

KHD Humboldt Wedag International (Deutschland) AG



Annual Financial Statements as at 31 December 2009

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WKN 657800
ISiN DE0006578008

Annual Financial Statements
as at 31 December 2009 of
KHD Humboldt Wedag International (Deutschland) AG

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1 Balance Sheet as at 31 December 2009

Assets

	31 Dec. 2009 €'000	31 Dec. 2008 €'000
A. Fixed assets		
Long-term financial assets		
Shares in affiliated companies	26,410	26,435
	<u>26,410</u>	<u>26,435</u>
B. Current assets		
I. Receivables and other assets		
1. Receivables from affiliated companies	809	898
2. Other assets	17,600	4,466
	<u>18,409</u>	<u>5,364</u>
II. Securities		
1. Shares in affiliated companies	2,787	2,362
2. Treasury shares	221	221
3. Other securities	0	0
	<u>3,008</u>	<u>2,583</u>
III. Cash-in-hand, bank balances	49,981	7,080
	<u>71,398</u>	<u>15,027</u>
	<u>97,808</u>	<u>41,462</u>

Equity and Liabilities

	31 Dec. 2009 €'000	31 Dec. 2008 €'000
A. Equity		
I. Subscribed capital	33,143	33,143
II. Capital reserves	1,776	1,776
III. Revenue reserves		
1. Legal reserve	1,538	155
2. Reserve for treasury shares	3,008	2,583
Of which from controlling companies: € 2,787 thousand (prior year: € 2,362 thousand)		
3. Other revenue reserves	1,547	1,547
IV. Net retained profits / net accumulated losses	<u>49,785</u>	<u>-2,678</u>
	<u>90,797</u>	<u>36,526</u>
B. Provisions		
1. Provisions for taxes	148	209
2. Other provisions	2,345	2,188
	<u>2,493</u>	<u>2,397</u>
C. Liabilities		
1. Trade payables	9	38
2. Liabilities to affiliated companies	4,445	2,496
3. Other liabilities	64	5
Of which tax liabilities: € 6 thousand (prior year: € 5 thousand)		
	<u>4,518</u>	<u>2,539</u>
	<u>97,808</u>	<u>41,462</u>

2 Income Statement

	2009 €'000	2008 €'000
1. Other operating income	3,759	361
2. Personnel expenses		
a) Wages and salaries	288	177
b) Social security costs	37	23
	325	200
3. Other operating expenses	475	379
4. Income from long-term equity investments	52,388	0
Of which from affiliated companies: € 52,388 thousand (prior year: € 0)		
5. Income under profit transfer agreements	0	842
6. Income from long-term loans	1	51
Of which from affiliated companies: € 1 thousand (prior year: € 51 thousand)		
7. Other interest and similar income	92	105
8. Write-downs of long-term financial assets and securities classified as current assets	0	3,646
9. Cost of losses assumed	929	0
10. Interest and similar expenses	0	5
11. Result from ordinary activities	54,511	-2,871
12. Taxes on income	240	386
13. Net income/loss for the financial year	54,271	-3,257
14. Accumulated losses b/f from prior year	-2,678	-3,067
15. Withdrawn from reserve for treasury shares disclosed under revenue reserves	0	3,646
Of which for shares in controlling company: € 0 (prior year: € 3,646 thousand)		
16. Allocated to revenue reserves		
a) To legal reserve	-1,383	0
b) To reserve for treasury shares	-425	0
Of which for shares in controlling company: € 425 thousand (prior year: € 0)		
17. Net retained profits / net accumulated losses	49,785	-2,678

3 Notes to the Financial Statements

3.1 General Notes

Accounting

The major 100% investment held by KHD Humboldt Wedag International (Deutschland) AG, Cologne/Germany (KHD ID), in its capacity as the managing holding company is the investment in KHD Humboldt Wedag GmbH, Cologne/Germany (KHD). The subsidiaries of KHD, Humboldt Wedag GmbH, Cologne/Germany (HW), and the 100% investee ZAB Industrietechnik & Service GmbH, Dessau/Germany (ZABIS), which is held indirectly via ZAB Zementanlagenbau GmbH Dessau, Dessau/Germany (ZAB), focus on the business segments industrial plant engineering and primary industry. Their strategic and operative alignment focuses on planning and setting up of facilities for the cement industry.

The treasury function is performed by the group sister company KHD Humboldt Wedag International GmbH, Vienna/Austria (KIA).

The annual financial statements for the financial year 2009 of KHD Humboldt Wedag International (Deutschland) AG (KHD ID) have been prepared according to the regulations of the German Commercial Code (HGB) and the complementary provisions under the German Stock Corporation Act (AktG).

The nature of expense format has been applied to the income statement.

KHD ID is a small firm organised in a corporate form within the meaning of the regulations under German commercial law.

3.2 Accounting and Valuation Rules

Fixed Assets

Long-term financial assets have been recognised at acquisition cost.

Current Assets

Receivables and other assets have been recognised at the lower of nominal value or fair value.

Securities classified as current assets have been recognised at the lower of acquisition cost or stock exchange or market price or fair value.

Equity

The subscribed capital corresponds to the Statutes and the entry in the Commercial Register.

Other Provisions

All risks and contingent liabilities identifiable as at the balance sheet date have been taken into account by making appropriate provisions.

Liabilities

Liabilities have been recognised at the amounts at which they will be repaid.

Foreign Currency Translation

Receivables denominated in foreign currency are valued at the lower of the rate in effect at the date of transaction or the selling rate in effect at the balance sheet date. Non-rate-hedged liabilities denominated in foreign currency have been carried as a liability at the higher of the rate in effect at the date of booking or the buying rate in effect at the balance sheet date.

3.3 Notes to the Balance Sheet and Income Statement

1. Fixed Assets

For the movements in fixed assets, we refer to the statement of movements in fixed assets from 1 January to 31 December 2009 attached as Exhibit to the Notes.

Effective 7 October 2009, the Company sold its long-term equity investment in HUMBOLDT WEDAG Coal & Minerals Technology GmbH, Cologne/Germany, (CMT) to an Indian acquirer.

Company	Book value as at 31 Dec. 2009 €'000
KHD Humboldt Wedag GmbH, Cologne/Germany	26,410
	26,410

2. Receivables and Other Assets

The receivables disclosed as at 31 December 2009 include receivables in the amount of € 752 thousand according to shareholder resolution on distribution made by KHD adopted on 5 February 2010. The sundry receivables relate to other receivables.

The other assets basically include a claim against the responsible tax office of the Company in the amount of € 11,035 thousand. This claim relates to a claim to refund withholding taxes on capital and solidarity surcharge withheld by KHD in connection with an advance distribution of KHD to its shareholder KHD ID as at the financial year end.

In addition, the other assets include an account receivable from MFC Corporate Services AG, Herisau/Switzerland, in the amount of € 1,914 thousand. This account receivable is due to the ruling of the Cologne regional court dated 4 November 2006.

Furthermore, the other assets include a value added tax asset of € 4,451 thousand (prior year: € 2,505 thousand), of which € 4,445 thousand (prior year: € 2,496 thousand) are attributable to Humboldt Wedag GmbH, Cologne/Germany (HW), ZAB Zementanlagenbau GmbH Dessau, Dessau/Germany (ZAB), and ZAB Industrietechnik & Service GmbH, Dessau/Germany (ZABIS), within the existing group taxation relationship for value added tax purposes. Therefore, an equivalent amount has been disclosed also under liabilities to affiliated companies.

Like in the prior year, all amounts have a residual term of less than one year.

3. Securities

Since 2002, the Company has held 114,568 treasury shares. These shares were acquired for price support purposes and as a provision for evening out potential peaks within the scope of capital increases. They have been accounted for at acquisition cost in the amount of € 1.93 per share. The market price per share as at 31 December 2009 was € 9.52. A corresponding reserve for treasury shares was recognised. The book value of the treasury shares in the amount of € 221 thousand corresponds to 0.67% of the Company's capital stock.

Like in the prior year, the shares in affiliated companies disclosed under securities relate to 295,490 shares of KHD Humboldt Wedag International Ltd., Vancouver/Canada (KHD Ltd.), which were written up by € 425 thousand as at 31 December 2009.

4. Equity

Capital Stock

The Company's capital stock amounts to € 33,142,552.00 and is divided in 16,571,276 no par value shares.

Changes in Equity in 2009

	Subscribed capital	Capital reserves	Legal reserve	Reserve for treasury shares	Other revenue reserves	Net retained profits / net accumulated losses	Total
	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Balance 31 Dec. 2008	33,143	1,776	155	2,583	1,547	-2,678	36,526
Allocated to legal reserve	0	0	1,383	0	0	-1,383	0
Allocated to reserve for shares in controlling company	0	0	0	425	0	-425	0
Net income for 2009	0	0	0	0	0	54,271	54,271
Balance 31 Dec. 2009	<u>33,143</u>	<u>1,776</u>	<u>1,538</u>	<u>3,008</u>	<u>1,547</u>	<u>49,785</u>	<u>90,797</u>

Due to the net income for the financial year 2009 less loss carryforward, less allocation to the legal reserve as well as less allocation to the reserve for treasury shares in a controlling company, the net retained profits amount to € 49,785 thousand.

5. Provisions

	31 Dec. 2009	31 Dec. 2008	Variance
	€'000	€'000	€'000
Provisions for taxes	148	209	-61
Other provisions	2,345	2,188	157
	<u>2,493</u>	<u>2,397</u>	<u>96</u>

The other provisions mainly include a provision in the amount of € 1,976 thousand which had already been made in previous years in connection with the action brought by shareholders addressed in Note 13. It was made for the risk that MFC Corporate Services AG asserts on its part a reimbursement claim in the amount of its expenses incurred on account of the claim asserted by KHD ID for refund of contributions. In addition, the other provisions include cost of the year-end accounts and outstanding invoices.

6. Liabilities

	31 Dec. 2009	31 Dec. 2008	Variance
	€'000	€'000	€'000
Trade payables	9	38	-29
Liabilities to affiliated companies	4,445	2,496	1,949
Other liabilities	64	5	59
Of which tax liabilities	6	5	1
	<u>4,518</u>	<u>2,539</u>	<u>1,979</u>

Like in the prior year, the liabilities disclosed as at 31 December 2009 have a residual term of less than one year.

Like in the prior year, the liabilities to affiliated companies relate to liabilities to HW, ZAB and ZABIS within the scope of the group taxation relationship for value added tax purposes.

7. Contingent Liabilities

KHD ID has furnished guarantees or group guarantees and sureties and signed letters of support in the amount of € 3.9 million (prior year: € 8.3 million) for affiliated companies.

For a secondary liability to Unterstützungsgesellschaft mbH of Maschinenfabrik Fahr AG in the amount of € 0.3 million, DEUTZ AG has signed a letter of indemnification in favour of KHD ID. For the related discharge of DEUTZ AG, there is a guarantee of HypoVereinsbank AG.

8. Other Financial Commitments

The other financial commitments of KHD ID as at the balance sheet date exclusively relate to affiliated companies. These result from a service agreement with HW for services in the field of administration in the amount of € 1 thousand per month with a residual term of up to one year.

9. Other Operating Income

The other operating income basically includes gains on the disposal of the long-term equity investment in CMT.

In addition, like in the prior year, the other operating income of KHD ID includes income from services charged to CMT, KHD and ZAB/ZABIS, exchange gains and income from release of provisions.

10. Personnel Expenses

The employees of the Company are employees of the legal function and the internal audit function for KHD ID Group. A recharge agreement with respect to legal advise/internal audit services was concluded between the Company and KHD ID Group companies (KHD/HW, ZAB/ZABIS). The related services provided by the employees are recharged to

the KHD ID Group companies concerned under this agreement. The corresponding income is disclosed under other operating income.

11. Other Operating Expenses

Like in the prior year, the other operating expenses chiefly include legal and consulting costs, cost of year-end accounts and auditing, service cost, exchange losses and other administrative expenses.

12. Income from Long-term Equity Investments

Based on the resolution adopted by the shareholder of KHD, KHD Humboldt Wedag International (Deutschland) AG (KHD ID), dated 28 December 2009, KHD distributed € 7,601 thousand to KHD ID out of the profit carryforward.

Also based on the resolution adopted by the shareholder of KHD, KHD ID, dated 28 December 2009, the Company made a profit distribution in the amount of € 44,035 thousand out of the anticipated net income for the financial year / net retained profits as at 31 December 2009 by way of advance distribution.

After deducting withholding taxes on capital in the amount of € 11,028 thousand, which were paid over by the Company to the responsible tax office, € 40,608 thousand were, hence, distributed to the shareholder KHD ID out of the total distribution of € 51,636 thousand. In addition, a distribution by KHD to KID in the amount of € 752 thousand was approved and booked through resolution dated 5 February 2010.

13. Litigation

Action Brought by Shareholders ("Return of Contributions")

Shareholders have brought actions against the Company for the approved sets of annual financial statements as at 31 December 2002 and 31 December 2003 of the Company 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 € 1,206 thousand ("placement fee") and in the amount of € 1,914 thousand ("merchant banking fee"), which had been paid by KHD ID to MFC Corporate Services AG (formerly MFC Merchant Bank S.A.) at the end of 2002 for placement of the capital increase 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, said sets of annual financial statements had been understated due to failure to book a corresponding repayment claim.

Based on the regional court ruling, the Company had already booked with profit and loss impact an account receivable from MFC Corporate Services AG, Herisau/Switzerland, in the amount of the merchant banking fee (€ 1,914 thousand) and asserted this claim against MFC Corporate Services AG in its letter dated 16 February 2006. The court ruling does not address the placement fee.

In view of the actual expenses in the amount of € 1,976 thousand in connection with the services provided for KHD ID under the merchant banking agreement, which have been substantiated in detail by MFC Corporate Services AG, the Company had also already made a corresponding provision in the prior year's financial statements for the event that, should eventually a claim be asserted by KHD ID, MFC Corporate Services AG asserts on its part a reimbursement claim for the expenses incurred.

The regional court allowed the complaints through court ruling dated 4 November 2005. KHD ID has lodged an appeal from this court ruling in due time and due form.

Meanwhile, one of the complaints has 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. A corresponding ruling is still outstanding on account of a large number of postponements.

Action Brought by Shareholders ("Valuation of Companies Sold")

In connection with the measurement of the companies disposed of (see the related above statements), KHD ID was served the complaint of one shareholder on 23 February 2007. The cause of this complaint is that the approved annual financial statements as at 31 December 2005 and the resolutions concerning the release of the Directors and of the Supervisory Board members be declared null and void.

The hearing, which has meanwhile taken place, also did not lead to any changes to the underlying facts and the matter in dispute. Through decision of the regional court dated 27 October 2008, the litigation was suspended pending final decision in parallel proceedings.

In these parallel proceedings, KHD ID has, after it had lost its case before the Cologne regional court, fully won the action according to the ruling of the Cologne higher regional court dated 9 July 2009. In the meantime, the plaintiff and appellee has lodged a corresponding appeal to the federal supreme court. KHD ID still anticipates that it will win the action in the proceedings on appeal that have meanwhile been opened. Therefore, the Company maintains its motion for dismissal because it still anticipates that the complaints are unfounded because they are non-substantiated.

Action Brought by Shareholders ("Appointment of Special Auditor")

In connection with establishing the fair present value of the five Companies sold in 2005/2006, an investment fund has, in its capacity as a shareholder of KHD ID, filed an application for the appointment of the special auditor Dr Klaus Lippmann to be ordered in order to examine the transactions in the area of the conduct of affairs of the Board of Directors and the Supervisory Board in connection with the disposal of the Companies in 2005/2006.

Through ruling of the Cologne regional court dated 6 November 2009, the regional court granted the application. Addressing the immediate appeal of KHD ID dated 23 November 2009, the Cologne higher regional court decided through ruling dated 7 December 2009 to suspend execution of the ruling of the Cologne regional court dated 6 November 2009 pending a decision on KHD ID's immediate appeal.

14. Other Disclosures

Number of Employees

The annual average number of people employed by the Company was 4 (prior year: 3) salaried employees. The Company does not employ industrial labour.

Government Tax Audit

Presently, the Company is subject to a government tax audit covering the fiscal years 2005, 2006 and 2007. The subject of this on-going tax audit is, among other things, the merchant banking fee. (For details, see the related statements in Note 13.)

Due to lack of available concrete audit conclusions, no provision has been made to date.

15. Shareholdings

Company		Capital share in %	Equity in €'000	Net income for FY in € '000
KHD Humboldt Wedag GmbH, Cologne/ Germany	direct	100.00	26,462	32,490
Humboldt Wedag GmbH, Cologne/ Germany	indirect	100.00	37,897	30,152
ZAB Zementanlagenbau GmbH, Dessau/ Germany	indirect	100.00	34,693	21,484
ZAB- Industrietechnik und Service GmbH, Dessau/Germany	indirect	100.00	80	0
Blake International Ltd., Tortola/BVI	indirect	100.00	3,112	1
KHD Humboldt Wedag Industrial Services AG, Cologne/Germany	indirect	88.35	5,369	548
HIT Paper Trading GmbH, Vienna/Austria	indirect	88.35	78	65
Paper Space GmbH, Cologne/Germany	indirect	88.35	65	2

The equity of Blake, which is disclosed in U.S. dollar, is translated at the rate in effect at the balance sheet date.

In accordance with the resolution dated 30 September 2009, the liquidation of HIT Paper Trading GmbH, Vienna/Austria, (HPT) was initiated. The call for presentation of claims through the creditors was published in the issue dated 21 November 2009 of the newspaper "Wiener Zeitung".

Members of Supervisory Board and Board of Directors

Supervisory Board

Mr Bhagabati Prasad Misra, engineer (until 15 October 2009)

Chairman of the Supervisory Board

Vice President

of KHD Humboldt Wedag International Ltd., Vancouver/Canada (KHD Ltd.);

Mr Reimund Berner, businessman

member of the Supervisory Board / Chairman of Supervisory Board (since 10 December 2009)

Vice President Commercial and Treasurer of Humboldt Wedag Inc., Norcross/U.S.;

Mr James Busche, businessman

member of the Supervisory Board (until 16 October 2009)

CEO of KHD Ltd. (until 13 April 2009);

Mr Andrew Blythe, engineer

member of the Supervisory Board (since 6 May 2009)

Vice Chairman of Supervisory Board (since 10 December 2009)

Senior Vice President Sales and Services;

Mr Richard Kelsey, businessman

member of Supervisory Board (since 26 November 2009)

Head of Corporate Development.

Board of Directors

Mr Alan Hartslied, businessman, Vienna/Austria (since 2 October 2008)

CFO of KHD Ltd.;

Mr Jouni Salo, engineer, Vienna/Austria (since 25 October 2009)

CEO of KHD Ltd.

3.4 Total Emoluments Paid to Directors and Former Directors

The Board of Directors of KHD ID were paid no emoluments in the reporting year.

There are no pension commitments towards former Directors and their surviving dependants.

No emoluments were paid to former Directors.

3.5 Total Emoluments Paid to the Supervisory Board

The members of the Supervisory Board were paid no emoluments for their activity. There are no pension commitments towards former members of the Supervisory Board and their surviving dependants. Furthermore, no contingent liabilities were incurred for this circle of persons.

3.6 Loans and Advances to Members of the Board of Directors and the Supervisory Board

There were no receivables due to loans or advances granted to members of the Board of Directors and the Supervisory Board as at 31 December 2009.

3.7 Parent Company and Consolidated Financial Statements

In its capacity as the parent company, the Company prepares the consolidated financial statements for the smallest group of entities to be consolidated and is included in the consolidated financial statements of KHD Ltd., which prepares the consolidated financial statements for the biggest group of entities to be consolidated. This set of consolidated financial statements is filed with the United States Securities and Exchange Commission (SEC).

3.8 Reported Shareholdings

KHD Ltd. advised that it owned more than one fourth of the shares of our Company and additionally a majority investment holding under § 16 (1) German Stock Corporation Act (AktG). The total capital share of KHD Ltd. as at 31 December 2009 is roughly 74%.

3.9 Representation of Board of Directors Regarding Relationships with Affiliated Companies

In accordance with § 312 (1) German Stock Corporation Act (AktG), the Board of Directors of KHD ID prepared a report on the relationships with affiliated companies.

The corresponding representation of the Board of Directors reads:

"Our Company has received an appropriate consideration for each legal transition in respect of the specified legal transactions and measures under the circumstances we were aware of at the time the legal transactions were performed or the measures were taken and has not been placed at a disadvantage by the fact that measures were taken or were not taken."

Cologne, 5 February 2010

The Board of Directors

Alan Hartsliet

Jouni Salo

4. Exhibit to the Notes

Movements in Fixed Assets in the Financial Year 2009

	Gross book values			Accumulated amortisation, depreciation and write-downs			Net book values			
	Balance as at 1 Jan. 2009	Additions	Disposals	Balance as at 31 Dec. 2009	Balance as at 1 Jan. 2009	Additions	Disposals	Balance as at 31 Dec. 2009	Balance as at 31 Dec. 2009	31 Dec. 2008
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Long-term financial assets										
Shares in affiliated companies	26,435	0	25	26,410	0	0	0	0	26,410	26,435

[Independent] Auditors' Report

To KHD Humboldt Wedag International (Deutschland) AG, Cologne/Germany

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, of KHD Humboldt Wedag International (Deutschland) AG, Cologne/Germany, for the business year from 1 January to 31 December 2009. The maintenance of the books and records and the preparation of the annual financial statements in accordance with German commercial law are the responsibility of the Company's Board of Directors. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, based on our audit.

We conducted our audit of the annual financial statements by appropriate application of § 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 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 and the annual financial statements 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 Board of Directors, as well as evaluating the overall presentation of the annual financial statements. 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 (Deutschland) 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.

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. The long-term equity investment held by MFC Corporate Services AG (formerly: MFC Merchant Bank S.A.), Herisau/Switzerland, in KHD Humboldt Wedag International (Deutschland) AG, Cologne/Germany, at that time has now been transferred to MFC Commodities GmbH, Vienna/Austria, and amounts today to roughly 20%.

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 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.

The Company 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 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 disclosed unchanged in its annual financial statements as at 31 December 2009, 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 was also disclosed unchanged as at 31 December 2009.

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

Düsseldorf, 5 February 2010

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

Signed: Graetz
Wirtschaftsprüfer
[German Public Auditor]

Signed: Rosenfeld
Wirtschaftsprüfer
[German Public Auditor]

KHD Humboldt Wedag International (Deutschland) AG, Cologne

(“COMPANY” OR „KHD ID“)

Report of the Supervisory Board for Fiscal Year 2009

In the last quarter of fiscal 2008, the extraordinary boom phase in the cement industry ended abruptly. The difficult market situation continued also in 2009, even if there were some signs of recovery in the second half of the year.

The Group's order intake has been the lowest for years.

In addition, the orders on hand had to be reduced after a critical evaluation.

Due to the large number of orders on hand from previous years and the time needed to handle these orders, we have still been able to maintain turnover and result at a high level. Thus, in spite of difficult general conditions, we can look back on a financially successful fiscal year.

Yet the utilization of capacities was already no longer satisfying and will deteriorate further in the year to come.

Measures have been introduced such as short-time work, but also the prearrangements for further personnel reductions to adjust capacities to the low level of business which will probably continue for a long time.

Further focusing on business in the cement market has been achieved through the sale of the minerals division.

Cooperation between Supervisory Board and Executive Board

In the past fiscal year, the Supervisory Board has fulfilled the tasks conferred upon it by law, articles of association and rules of procedure.

It continuously monitored the management of the Company and performed its advisory function when the Company took significant decisions. In the fulfillment of its duties, the Supervisory Board gives priority to strategic tasks.

The Supervisory Board was regularly and comprehensively informed by the Executive Board on the position of the Company, in particular the development of the financial and risk situation. This was done in due time by oral and by written reports.

In particular project approvals were subject of the Supervisory Board meetings and adoption of resolutions.

If required the Supervisory Board passed written resolutions.

The Supervisory Board was always involved in the quarterly financial reports of the COMPANY. The annual financial statements of the most significant group companies and their auditing in particular were closely monitored by the Supervisory Board.

Restructuring

During fiscal year 2009, further steps were taken to restructure the KHD ID Group. This included in particular the sale of HUMBOLDT WEDAG Coal & Minerals Technology GmbH as well as the other Minerals & Coal activities of the KHD Group to an Indian buyer.

In addition, the buyer has taken over production of Humboldt Wedag GmbH at the location Cologne-Kalk.

Thus, the KHD Group has focused its activities on the cement market.

In addition, there has been an organizational realignment of the operational business, which plans to separate the business in centralized development and service activities on the one hand and decentralized sales and processing activities on the other hand.

This organizational realignment has been supported by corresponding personnel changes in the management of the companies.

Legal action taken by shareholders

The legal action taken by shareholders against the annual financial statements for 2002 until 2006 is still pending.

In the past fiscal year, there were no major new aspects regarding the assessment of the outcome of the legal proceedings.

The COMPANY still considers the action unfounded and it will defend itself against the claims.

Personnel Changes in Supervisory and Executive Board

According to its statutes, the Supervisory Board of the COMPANY consists of 3 members:

Until 15 October 2009, Mr. B. P. Misra, who is also a member of the Management Board of KHD Humboldt Wedag International Ltd., Vancouver, Canada (KHD-Ltd.) continued to be the chairman of the Supervisory Board.

Mr. Jouni Salo, engineer, current Chief Executive Officer of KHD Ltd., was a member of the Supervisory Board of the COMPANY from 16 June to 4 December 2008 but then joined the Executive Board of the COMPANY.

Mr. Berner, who is, at the same time, responsible for the Financial Department of HW Inc. in Atlanta, has been a member of the Supervisory Board since 2007 and is now chairman of the Supervisory Board.

Mr. James Busche was appointed a member of the Supervisory Board by court order on 11 December 2008 and resigned from this office as of 16 April 2009.

Following the General Meeting of Shareholders on 26 November 2009, Mr. Raimund Berner (chairman), Mr. Andrew Blythe and Mr. Richard Kelsey are members of the Supervisory Board.

The Executive Board is managed by Mr. Hartslief and Mr. Salo:

Mr. Hartslief has held this position since 28 January 2008, he has also been Chief Financial Officer of the KHD Ltd. Group since 16 October 2007.

Mr. Salo has been a member of the Executive Board of the COMPANY since 11 December 2008. Since 13 April 2009 he is Chief Executive Officer of KHD Ltd.

Audit of the 2009 Annual Financial Statements of the Company and the Group

The annual financial statements and the management report of the COMPANY including the accounting system were audited by Deloitte & Touche GmbH, Wirtschaftsprüfungsgesellschaft, Düsseldorf („Deloitte“) and were awarded an unqualified audit opinion. This also applies to the annual financial statements of the group and the group management report.

Deloitte certified that the individual financial statements of the COMPANY were prepared in accordance with the relevant provisions of the German Commercial Code and the financial statements of the Group in accordance with the accounting and valuation standards of the International Financial Reporting Standards (IFRS).

The annual financial statements and the auditor's reports were presented to the members of the Supervisory Board in due time. They were reviewed in detail by the Supervisory Board and discussed in the presence of the auditor who reported on the results of his audit.

In the meeting of 9 February 2010, the Supervisory Board agreed with the audit result of the auditor and after carrying out its own audit determined that there were no objections. The Supervisory Board approves the annual financial statements of the COMPANY and the Group prepared by the Executive Board. Hence, the annual financial statements of the COMPANY for fiscal year 2009 are approved.

The Supervisory Board has examined the Executive Board's proposal submitted to the Annual General Meeting on an appropriation of the balance sheet profit of 2009 and consents to the proposal.

The auditor reviewed the Executive Board's report on relations with affiliated companies (dependence report) and awarded the following unqualified audit opinion:

"Following our dutiful review and evaluation, we hereby certify that:

1. The actual details of the report are correct.
2. The pecuniary consideration of the COMPANY was not unreasonably high in the legal transactions of the Company detailed in the report.
3. As to the measures described in the report, there are no circumstances that are in favour of a judgment that considerably differs from the one made by the Executive Board."

The Executive Board submitted the dependence report to the Supervisory Board, and the Supervisory Board has reviewed the report. After the concluding results of their audit the Supervisory Board has no objections to raise against the Executive Board's final declaration in the dependence report nor against the result of the audit carried out by the auditor.

Appointment of the Auditor for Fiscal Year 2010

As in the previous year, the auditing firm Deloitte in Düsseldorf has been proposed by the Annual General Meeting as auditor for the individual and group financial statements for fiscal year 2010.

The Supervisory Board would like to express its thanks to all employees of the group companies and to the Executive Board for their work performed during fiscal year 2009. We are well aware that a high level of commitment will be required to successfully cope with the continuing difficult business situation also in 2010.

We ask you to continue your commitment in support of the COMPANY.

Cologne, 9 February 2010

The Supervisory Board

Signed Reimund Berner

Chairman of the Supervisory Board