FINANCIAL STATEMENTS 2011

2011 ····· strategic partnerships strengthened ····· customer service expanded ····· a powerful organization created ····· **competitive strength enhanced.** 2012 ····· exploit opportunities ····· with efficient and flexible structures ····· and active customer orientation ····· in the attractive EPC business ····· and beyond. ·····

KHD HUMBOLDT WEDAG

KHD Humboldt Wedag International AG

Management Report and Annual Financial Statements as of December 31, 2011

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WKN 657800
ISiN DE0006578008

List of Abbreviations

AVIC	AVIC International Beijing Company Limited, Beijing, China (formerly CATIC Beijing Co. Ltd.)
Blake	Blake International Ltd., Road Town, Tortola, British Virgin Islands
CATIC	CATIC Beijing Co. Ltd., China
CSC	Customer Service Center
CSC Risks	Risks affecting the operating units
EKOF	EKOF Flotation GmbH, Bochum, Germany
Group risks	Risks that affect the entire Group
HW	Humboldt Wedag GmbH, Cologne, Germany
HWAUS	Humboldt Wedag Australia Pty. Ltd., Braeside, Australia
HWIN	Humboldt Wedag India Private Ltd., New Delhi, India
HWUS	Humboldt Wedag Inc., Norcross (Georgia), USA
KHD	KHD Humboldt Wedag International AG, Cologne, Germany
KHD Beijing	KHD Humboldt Wedag Machinery Equipment (Beijing) Co. Ltd., Beijing, China
KHD Engineering	KHD Engineering Holding GmbH, Vienna, Austria
KHD HW	KHD Humboldt Wedag GmbH, Cologne, Germany
KHD OOO	KHD Humboldt Engineering OOO, Moscow, Russia
KIS	KHD Humboldt Wedag Industrial Services AG, Cologne, Germany
MFC Corporate Services	MFC Corporate Services AG, Herisau, Switzerland
MFC Industrial Ltd.	MFC Industrial Ltd. (formerly Terra Nova Royalty Corp.), Vancouver, Canada
MGI	Max Glory Industries Ltd., Hong Kong, China
Weir Minerals	Weir Minerals Europe Limited, a subsidiary of Weir Group PLC, Glasgow, Great Britain
ZAB	ZAB Zementanlagenbau GmbH Dessau, Dessau, Germany

Management Report and Annual Financial Statements of KHD Humboldt Wedag International AG for the Financial Year 2011

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1. Management Report of KHD Humboldt Wedag International AG for the Financial Year 2011

1.1 The Company

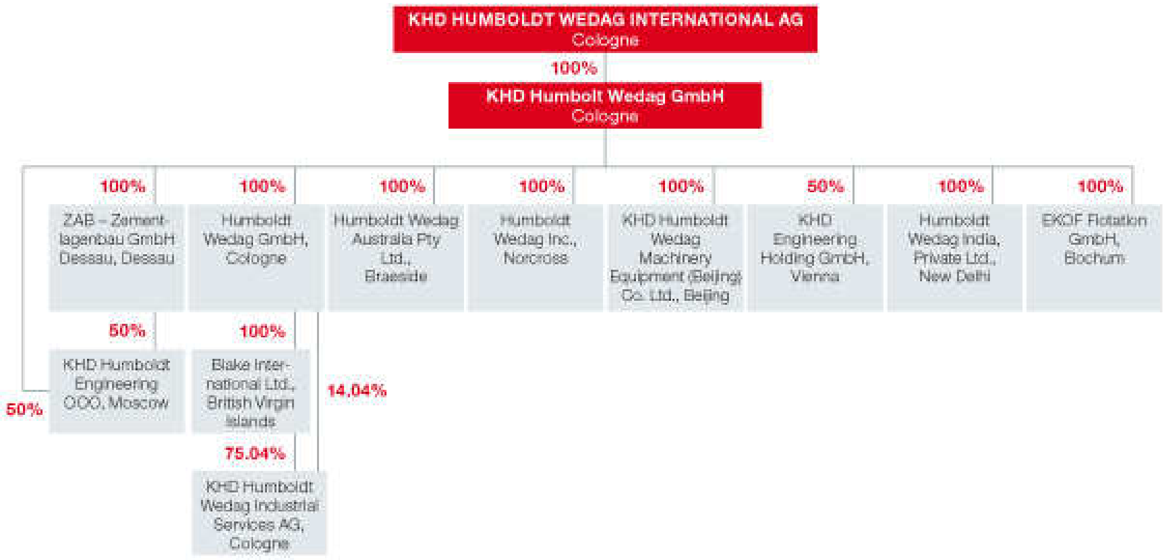
The Group of KHD Humboldt Wedag International AG (hereafter also referred to as "KHD", the "Company" or "we") based in Cologne, Germany, ranks as one of the world's top four equipment suppliers and service companies for the cement industry. The scope of services encompass design and engineering, project management, and supplying technical equipment, as well as supervising the erection and commissioning of cement plants and related equipment. Customer services such as supplying spare parts, optimization of cement plants, and training plant personnel round out KHD's service portfolio. Our focus here is primarily on knowledge-intensive areas, in particular the design and engineering of the core components of a cement plant (grinding, kiln line, system automation), process engineering, customer service, and training. The manufacturing of the equipment is almost entirely outsourced to quality-certified, external manufacturers who work in accordance with KHD's specifications.

Group Structure and Shareholdings

In its capacity as the ultimate holding company of the Group, KHD holds a 100% investment in KHD Humboldt Wedag GmbH, (KHD HW), which functions as a management holding company. The twelve KHD Group companies focus on the business segment of industrial plant engineering as well as related services.

At the end of the third quarter of 2011, KHD HW and ZAB Zementanlagenbau GmbH Dessau (ZAB) each acquired 50% of the shares in KHD Humboldt Engineering OOO, Moscow, which were previously held by our joint venture through KHD Engineering Holding GmbH, Vienna. Activities in Russia are set to be expanded through the Group company now wholly owned by KHD.

Corporate Structure



Strategic Partnerships

The strategic partnership agreed in February 2011 with the Beijing-based AVIC International Beijing Company Limited (AVIC) presents us with a whole host of strategic opportunities. The partnership involves:

- Joint participation in project tenders, in particular for turnkey plants (engineering, procurement, construction, or EPC) with a focus on the cement markets outside China, with AVIC as the general contractor and KHD supplying the core technological equipments;
- Procurement cooperation, notably through the procurement center opened in Beijing in 2011;
- Opportunity for joint investments in China, together with AVIC.

Through the exclusive sales agreement concluded with Weir Minerals in May 2010, KHD is able to benefit from Weir Mineral’s sales and service network in the mineral processing industry. Weir Minerals, a business unit of Weir Group PLC based in Glasgow, Great Britain, operates as KHD’s global agent and after-sales partner for high-pressure grinding rolls (HPGR) and the associated spare parts.

1.2 Major Events During the Year Under Review

The capital increase decided on December 21, 2010 was successfully completed on February 16, 2011. The new no-par value bearer shares, with a notional amount in the share capital of € 1.00 per share, were issued at a price of € 4.53 per share. A total of 6,620,306 shares were subscribed by existing shareholders. Unsubscribed shares in the amount of 9,940,715 were subscribed by Max Glory Industries Ltd. (MGI), meaning that MGI now holds 20% of the KHD shares. MGI is an indirect subsidiary of AVIC. When the transaction was completed, the KHD share capital had increased by € 16,561,021 from € 33,142,552 to € 49,703,573. The gross issue proceeds from the transaction amounted to around € 75.0 million. The new shares were included into trading on the Regulated Market of the Frankfurt Stock Exchange on February 21, 2011.

Following a resolution passed at the shareholders' meeting on December 29, 2011, KHD HW distributed profits in the amount of € 6,300 thousand to KHD. This was subject to capital gains tax totaling € 1,662 thousand, meaning that KHD received a payment of €4,638 thousand. As of December 31, 2011KHD presents a receivable due from the tax authorities in the amount of the reimbursable capital gains tax.

1.3 Company's Position

Net Assets:

The Company's total assets increased from € 53,999 thousand in the previous year to € 134.938 thousand at the end of the financial year 2011 (plus € 80,939 thousand).

The rise in receivables and other assets primarily reflects an increase in other assets. This increase concerns a tax receivable in the amount of € 1,662 thousand due from the tax authorities with regards to the distribution of profits carried out by KHD HW at the end of the financial year 2011. Furthermore, VAT credits were considerably higher at € 2,154 thousand (previous year: € 928 thousand). A capital gains tax reimbursement claim amounting to € 2,023 thousand is also presented under in other assets. This refers to a capital gains tax reimbursement claim that arose as a consequence of the tax audit of the German KHD Group companies for the years 2005 to 2007, which was concluded in the previous year.

The significant increase in total bank balances is largely due to the proceeds from the capital increase as well as the receipt of profits distributed by KHD HW. € 12,189 thousand of the total bank balances (previous year: € 13,061 thousand) relates to restricted cash deposited as collateral in connection with the bank guarantee credit facility. Of this amount, KHD Group companies provided an amount of € 6,808 thousand (previous year: € 7,330 thousand) to the Company as collateral for the portion of the bank guarantee credit facility utilized by them. There are liabilities in the same amount, which are reported under intercompany payables.

The Company's equity grew considerably from € 38,725 thousand to € 119,378 thousand (plus € 80,653 thousand), notably as a result of the capital increase carried out in the year under review. The retained earnings of the financial year have been significantly affected by the dividends distributed by KHD HW. Boosted retained earnings has resulted in an equity ratio of 88.5% (previous year: 71.7%).

Of the provisions and accruals, the tax accruals experienced the most notable decrease. The rise in intercompany payables relates to the tax unity for VAT with other KHD entities.

Results of Operations:

In the financial year under review, the Company's result from ordinary activities came to € 6,191 thousand (previous year: -€ 2,132 thousand). The positive change in the result from ordinary activities is due primarily to income from investments (in this case from KHD HW) in the amount of € 6,300 thousand and interest income of € 1,185 thousand, which, at € 1,092 thousand, was significantly higher than in the previous year and due to the capital increase carried out. Other operating income of € 5,383 thousand (previous year: € 2,952 thousand) largely relates to charges for services provided to operating KHD Group companies as part of the service and cost allocation agreement in the amount of € 2,954 thousand (previous year: € 2,280 thousand). A significant portion of other operating income is made up of income from the bond arrangement agreement. Bank guarantee fees are reported under interest and similar expenses. These expenses are charged to KHD Group companies based on the bond arrangement agreement.

Personnel expenses mainly relate to Management Board compensation.Other operating expenses consist of legal and consulting costs, including costs related to the capital increase, costs of preparing and auditing the annual financial statements, Supervisory Board compensation, Group charges, costs related to the Annual General Meeting, investor relation expenses and other administrative costs.

A net profit for the year of € 5,632 thousand (previous year: net loss for the year of € 2,480 thousand) arises after the deduction of income taxes of € 559 thousand (previous year: € 348 thousand).After taking into account the profit carried forward from the previous year of € 721 thousand, the net retained profit amounts to € 6,353 thousand.

Financial Position:

The Company’s financing is secured due to the high level of liquidity available at the end of 2011, and also as a result of the high level of liquidity and dividend payment potential of the KHD Group companies.

Cash and bank balances increased from € 20,213 thousand to € 98,984 thousand particularly due to the capital increase (€ 75,021 thousand) and a positive cash flow from operating activities (€ 3,750 thousand).

1.4 Development for Plant Engineering

Business Environment:

Economic Environment

After a positive start to 2011, global economic growth faltered noticeably during the course of the year. Key factors behind this sluggish performance were the sovereign debt crises gripping both Europe and the USA. The resulting insecurity surrounding the stability of the financial system recently caused uncertainty in the financial markets and stoked fears of a recession. A number of countries under strain in the eurozone, which are faced with making deep spending cuts in an attempt to bring state finances in order, already recorded negative economic growth at the year's end. Other negative factors included the ongoing political unrest in North Africa and in the Middle East, together with rising fears of inflation in Asia's dynamic economies, in particular India. The latter resulted in an increasingly restrictive monetary and fiscal policy, which served to weaken the growth rate in these countries, although these remained quite high.

Global economic output grew by just 3.8%, compared with 5.2% in the previous year, according to preliminary figures released by the International Monetary Fund. Developments in KHD's most important markets were highly varied; however, the general outlook for the underlying economic conditions for our business has darkened perceptibly.

India registered economic growth of 7.4%, but rising inflation and depreciation of the rupee dampened spirits. In order to rein in inflation, the Indian central bank raised interest rates on a number of occasions in 2011, which had a negative impact on investment activity throughout the Indian economy.

In Russia, economic growth approached the level seen in the previous year by reaching 4.1%, cashing in on the high price of oil and strong international demand for raw materials. However, the rise in gross domestic product was largely driven by export of commodities and by consumption and not by investment, which remained below expectations.

As in most other emerging economies, Turkey also lost some momentum. Nevertheless, the IMF forecast of 8.3% continues to represent an impressive growth rate. The construction industry in particular demonstrated strong growth. However, the pace of economic growth slowed at the end of the year, among other things due to developments in the European Union – Turkey's most important trading partner.

Economic activity in China also showed signs of a slowdown, brought on by slumps in exports to the troubled eurozone. Growth in the Chinese economy dropped slightly to 9.2% in 2011 from 10.4% in the previous year. The monetary and fiscal policy measures introduced to prevent the economy from overheating and to hold down inflation have, however, begun to take effect and have brightened the prospects for continued growth in the next few years. In the remaining emerging markets of Asia, economic growth was more muted, having been affected by the tsunami and nuclear disaster in Japan, as well as the flooding in Thailand.

Brazil, a very promising market for KHD, was unable to build on growth enjoyed in the previous year (7.5%), achieving a rate of just 2.9%. As was the case with other countries in South America, Brazil suffered from the appreciation of its local currency and upward pressure on wages. On the other hand, companies were more willing to invest in light of a brighter profit outlook, and unemployment fell considerably. Brazil continued to reap the benefits of a boom in raw materials.

Growth of real GNP in selected regions

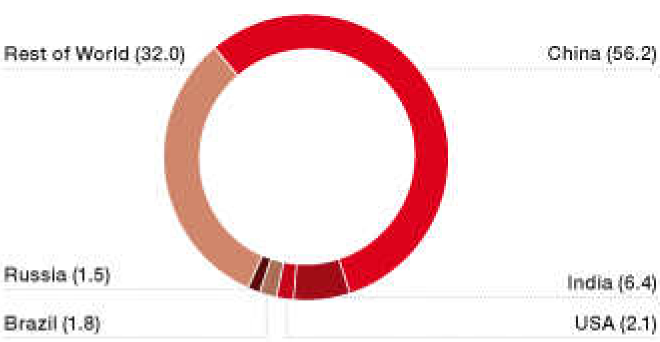
in %	2010	2011e	2012e
China	10.4	9.2	8.2
India	9.9	7.4	7.0
Russia	4.0	4.1	3.3
Turkey	9.0	8.3	0.4
Brazil	7.5	2.9	3.0
OECD countries	3.2	1.6	1.2
World	**5.2**	**3.8**	**3.3**

Source: IWF

Industry Environment

According to currently available market information, which is in line with KHD's findings from projects and discussions with customers, growth in the global cement market weakened in 2011. In addition to less favorable economic conditions, contributing factors here measures to limit speculative real estate and construction projects in China, by far the most important cement market and which is responsible for 56% of global cement consumption. Many market observers expect the importance of construction to lessen, although it recently represented almost 7% of total value creation in China. In the second half of 2011, China implemented a range of stricter regulatory measures, notably with regards to credit standards, which will likely help to reduce overcapacity in the cement industry. At the same time, the government is pressing ahead with its work to deploy large-scale, energy-efficient plants. According to analyst estimates, despite the relatively restrictive underlying conditions, cement production increased in annual comparison.

Global cement consumption: Over 3bn tons
in %

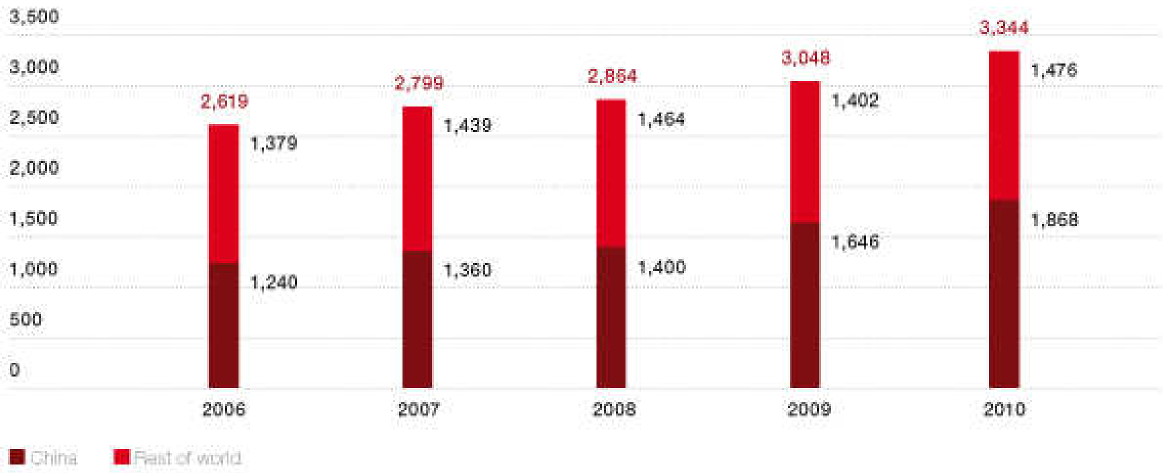


In Russia, a government drive to encourage people to build their own homes among other factors had a positive effect on cement consumption. Early assessments point to a market growth rate of around 8%. By the same token, the largely outdated Russian cement plants present considerable opportunities for new plants and modernization projects. Risks to growth remain uncharged in the form of seasonal fluctuations and limited storage capacities.

Growth slumped in the world’s second largest cement market, India. Taken in combination with a rise in energy costs, this put pressure on producers' margins. The fall in capacity utilization to only between 60% and 70% meant that a number of extension and modernization projects were postponed.

Brazil’s cement market profited from the announced government investment in infrastructure, which is linked to the upcoming major sporting events to be held in the country (2014 FIFA World Cup an 2016 Olympics). However, very high interest rates stunted investment activities on the part of companies.

Global cement production capacity
in Mio. tons



Capacity utilization in the 2,500 or so cement plants around the world was estimated to be 76 %. Half of the plants are between 25 and 50 years old and often no longer meet increasingly stricter environmental requirements. With the right regulatory framework, there is potential here for modernization and new plant construction, making use of energy-efficient and low-emission technologies. Investment decisions made by producers increasingly take environmental and efficiency aspects into account. The most important engine of growth in the industry remains the investment in infrastructure taking place in developing and emerging economies, however. Irrespective of short-term cyclical trends, the underlying market data continues to be positive.

The KHD Group’s competitive environment was also marked by downward margin pressure and consolidation in 2011. With its current order volume and revenue, the Group remains one of the four largest suppliers in the global market.

1.5 Report on Events after the Rporting Period

In March 2012, the existing bonding facility was replaced by a new bonding facility with a total volume of € 130 million and a term of three years provided by a consortium of banks led by Deutsche Bank AG, Cologne, Germany and Raiffeisenbank International AG, Vienna, Austria. The bonding facility provides various hedging instruments such as guarantees, letters of credit or letters of comfort to all operating companies in KHD Group and replaces the existing bank guarantee credit facility.

There were no further events of major significance that occurred after the reporting period.

1.6 Risks and Opportunities Report

The following representation of the key risks and opportunities expressly relates to the entire KHD Group and not just KHD as the holding company.

Risk Management

As a globally operating cement plant equipment supplier and service company, 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, KHD is able to exploit opportunities that arise to increase the Company'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 KHD Group means taking a systematic approach towards identifying, recording, and assessing risks. Essential components of our risk management system include steps to mitigate risk, which means defining and implementing measures in response to risks which have been identified. Risk management is therefore a task performed on an ongoing basis across the Group and forms an integral part of decision-making and business processes throughout KHD Group.

The approach that KHD Group applies in its risk management takes into consideration both how to best utilize opportunities as well as how to minimize the impact and the probability of encountering negative events. With effective and reliable risk management, KHD is able to improve its chances of identifying and capitalizing on business opportunities to the benefit of its shareholders, customers, and employees.

The systematic recording and assessment of risks and opportunities is an essential component in controlling the Group; the corporate strategy forms the foundation for systematically identifying 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.

The risk management system in KHD Group is fully incorporated into our internal control system. Our risk management is not limited to the early risk recognition system set out in

Section 91 (2) of the German Stock Corporation Act (AktG), which covers business viability risks, but encompasses all substantial risks for KHD Group (operational, strategic, financial, and compliance risks). Work to improve our 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

KHD Group makes a distinction between risks which affect the entire Group or which can only be managed at the Group level (Group risks), and risks which arise from the activities of operating business units (CSC risks). Group risks are identified by members of the Management Board and Global Functional Heads and then controlled by so-called Risks Owners, who are appointed accordingly. CSC risks are managed by the persons responsible for operations in the Customer Service Centers (CSCs). The respective Risk Owners in the operating business units are responsible for handling CSC risks in a systematic way.

KHD has appointed employees responsible for risk management at both the Group and CSC level 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. The central risk management department provides the operating units with the standardized methods used across the Group, together with instruments to document these risks (risk identification, risk assessment, and risk response).

All material risks are recorded in so-called risk registers. The Group risks listed in the risk register of KHD Group focus on strategic and compliance risks, while the CSC risks recorded in the operating units are largely operational and financial risks. The risk registers document assessments of the probability of a risk occurring and the extent of potential damage that would be caused by each risk, as well as recording the risk response measures planned or in place, in a clear and compact format. The potential impact is classified for each CSC using calculated local materiality thresholds. 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 and without 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 CSCs. The risk registers are updated regularly, thereby providing decision-makers with an overview of the entire risk situation.

The employees responsible for risk management conduct risk workshops together with both the Global Functional Heads and the management teams of the operational units to identify and assess risks as well as to define measure to mitigate risks.

The particular requirements of the project business are accounted for via risk management measures integrated into the operative processes. As part of this, commercial or contract stipulations are reviewed by the experts in our specialist departments 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. If project risks are assessed as exceeding the materiality threshold of the operating unit, these risks are to be additionally entered into the affected CSC's risk register as a CSC risk.

Reporting plays a particularly important role in ensuring effective risk management. It ensures that all significant risks from the CSCs are depicted according to a uniform set of criteria and that managers are aware of these during the decision-making process. CSCs report directly to the Global Risk Manager. In addition to the regularly updated risk registers, risks that arise suddenly are communicated ad hoc to the competent authority in the Group directly and independent of the usual reporting channels. A Risk Committee has also been set up at KHD as a cross-divisional team that also includes the Management Board. As part of the risk management system, the Risk Committee monitors a range of risk-related factors, including completeness, assessment of the potential impact and of the probability of occurrence, the risk response status, and any changes to significant risks.

The Group Risk Manager maintains regular contact with the Management Board, keeping it informed of the risk situation and the effectiveness of the risk management system. The Group Risk Manager provides a detailed report on the risk situation every six months to the Supervisory Board, using the risk registers as a basis. In addition to this, the Head of Risk Management delivers his or her view on the effectiveness of the risk management system in a statement to the Management Board and Supervisory Board of KHD.

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 KHD Group is to cover or reduce financial risks by making appropriate use of hedging instruments, including derivative financial instruments.

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.

Interest rate risks arise through market-related fluctuations in interest rates. Though as of the balance sheet date KHD Group did not report any significant interest-bearing liabilities, it does report a high level of cash and cash equivalents. Consequently, interest rate risk is largely limited to fluctuations in interest rates for short-term and overnight deposits.

The risk of credit concentration with regard to receivables is generally diminished as receivables are spread out worldwide, reflecting the Group's customer structure. Credit risk is also mitigated through the payment terms the Group agrees with its customers, notably progress billings and advance payments, that 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 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).

KHD Group has been pursuing a conservative, forward-looking policy of liquidity hedging for many years and has a very high level of cash and cash equivalents. By means of financial and liquidity planning, cash and cash equivalents are available in such a way that KHD Group is at all times able to fully meet its payment obligations. In order to ensure future growth, a guarantee facility was arranged with a consortium of banks, which allows individual KHD Group companies to provide bank guarantees on favorable terms for its customers worldwide.

Accounting-related Internal Control System

Along with the risk management system, KHD Group's internal control system (ICS) particularly also comprises extensive control activities to secure proper and reliable accounting and financial reporting, as well as the internal audit function as a process-independent control function. The ICS is also oriented toward ensuring compliance with relevant laws and standards, as well as the commercial efficiency of operating processes.

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 an 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 all 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 key control activities on an ongoing basis, and ensure that appropriate documentation is prepared.

KHD's subsidiaries are responsible for recording accountingtransactions. The ICS measures focusing on proper and reliable Group accounting practices ensure that business transactions are recorded completely and on a timely basis 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 KHD Group are the dual control principle and the segregation of duties; in this way, the opportunity for 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 that legal regulations are complied with.

The effectiveness of the ICS is systematically reviewed on a regular basis by the internal audit function. The review results are regularly reported by the internal audit directly to the Management Board. This allows identified deficiencies to be eliminated immediately and improvement potentials to be implemented as part of the continual improvement of the ICS.

Risk Areas

The section which follows describes the key risk areas as well as the strategies employed to mitigate these risks. The risk areas bundle a large number of individual risks, while the risk mitigation strategy presented below comprises a large number of specific individual measures and activities.

Risks from Underlying Economic Conditions

In its position as a globally active Group, KHD 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.

KHD Group operates as a plant engineering company in many countries and regions, meaning that risk is lessened to a certain extent due to geographic diversification. Risks are additionally mitigated by concentrating on expanding our service business (including spare parts business) and our activities to sell our roller presses for our customers in the mining industry as well as systematically developing our position in growth markets and in markets where we have had a low presence up to 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 key account management 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.

Country Risks

As a globally operating group, KHD Group is exposed to potential country risks. These include legal risks, capital transaction prohibitions, other regulatory restrictions, defaults on trade receivables, war, and other social unrest.

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 provided from export credit agencies (e.g. Hermes guarantees).

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 KHD Group.

In order to minimize this risk, purchasing follows a global strategy based on the systematic analysis of quality, delivery performance, and pricing structure of existing and potentially new suppliers. The CSCs' purchasing organizations are integrated into the process 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.

Innovation Risks

Excellence in innovation is a crucial factor of success for a technology company such as 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 standardizing the components that can be used for customer-specific solutions and on improving and reducing the costs of existing products.

KHD Group ensures that its research and development activities are as closely linked to the market 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 identifies potential deviations from targets as early as possible and triggers corresponding corrective measures.

Potential Impairment of Shares in Affiliated Companies

The shares in affiliated companies are tested annually for impairment.

Project Risks

Complex, large-scale cement plant construction projects present particular challenges for our risk management. Our projects regularly entail contractual periods of significantly longer than twelve months; the contract value of individual orders can be significant for the subsidiaries concerned, but may also be significant from a KHD Group perspective. Such large-scale projects typically comprise all activities relating to the planning, engineering, and delivery of complete cement plant equipment, or at least the most important components. Potential project risks arise here with regards to the uncertainties entailed in project cost estimates, unexpected technical problems, supply bottlenecks or quality problems at suppliers of important components, interruptions to 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.

From as early as the tendering phase, we employ proven methods to manage such project risks, in order to thereby limit the extent to which we enter into uncalculated or unmanageable risks. During the project execution phase, the methods that our project management and project controlling functions deploy allow them to not only estimate the impact of potential deviations from cost, but also to counteract them at an early stage. Balance sheet provisions are set up to cover any defects that might arise during the warranty phase. The tools employed in project management and project controlling undergo continuous improvement and are adjusted to the increasing requirements.

Personnel Risks

KHD 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 KHD Group is directly dependent on the dedication, motivation, and capabilities of its employees. In particular, risks exist if management positions cannot be filled promptly and with qualified candidates.

We mitigate personnel risks through early identification and promotion, especially of high-performing individuals. KHD 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. In addition to this, a long-term succession plan is also being developed.

Legal Risks

As an internationally active company, KHD Group is exposed to a large number of legal risks. These may include risks concerning warranties, competition and patent law, and tax law. The outcome of currently pending or future legal proceedings in most cases cannot be predicted with reasonable degree of security. The risk of the annual financial statements for the financial years 2002 to 2005 will be declared null and void (actions brought by shareholders) is described in the Notes to the consolidated financial statements.

Existing and pending litigation is identified and analyzed continuously, and their potential juridical and financial consequences are qualitatively and/or quantitatively assessed. Based on this assessment, the management implements appropriate measures in good time and set-up balance sheet provisions for such risks if necessary.

Tax Risks

The companies in KHD Group are required to take into consideration a large number of international and country-specific laws and tax regulations. 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.

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 tax risks to the extent that these can be measured reliably.

IT Risks

All key business processes (accounting and controlling, project management, purchasing, sales, etc.) at KHD Group depend on the functionality and availability of the IT systems used. Thus, disruptions of system operations entail disruptions to the workflow and to business and operational processes.

In order to safeguard uninterrupted and trouble-free operation, particular attention is paid to the availability of IT resources and IT systems. Furthermore, we are continually mindful of ensuring the integrity and confidentiality of key information (data protection). In addition, we continuously monitor the effectiveness and efficiency of the software solutions deployed within 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.

Summary of KHD Group's Risk Position

To the extent required, balance sheet provisions have been set-up in the 2011 financial year for the risks described in this report. The risks identified do not pose a threat to 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.

Opportunities

Generally speaking, the risks indicated here also represent opportunities for the future growth of KHD Group. These opportunities arise from an improvement in the market and competitive position owing to the development of more cost-effective products or the further optimization of our procurement activities, for instance. By the same token, plans to expand our service business (including the spare parts business) as well as to systematically develop 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 should exert 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. Existing production capacities are being augmented and cement plants modernized and/or expanded. Thanks to its strong market position in emerging economies, KHD Group sees opportunities for additional growth, particularly in Russia. We also expect positive effects for our future growth from the establishment of a CSC in Beijing responsible for the Asia-Pacific region as well as from the expansion of our market activities in Brazil and other South American countries.

Furthermore, we regard rising regulatory requirements to reduce cement plants' environmental impact, such as the Environmental Protection Agency (EPA) regulations in the USA or the focus on environmental aspects in China's current five-year plan, as opportunities. KHD Group offers its customers environmentally friendly solutions by accounting for the environmental impact of the cement production process as early as the tendering phase. We also constantly develop our products further 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.

KHD entered into a strategic partnership with AVIC in December 2010. Following a capital increase, the AVIC Group has had a 20% shareholding in KHD since February 2011. In addition to improving our access to the Chinese sales market, our partnership with AVIC has facilitated and increased our access to the Chinese procurement market. The market position of our cooperation partner makes its significantly easier to gain access to more cost-effective, high-quality production capacities in China. However, the key opportunity presented by KHD's strategic partnership is the possibility to offer our customers turnkey cement plants, opening up a new business opportunities. By virtue of the cooperation, KHD Group serves as the exclusive supplier to AVIC of equipment for cement plants. In turn, AVIC is KHD's exclusive contract partner for turnkey projects. We expect the combination of experience brought by AVIC as a general contractor for turnkey projects and the technology expertise of KHD in providing equipment for cement factories to considerably strengthen our global competitive position.

In the 2010 financial year, KHD entered into a long-term cooperative agreement with Weir Minerals. In this agreement, Weir Minerals operates as the exclusive global sales partner for roller presses in the mining industry. When processing minerals, our high-pressure grinding rolls have a wide range of applications thanks to their high efficiency ratio and energy efficiency, complementing the product portfolio of our cooperation partner. Weir enjoys an excellent position in the mining industry as an equipment and service provider, meaning that KHD gains direct access to these markets.

KHD constantly endeavors to strengthen its technological leadership, develop additional market potential, and expand its portfolio of products and services through targeted acquisitions and cooperations. We monitor our current and future markets in order to identify opportunities for strategic acquisitions or cooperations which may be able to complement our organic growth.

In the near term, KHD Group sees potential in the business of refurbishing rollers for roller presses in India. To this end, we have positioned ourselves accordingly by setting up a line in our production facilities near Delhi.

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

1.7 Outlook

According to the current planning status, the Company anticipates a small negative result for the financial years 2012 and 2013. excluding the effect of income from investments.

The Company's financing is secured due to the high level of liquidity at the end of 2011, and also as a result of the high level of liquidity and dividend payment potential of the companies in KHD Group. The two Germany subsidiaries HW and ZAB alone have liquidity totaling some € 162.5 million as of December 31, 2011. Both companies together reported a total profit after tax of € 18.7 million (previous year: € 22.0 million).

1.8 Compensation Report

The compensation report presents the principles, structure, and amount of both Management Board and Supervisory Board remuneration in KHD Group. The compensation report forms part of the Group management report and incorporates the recommendations made by the German Corporate Governance Codex (GCGC). It also contains information required by Section 285 Paragraph 1 Numer 9 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.

Compensation System for Members of the Management Board in Financial Year 2011

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

The Supervisory Board has concerned itself extensively with the legal requirements laid down by the German Act on the Appropriateness of Management Board Compensation (VorstAG) and the recommendations made by the GCGC. KHD already implemented the requirements of this new law in financial year 2010, with the exception of the points enumerated in the Declaration of Compliance. 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 this compensation is subject to regular evaluation. The remuneration system set out below has been in force since April 1, 2010.

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

Management Board compensation generally consists of fixed (not-performance-based) and variable (earnings- and performance-related) remuneration. Fixed compensation is paid out as a basic renumeration every month as a non-performance-based salary. In addition, Management Board members receive ancillary payments in the form of non-cash benefits. These consists primarily of the value of the use of a Company car in accordance with tax regulations, insurance contributions and other non-cash benefits.

The variable compensation (bonus) depends on the business success of KHD Group and on the personal performance of individual Management Board members, determined on the basis of qualitative performance factors. When assessing personal performance, the Supervisory Board takes special account of the individual's contribution to the medium and long-term development of the Group.

Three clear, specific quantitative targets (based on key performance indicators) are set for each member of the Management Board by the Supervisory Board. The target parameters (e.g. order intake and profitability targets) are also applied generally among senior staff in order to ensure the uniformity and consistency of the target-setting system throughout KHD Group. Target parameters each receive a weighting of 25% by the Supervisory Board, which means that Management Board members who achieve 100% of all of their quantitative targets in the entire period under consideration receive 75% of their maximum variable compensation. The Supervisory Board evaluates the personal performance of individual Management Board members at its own discretion on the basis of qualitative factors and the medium and long-term development of the Group; personal performance is weighted at 25% of the maximum variable compensation.

The bonus is capped at an amount which, for Mr. Salo is equivalent to 100%, and for Mr. Zhu one third, of their annual, performance-independent base compensation.

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 limit is set for every quantitative target. If the respective lower limit is achieved, the bonus amounts to 80% of the corresponding bonus porion. If the targets are not achieved (failure to reach the lower target limit – cumulative for periods under consideration over several years), the Management Board member's entitlement to the corresponding portion of variable compensation is forfeited. The variable compensation components to be determined on the basis of qualitative factors at the discretion of the Supervisory Board is divided into three levels (0% / 50% / 100%).

In order to gear the variable compensation components towards sustainable corporate development and to create a long-term incentive effect, these components are based on assessment periods that extend beyond one financial year. Only once these assessment periods have expired a final decision is made on whether the targets set have been achieved. The most important factor here is the average degree of target achievement calculated for the target across the entire assessment period.

The assessment period for Mr. Salo runs from April 1, 2010 to December 31, 2012 and for Mr. Zhu from April 1, 2011 to December 31, 2012. In view of the fact that the assessment periods extend beyond the financial year, the variable compensation of the individual Management Board members is only due once the financial statements for the financial year 2012 have been approved.

Half-yearly advance payments in respect of the variable compensation can be made on the basis of interim assessments concerning target achievement performed by the Supervisory Board. However, these may not exceed 50% of the theoretical entitlement determined on the basis of the interim assessment. In the event that the defined lower limit (cumulative for the multi-year assessment period) is not reached when the final assessment of target performance is carried out at the end of the assessment period, any advance payments already made are to be repaid.

Other Payments and Commitments

The Company agreed a one off signing fee of € 475,000 that is payable to Mr. Saldo in four installments to compensate for disadvantages arising from signing the current contract of employment compared to his previous position. In the financial year 2010, three installments in the amount of € 316,666 were paid to Mr. Salo. The remaining installment in the amount of € 158,334 had been deferred in financial year 2010 and was paid out fully in December 2011.

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 but the employment contract is not terminated with good cause, the contract of employment ends at the end of the appointment term contractually agreed. In case of revocation of appointment with good cause the notice period is three months for Mr. Salo and twelve months for Mr. Zhu. Mr. Salo is entitled to a financial settlement payable by the Company based on the level of the fixed compensation which he would have received in a 24-month period (€ 750,000) following an early termination without good cause, minus the compensation actually paid out in the time between the early termination and the contractually agreed end of the contract of employment. By the same token, if the contract of employment expires, Mr. Salo is entitled to receive a sum in the amount of two years' fixed compensation.

A severance payment claim does not exist if the appointment of the Management Board member is revoked with good cause that entitles the Company to terminate the employment contract with good cause within notice, or where the Management Board member submits his or her notice.

The rules applying to the severance payment to be paid to Mr. Salo in the event of a termination of his employment do not limit the payments to the compensation for the residual term of the employment contract. This provision was agreed with Mr. Salo as it most closely corresponds from an economic standpoint to the compensation agreement set out in the contract of employment between Mr. Salo and the former Group parent company.

In the event of the contract of employment of Mr. Salo being extended on several times, it will end when he has reached the upper age limit of 65 years at the latest. The present value of termination payment that has been granted to Mr. Salo in the event of regular termination as a result of the upper age limit being reached amounted to € 418,106 as of December 31, 2011. As the termination payment would require payment at the latest on obtainment of the age limit KHD set-up a corresponding accrual by way of installment. The accrual for Mr. Salo amounted to € 59,729 as of December 31, 2011.

Total Compensation Paid to Management Board Members

Overview of key data concerning the Management Board:

Name	**Management Board member since**	**Management Board contract until**	**Contract of employment with KHD since**
Jouni Olavi Salo	Dec. 11, 2008	Dec. 10, 2013	Apr. 1, 2010
Yizhen Zhu	Apr. 1, 2011	March 31,, 2014	Apr. 2, 2011
Manfred Weinandy	Apr. 1, 2010	Sep. 7, 2011	Mar. 29, 2010

The total remuneration for members of the KHD Management Board amounted to € 1,278 thousand (previous year: € 1,338 thousand) in the financial year 2011. The total compensation for each member of the Management Board is detailed in the following table, broken down according to the person and their fixed and variable remuneration components:

in €	Jouni Olavi Salo	Yizhen Zhu	Manfred Weinandy
Fixed compensation	375,000	135.0000	123,750
Variable compensation	210,938	33,750	-
Non-cash benefits	67,989	6,173	-
Others	31,529	-	11,936
Compensation following revocation of appointment	-	-	258,176
Non-cash benefits following revocation of appointment	-	-	24,082
Total	**685,456**	**174,923**	**417,944**

In financial year 2010, the amounts were as follows:

in €	Jouni Olavi Salo	Manfred Weinandy	Alan Hartslief
Fixed compensation	281,250	135,000	-
Other payments (signing fee)	475,000	-	-
Variable compensation	281,250	45,000	-
Service & cost allocation	18,012	-	16,215
Non-cash benefits	32,816	12,948	-
Other	28,200	11,824	-
Total	**1,116,528**	**204,772**	**16,215**

As has been illustrated in the explanation of the compensation system, the variable compensation of the individual Management Board members is only due once the financial statements for the financial year 2012 have been approved, as the assessment periods extend beyond the current financial year. In financial year 2011, Mr. Salo received an advance payment of € 207,841 according to a provisional assessment of target achievement on the basis of quantitative factors related to financial year 2010.

Accruals were set-up in financial years 2010 and 2011 for the theoretical entitlement to variable compensation calculated on the basis on a provisional assessment of target achievement (cumulative for the multi-year assessment period). The variable compensation stated corresponds to the net allocations to the respective accrual.

Compensation Paid to Supervisory Board Members

At the start of the financial year, the Supervisory Board comprised just three members, with largely balanced roles and responsibilities. Following an amendment to the articles of association, the Supervisory Board now consists of six members. An Audit Committee, a Nomination and Corporate Governance Committee and a Compensation and Strategy Committee were formed.

The aggregate compensation for all members of the Supervisory Board is laid down in Section 13 of the articles of association. Members of the Supervisory Board do not receive any performance-based compensation; they only receive fixed compensation. In view of the advisory and supervisory function of the Supervisory Board, the Company believes it is appropriate to provide only fixed compensation. The Supervisory Board decides by resolution on the distribution of the overall compensation among the individual members of the Supervisory Board.

In financial year 2011, the roles of Chairman and Deputy Chairperson in the Supervisory Board, as well as the roles of Chairperson and membership in the committees were factors taken into account when distributing the Supervisory Board compensation, in addition to length of service on the Supervisory Board.

The total compensation of each member of the Supervisory Board for the 2011 financial year, together with the advance payments made during the financial year, are listed in the following table together with the recipients:

in €	**Fixed compensation**	**Advance payment**
Gerhard Beinhauer (Chairman)[1]	73,475	55,434
Silke S. Stenger (Deputy Chairwoman)[2]	81,580	64,444
Eliza Suk Ching Yuen[3]	20,452	-
Luc Antoine Baehni[4]	20,424	10,605
Hubert Keusch[5]	20,344	10,605
Heinz Otto Geidt[6]	12,234	-
Gerhard Rolf[7]	62,331	62,331
Total	**290,840**	**203,419**

[1] Member of the Supervisory Board until February 14, 2011 and since March 23, 2011, Chairman of the Compensation and Strategy Committee, member of the Nomination and Corporate Governance Committee

[2] Chairwomen of the Audit Committee, member of the Nomination and Corporate Governance Committee

[3] Member of the Supervisory Board since June 22, 2011, member of the Audit Committee

[4] Member of the Supervisory Board since June 22, 2011,member of the Compensation and Strategy Committee

[5] Member of the Supervisory Board since June 22, 2011, member of the Compensation and Strategy Committee

[6] Member of the Supervisory Board since October 19, 2011, Chairman of the Nomination and Corporate Governance Committee, member of the Audit Committee

[7] Member of the Supervisory Board until September 30, 2011

The total compensation of each member of the Supervisory Board for the financial year 2010, together with the advance payments made during the financial year, is shown in the following table:

in €	**Fixed compensation**	**Advance payment**
Gerhard Beinhauer (Chairman)	72,000	-
Silke S. Stenger (Deputy Chairwoman)	72,000	48,000
Gerhard Rolf	72,000	48,000
Total	**216,000**	**96,000**

1.9 Report and Remarks on Disclosures pursuant to Section 289 Paragraph 4 of the German Commercial Code (HGB)

Composition of Issued Capital

The Company's subscribed capital (share capital) amounted to € 49,703,573 as of December 31, 2011 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. The Company held 229,136 treasury shares as of December 31, 2011.

Restrictions Affecting Voting Rights or the Transfer of Shares

The Company is not entitled to any rights arising from treasury shares pursuant to Section 71b of the German Stock Corporation Act (AktG). In the instances of Section 136 AktG, voting rights arising from the respective shares are excluded by law.

Direct or Indirect Interests in the Share Capital Exceeding 10% of Voting Rights

In the course of a capital increase concluded on February 16, 2011, Max Glory Industries Ltd. acquired 9,940,715 newly issued shares (20.0% of the voting rights). The voting rights are attributable to the People's Republic of China via the controlling shareholders Kaihang Industrial Limited, AVIC International Kairong Limited, AVIC International Beijing Company Limited, AVIC International Holding Corporation, and Aviation Industry Cooperation of China.

The Management Board was not informed about other shareholders whose voting rights directly or indirectly exceeded 10% of the total voting rights as of the reporting date.

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 289 Paragraph No. 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 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 No. 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 Regards to the Possibility of Issuing or Repurchasing Shares

The Management Board is authorized, with the approval of the Supervisory Board, to increase the Company's share capital in the period between March 23, 2010 and March 22, 2015 on one or more occasions by up to a total of € 10,255 against cash and/or non-cash contributions through the issue of up to 10,255 new ordinary bearer shares.

Significant Agreements Subject to a Change of Control Following a Takeover Bid

In March 2012, the existing bonding facility was replaced by a new bonding facility with a total volume of € 130 million and a term of three years provided by a consortium of banks led by Deutsche Bank AG and Raiffeisenbank International AG. In the event of a change of control under the agreement, the Company will immediately inform the banks of this change in control and enter into negotiations with the consortium of banks concerning the continuation of the bonding line facility agreement.

Compensation Agreements that the Company has Entered Into with Management Board Members or Employees in the Event of a Takeover Bid

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

Cologne, Germany, March 23, 2012

The Management Board

(s) Jouni Salo (s) Yizhen Zhu

2 Balance Sheet as of December 31, 2011

Assets	Dec. 31, 2011 € thousand	Dec. 31, 2010 € thousand
A. Fixed assets		
I. Property, plant, and equipment		
1. Other plant, operating and office equipment	3	0
II. Long-term financial investments		
1. Shares in affiliated companies	26,410	26,410
B. Current assets		
I. Receivables and other assets		
1. Receivables due from affiliated companies	1,368	1,358
2. Other assets	8,023	5,996
	9,391	7,354
II. Securities		
1. Other securities	0	0
	0	0
III. Cash on hand, bank balances	98,984	20,213
	108,375	27,567
C. Prepayments and deferred expenses	150	22
	134,938	53,999

Equity and Liabilities		Dec. 31, 2011 € thousand	Dec. 31, 2010 € thousand
A.	**Equity**		
I.	**Subscribed capital**	49,704	33,143
	less treasury shares	-229	-229
	Issued capital	49,475	32,914
II.	**Capital reserves**	60,236	1,776
III.	**Revenue reserves**		
1.	Legal reserve	1,538	1,538
2.	Other revenue reserves	1,776	1,776
		3,314	3,314
IV.	**Net retained profit**	6,353	721
		119,378	38,725
B.	**Provisions and accruals**		
1.	Tax accruals	2,158	2,663
2.	Other provisions and accruals	3,874	3,610
		6,032	6,273
C.	**Liabilities**		
1.	Trade payables	323	549
2.	Liabilities due to affiliated companies	9,115	8,266
3.	Other liabilities of which tax liabilities € 59 thousand (previous year: € 16 thousand)	90	36
		9,528	8,851
D.	**Deferred income and prepaid expenses**	0	150
		134,938	53,999

3 Income Statement 2011

		2011 € thousand	2010 € thousand
1.	Other operating income	5,383	2,952
2.	Personnel expenses		
a)	Wages and salaries	1,789	1,432
b)	Social security expenses	29	16
		1,818	1,448
3.	Other operating expenses	3,382	3,562
4.	Income from investments of which from affiliated companies € 6,300 thousand (previous year: € 0 thousand)	6,300	0
5.	Other interest and similar income	1,185	93
6.	Interest and similar expenses of which to affiliated companies € 90 thousand (previous year: € 3 thousand)	1,477	167
7.	Result from ordinary activities	6,191	-2,132
8.	Income taxes	559	348
9.	Other taxes	0	0
10.	Net profit/loss for the year	5,632	-2,480
11.	Profit carried forward from previous year	721	414
12.	Withdrawals from revenue reserves from treasury share reserve of which for shares in a company with a controlling interest € 0 thousand (previous year: € 2,787 thousand)	0	3,008
13.	Allocation to revenue reserves to other revenue reserves	0	-221
14.	Net retained profit	6,353	721

4 Notes to the Financial Statements 2011

4.1 General Remarks

Accounting

The annual financial statements of KHD Humboldt Wedag International AG (KHD), Cologne, Germany, for the financial year 2011 have been prepared in accordance with the German Commercial Code (HGB) as applicable for large corporations and those of the German Stock Corporation Act (AktG). These financial statements have been prepared in Euros. All amounts, including figures used for comparison, are generally stated in thousands of Euros (€ thousand). All amounts have been rounded according to normal commercial practice. The nature of expense method has been applied to the income statement. KHD is a large corporation in the meaning of Sections 267 Paragraph 3 in combination with 264d of the German Commercial Code (HGB).

4.2 Accounting and Valuation Principles

Fixed Assets

Property, plant, and equipment are reported at cost and, if depreciable, are depreciated over time (scheduled depreciation). Movable items of property, plant, and equipment are depreciated according to the straight line method based on the average useful life (between three and ten years) of the respective items. Movable assets with a net cost of acquisition of not more than € 150 are written off completely in the year of acquisition and are notionally removed from the register in the year of acquisition. Movable assets with a net acquisition cost of between € 150 and € 1,000 are entered as a collective item in the manner described in Section 6 Paragraph 2a of the German Income Tax Act (EStG) and depreciated over a period of five years.

Shares in affiliated companies are recognized at cost.

Current Assets

Receivables and other assets are reported at the lower of nominal value or fair value. Securities held as current assets are reported at the lower of cost, stock market prices/market prices or fair value.

Equity

Subscribed capital corresponds to the articles of association and the entry in the commercial register. Treasury shares have been recognized at their notional value of € 1.00 per share and offset separately against the subscribed capital.

Other Provisions and Accruals

All identifiable risks and measurable uncertainties as at the balance sheet date were covered by setting up commercially appropriate provisions and accurals.

Liabilities

Liabilities are carried at the amount at which they will be repaid.

Foreign Currency Translation

Liabilities denominated in foreign currencies whose residual terms are one year or less are measured at the spot exchange rate prevailing at the balance sheet date. All other foreign currency liabilities are measured using the higher of the exchange rate prevailing on the transaction date or the spot exchange rate at the balance sheet date.

Receivables denominated in foreign currencies whose residual terms are one year or less are measured at the spot exchange rate prevailing at the balance sheet date. All other foreign currency receivables are measured using the exchange rate prevailing at the transaction date or the spot exchange rate at the balance sheet date, whichever is lower.

4.3 Notes to the Balance Sheet and Income Statement

1. Fixed Assets

Please refer to the statement of movements in fixed assets between January 1 and December 31, 2011, which is attached as an appendix to the Notes to the financial statements.

2. Receivables and Other Assets

Receivables due from affiliated companies relate primarily to services invoiced till December 2011 to KHD Group companies based on the service and cost allocation agreement and the bond arrangement agreement.

Other assets largely concern a capital gains tax reimbursement claim in the amount of € 2,023 thousand.

Other assets include a tax receivable of € 1,662 thousand due from the tax authorities relating to a reimbursement claim in connection with the distribution of profit by KHD Humboldt Wedag GmbH (KHD HW), Cologne, Germany, to KHD at the end of the financial year 2011. Furthermore a receivable of € 1,914 thousand due from MFC Corporate Services AG, Herisau, Switzerland (MFC Corporate Services), that is unchanged to the previous year is presented. This receivable results from a ruling by the Cologne Regional Court of November 4, 2006. Other accruals are recognized in the amount of € 1,976 for this claim.

Other assets also include a VAT credit in the amount of € 2,154 thousand (previous year: € 928 thousand). Of this amount, € 2,087 thousand (previous year: € 828 thousand) is owned to the tax unity for VAT group with Humboldt Wedag GmbH (HW), Cologne, and ZAB Zementanlagenbau GmbH Dessau (ZAB), Dessau. For this reason, an identical amount is reported under payables due to affiliated companies.

As in the previous year, all amounts have a residual term of less than one year.

3. Securities

Shares reported under other securities as of December 31, 2011 comprised a current securities investment which was measured at the lower of cost, stock market price/market price or fair value in the amount of € 72.12 as of December 31, 2011.

4. Cash in Hand, Bank Balances

€ 12,189 thousand of the total bank balances (previous year: € 13,061 thousand) relate to restricted cash deposited as collateral in connection with the bank guarantee credit facility. Of this amount, KHD Group companies provided an amount of € 6,808 thousand (previous year: € 7,330 thousand) to the Company as collateral for the portion of the bank guarantee credit facility utilized by them. There are liabilities due to these companies of the same amounts, and these are reported under payables due to affiliated companies. The Company also deposited € 5,381 thousand (previous year: € 5,731 thousand) directly for other Group companies as collateral.

5. Equity

Share Capital

The Company's share capital amounts to € 49,703,573 and is divided into 49,703,573 no-par value bearer shares.

On the basis of a resolution passed by the Annual General Meeting on March 23, 2010 the Management Board had been authorized to increase the Company's share capital in the period between March 23, 2010 and March 22, 2015, with the approval of the Supervisory Board, on one or more occasions by up to a total of € 16,571,276.00 against cash through the issue of up to 16,571,276 new no-par-value bearer shares, each representing € 1.00 of the share capital ("authorized capital"). Shareholders shall be granted subscription rights. The Management Board has also been authorized to determine the further specifics of capital increases and their execution with Supervisory Board approval.

The capital increase decided on December 21, 2010 was successfully completed on February 16, 2011. The new non-par value bearer shares, each with a nominal amount of € 1.00 per share of the share capital, were issued at a price of € 4.53 per share. A total of 6,620,306 shares were subscribed by existing shareholders. Of the unsubscribed shares, 9,940,715 shares were subscribed by Max Glory Industries Ltd. (MGI), meaning that MGI now holds 20 % of the KHD shares. MGI is an indirect subsidiary of AVIC. When the transaction was completed, the KHD share capital had increased by € 16,561,021 from € 33,142,552 to € 49,703,573. The gross proceeds from the issue amounted to around € 75 million. The new shares were included into trading on the Regulated Market of the Frankfurt Stock Exchange on February 21, 2011.

Capital reserves

The premium of € 58,460,404 from the capital increase performed in the financial year was presented within capital reserves in the year under review.

Following the capital increase and on the basis of a resolution passed by the Annual General Meeting on March 23, 2010, the articles of association have been changed. Pursuant to Section 5 Paragraph 1 of the articles of association, the Management Board is authorized to increase the Company's share capital, with the approval of the Supervisory Board, on one or more occasions by up to a total of € 10,255 against cash through the issue of up to 10,255 new no-par-value bearer shares, each representing € 1.00 of the share capital ("authorized capital") until March 22, 2015. Shareholders are generally entitled to subscription rights. Furthermore, the Management Board is authorized to determine the details of capital increases and their execution with the approval of the Supervisory Board. The amendment to the articles of association was entered in the Commercial registry for the Company on February 16, 2011.

The Company holds 229,136 treasury shares. The shares have been acquired in order to manage the share price, and as a provision for any settlement of fractional amounts as needed in the context of capital increases. They were recognized in the balance sheet at their notional value of € 1.00 per share and deducted from the subscribed capital. The share's stock market price was € 5,00 as of December 31, 2011. The carrying amount of treasury shares in the amount of € 229 thousand corresponds to 0.46% of the subscribed capital.

Changes in Equity in 2011

Retained earnings as of December 31, 2011 include profit carried forward of € 721 thousand (previous year: € 414 thousand).

€ thousand	Subscribed capital	Treasury shares	Capital reserves	Legal reserve	Other revenue reserves	Net retained profit	Total
As of Dec. 31, 2010	33,143	-229	1,776	1,538	1,776	721	38,725
Capital increase	16,561	0	58,460	0	0	0	75,021
Net profit for the year 2011	0	0	0	0	0	5,632	5,632
As of Dec. 31, 2011	49,704	-229	60,236	1,538	1,776	6,353	119,378

6. Provisions and Accruals

	Dec. 31, 2011 € thousand	Dec. 31, 2010 € thousand	Change € thousand
Tax accruals	2,158	2,663	-505
Other provisions and Accruals	3,874	3,610	264
	6,032	6,273	-241

The tax accrual of € 2,158 thousand concerns an accrual for capital gains tax following the tax audit of the German KHD Group companies concluded in the financial year 2010 for the years 2005 to 2007.

Other provisions and accruals include an item in the amount of € 1,976 thousand which was recognized in previous years in connection with the shareholders' lawsuit referred to under Note 14. It was formed for the risk that MFC Corporate Services, on the basis of the claim that KHD has asserted for the return of contributions for its part, asserts a reimbursement claim to the level of expenses that it has incurred. Other provisions and accruals also include personnel-related costs, costs for the preparation of annual financial statements, and accruals for outstanding invoices.

7. Liabilities

	Dec. 31, 2011	Dec. 31, 2010	Change
	€ thousand	€ thousand	€ thousand
Trade payables	323	549	-226
Liabilities due to affiliated companies	9,115	8,266	849
Other liabilities	90	36	54
(of which tax liabilities)	-59	-16	-43
	9,528	8,851	677

As in the previous year, all liabilities recognized as of December 31, 2011 have a residual term of less than one year.

Liabilities due to affiliated companies include amounts corresponding to collateral for bank guarantees from HW of € 5,358 thousand (previous year: € 5,615 thousand) and ZAB of € 1,450 thousand (previous year: € 1,700 thousand); these liabilities bear interest. The cash received for bank guarantee collateral is presented under bank balances as restricted cash.

Liabilities due to affiliated companies also relate to liabilities arising from the tax unity for VAT, these liabilities are due to HW and ZAB, as in the previous year.

8. Contingent Liabilities

KHD has provided € 132.6 million (previous year: € 45.7 million) to affiliated companies in the form of Group guarantees, letters of comfort, and sureties.

As part of the existing bank guarantee credit facility, the Company has directly provided guarantees amounting to € 96,577 thousand (previous year: € 106,722 thousand) to KHD Group companies as of December 31, 2011. The guarantees that have been furnished are collateralized by proportional cash collateral with the existing banking consortium.

Based on the corporate budgets for the respective KHD Group companies, it is not expected that these guarantees will be drawn upon.

DEUTZ AG, Cologne, Germany, has provided a deed of release of € 0.3 million (same amount as the previous year) to cover KHD's subsidiary liability due to Unterstützungsgesellschaft mbH of Maschinenfabrik Fahr AG. Arising from this matter. HypoVereinsbank AG, Munich, Germany, a company of the UniCredit Group, has provided a letter of comfort that secures the settlement by DEUTZ AG, Cologne,.

9. Other Financial Obligations

Other financial obligations of KHD as of the balance sheet date primarily relate to affiliated companies. These financial obligations arise from a service agreement with a residual term of up to one year for administrative services that are provided by HW amounting to € 51 thousand per month.

10. Other Operating Income

Other operating income mainly comprises income from charges to affiliated companies pursuant to the service & cost allocation agreement in the amount of € 2,954 thousand (previous year: € 2,280 thousand) and the bond arrangement agreement of € 2,152 thousand (previous year: € 304 thousand).

11. Personnel Expenses

Personnel expenses relate primarily to the compensation members of the Company's Management Board.

12. Other Operating Expenses

Other operating expenses comprise the following:

	2011 € thousand	2010 € thousand	Change € thousand
Legal and consulting costs	636	829	-193
Group charges	633	647	-14
Audit fees / tax advisory costs	453	579	-126
Supervisory Board compensation	291	216	75
Investor relations	256	142	114
Costs related to the capital increase	85	494	-409
Costs of the Annual General Meeting	77	94	-17
Other	951	561	390
	3,382	3,562	-180

13. Income from Investments

Income from investments amounted to € 6,300 thousand and originated from the profit distribution of KHD Humboldt Wedag GmbH, Cologne, Germany.

14. Litigation

Litigation

Action Brought by Shareholders ("Return of Contributions"):

Shareholders have brought actions against the Company for the Company's approved financial statements as of December 31, 2002 and December 31, 2003 to be declared null and void, alternatively to be declared ineffective, as well as for the resolutions adopted by the Company's Annual General Meeting of shareholders held on September 29, 2004, according to which the Management Board members and three Supervisory Board members were formally discharged for the financial year 2003, to be declared null and void, alternatively to be subject to an action to rescind.

The subject matters of the action were fees in the amount of € 1,206 thousand ("placement fee") and € 1,914 thousand ("merchant banking fee"), which had been paid by KHD to MFC Corporate Services at the end of 2002 for the placing of the capital increase in December 2002 and for the provision of merchant banking services. In the plaintiffs' opinion these payments were inadmissible because they constituted a return of contributions and the said items of the annual financial statements had been understated due to the failure to book a corresponding repayment claim.

Based on the regional court ruling, the Company has already recognized a receivable due from MFC Corporate Services with effect on profit and loss in its financial statements for previous years in the amount of the merchant banking fee (€ 1,914 thousand) and asserted payment of this receivable from MFC Corporate Services AG in a letter dated February 16, 2006. The court ruling does not relate to the placement fee.

In view of the actual expenses in the amount of € 1,976 thousand in connection with the services provided to KHD under the merchant banking agreement, which have been substantiated in detail by MFC Corporate Services, the Company also already carried a corresponding liability in previous years' financial statements for the event whereby, should a claim eventually be utilized by KHD, MFC Corporate Services asserts a reimbursement claim for the expenses incurred on its part.

The regional court allowed the complaints through its ruling of November 4, 2005. KHD lodged an appeal against this court ruling in due time and form.

One of the complaints has meanwhile been withdrawn. In respect of the complaint still pending, the Company anticipates that there are still good reasons to assume that its appeal will succeed. The proceedings are currently on hold.

Action Brought by Shareholders ("Suspension and Nullity of an Annual General Meeting Resolution")

In July 2011, three shareholders filed a claim with the Cologne Regional Court to have the resolution on item 10 of the agenda (increase of Supervisory Board compensation) passed in the Annual General Meeting of the Company on June 16, 2011 suspended and declared null and void.

The shareholders submitted that the resolution was not prepared in the correct form and violates the rights of the shareholders. The resolution on item 10 of the agenda was not convened properly as there was no resolution proposal made either by the Supervisory Board or the Management Board.

The Company acknowledged the actions brought by the three shareholders in a letter dated August 12, 2011.

On September 9, 2011, the Cologne Regional Court passed a consent decree in all three proceedings and declared the resolution on item 10 of the agenda to be null and void. The value of the claim was set at a total of € 50,000.

15. Other Disclosures

Employees

The Company employed two salaried staff members on average during the year (previous year: one). The Company does not have any trade employees.

Tax Audit

A tax audit is currently underway in the Company. The tax audit relates to the following types of tax and audit time periods:

VAT	2008 to 2010 financial years
Corporation tax	2008 to 2010 financial years
Trade tax	2008 to 2010 financial years

A social insurance audit was carried out in the financial year 2011 for the financial years between 2007 and 2010. The audit did not result in any reservations.

16. Shareholdings

Company		Capital share in %	Currency	Equity	Net profit/loss for the year
Subsidiaries					
KHD Humboldt Wedag GmbH, Cologne	direct	100.00	€ thousand	27,848	8,511
Humboldt Wedag GmbH, Cologne	indirect	100.00	€ thousand	70,436	14,565
ZAB Zementanlagenbau GmbH Dessau, Dessau	indirect	100.00	€ thousand	35,382	4,151
EKOF Flotation GmbH, Bochum	indirect	100.00	€ thousand	728	-67
Blake International Ltd., Road Town, British Virgin Islands	indirect	100.00	€ thousand	3,448	0
KHD Humboldt Wedag Industrial Services AG, Cologne	indirect	89.08	€ thousand	7,033	864
Paper Space GmbH, Cologne	indirect	88.97	€ thousand	63	-1
Humboldt Wedag Australia Pty Ltd., Braeside, Australia	indirect	100.00	€ thousand	2,381	891
Humboldt Wedag Inc., Norcross, USA	indirect	100.00	€ thousand	1,369	289
Humboldt Wedag India Private Ltd., New Delhi, India	indirect	100.00	€ thousand	18,453	-596
KHD Humboldt Wedag Machinery Equipment (Beijing) Co. Ltd., Beijing, China	indirect	100.00	€ thousand	302	-18
KHD Humboldt Engineering OOO, Moscow, Russia	indirect	100.00	€ thousand	2,033	1,915
Joint Ventures					
KHD Engineering Holding GmbH, Vienna, Austria	indirect	50.00	€ thousand	10,166	8,891

At the end of the third quarter, KHD HW and ZAB each acquired 50% of the shares in KHD Engineering OOO, which were previously held by KHD Engineering Holding GmbH.

The equity and net profit or loss for the year presented in foreign currencies were translated using the spot exchange rate as of the balance sheet date on the following basis: Blake (USD), HWAUS (AUD), HWUS (USD), HWIN (INR), HW Beijing (CNY) and KHD Engineering (RUB).

Spot exchange rate as of December 31, 2011
1 Euro corresponds to:

AUD	1.2716
INR	68.9828
USD	1.2938
RUB	41.7428
CNY	8.1485

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Members of the Supervisory Board and Management Board

Supervisory Board

Gerhard Beinhauer

Chairman of the Supervisory Board (until February 14, 2011 and since March 23, 2011)

Managing Director of BBI Beteiligungs- und Handelsgesellschaft mbH

Membership of Supervisory Boards and other governing bodies:

- Web-Arts AG, Member of the Supervisory Board
- omniwatt AG, Chairman of the Supervisory Board (until October 17, 2011)
- Gold Cache Inc., non-executive Member of the Board

Silke S. Stenger

Deputy Chairperson of the Supervisory Board

Management Consultant

Luc Antoine Baehni

(since June 22, 2011)

CEO of CGN-Compagnie Générale de Navigation sur le Lac Léman SA

Membership of Supervisory Boards and other governing bodies:

- Fondation de Prévoyance PROFELIA, Member of the Foundation Board

Eliza Suk Ching Yuen

(since June 22, 2011)

Managing Partner of HLM & Co.

Hubert Keusch

(since June 22, 2011)

Managing Director of ContiLink Services Limited

Heinz Otto Geidt

(since October 19, 2011)

Head of Investment Management of the Software AG Foundation

Membership of Supervisory Boards and other governing bodies:

- Software AG, Member of the Supervisory Board
- Bingenheimer Saatgut AG, Chairman of the Supervisory Board
- Birken AG; Chairman of the Supervisory Board

Gerhard Rolf

(until September 30, 2011)

Retired

Management Board

Jouni Salo, engineer

CEO of KHD, CFO (since September 7, 2011)

Yizhen Zhu, engineer

COO Asia Pacific (since April 1, 2011)

Manfred Weinandy, businessman

CFO of KHD (until September 7, 2011)

Membership of supervisory boards and other governing bodies:

- HWIN, non-executive member of the board of directors (from February 21, 2011 until September 7, 2011)
- Member of the KIS supervisory board (from February 21, 2011 until Sep. 7, 2011)

4.4 Total Renumeration of and Former Members of the Management Board and of Members of the Supervisory Board

Total compensation of KHD's Management Board members from the KHD Group companies was € 1,278 thousand in the financial year 2011 (previous year: € 1,338 thousand). The total compensation granted to members of the Supervisory Board for performing their duties amounted to € 291 thousand in the financial year 2011 (previous year: € 216 thousand). The compensation report contains further details about Management Board and Supervisory Board remuneration. The compensation report forms part of the management report and also describes the main points of the compensation system.

No compensation was paid to former Management Board or Supervisory Board members or their remaining dependents for their activities in the parent company and subsidiaries. There are no pension benefit obligations with respect to this group of individuals.

In 2011, the members of the Supervisory Board received € 203 thousand as an advance (previous year: € 96 thousand) on remuneration that is payable at the end of the financial year pursuant to the articles of association.

4.5 Parent Company and Consolidated Financial Statements

As the parent company, the Company prepares the consolidated financial statements for the largest and smallest scope of the companies requiring consolidation.

4.6 Reported Shareholdings

On June 16, 2010, Mr. Peter Kellogg notified us pursuant to Section 21 Paragraph 1 of the German Securities Trading Act (WpHG) that his voting rights share had exceeded the 3% and 5% threshold of voting rights, and that as of this date 5.70% of the voting rights were attributable to him via IAT Reinsurance Company Ltd.

On February 9, 2011, KGC Strategische Dienstleistungen UG (haftungsbeschränkt), Cologne, Germany and Mr. Krister Graf notified us pursuant to Section 21 Paragraph 1 of the German Securities Trading Act (WpHG) that their voting rights share had fallen below the 20%, 15%, 10% and 3% thresholds, and amounted as of this date to 0% (corresponding to 50 voting rights).

On February 28, 2011, the People's Republic Of China, Beijing, China, notified us pursuant to Section 21 Paragraph 1 of the German Securities Trading Act (WpHG) that its voting rights share had reached and exceeded the 3%, 5%, 10%, 15% and 20% thresholds on February 22, 2011, and amounted to a total of 20.0% as of this date (corresponding to 9,940,715 voting rights).

Of these voting rights, a total of 20.0% (corresponding to 9,940,715 voting rights) are attributable to it pursuant to Section 22 Paragraph 1 of the German Securities Trading Act (WpHG) via the following companies whose voting rights share amounts to 3% or more:

- AVIC International Holding Corporation, Beijing, China
- CATIC Beijing Co. Limited, Beijing, China
- AVIC International Kairong Limited, Hong Kong, China
- Kaihang Industrial Limited, Hong Kong, China
- Max Glory Industries Limited, Hong Kong, China

On February 28, 2011, AVIC International Holding Corporation, Beijing, China notified us pursuant to Section 21 Paragraph1 of the German Securities Trading Act (WpHG) that its voting rights share had reached and exceeded the 3%, 5%, 10%, 15% and 20% thresholds on February 22, 2011, and amounted to a total of 20.0% as of this date (corresponding to 9,940,715 voting rights).

Of these voting rights, a total of 20.0% (corresponding to 9,940,715 voting rights) are attributable to it pursuant to Section 22 Paragraph 1 No. 1 of the German Securities Trading Act (WpHG) via the following companies whose voting rights share amounts to 3% or more:

- CATIC Beijing Co. Limited, Beijing, China
- AVIC International Kairong Limited, Hong Kong, China
- Kaihang Industrial Limited, Hong Kong, China
- Max Glory Industries Limited, Hong Kong, China

On February 28, 2011, CATIC Beijing Co. Limited, Beijing, China notified us pursuant to Section 21 Paragraph 1 of the German Securities Trading Act (WpHG) that its voting rights share had reached and exceeded the 3%, 5%, 10%, 15% and 20% thresholds on

February 22, 2011, and amounted to a total of 20.0% as of this date (corresponding to 9,940,715 voting rights). Of these voting rights, a total of 20.0% (corresponding to 9,940,715 voting rights) are attributable to it pursuant to Section 22 Paragraph 1 No. 1 of the German Securities Trading Act (WpHG) via the following companies whose voting rights share amounts to 3% or more:

- AVIC International Kairong Limited, Hong Kong, China
- Kaihang Industrial Limited, Hong Kong, China
- Max Glory Industries Limited, Hong Kong, China

On February 28, 2011, AVIC International Kairong Limited, Hong Kong, China notified us pursuant to Section 21 Paragraph 1 of the German Securities Trading Act (WpHG) that its voting rights share had reached and exceeded the 3%, 5%, 10%, 15% and 20% thresholds on February 22, 2011, and amounted to a total of 20.0% as of this date (corresponding to 9,940,715 voting rights).

Of these voting rights, a total of 20.0% (corresponding to 9,940,715 voting rights) are attributable to it pursuant to Section 22 Paragraph 1 No. 1 of the German Securities Trading Act (WpHG) via the following companies whose voting rights share amounts to 3% or more:

- Kaihang Industrial Limited, Hong Kong, China
- Max Glory Industries Limited, Hong Kong, China

On February 28, 2011, Kaihang Industrial Limited, Hong Kong, China notified us pursuant to Section 21 Paragraph 1 of the German Securities Trading Act (WpHG) that its voting rights share had reached and exceeded the 3%, 5%, 10%, 15% and 20% thresholds on February 22, 2011, and amounted to a total of 20.0% as of this date (corresponding to 9,940,715 voting rights).

Of these voting rights, a total of 20.0% (corresponding to 9,940,715 voting rights) are attributable to it pursuant to Section 22 Paragraph 1 No. 1 of the German Securities Trading Act (WpHG) via the Max Glory Industries Limited, Hong Kong, China, whose voting rights share amounts to 3% or more:

On February 28, 2011, Max Glory Industries Limited, Hong Kong, China notified us pursuant to Section 21 Paragraph 1 of the German Securities Trading Act (WpHG) that its voting rights share had reached and exceeded the 3%, 5%, 10%, 15% and 20%

thresholds on February 22, 2011, and amounted to a total of 20.0% as of this date (corresponding to 9,940,715 voting rights).

On 17 February 2011, MFC Industrial Ltd. (formerly Terra Nova Royalty Corporation), Vancouver, Canada, notified us pursuant to Section 21 Paragraph 1 of the German Securities Trading Act (WpHG) that its voting rights share in KHD Humboldt Wedag International AG, Cologne, Germany, had fallen below the 5% and 3% thresholds on February 16, 2011, and amounted to 2.82% as of this date (corresponding to 1,402,860 voting rights).

On April 13, 2011, Lang & Schwarz Wertpapierhandelsbank AG, Düsseldorf, Germany, notified us pursuant to Section 21 Paragraph 1 of the German Securities Trading Act (WpHG) that its voting rights share in KHD Humboldt Wedag International AG, Cologne, Germany, had fallen below the 30%, 25%, 20%, 15%, 10%, 5% and 3% thresholds on February 24, 2011, and amounted to a total of 0.00% as of this date (corresponding to 0 voting rights). Of these voting rights, a total of 0.00% (corresponding to 0 voting rights) are attributable to it pursuant to Section 22 Paragraph 1 No. 1 of the German Securities Trading Act (WpHG) via Lang & Schwarz Broker GmbH, Düsseldorf, Germany.

On April 13, 2011, Lang & Schwarz Broker GmbH, Düsseldorf, Germany, notified us pursuant to Section 21 Paragraph 1 of the German Securities Trading Act (WpHG) that its voting rights share in KHD Humboldt Wedag International AG, Cologne, Germany, had fallen below the 30%, 25%, 20%, 15%, 10%, 5% and 3% thresholds February 24, 2011, and amounted to a total of 0.00% as of this date (corresponding to 0 voting rights).

On May 20, 2011, Mr. Tito Tettamanti, Switzerland notified us pursuant to Section 21 Paragraph 1 of the German Securities Trading Act (WpHG) that his voting rights share in KHD Humboldt Wedag International AG, Cologne, Germany, had exceeded the 5% threshold on May 18, 2011, and amounted to a total of 5.0268% as of this date (corresponding to 2,498,475 voting rights). Of these voting rights, a total of 4.8948% (corresponding to 2,242,880 voting rights) pursuant to Section 22 Paragraph 1 sentence 1 No. 1 of the German Securities Trading Act (WpHG) and 0.1320% of voting rights (corresponding to 65,595 voting rights) pursuant to Section 22 Paragraph 2 of the German Securities Trading Act (WpHG) are attributable to him. Tito Tettamanti is accorded voting rights via the following companies controlled by him in which the voting rights share in KHD Humboldt Wedag International AG exceeds 3% or more:
- GRITLOT LIMITED
- STERLING STRATEGIC VALUE LIMITED

No financial instruments were used in the transaction.

On May 20, 2011, Mr. Massimo Pedrazzini, Switzerland notified us pursuant to Section 21 Paragraph 1 of the German Securities Trading Act (WpHG) that his voting rights share in KHD Humboldt Wedag International AG, Cologne, Germany, had exceeded the 5% threshold on May 18, 2011, and amounted to a total of 5.0268% as of this date (corresponding to 2,498,475 voting rights). Of these voting rights, 5.0268% (corresponding to 2,498,475 voting rights) pursuant to Section 22 Paragraph 2 of the German Securities Trading Act (WpHG) and 0.0050% of voting rights (corresponding to 2,500 voting rights) pursuant to Section 22 Paragraph 1 Sentence 1 No. 1 of the German Securities Trading Act (WpHG) are attributable to him. Massimo Pedrazzini is accorded voting rights from the following shareholders which have voting rights of 3% or more in KHD Humboldt Wedag International AG:

- STERLING STRATEGIC VALUE LIMITED

No financial instruments were used in the transaction.

On May 20, 2011, MP ADVISORS SA, Lugano, Switzerland notified us pursuant to Section 21 Paragraph 1 of the German Securities Trading Act (WpHG) that its voting rights share in KHD Humboldt Wedag International AG, Cologne, Germany, had exceeded the 5% threshold on May 18, 2011, and amounted to a total of 5.0268% as of this date (corresponding to 2,498,475 voting rights). Of these voting rights, 5.0218% (corresponding to 2,495,975 voting rights) pursuant to Section 22 Paragraph 2 of the German Securities Trading Act (WpHG) is attributable to it. MP ADVISORS SA is accorded voting rights from the following shareholders which have voting rights of 3% or more in KHD Humboldt Wedag International AG:

- STERLING STRATEGIC VALUE LIMITED

No financial instruments were used in the transaction.

On May 20, 2011, Mr. Jan-Kees Cornelis Marinus Berkhemer, the Netherlands, notified us pursuant to Section 21 Paragraph 1 of the German Securities Trading Act (WpHG) that his voting rights share in KHD Humboldt Wedag International AG, Cologne, Germany, had exceeded the 5% threshold on May 18, 2011, and amounted to a total of 5.0268% as of this date (corresponding to 2,498,475 voting rights). Of these voting rights, a total of 5.0263% (corresponding to 2,498,250 voting rights) pursuant to Section 22 Paragraph 2 of the German Securities Trading Act (WpHG) are attributable to him. Jan-Kees Cornelis Marinus Berkhemer is accorded voting rights from the following shareholders which have voting rights of 3% or more in KHD Humboldt Wedag International AG:

- STERLING STRATEGIC VALUE LIMITED

No financial instruments were used in the transaction.

On May 20, 2011, Ms. Giulia Nobili, Principality of Monaco, notified us pursuant to Section 21 Paragraph 1 of the German Securities Trading Act (WpHG) that her voting rights share in KHD Humboldt Wedag International AG, Cologne, Germany, had exceeded the 5% threshold on May 18, 2011, and amounted to a total of 5.0268% as of this date (corresponding to 2,498,475 voting rights). Of these voting rights, a total of 4.9141% (corresponding to 2,442,475 voting rights) pursuant to Section 22 Paragraph 2 of the German Securities Trading Act (WpHG) are attributable to her. Giulia Nobili is accorded voting rights from the following shareholders which have voting rights of 3% or more in KHD Humboldt Wedag International AG:
- STERLING STRATEGIC VALUE LIMITED
No financial instruments were used in the transaction.

On May 20, 2011, Mr. Patrick O'Sullivan Greene, Ireland, notified us pursuant to Section 21 Paragraph 1 of the German Securities Trading Act (WpHG) that his voting rights share in KHD Humboldt Wedag International AG, Cologne, Germany, had exceeded the 5% threshold on May 18, 2011, and amounted to a total of 5.0268% as of this date (corresponding to 2,498,475 voting rights). Of these voting rights, a total of 5.0223% (corresponding to 2,496,225 voting rights) pursuant to Section 22 Paragraph 2 of the German Securities Trading Act (WpHG) are attributable to him. Patrick O'Sullivan Greene is accorded voting rights from the following shareholders which have voting rights of 3% or more in KHD Humboldt Wedag International AG:
- STERLING STRATEGIC VALUE LIMITED
No financial instruments were used in the transaction.

On May 20, 2011, Mr. Anthony Bunker, Germany, notified us pursuant to Section 21 Paragraph 1 of the German Securities Trading Act (WpHG) that his voting rights share in KHD Humboldt Wedag International AG, Cologne, Germany, had exceeded the 5% threshold on May 18, 2011, and amounted to a total of 5.0268% as of this date (corresponding to 2,498,475 voting rights). Of these voting rights, a total of 5.0175% (corresponding to 2,493,855 voting rights) pursuant to Section 22 Paragraph 2 of the German Securities Trading Act (WpHG) are attributable to him. Anthony Bunker is accorded voting rights from the following shareholders which have voting rights of 3% or more in KHD Humboldt Wedag International AG:
- STERLING STRATEGIC VALUE LIMITED
No financial instruments were used in the transaction.

On May 20, 2011, GRITLOT LIMITED, Douglas, Isle of Man, notified us pursuant to Section 21 Paragraph 1 of the German Securities Trading Act (WpHG) that its voting rights share in KHD Humboldt Wedag International AG, Cologne, Germany, had exceeded the 5% threshold on May 18, 2011, and amounted to a total of 5.0268% as of this date (corresponding to 2,498,475 voting rights). Of these voting rights, a total of 4.8948% (corresponding to 2,242,880 voting rights) pursuant to Section 22 Paragraph 1 Sentence 1 No. 1 of the German Securities Trading Act (WpHG) and 0.1320% of voting rights (corresponding to 65,595 voting rights) pursuant to Section 22 Paragraph 2 of the German Securities Trading Act (WpHG) are attributable to it. GRITLOT LIMITED is accorded voting rights via the following companies controlled by it in which the voting rights share in KHD Humboldt Wedag International AG exceeds 3% or more:

- STERLING STRATEGIC VALUE LIMITED

No financial instruments were used in the transaction.

On May 20, 2011, STERLING STRATEGIC VALUE LIMITED, Road Town, Tortola, British Virgin Islands, notified us pursuant to Section 21 Paragraph 1 of the German Securities Trading Act (WpHG) that its voting rights share in KHD Humboldt Wedag International AG, Cologne, Germany, had exceeded the 5% threshold on May 18, 2011, and amounted to a total of 5.0268% as of this date (corresponding to 2,498,475 voting rights). Of these voting rights, a total of 0.1320% (corresponding to 65,595 voting rights) pursuant to Section 22 Paragraph 2 of the German Securities Trading Act (WpHG) are attributable to it.

No financial instruments were used in the transaction.

On October 17, 2011, Varna Capital Management LLC, New York, USA notified us pursuant to Section 21 Paragraph 1 of the German Securities Trading Act (WpHG) that its voting rights share in KHD Humboldt Wedag International AG, Cologne, Germany, had fallen below the 3% threshold on October 13, 2011, and amounted to a total of 2.32% as of this date (corresponding to 1,152,528 voting rights). Of these voting rights, a total of 2.32% (corresponding to 1,152,528 voting rights) pursuant to Section 22 Paragraph 1 Ssentence 1 No. 6 of the German Securities Trading Act (WpHG) are attributable to it.

On October 17, 2011, Ms. Svetlana Lee, New York, USA notified us pursuant to Section 21 Paragraph 1 of the German Securities Trading Act (WpHG) that her voting rights share in KHD Humboldt Wedag International AG, Cologne, Germany, had fallen below the 3% threshold on October 13, 2011, and amounted to a total of 2.32% as of this date (corresponding to 1,152,528 voting rights). Of these voting rights, a total of 2.32% (corresponding to 1,152,528 voting rights) pursuant to Section 22 Paragraph 1 Sentence 1

No. 6 in connection with sentence 2 of the German Securities Trading Act (WpHG) are attributable to her.

4.7 Auditor’s Fee

The total fees invoiced by the auditor for the financial year under review are disclosed in the consolidated financial statements.

4.8 Corporate Governance

The Management Board and Supervisory Board of KHD issued the declaration required pursuant to Section 161 of the German Stock Corporation Act (AktG) on March 2, 2012, and have also made it permanently available to shareholders on the Company's website at (www.khd.com).

4.9 Appropriation of Net Retained Profits

The Management Board and Supervisory Board will propose to the Annual General Meeting to be held on May 30, 2012 that the net retained profit of KHD Humboldt Wedag International AG of € 6,353,322,48 shall be carried forward to new account.

Cologne, Germany, March 23, 2012

The Management Board

(s) Jouni Salo	(s) Yizhen Zhu

5. Appendix to the Notes

Movements in Fixed Assets in the Financial Year 2011

		Gross carrying amounts				Accumulated amortization, depreciation, and write-downs					
		Balance as Jan. 1, 2011	Additions	Disposals	Balance as Dec. 31, 2011	Balance as Jan. 1, 2011	Additions	Disposals	Balance as Dec. 31, 2011	Balance as Dec. 31, 2011	Balance as Dec. 31, 2010
		€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand
I.	**Propertay, plant, and equipment**										
1.	Other plants, operating and office euqipment	3	0	0	3	0	0	0	0	3	0
					0				0	0	0
II.	**Financial Investments**										
	Shares in affiliated companies	26.410	0	0	26.410	0	0	0	0	26.410	26.410
		26.413	0	0	26.413	0	0	0	0	26.413	26.410

Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the annual financial statements give a true and fair view of the net assets, financial position, and result of operations of the Company, and the management report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal opportunities and risks associated with the expected development of the Company.

Cologne, March 23, 2012

The Management Board

(s) Jouni Salo (s) Yizhen Zhu

6 [Independent] Auditors' Report

We have audited the annual financial statements - comprising the balance sheet, the income statement and the notes to the financial statements - together with the bookkeeping system, and the management report of KHD Humboldt Wedag International AG, Cologne/Germany, for the business year from 1 January to 31 December 2011. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Company's Management Board. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and on the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with § 317 HGB ("German Commercial Code") and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer. Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with German principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the Management Board, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the annual financial statements of KHD Humboldt Wedag International AG, Cologne/Germany, comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with German principles of proper accounting. The management report is consistent with the annual financial statements and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.

Without qualifying this opinion, we draw attention to the fact that shareholders have brought actions against the Company for the Company's approved sets of annual financial statements as at 31 December 2002 and 31 December 2003 to be declared null and void, alternatively to be declared ineffective, as well as for the resolutions according to which the Directors and three Supervisory Board members were to be released from their responsibilities for the financial year 2003, which were adopted by the Company's General Meeting of Shareholders held on 29 September 2004, to be declared null and void, alternatively to be set aside. The subject matters of the actions were fees in the amount of EUR 1,206 thousand ("placement fee") and in the amount of EUR 1,914 thousand ("merchant banking fee"), which had been paid by the Company to MFC Corporate Services AG (formerly: MFC Merchant Bank S.A.), Herisau/Switzerland, at the end of 2002 for placement of new shares within the scope of a capital increase approved by the General Meeting of Shareholders in December 2002 and for provision of merchant bank services.

In the plaintiffs' opinion, these payments had been inadmissible because they constituted a return of contributions. The corporate assets disclosed in the sets of annual financial statements as at 31 December 2002 and 31 December 2003 had, in the plaintiffs' opinion, been understated due to failure to book a corresponding repayment claim. The Cologne/Germany regional court allowed the complaints with respect to the payment of the merchant banking fee through court ruling dated 4 November 2005. The court ruling did not address the placement fee.

KHD Humboldt Wedag International AG, Cologne/Germany, has lodged an appeal from this court ruling in due time and due form. The application for proceedings on appeal was granted by the Cologne/Germany higher regional court. Meanwhile, it has been possible to reach a settlement out of court with one of the plaintiffs. In respect of the complaints still pending, the Company anticipates that there are good reasons to assume that its appeal will succeed.

Nevertheless, addressing the regional court ruling, the Company had capitalised in the annual financial statements as at 31 December 2005, and discloses unchanged in its annual financial statements as at 31 December 2011, an account receivable from MFC Corporate Services AG (formerly: MFC Merchant Bank S.A.), Herisau/Switzerland, in the amount of EUR 1,914 thousand. For the expenses in connection with the services substantiated in detail by MFC Corporate Services AG (formerly: MFC Merchant Bank

S.A.), Herisau/Switzerland, to the Company, a provision for contingent liabilities in the amount of EUR 1,976 thousand had been made in the annual financial statements as at 31 December 2005; this provision is also disclosed unchanged as at 31 December 2011.

On account of the proceedings still pending before the Cologne/Germany higher regional court, there is still a risk that the court ruling will deviate from the Management Board's assessment.

Düsseldorf/Germany, 23 March 2012

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

Signed: Graetz	Signed: Neu
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

7 Report of the Supervisory Board

Dear Shareholders,

In the financial year 2011, the Supervisory Board of KHD Humboldt Wedag International AG comprehensively performed the supervisory and advisory functions incumbent to it by virtue of law, articles of association, and rules of procedure. It monitored and advised the Management Board on a continual basis and consulted with it in the course of numerous ordinary and extraordinary meetings, as well as through discussions outside these meetings. The Supervisory Board was informed regularly, in due time, and comprehensively, both in writing and verbally, about the intended business policy, 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 KHD Group. These include measures to be taken and business transactions to be carried out by the Management Board which require the approval of the Supervisory Board. Such matters requiring approval include in particular major orders as well as approval of the annual budget, and medium-term planning.

Cooperation between the Management Board and the Supervisory Board has always been constructive. The Chairman of the Supervisory Board was in regular contact with the Chief Executive Officer over and above the regular meetings and regularly discussed the Group’s strategy, risk situation, and risk management. The Chief Executive Officer always notified the Chairman of the Supervisory Board without delay of any important events which were essential for assessing the situation and development of KHD Group.

Personnel Changes in the Management Board and Supervisory Board

Gerhard Beinhauer resigned from the Supervisory Board with effect from February 14, 2011. On the basis of a court appointment of March 23, 2011, Gerhard Beinhauer was re-appointed as a member of the Supervisory Board and was also re-elected Supervisory Board Chairman as the result of a resolution passed by the Supervisory Board on March 23, 2011.

The Annual General Meeting re-elected Gerhard Beinhauer to the Supervisory Board on June 16, 2011. Furthermore, the Annual General Meeting passed a resolution to increase the number of Supervisory Board members of KHD Humboldt Wedag International AG from three to six persons and to amend the articles of association accordingly. Luc Antoine Baehni, Eliza Suk Ching Yuen, and Hubert Keusch were newly elected to the Supervisory Board at the Annual General Meeting on June 16, 2011 with effect from the date on which the amendment to the articles of association was made in the Commercial Register. In the constituent meeting of the Supervisory Board on June 16, 2011, Gerhard Beinhauer was elected Chairman of the Supervisory Board and Silke Stenger was elected Deputy Chairperson of the Supervisory Board.

Gerhard Rolf resigned from the Supervisory Board with effect from September 30, 2012. Heinz Otto Geidt was appointed member of the Supervisory Board by court order on October 19, 2012 until the next Annual General Meeting.

Yizhen "Mario" Zhu was appointed member of the Management Board with effect from April 1, 2011; as Chief Operating Officer Asia-Pacific (COO APA), he is responsible for expanding operations in the Asia-Pacific region and for the global EPC business (turnkey plants). The EPC business is conducted together with our cooperation partner AVIC, which in principal assumes the role of general contractor.

Manfred Weinandy resigned from the Management Board with the consent of the Supervisory Board as of September 7, 2011. Since this time, the Chief Executive Officer, Jouni Salo, has also been in charge of the finance department.

Meetings and Resolutions of the Supervisory Board

In the financial year 2011, the Supervisory Board held a total of six ordinary meetings, in which all Company-relevant matters were comprehensively discussed. In addition, seven extraordinary meetings were held. In urgent cases, circular resolutions were also passed by telephone or in writing. No member of the Supervisory Board attended fewer than half of the meetings.

At the meeting convened to approve the financial statements on March 29, 2011, the Supervisory Board dealt comprehensively, among other things, with the annual financial statements and the consolidated financial statements of KHD Humboldt Wedag

International AG for the financial year ending December 31, 2010. The Supervisory Board approved these as well as the proposal for the appropriation of net retained profits.

The agendas of the ordinary Supervisory Board meetings in January, February, March, April, August, and December covered reports on business development, deviations of the actual business development from the budget and forecasts, the 2012 budget, discussions about interim reports and the half-year financial report prior to publication, discussions about the proposed resolutions for the Annual General Meeting, resolutions concerning the German Corporate Governance Code, the internal control system, the risk management system, the internal audit system, and the evaluation of the efficiency of the activities of the Supervisory Board. Furthermore, the Management Board informed the Supervisory Board about the status of strategy implementation and the strategic development of the Group, competitiveness and development perspectives, organizational changes, and operational issues.

The extraordinary meetings in March, May, June, July (two meetings), August, and October dealt in particular with constituting the new Supervisory Board, decisions on Management Board compensation, personnel matters, operational issues, as well as discussions on transactions subject to Supervisory Board consent.

Resolutions (consent to transactions of significant importance to the Group) were also passed by telephone conference or by circulation procedure on the basis of documentation provided.

Committees and Associated Meetings

In view of the fact that until the articles of association were amended, the Supervisory Board comprised just three members, it had therefore not formed any committees. The tasks which could otherwise have been transferred to committees were performed by the entire Supervisory Board. Since an amendment to the articles of association was entered in the Commercial Register on June 22, 2011, the Supervisory Board has consisted of six members. In the Supervisory Board meeting on August 9, 2011, a Compensation and Strategy Committee, a Nomination and Corporate Governance Committee and an Audit Committee were formed.

The Compensation and Strategy Committee held one meeting in the year under review. A key task of the committee during the year under review was to debate strategy and Group development with the Management Board and to prepare the passing of resolutions on strategic matters by the Supervisory Board. Issues to be dealt with included fundamental matters concerning business policy, business strategy, and the market and competitive position.

The Nomination and Corporate Governance Committee held one meeting in the 2011 financial year. The committee evaluated the Company's corporate governance principles and dealt with issues of compliance; it also vetted candidates for the position of Chief Financial Officer.

The Audit Committee held two meetings in the financial year 2011. Tasks required pursuant to Section 107 (3) of the German Stock Corporation Act (AktG) were performed by the entire Supervisory Board prior to the formation of the Audit Committee on August 9, 2011. The Audit Committee (the entire Supervisory Board before the Audit Committee was formed) focused on monitoring the accounting process and reviewed interim reports and the half-year report prior to their publication on the basis of the reporting submitted by the Management Board. In addition, the Supervisory Board dealt with the proposal on the appointment of the auditor by the Annual General Meeting, the issuing of the audit mandate, determining the focal points of the audit, as well as with the agreement on fees with the auditors. Furthermore, the Audit Committee (the Supervisory Board, respectively) monitored the independence, qualification, rotation, and efficiency of the auditors as well as the services provided by the auditors in addition to the financial statements audits. The Audit Committee (the Supervisory Board, respectively) dealt with the internal control system on the basis of reports from the Management Board, the Head of Risk Management, and the Head of Internal Audit, and was informed about the effectiveness and further development of the Group-wide risk management system, the risk situation, risk identification, and risk monitoring as well as on the compliance structures and compliance issues within the Group. The Head of Internal Audit reported on the tasks, responsibilities, and auditing activities of the Internal Audit department and submitted the audit plan for 2011/12 to the Audit Committee. The Audit Committee and the Supervisory Board have deemed the internal control system, the risk management, and the internal audit system to be effective.

Corporate Governance and Declaration of Compliance

The members of the Supervisory Board fulfilled and continue to fulfill the independence criteria of the German Corporate Governance Code. There were no conflicts of interest as defined by the German Corporate Governance Code.

The Supervisory Board, in particular the Nomination and Corporate Governance Committee, monitors the ongoing 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 an updated Declaration of Compliance pursuant to Section 161 of the German Stock Corporation Act (AktG) in March 2012. 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 Annual Report in the corporate governance report.

Annual Financial Statements and Consolidated Financial Statements

The Management Board prepared in due time the annual financial statements of KHD Humboldt Wedag International AG including the management report as of December 31, 2011 in accordance with principles set out in the German Commercial Code (HGB), and the consolidated financial statements including the Group management report as of December 31, 2011 in accordance with IFRS as adopted by the European Union. The annual financial statements including the management report and the consolidated financial statements including the Group management report were audited by Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft, Düsseldorf, who were appointed by the Annual General Meeting on June 16, 2011. The auditors have 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 (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 due time. They were subject to extensive deliberations by the Audit Committee on March 24, 2012 and in the Supervisory Board meeting convened to approve the financial statements on March 27, 2012. Both the auditors and the Management Board participated in the meeting that dealt with the approval of the financial statements. The auditors presented the focal points of their audit as well as the audit results and they were available to provide further information and to answer questions. The Audit Committee also reported on the result of its examination to the Supervisory Board.

The Supervisory Board conducted its own examination of the annual financial statements including the management report for the financial year 2011 and of the consolidated financial statements including the Group management report for the financial year 2011, as well as of the Management Board's proposal on the appropriation of the net retained profits for the financial year 2011, taking into account the auditors' reports.

The Supervisory Board examined all relevant documents together with the audit reports and discussed them in detail. After considering the final results of the Supervisory Board's examination of the documents submitted by the Management Board and the auditors, the Supervisory Board has no objections to be raised and concurs with the result of the audit carried out by Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft. The Supervisory Board approves the annual financial statements and the consolidated financial statements as of December 31, 2011 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 profits proposed by the Management Board.

Expression of Thanks

The Supervisory Board would like to thank the Management Board for its open and constructive cooperation, as well as all staff members of KHD Group for their highly committed, responsible, and successful work in the past financial year 2011 and wishes them a successful financial year 2012.

Cologne, Germany, March 27, 2012

(s) Gerhard Beinhauer
(Chairman of the Supervisory Board)

8 Declaration by the Management Board and Supervisory Board

of KHD Humboldt Wedag International AG
in accordance with Section 161 of the German Stock Corporation Act ("AktG")
on the recommendations of the
"Government Commission on the German Corporate Governance Code"

The Management Board and Supervisory Board of KHD Humboldt Wedag International AG hereby declare that since the last declaration of compliance on March 23, 2001 the recommendations of the German Corporate Governance Code (the "Code") as amended on May 26, 2010 have been complied with and will be complied with in future with the following exceptions:

- The Company has concluded directors' and officers' (D&O) insurance for the members of the Supervisory Board ("SVB") but no deductible has been agreed upon (Code item 3.8 para. 3).

The Company and the SVB are fully aware and fully accept the due care and diligence required from a prudent and conscientious SVB member, but they do not see the agreement of a deductible as a suitable measure for enhancing the motivation and sense of responsibility with which the SVB members perform their duties and functions.

- The payments to be made on premature termination of the employment contract without serious cause are not limited to two years' compensation (Code item 4.2.3 para. 4).

The employment contracts of both members of the Management Board indeed include a severance payment cap in case of termination of the employment contract without serious cause. One of the employment contracts does already not include a regulation on severance, whereas the other one limits the severance payment to two years' fixed compensation less regular payments for the remaining term of the contract. In case of premature termination of a management employment contract without serious cause more than two years prior to the normal end of the term of the employment contract both employment contracts do not limit the payments to the value of two years' compensation. In this case compensation for the remaining term of the employment contract, but no severance, has to be paid. The management employment contracts do not provide for such a limitation as the SVB deems this as not advisable. In general a premature termination of a management employment contract can only be achieved by amicable rescission of the contract. Even in case the SVB would insist on a payment cap in case of conclusion or prolongation of the respective management employment contract it cannot be ruled out that a payment exceeding such a limitation will be subject to negotiations in case of premature termination of the contract. Furthermore, amicable rescission of a management employment contract having a remaining term of more than two years is hindered significantly in case of a payment cap. In such cases acceptance of the limitation would be disadvantageous to the Management Board member compared with adherence to the employment contract and claiming the ongoing compensation.

- The SVB has not defined an age limit for its members as recommended by the Code (Code item 5.4.1 para. 2 first sentence).

The SVB considers extensive business experience from a long business career as beneficial for the competence of the SVB and the interests of the Company. Therefore, the SVB decided not to define a specific age limit for its members.

- The remuneration of the members of the SVB does not include any performance-related compensation elements as recommended by the Code (Code item 5.4.6 para. 2).

The SVB members receive a fixed compensation. In view of the SVB's supervisory and advisory function the Company finds it appropriate to award fixed remuneration only.

The following recommendations of the German Corporate Governance Code ("the Code") have not been complied with in the entire financial year 2011, but the Management Board and Supervisory Board of KHD Humboldt Wedag International AG have implemented these recommendations during the financial year 2011:

- The SVB had not established any committees (Code item 5.3.1).

The SVB had decided that no committees shall be established as the SVB consisted of only three members until amendment of the articles of association. The issues normally delegated to committees had been jointly handled by all three SVB members whereby each member of the SVB reported to the SVB as a whole on those topics specifically allocated to his/her responsibility. After amendment of the articles of association the SVB now consists of six members. An Audit Committee, Nomination and Corporate Governance Committee as well as a Compensation and Strategy Committee have been established.

- The SVB had not established an Audit Committee as recommended by the Code (Code item 5.3.2).

Reference is made to the explanation given in connection with item 5.3.1 of the Code. An Audit Committee has been established.

- The SVB had not established a nomination committee as recommended by the Code (Code item 5.3.3).

Reference is made to the explanation given in connection with item 5.3.1 of the Code. A Nomination and Corporate Governance Committee has been established.

- The compensation of the members of the SVB did not consider the exercising of the Chair and Deputy Chair positions (Code item 5.4.6 para. 1).

After expanding the SVB to six members and establishing Committees the SVB newly decided on the allocation of the compensation among the SVB members, considering the exercising of the Chair and Deputy Chair positions as well as the Chair position and the membership in the Committees.

Cologne, March 2, 2012

For the Management Board:		For the Supervisory Board:
(s) Jouni Salo	(s) Yizhen Zhu	(s) Gerhard Beinhauer