five years	3,448	4,995
After five years	-	-
Total lease and rental commitments	**6,372**	**7,809**

Other contingent liabilities from current contracts amount to € 303 thousand (previous year: € 231 thousand).

Expenses for leased and rented office space and office equipment recognized in the Group income statement amount to € 3,047 thousand in the 2019 financial year (previous year: € 3,041 thousand).

Contingent Liabilities

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

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

Contingent Assets

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

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

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

32. Additional Notes on Financial Instruments

Financial Risk Factors

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

Capital Management

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

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

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

KHD is subject to the minimum capital requirements applicable to German stock corporations. Compliance with these requirements is monitored continuously. KHD was in compliance with these requirements in 2019.

in € thousand	Dec. 31, 2019	Dec. 31, 2018
Equity	101,540	123,112
Total assets	256,736	270,393
Equity ratio (in %)	39.6	45.5

The equity ratio decreased by 5.9 percentage points compared with the previous year from 45.5 % to 39.6 %.

Market Risk

Currency Risk

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

The Group recognized assets and liabilities denominated in foreign currencies translated to a carrying amount of € 8,099 thousand (previous year: € 8,495 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 € 547 thousand (previous year: € 574 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 € 4,181 thousand (previous year: € 3,836 thousand).

Price Risk

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

Credit and Default Risk

The risk of credit concentration with regard to trade receivables is generally diminished as receivables are spread out worldwide, reflecting the Group's customer structure. Long-term business relationships are maintained with important customers. In the past, these customers have not been involved in bad debt losses based on credit rating. In addition, there are no current indications of increase credit rating risks. Credit risk is also mitigated through the payment terms the Group agrees with its customers, notably progress billings and advance payments, to avoid excessively high levels of outstanding receivables. Internal guidelines ensure that products are only sold to customers with appropriate credit ratings. 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).

Securities for receivables in the financial year amounted to € 261 thousand (previous year: € 3,393 thousand).

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

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

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

Liquidity Risk

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

In order to avoid financial risks from the plant engineering business, construction contracts are executed through progress billings and customer payments made in advance, which largely financed projects in progress as of the balance sheet date. By means of financial and liquidity planning, cash and cash equivalents are available in such a way that the KHD Group is at all times able to fully meet its payment obligations. The majority of current trade and other payables reported as of the balance sheet date in the amount of € 25,890 thousand (previous year: € 39,738 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. The Group does not anticipate any material liabilities due to these commitments. The arranged bank guarantee credit facilities allow individual KHD Group companies to provide bank guarantees for its customers worldwide. As part of these guarantee facilities, the Group has provided bank guarantees within the scope of its normal business activities in the amount of € 44.9 million (previous year: € 45.3 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, 2019, would have been € 279 thousand (previous year: € 244 thousand) higher or lower, respectively. As of December 31, 2019, 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, 2019 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, 2019 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:

2019 in € thousand	Available for sale	Financial assets Fair value through profit and loss	Loans and receivables	Financial liabilities Fair value through profit and loss	Amortized cost	Total
Expenses due to valuation allowances on financial assets	-	-	(888)	-	-	(888)
Interest Income / expense	-	-	8,599	-	(477)	8,122
Other net earnings	-	19	858	-	-	877
Net earnings	**-**	**19**	**8,569**	**-**	**(477)**	**8,111**

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

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, 2019	**Financial assets**				**Financial Liabilities**				
	Measurment according to IFRS 9				Measurment according to IFRS 9				
in € thousand	Fair value throught OCI	Fair value throught P&L	Amortized cost	Not in IFRS 9 application area	Fair value throught P&L	Amortized cost	Not in IFRS 9 application area	Carrying amount Dec. 31, 2019	Fair value Dec. 31, 2019
Non-current financial assets	-	-	2,252	-	-	-	-	2,252	-
Trade receivables	-	-	23,342	-	-	-	-	23,342	-
Related party receivables	-	-	3,855	-	-	-	-	3,855	-
Contract assets	-	-	3,754	-	-	-	-	3,754	-
Other financial assets	-	1,017	100,086	-	-	-	-	101,103	101,074
Derivatives	-	53	-	-	-	-	-	53	53
Other receivables	-	-	1,659	3,165	-	-	-	4,824	-
Cash and cash equivalents	-	-	82,622	-	-	-	-	82,622	-
Total financial assets	**-**	**1,070**	**217,570**	**3,165**	**-**	**-**	**-**	**221,805**	**101,127**
Financial liabilities	-	-	-	-	-	57	-	57	-
Loan	-	-	-	-	-	25,000	-	25,000	-
Contract liabilities	-	-	-	-	-	46,395	-	46,395	-
Other liabilities	-	-	-	-	-	5,190	3,082	8,272	-
Derivatives	-	-		-	-	-		-	-
Trade payables	-	-	-	-	-	26,082	-	26,082	-
Total financial liabilities	**-**	**-**	**-**	**-**	**-**	**102,724**	**3,082**	**105,806**	**-**

Dec. 31, 2018	**Financial assets**				**Financial Liabilities**				
	Measurment according to IFRS 9				Measurment according to IFRS 9				
in € thousand	Fair value throught OCI	Fair value throught P&L	Amortized costs	Not in IFRS 9 application area	Fair value throught P&L	Amortized cost	Not in IFRS 9 application area	Carrying amount Dec. 31, 2018	Fair value Dec. 31, 2018
Non-current financial assets	-	-	105,235	-	-	-	-	105,235	100,197
Trade receivables	-	-	36,731	-	-	-	-	36,731	-
Related party receivables	-	-	383	-	-	-	-	383	-
Contract assets	-	-	15,565	-	-	-	-	15,565	-
Other financial assets	-	1,011	86	-	-	-	-	1,097	1,011
Derivatives	-	3	-	-	-	-	-	3	3
Other receivables	-	-	2,105	2,412	-	-	-	4,517	-
Cash and cash equivalents	-	-	72,228	-	-	-	-	72,228	-
Total financial assets	**-**	**1,014**	**232,333**	**2,412**	**-**	**-**	**-**	**235,759**	**101,211**
Financial liabilities		-	-	-	-	59	-	59	-
Loan	-	-	-	-	-	25,000	-	25,000	-
Contract liabilities	-	-	-	-	-	22,257	-	22,257	-
Other liabilities	-	-	-	-	-	4,728	3,120	7,848	-
Derivatives	-	-			327	-	-	327	327
Trade payables	-	-	-	-	-	40,878	-	40,878	-
Total financial liabilities	**-**	**-**	**-**	**-**	**327**	**92,922**	**3,120**	**96,369**	**327**

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, 2019	Dec. 31, 2018			
Derivatives	Financial assets: € 53 thousand Financial liabilities: € 0 thousand	Financial assets: € 3 thousand Financial liabilities: € 327 thousand	level 2	Discounted cash flow	N/A
Securities	Financial assets: € 1,017 thousand	Financial assets: € 1,011 thousand	level 1	listed price on active market	N/A

Securities Held for Trading

Securities held for trading amounted to € 1,017 thousand (previous year: € 1,011 thousand). A 10 % variance in the market price would change Group earnings by € 97 thousand (previous year: € 96 thousand).

Receivables

Overdue Group receivables, including receivables for which valuation allowances were made, amounted to € 5,527 thousand (previous year: € 5,635 thousand). After deducting securities (letters of credit and Hermes coverage), the Group values the resulting risk at € 5,527 thousand (previous year: € 5,597 thousand). The receivables for which valuation allowances have been made are generally more than 90 days overdue.

Derivatives

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

The net balance of the derivatives carries a fair value of € 53 thousand (previous year: € -324 thousand). A 10 % change in the exchange rate hedged by the derivative would affect earnings by € 1,056 thousand (previous year: € 1,261 thousand). The total amount of underlying transactions allocated to foreign exchange forward contracts amounts to € 15.6 million (previous year: € 18.7 million).

Foreign exchange forward contracts amounting to € 15.4 million (previous year: € 18.7 million) are due within one year.

Offsetting

In the KHD Group there are offsetting agreements with the corresponding banks for derivative financial instruments. In accordance with these framework agreements, the amounts owed by each respective party with respect to transactions in the same currency that are still outstanding on a specific date of maturity are offset to reach a net amount. The derivative financial instruments concluded as of the reporting date and as of the previous year's reporting date have a total fair value of € 53 thousand (previous year: negative fair value of € 324 thousand). In this respect, no offsetting based on the offsetting agreement is done.

33. Related Party Disclosures

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

Relations with affiliated companies

There has been a cooperation agreement with AVIC Beijing since 2010, reinforced since February 2011 by the capital interests in KHD amounting to 20 % that is held by Max Glory Industries Limited (Max Glory), an AVIC Beijing group company. As a consequence of a public takeover offer, AVIC Beijing increased its indirect share in KHD in the 2014 financial year. As of December 31, 2019, AVIC Beijing indirectly holds the majority of KHD shares with 89.02 % (unchanged from the previous year). Among others, the strategic partnership between AVIC and KHD resulted in joint projects in China, Iran, Malaysia, Venezuela, and Turkey.

KHD concluded a consulting contract in the 2019 financial year with 4-stream consulting GmbH, Roetgen, a company related to Management Board member Dr. Matthias Jochem (since June 1, 2019) as an affiliated company. According to the contractual agreement, € 105 thousand was recorded by KHD as expenses for consulting service provided in the period from June 1 through December 31, 2019. The liabilities due to 4-stream consulting GmbH amounted to € 15 thousand as of December 31, 2019 (previous year: € 0 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. The loans bear interest of 6.0 % and 5.7 % p.a., respectively, and both have a term of three years. For the loan extended in July 2017, KHD has the right to demand repayment at any time before the due date with a notification period of 30 days. Both loans are secured by a corporate guarantee from AVIC.

Based on the fixed term of three years, both loans are due for repayment in the 2020 financial year. Due to the remaining term of the loans, they are reported as of December 31, 2019 under other current financial assets. As of December 31, 2018, they were reported under non-current other financial assets.

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

Income

Income with indirect parent companies amounted to € 4,161 thousand in the financial year (previous year: € 302 thousand). Income in the current year largely relates to income generated from project business and interest income from payment agreements with AVIC Beijing.

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

in € thousand	2019	2018
Indirect parent company	4,161	302
Other related companies	5,988	5,931
	10,149	**6,233**

Expenses

Expenses arising from transactions with indirect parent companies amounted to € 2,511 thousand in (previous year: € 105 thousand). As in the previous year, no expenses with other affiliated companies of the AVIC Group were recorded in the financial year. The expenses with indirect parent companies have to do with project costs for projects in which AVIC was KHD's supplier.

in € thousand	2019	2018
Indirect parent company	2,511	105
Other related companies	-	-
	2,511	**105**

Current assets

In the financial year under review, there were current assets due from companies of the AVIC Group in the amount of € 4,500 thousand (previous year: € 1,655 thousand). These are exclusively the result of project receivables, reimbursement claims, and interest receivables. In the previous year, these resulted exclusively from project receivables and reimbursement claims.

in € thousand	2019	2018
Indirect parent company	3,005	1,425
Other related companies	1,495	230
	4,500	**1,655**

In addition, loans to other affiliated companies amounting to a total of € 100,000 thousand were recognized under 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 in the amount of € 984 thousand (previous year: € 1,879 thousand) are reported as due from indirect parent companies.

in € thousand	2019	2018
Indirect parent company	984	1,879
Other related companies	-	-
	984	**1,879**

Relationships with Associated Persons

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

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

34. Corporate Governance

The Management Board and Supervisory Board of KHD issued the statement required pursuant to Section 161 of the German Stock Corporation Act (AktG) on February 7, 2020, 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, 2020, and also made it permanently publicly available to shareholders on this company's website (www.khdis.de).

35. Events after the Reporting Period

Significant developments or events of particular importance have not taken place since the reporting date of December 31, 2019.

36. Release for Publication by the Management Board

These group financial statements were released for publication by the Management Board resolution of February 28, 2020. The Supervisory Board approval is due to be issued at the Supervisory Board meeting on March 10, 2020.

Cologne, Germany, February 28, 2020

The Management Board

Yizhen Zhu	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, 2020

The Management Board

Yizhen Zhu	Jürgen Luckas	Dr. Matthias Jochem
Tao Xing	Matthias Mersmann	

Independent Auditor's Report

Independent auditor's report

To KHD Humboldt Wedag International AG

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

Opinions

We have audited the consolidated financial statements of KHD Humboldt Wedag International AG, Cologne, and its subsidiaries (the Group), which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of financial position as at 31 December 2019, consolidated statement of cash flows and consolidated statement of changes in equity for the fiscal year from 1 January 2019 to 31 December 2019, 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 2019 to 31 December 2019. In accordance with the German legal requirements, we have not audited the content of the group statement on corporate governance that is part of the group management report and was published on the website cited in the group management report.

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

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB ["Handelsgesetzbuch": German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities and financial position of the Group as at 31 December 2019, and of its financial performance for the fiscal year from 1 January 2019 to 31 December 2019, and

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

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

Basis for the opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with Sec. 317 HGB and the EU Audit Regulation (No 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements and of the group management report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Art. 10 (2) f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Art. 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the group management report.

Key audit matters in the audit of the consolidated financial statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the fiscal year from 1 January 2019 to 31 December 2019. 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. In all other respects, the executive directors are responsible for the other information. The other information comprises the group statement on corporate governance referred to above and the following other components of the annual report, of which we obtained a version prior to issuing this auditor's report:

- The Responsibility statement required under Sec. 264 (2) Sentence 3 in combination with Sec. 297 (2) sentence 4 and Sec. 315 (1) sentence 5 HGB
- The Report of the Supervisory Board required under Sec. 171 AktG
- The group non-financial statement in accordance with Sec. 315b HGB

Our opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the executive directors and the Supervisory Board for the consolidated financial statements and the group management report

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

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

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

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

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

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

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sec. 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.

- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.
- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with [German] law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

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

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

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

Other legal and regulatory requirements

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

We were elected as group auditor by the Annual General Meeting on 28 May 2019. We were engaged by the Supervisory Board on 30 August 2019. We have been the group auditor of KHD Humboldt Wedag International AG since fiscal year 2018.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Art. 11 of the EU Audit Regulation (long-form audit report).

German Public Auditor responsible for the engagement

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

Cologne, 9 March 2020

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

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

List of Abbreviations

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