HUMBOLDT WEDAG

CLEAN TECHNOLOGY

Cementing a stronger future

FINANCIAL STATEMENTS 2012

KHD Humboldt Wedag International AG

Management Report and Annual Financial Statements as of December 31, 2012

Colonia-Allee 3
51067 Köln

HRB Köln 36688
WKN 657800
ISiN DE0006578008

List of Abbreviations

AVIC	AVIC International Beijing Company Limited, Beijing, China
Blake	Blake International Ltd., Road Town, Tortola, British Virgin Islands
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
MGI	Max Glory Industries Ltd., Hong Kong, China
Weir Minerals	Weir Minerals Europe Limited, a business unit of Weir Group PLC, Glasgow, United Kingdom
ZAB	ZAB Zementanlagenbau GmbH Dessau, Dessau, Germany
HW Malaysia	Humboldt Wedag Malaysia Sdn. Bhd., Kuala Lumpur, Malaysia
HW Do Brasil	Humboldt Wedag Do Brasil Servicos Technicos Ltda, Belo Horizonte, Brazil

Management Report and Annual Financial Statements of KHD Humboldt Wedag International AG for the Financial Year 2012

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1 Management Report of KHD Humboldt Wedag International AG for the Financial Year 2012

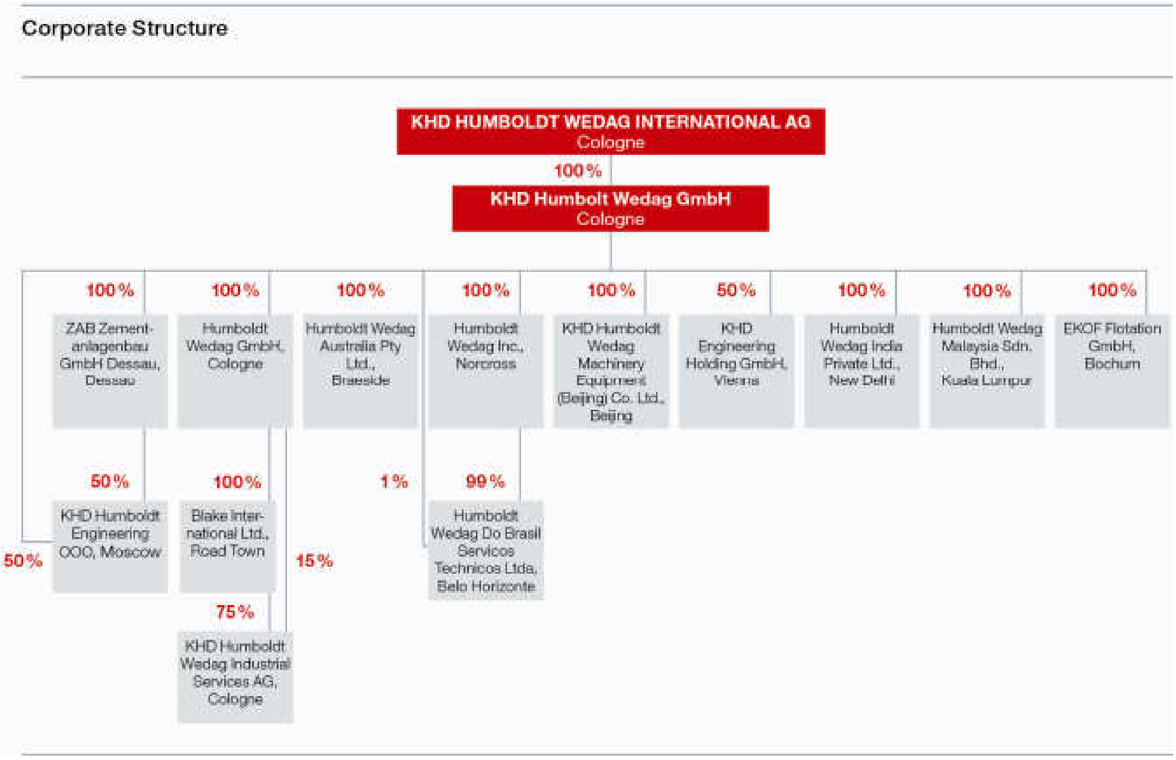
1.1 Corporation

With its subsidiaries, KHD Humboldt Wedag International AG ("KHD", the "Company" or "we") headquartered in Cologne, Germany, ranks as one of the world's top equipment suppliers and service companies for the cement industry. The scope of services encompasses process technology, design, engineering, project management, the supply of technology and 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, pyro process, system automation), process engineering, customer service, and training. The manufacturing of plant 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), Cologne, Germany, which functions as a strategic management holding company. The 14 KHD Group companies focus on the business segment of industrial plant engineering as well as related services.

In the first half of 2012, KHD HW acquired CRYSTAL SERIES SDN. BHD. (Crystal Series) based in Kuala Lumpur. Crystal Series did not have business operations or assets. Crystal Series was renamed to Humboldt Wedag Malaysia Sdn. Bhd. (HW Malaysia), based in Kuala Lumpur. After payment of the authorized capital as well as execution of a capital increase, the subscribed capital as of the reporting date amounts to MYR 500,000. In the second half of 2012, HWUS founded Humboldt Wedag Do Brasil Servicos Technicos Ltda (HW Do Brasil), based in Belo Horizonte, Brazil. The Brazilian company's subscribed capital amounts to BRL 200,000.



Strategic Partnerships

The strategic partnership agreed in December 2010 with the Beijing-based **AVIC International Beijing Company Limited (AVIC)** presents a wide range 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 (covering the construction or “C” part) and KHD supplying the core technology (covering the engineering and procurement or “EP” part for key equipment). The partnership has been well-received in the market and was awarded its first joint projects in 2012.
- Procurement cooperation, notably through the procurement center opened in Beijing in 2011.
- Opportunity for mutual investments.

Weir Minerals, a business unit of the Weir Group PLC based in Glasgow, United Kingdom, operates as KHD’s exclusive agent for the sales and services of roller presses (HPGR) in the minerals processing industry. HPGR technology is becoming an increasingly important energy-efficient grinding solutions in the minerals industry. With Weir’s excellent service network in all of the world’s major mining markets, mining customers now have a competent local partner to service and support KHD's roller presses (HPGRs).

1.2 Major Events During the Year Under Review

In March 2012, the existing bonding facility was replaced by a new bonding facility for a total volume of € 130 million with a term of three years provided by a consortium of banks led by Deutsche Bank AG and Raiffeisenbank International AG.

In accordance with the resolution passed by the Annual General Meeting of shareholders on October 5, 2012, a dividend amounting to € 0.12 per share (a total of € 5,937 thousand) was paid out to the Company's shareholders at the beginning of the fourth quarter of 2012.

Following a resolution passed at the shareholders' meeting on December 17, 2012, KHD HW distributed profits in the amount of € 4,000 thousand to KHD. This was subject to deduction of capital gains tax totaling € 1,055 thousand, meaning that KHD received a payment of € 2,945 thousand. As of December 31, 2012, KHD 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 decreased from € 134,938 thousand in the previous year to € 120,650 thousand at the end of the 2012 financial year (minus € 14,288 thousand). As in the previous year, bank balances (€ 82,178 thousand) and shares in affiliated companies (€ 26,410 thousand) account for most of the Company's assets (in total approximately 90 %).

The increase in receivables is mainly attributable to the disbursement of loans in the amount of € 6,726 thousand, which KHD has extended to an affiliated company. In contrast, other assets have decreased by € 4,309 thousand, from € 8,023 thousand in the previous year to € 3,714 thousand. A capital gains tax reimbursement claim (which was reported in the previous year under other assets and amounts to € 2,023 thousand) has been settled by means of a payment. The receivable due from MFC Corporate Services amounting to € 1,914 thousand that had been reported in the previous year was derecognized. The receivable had been recognized following a ruling by the Cologne Regional Court on November 4, 2006 and was derecognized in 2012, since a settlement was reached in these proceedings on November 30, 2012. On the liabilities side of the balance sheet other accruals in the amount of € 1,976 thousand had been recognized for this claim. These have been released in 2012 in line with the derecognized receivable. Otherwise, the other assets mainly comprise tax receivables in the amount of € 2,717 thousand (previous year: € 1,662 thousand) due from the tax authorities in connection with KHD HW's distribution of profits at the end of the 2012 and 2011 financial years. The VAT credit of € 883 thousand has decreased significantly compared with the previous year (€ 2,154 thousand).

The € 16,806 thousand decrease in bank balances to € 82,178 thousand (previous year: € 98,984 thousand) mainly resulted from the disbursement of loans amounting to € 6,726 thousand to an affiliated company and to the dividend payment made to the shareholders at the beginning of the fourth quarter of 2012 in the amount of € 5,937 thousand. Following the conclusion of the new bank guarantee credit facility and the underlying agreement for the 2012 financial year, no cash is required to serve as collateral. Accordingly, cash totaling € 6,808 thousand has been repaid to the Group companies. The repayment contributed to a decrease of liabilities due to affiliated companies.

The decrease in provisions and accruals mainly resulted from the utilization of tax accruals as well as from the aforementioned release of other accruals.

The Company's equity decreased from € 119,378 thousand to € 117,786 thousand (minus € 1,592 thousand), particularly as a result of the dividend payment made to the shareholders in the fourth quarter. The net retained profit for the financial year has been significantly affected by the dividends distributed by KHD HW. With a reduced balance sheet total, the equity ratio amounts to 97.6 % (previous year: 88.5 %).

Results of Operations:

In the financial year under review, the Company's result from ordinary activities came to € 4,336 thousand (previous year: € 6,191 thousand). The change in the result from ordinary activities is due primarily to income from investments held by KHD HW in the amount of € 4,000 thousand (previous year: € 6,300 thousand). Other operating income of

€ 7,826 thousand (previous year: € 5,383 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 € 2,635 thousand (previous year: € 2,954 thousand). In addition, 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 and are recorded as other operating income. Other operating income also includes the release of other accruals in the amount of € 2,267 thousand (previous year: € 89 thousand), with € 1,976 thousand of this amount arising from the aforementioned settlement.

Personnel expenses mainly relate to compensation for the members of the Management Board.

Other operating expenses consist of legal and consulting costs, costs of preparing and auditing the annual financial statements, Supervisory Board compensation, Group charges, costs related to the Annual General Meeting, investor relations costs, and other administrative costs. Other operating expenses include expenses in the amount of € 1,914 thousand due to the derecognition of receivables as described above.

A net profit for the year of € 4,345 thousand (previous year: € 5,632 thousand) arises after considering income taxes of -€ 9 thousand (previous year: € 559 thousand). After taking into account the profit carried forward from the previous year of € 416 thousand, the net retained profit amounts to € 4,761 thousand.

Financial Position:

The Company's financing is secured due to the high level of liquidity available at the end of 2012, and also as a result of the high level of liquidity and dividend payment potential of the KHD Group companies.

Cash and cash equivalents as of the balance sheet date decreased from € 98,984 thousand to € 82,178 thousand, in particular due to the dividend payment (€ 5,937 thousand) and the repayment of the cash collateral (€ 6,808 thousand) to subsidiaries.

The Company's overall net assets, financial position, and result of operations may be described as satisfactory.

1.4 Business Development for Plant Engineering

Business Environment:

Economic Environment

In 2012, global economic growth suffered a loss of momentum in relation to the previous year. This was mainly due to declining growth in China and the effects of the sovereign debt crises in Europe and the USA. In October, the International Monetary Fund (IMF) adjusted its growth forecast for 2012, and now expects global economic growth to reach just 3.2 % (previous year: 3.9 %). Growth of just 5.1 % (previous year: 6.3 %) is forecast for developing and emerging economies.

While the Eurozone as a whole slipped into a mild recession in 2012, Germany's performance was somewhat more stable, with gross domestic product growth of 0.7 %. However, this fell significantly short of the previous year's growth (3.1 %), due to declining plant investments and decreased consumption. On the other hand, a number of countries under strain in the Eurozone made deep budget cuts in an attempt to bring state finances in order and contracted significantly. The situation eased on the financial markets in the second half of the year after the European Central Bank agreed to purchase unlimited amounts of government bonds issued by ailing Eurozone countries in emergency cases.

The slowdown in global growth was clearly evident in the key cement markets. India, whose export activities clearly suffered due to weak foreign demand, achieved economic growth of just 4.5 % (previous year: 7.9 %). A difficult investment climate and a still insufficient level of infrastructure investments were further sobering factors and contributed to the continuing relatively low level of utilization of existing capacities for cement production. The reforms announced by the government to facilitate foreign investments will likely only become effective in the course of the current year or even later.

At 3.6 %, economic growth in Russia was also lower than in the previous year (4.3 %). While the country continues to benefit from strong domestic demand and stable oil prices, investment activities have fallen short of expectations. Reforms leading to economic diversification and improvement of the business climate are continuously discussed but seldom implemented.

In the year under review, Turkey struggled with falling domestic demand in particular. Despite rising exports, growth decreased significantly from 8.5 % in the previous year to 3.0 %. While the country is doing well compared to its southern European neighbors, the country is feeling the absence of capital inflows from the EU.

The Chinese economy also slowed down. The growth rate fell to 7.8 % (following a rate of 9.3 % in the previous year). This is likely due to declining exports as well as stricter lending in response to China's real estate bubble. However, early indicators at the end of the 2012 financial year pointed to a turnaround in China as well as in other emerging markets in Asia.

Brazil, an important market for KHD in terms of future prospects, also fell short of expectations with a growth rate of 1.0 % (previous year: 2.7 %). The South American country struggled amid rising wage costs, still inadequate infrastructure, and declining exports.

Growth of real GNP in selected regions

in %	2011	2012e	2013e
China	9,3	7,8	8,2
India	7,9	4,5	5,9
Russia	4,3	3,6	3,7
Turkey	8,5	3,0	3,5
Brazil	2,7	1,0	3,5
Emerging Market and Developing Economies	6,3	5,1	5,5
World	**3,9**	**3,2**	**3,5**

Source: IMF

Industry Environment

According to currently available market information, which is in line with KHD's findings from projects and discussions with customers, overall growth in the global cement market weakened slightly in the year under review. Nonetheless, some regions represent attractive prospects for cement producers. Cement consumption developed favorably in Southeast Asia: Indonesia, Malaysia, and the Philippines recorded double-digit growth rates. The growth trend for cement consumption in Africa, particularly Nigeria, also remained above average.

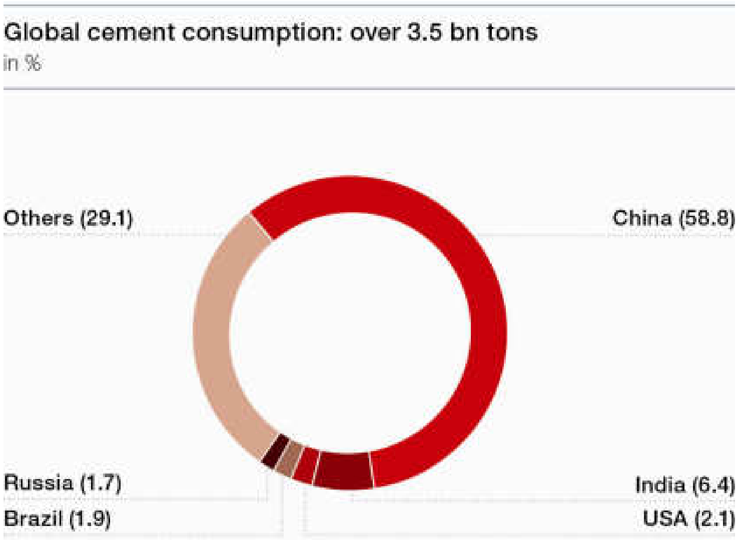
On the other hand, the weakening of the economy in China – which accounts for more than 50 % of global cement consumption – is a cause for concern. The Chinese construction sector is suffering due to the effects of the real estate bubble, and government investments in infrastructure and social housing construction have not been able to fully compensate for this.

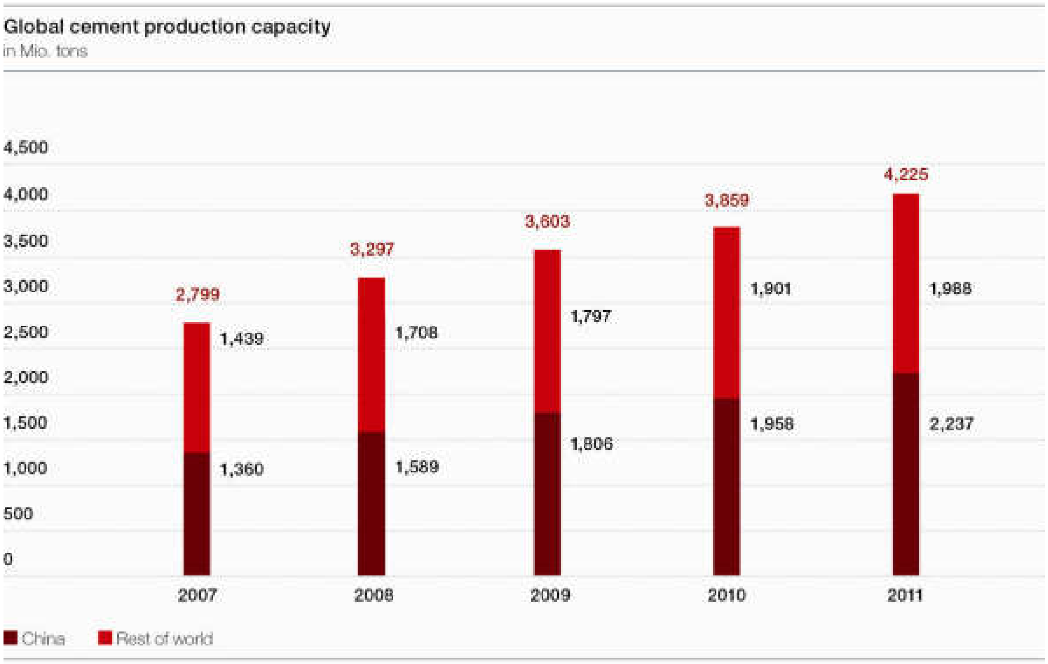
In India – the world's second largest cement market – cement consumption increased, mainly due to the delayed onset of the 2012 monsoon season. However, the weak economy and administrative problems caused further delays for planned, large-scale government investments in roads, ports, and airports. The industry also is struggling with rising raw materials prices, high interest rates and a low level of capacity utilization.

Russia recorded a double-digit growth rate for cement consumption in 2012. Demand for building materials has risen in view of large investments in infrastructure – including for the Winter Olympic Games in 2014 in Sochi and the FIFA World Cup in 2018 – as well as public housing construction projects. Cement manufacturers are planning further investments in new plants and modernization measures to reduce the energy consumption of their plants, which are often quite old.

Brazil's cement market has continued to benefit from government infrastructure investments as well as incentives for the construction industry, which is linked to the upcoming major sporting events (2014 FIFA World Cup and 2016 Olympics) to be held in the country. In addition, the government has been increasingly investing in its road and rail network for the past several years, which should also benefit the cement industry.

In Turkey, the growth of the cement market was slightly weaker than expected, which was primarily due to a lower volume of activity in the construction sector. Exports to North Africa and the Middle East also declined as a result of political unrest as well as increased competition.





Globally speaking, capacity utilization in the 2,500 cement plants or so around the world varied heavily from region to region, with the highest utilization rates in China and the lowest in Western Europe. Half of the world's cement 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 increasingly take environmental and efficiency aspects into account. The most important engine of growth in the cement 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.

In 2012 KHD's competitive environment continued to be marked by fierce competition and downward margin pressure.

1.5 Report on Events after the Reporting Period

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

1.6 Compensation Report

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

A. Compensation System for Members of the Management Board in the Financial Year 2012

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

The Supervisory Board has extensively studied the legal requirements laid down by the German Act on the Appropriateness of Management Board Compensation (VorstAG) and the recommendations made by the GCGC. KHD already implemented the requirements of this new law in the 2010 financial year, 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 the 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 oriented toward sustainable corporate growth and sustainable enhancement of corporate value within a dynamic environment. Criteria drawn on to evaluate the appropriateness of compensation include the international activity of the KHD Group, the tasks of the individual Management Board member, personal performance, the economic situation and financial position, the performance and future prospects of the KHD Group, as well as the extent to which this compensation is customary in comparable companies, and the compensation structure that otherwise prevails within the Group.

Management Board compensation generally consists of fixed (non-performance-based) and variable (earnings- and performance-related) remuneration. Fixed compensation is paid out as a basic remuneration every month as a non-performance-based salary. In addition, Management Board members receive ancillary payments in the form of non-cash benefits. These consist of the value of the use of a company car in accordance with tax regulations, insurance contributions as well as other non-cash benefits.

The variable compensation (bonus) depends on the business success of the 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 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 the 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 evaluation 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; it 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 annual base compensation independent of performance.

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 portion. If the targets are not achieved (failure to reach the lower target limit – cumulative for the multi-year assessment period), 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 are 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, target achievement is calculated on the basis of assessment periods that extend beyond one financial year. A final decision is made on whether the targets have been achieved only once these assessment periods have expired. 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. The variable compensation of the individual Management Board members is only due once the financial statements for the 2012 financial year have been approved.

Half-yearly advance payments in respect of the variable compensation can be made on the basis of interim assessments of target achievement as evaluated 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.

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 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 Mr. Salo's contract for employment being extended 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 € 446,864 as of December 31, 2012. As the termination payment would require payment at the latest on obtainment of the upper age limit, KHD has established a corresponding accrual by way of installment. The accrual for Mr. Salo amounted to € 95,757 as of December 31, 2012.

B. 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	April 1, 2010
Yizhen Zhu	April 1, 2011	March 31, 2014	April 2, 2011

The total remuneration for members of the KHD Management Board amounted to € 1,091 thousand (previous year: € 1,278 thousand) in the 2012 financial year.

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**
Fixed compensation	375,000	160,000
Variable compensation		
- for the 2012 financial year	281,906	54,367
- for the assessment period 2010 - 2012	119,456	-
Non-cash benefits	51,005	12,851
Others	36,028	-
Total	863,395	227,218

In the 2011 financial year, the amounts were as follows:

in €	**Jouni Olavi Salo**	**Yizhen Zhu**	**Manfred Weinandy**
Fixed compensation	375,000	135,000	123,750
Variable compensation	210,938	33,750	-
Non-cash benefits	67,989	6,173	11,936
Other	31,529	-	-
Compensation following revocation of appointment	-	-	258,176
Non-cash benefits following revocation of appointment	-	-	24,082
Total	**685,456**	**174,923**	**417,944**

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. In the financial year 2012, Mr. Salo received an advance payment of € 120,284 according to a provisional assessment of cumulative target achievement in the period from April 1, 2010, to December 31, 2011, on the basis of quantitative factors. Mr. Zhu received an advance payment of € 45,000 in the financial year 2012 for the period from April 1, 2011, to December 31, 2011.

Accruals were set-up in financial years 2010, 2011, and 2012 for the theoretical entitlement to variable compensation calculated on the basis of a provisional assessment of target achievement (cumulative for the multi-year assessment period). The indicated variable compensation corresponds to the amount recorded as an expense in the respective financial year.

C. Compensation Paid to Supervisory Board Members

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

In the 2012 financial year, the roles of Chairperson and Deputy Chairperson in the Supervisory Board, as well as membership in 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 2012 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**
Eliza Suk Ching Yuen (Chairperson)[1]	51,340	16,231
Luc Antoine Baehni (Deputy Chairman)[2]	40,453	29,197
Hubert Keusch[3]	40,453	16,266
Michael Busch[4]	10,888	-
Seppo Kivimaki[5]	10,888	-
Helmut Meyer[6]	10,888	-
Heinz Otto Geidt[7]	46,100	46,100
Gerhard Beinhauer[8]	29,973	29,973
Silke S. Stenger[9]	28,326	28,326
Total	**269,309**	**166,093**

[1] Chairperson of the Supervisory Board since October 4, 2012,
Chairperson of the Personnel Committee since October 22, 2012,
Member of the Audit Committee until May 31, 2012, and since October 22, 2012,
Member of the Nomination Committee since October 22, 2012.

[2] Deputy Chairman of the Supervisory Board since October 4, 2012,
Member of the Personnel Committee since October 22, 2012,
Member of the Remuneration and Strategy Committee until May 31, 2012.

[3] Member of the Audit Committee since October 22, 2012,
Member of the Remuneration and Strategy Committee until May 31, 2012.

[4] Member of the Supervisory Board since October 5, 2012,
Chairman of the Nomination Committee since October 22, 2012;
Member of the Personnel Committee since October 22, 2012.

[5] Member of the Supervisory Board since October 5, 2012,
Member of the Nomination Committee since October 22, 2012.

[6] Member of the Supervisory Board since October 5, 2012,
Chairman of the Audit Committee since October 22, 2012.

[7] Member of the Supervisory Board until October 5, 2012 (Chairman from June 1 to October 4, 2012),
Chairman of the Nomination and Corporate Governance Committee until May 31, 2012,
Member of the Audit Committee until May 31, 2012.

[8] Member of the Supervisory Board (Chairman) until May 31, 2012,
Chairman of the Remuneration and Strategy Committee until May 31, 2012,
Member of the Nomination and Corporate Governance Committee until May 31, 2012.

[9] Member of the Supervisory Board (Deputy Chairperson) until May 31, 2012,
Chairperson of the Audit Committee until May 31, 2012,
Member of the Nomination and Corporate Governance Committee until May 31, 2012.

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, is shown in the following table:

in €	**Fixed compensation**	**Advance payment**
Gerhard Beinhauer (Chairman)[1]	73,475	55,434
Silke S. Stenger (Deputy Chairperson)[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 Remuneration and Strategy Committee,
Member of the Nomination and Corporate Governance Committee.

[2] Chairperson 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 Remuneration and Strategy Committee.

[5] Member of the Supervisory Board since June 22, 2011,
Member of the Remuneration 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.

1.7 Risk 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, the KHD Group is subject to a number of different risks in the course of its business activities. By being prepared to take calculated commercial risks, KHD is able to exploit opportunities 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 the 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 that have been identified. Risk management is a task performed on an ongoing basis across the Group and forms an integral part of decision-making and business processes throughout the KHD Group.

The KHD Group’s 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 identify and capitalize 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 the KHD Group is 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), as it not only covers business viability risks, but encompasses all substantial risks for the 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

The 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 Risk Owners, who are appointed accordingly. CSC risks are managed by the persons responsible for operations in the Customer Service Centers (CSCs) and their subsidiaries. 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 level as well as at the level of the operating business units in order to help ensure that risks are identified and assessed in the same way across the Group and to coordinate these activities. These risk managers are also in charge of monitoring and tracking how specific measures to mitigate risks are being implemented. 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 risk registers. They 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 record the risk response measures planned or in place, in a clear and compact format. The potential impact is classified for each operating business unit on the basis of the local materiality calculated. In order to highlight the risk potential and to raise risk awareness, an assessment of the probability of a risk occurring and its potential impact must be given in the risk register, both with (net risks) and without (gross risks) considering the measures and controls for risk mitigation. Moreover, business viability risks must be identified and correspondingly recorded in the risk register for both the Group and the operating business units. The risk registers are updated quarterly, 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 measures 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 local risk register.

Reporting plays a particularly important role in ensuring effective risk management. It ensures that all significant risks are depicted according to a uniform set of criteria and that managers are aware of these during the decision-making process. In addition to the quarterly updated risk registers, risks that arise suddenly are communicated ad hoc to the competent authority in the Group directly and independently 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 the KHD Group is to cover or reduce financial risks by making appropriate use of hedging instruments, including derivative financial instruments.

In the case of exchange-rate risks, a differentiation should be made between currency risks related to the execution of projects in different currency areas and risks arising from the translation of individual Group companies' financial statements denominated in a foreign currency at various reporting dates. As part of the execution of projects, exchange-rate risks are generally 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 the KHD Group did not report any significant interest-bearing liabilities as of the balance sheet date, 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, to avoid excessively high levels of outstanding receivables. Internal guidelines ensure that products are generally only sold to customers with appropriate credit ratings. The risk of counterparty default is managed through regular analyses of the trade receivables and the structure of receivables. At the KHD Group, receivables from export contracts are to a large extent secured against default risks by confirmed and unconfirmed letters of credit, as well as through letters of comfort, guarantees, and cover notes, which also include export credit agencies (e.g. Hermes).

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

In its capacity as the holding company of KHD Group, KHD holds investments in Group companies. The carrying amounts of these investments are exposed to the risk of impairment if the economic situation and eventually the profitability of these Group companies changes for the worse.

Through an active controlling of investments KHD constantly monitors the economic development of its Group companies. In case of unsatisfactory development as well as in case of significant deviations from budget and mid-term forecast local management in close cooperation with KHD Group management initiates countermeasures. In addition, the carrying amounts of investments in Group companies are tested annually for impairment.

Accounting-related Internal Control System

Along with the risk management system, the KHD Group's internal control system (ICS) in particular 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 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 a user authorization concept, or programmed plausibility checks for financial figures, and manual control processes such as deviation and trend analyses on the basis of defined key performance indicators and comparisons with budget figures.

The entire accounting-related ICS is documented both at KHD and in 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 accounting transactions. The ICS measures focusing on proper and reliable 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 the KHD Group are the dual control principle and the segregation of duties; in this way, the possibility of fraudulent behavior is also reduced.

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

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 following section 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. 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.

The KHD Group operates as a plant engineering company in many countries and regions, meaning that risks are lessened to a certain extent due to geographic diversification. Risks are additionally mitigated by concentrating on expanding our service business (including spare parts business) as well as systematically developing our position in growth markets and in markets where we have had a low presence up to now. 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 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, the KHD Group is exposed to country risks. These include legal risks, capital transaction prohibitions, other regulatory restrictions, defaults on trade receivables, war, and other social unrest.

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 the quality, delivery performance, and pricing structure of existing and potential new suppliers. The purchasing organizations of the operating business units 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 focused group 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.

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 for individual research and development projects identifies potential deviations from targets as early as possible and triggers corresponding corrective measures.

Risks related to Group companies

In its capacity as the holding company of KHD Group, KHD holds investments in Group companies. The carrying amounts of these investments are exposed to the risk of impairment if the economic situation and eventually the profitability of these Group companies changes for the worse. In this case, it is possible that there might be a negative impact on KHD’s net assets and results of operations.

Through an active controlling of investments KHD constantly monitors the economic development of its Group companies. In case of unsatisfactory development as well as in case of significant deviations from budget and mid-term forecast local management in close cooperation with KHD Group management initiates countermeasures. In addition, the carrying amounts of investments in Group 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 significantly longer than twelve months. The contract value of individual orders can be significant for the subsidiaries concerned, but may also be significant from the perspective of the KHD Group. Such large-scale projects typically comprise all activities relating to the planning, engineering, and delivery of complete cement plant equipment, or at least the most important components. Potential project risks arise here with regard to the uncertainties entailed in project cost estimates, unexpected technical problems, supply bottlenecks or quality problems at suppliers of important components, delays in project execution, delays of budgeted cash flows, and unforeseeable developments during the erection and commissioning phase on site. There are also warranty risks after the commissioning of the plant.

From as early as the tendering phase, we employ proven methods to manage such project risks, in order to thereby prevent entering 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 the 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.

Financial Covenants

A consortium of banks provided a bonding line of € 130 million for all KHD operational companies for a period of three years. In the underlying contract certain financial covenants related to the KHD Group have been agreed. The financial covenants are the basis for annual setting of costs for the bank guarantees as well as for the level of cash collaterals required. Failure to comply with the financial covenants can lead to a so-called default, which would then require an inquiry or re-negotiation of the contract.

KHD calculates and checks compliance with the financial covenants quarterly. Checking and ensuring compliance with the financial covenants is an integral part of the ongoing planning and risk management process.

Legal Risks

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

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

Tax Risks

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

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

IT Risks

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

In 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 significant information (data protection). In addition, we continuously monitor the effectiveness and efficiency of the software solutions deployed within the KHD Group with respect to our business processes. Measures to update and replace software solutions and hardware are determined as part of our IT strategy.

Summary of KHD Group's Risk Position

To the extent required, balance sheet provisions have been established in the 2012 financial year for the risks described in this report. The risks identified do not pose a threat to the KHD Group as a going concern, either individually or in combination. From an organizational standpoint, the foundations have been laid to ensure that changes in the risk position are recognized in good time.

Opportunities

Generally speaking, the risks indicated here also represent opportunities for the future growth of the 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, the expansion of 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. Production capacities are being augmented and cement plants modernized and/or expanded. Thanks to its strong market position in emerging economies, the KHD Group sees opportunities for additional growth, particularly in Russia, India, and Sub-Saharan Africa. 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. The 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. Our partnership with AVIC has facilitated and increased our access to the Chinese procurement market. The market position of our cooperation partner makes it 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 new business opportunities. By virtue of the cooperation, the KHD Group serves as a supplier of equipment for cement plants to AVIC. In turn, AVIC is KHD's contract partner for the construction and assembly of turnkey plants. We expect the combination of experience brought by AVIC as a general contractor for turnkey projects and the technology expertise of KHD with regard to providing equipment for cement factories to considerably strengthen our global competitive position.

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.

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

1.8 Disclosures pursuant to Section 289 (4) of the German Commercial Code (HGB)

Composition of subscribed capital

The Company's subscribed capital (share capital) amounted to € 49,703,573 as of December 31, 2012, 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, 2012.

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 of any 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.

The Company is authorized to acquire treasury shares in the overall amount of up to 10 % of its share capital at the time of the resolution to do so. Together with other shares which the Company has already acquired and still holds, the shares purchased by virtue of this authorization may not at any time exceed 10 % of the Company's share capital. This authorization became effective at the end of the Annual General Meeting on October 5, 2012, and remains valid until October 4, 2017.

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 for a total volume of € 130 million with 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 of control and enter into negotiations with the bank consortium 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 compensation agreements with Management Board members or employees in the event of a takeover bid.

1.9 Corporate Governance

The Company is managed and controlled in accordance with the standards set out in the German Corporate Governance Code (GCGC). The main aspects of corporate governance at KHD are listed in the corporate governance declaration, which also includes the declaration of compliance pursuant to Section 161 of the German Stock Corporation Act (AktG).

The corporate governance report (see Section 3.10 of the GCGC) provides further details concerning corporate governance. The declaration of compliance as well as the corporate governance report (including the corporate governance declaration pursuant to Section 289a of the German Commercial Code (HGB)) are available on KHD's website (www.khd.com).

1.10 Outlook

According to the status of current planning, the Company anticipates a small negative result for the financial years 2013 and 2014, excluding the effect of income from investments.

The Company’s financing is secured due to the high level of liquidity at the end of 2012, and also as a result of the high level of liquidity and dividend payment potential of the KHD Group companies. The two German subsidiaries HW and ZAB alone have liquidity totaling some € 159 million as of December 31, 2012. Both companies together reported a net loss for the year of € 1.6 million (previous year: net profit for the year of € 18.7 million).

Cologne, Germany, March 18, 2013

The Management Board

(s) Jouni Salo

(s) Yizhen Zhu

2 Balance Sheet as of December 31, 2012

Assets

in € thousand	Dec. 31, 2012	Dec. 31, 2011
A. Fixed assets		
I. Property, plant and equipment		
Other plant, operating and office equipment	3	3
II. Long-term financial investments		
Shares in affiliated companies	26,410	26,410
	26,413	26,413
B. Current assets		
I. Receivables and other assets		
1. Receivables due from affiliated companies	7,347	1,368
2. Other assets	3,714	8,023
	11,061	9,391
II. Securities		
Other securities	0	0
III. Bank balances	82,178	98,984
	93,239	108,375
C. Prepayments and deferred expenses	998	150
	120,650	134,938

Equity and liabilities

in € thousand		Dec. 31, 2012	Dec. 31, 2011
A.	**Equity**		
I.	**Subscribed capital**	49,704	49,704
	less treasury shares	-229	-229
	Issued capital	49,475	49,475
II.	**Capital reserves**	60,236	60,236
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**	4,761	6,353
		117,786	119,378
B.	**Provisions and accruals**		
1.	Tax accruals	0	2,158
2.	Other provisions and accruals	1,542	3,874
		1,542	6,032
C.	**Liabilities**		
1.	Trade payables	150	323
2.	Liabilities due to affiliated companies	1,147	9,115
3.	Other liabilities of which tax liabilities € 25 thousand (previous year: € 59 thousand)	25	90
		1,322	9,528
		120,650	134,938

3 Income Statement 2012

in € thousand		2012	2011
1.	Other operating income of which from exchange gains € 0 thousand (previous year: € 4 thousand)	7,826	5,383
2.	Personnel expenses		
a)	Salaries	1,394	1,789
b)	Social security expenses	36	29
		1,430	1,818
3.	Depreciation on other plant, operating and office equipment	1	0
4.	Other operating expenses of which from exchange losses € 62 thousand (previous year: € 1 thousand)	5,162	3,382
5.	Income from investments of which from affiliated companies € 4,000 thousand (previous year: € 6,300 thousand)	4,000	6,300
6.	Other interest and similar income of which from affiliated companies € 134 thousand (previous year: € 0 thousand)	795	1,185
7.	Interest and similar expenses of which to affiliated companies € 14 thousand (previous year: € 90 thousand)	1,692	1,477
8.	Result from ordinary activities	4,336	6,191
9.	Income taxes	-9	559
10.	Net profit for the year	4,345	5,632
11.	Profit carried forward from previous year	416	721
12.	Net retained profit	4,761	6,353

4 Notes to the Financial Statements 2012

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 accruals.

Liabilities

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

Foreign Currency Translation

In principle, 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. In principle, 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.

In principle, 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. In principle, 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

Derivative Financial Instruments

In accordance with Section 254 of the German Commercial Code (HGB), derivative financial instruments are combined with underlying transactions as single valuation units, to the extent that there is a direct hedge relationship between the financial instrument and the underlying transaction. The changes in fair value of the hedging instrument and the underlying transaction are offset. The ineffective amount resulting after offsetting is expensed and charged as an accrual in line with the imparity principle.

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, 2012, which is attached as an appendix to the notes to the financial statements.

2. Receivables and Other Assets

Receivables due from affiliated companies mainly comprise loan receivables in the amount of € 6,726 thousand due from an affiliated company. The receivables due from companies of the KHD Group also relate to services invoiced as of December 2012 based on the service and cost allocation agreement as well as the bond arrangement agreement.

Other assets include tax receivables due from the tax authorities in the amount of € 2,755 thousand (previous year: 1,662). These relate to reimbursement claims in connection with the profit distributions made by KHD Humboldt Wedag GmbH (KHD HW), Cologne, to KHD at the end of the 2012 and 2011 financial years. Prior year’s receivable due from MFC Corporate Service AG (MFC Corporate Services), Herisau, Switzerland, which had amounted to € 1,914 thousand resulted from a ruling by the Cologne Regional Court on November 4, 2006, was derecognized since a settlement was reached in these proceedings on November 30, 2012. As of in previous year’s balance sheet date, other accruals in the amount of € 1,976 thousand had been recognized for this claim. These were released in the 2012 financial year in line with the derecognized receivable.

Other assets also include a VAT credit in the amount of € 883 thousand (previous year: € 2,154 thousand). Within the tax unity for VAT € 888 thousand (previous year: € 2,087 thousand) are amounts payable to Humboldt Wedag GmbH (HW), Cologne, and ZAB Zementanlagenbau GmbH Dessau (ZAB), Dessau. Consequently, an identical amount is reported under liabilities 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, 2012 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 € 0.00 as of December 31, 2012 (previous year: € 72.12).

4. Bank Balances

Bank balances have decreased from € 98,984 thousand to € 82,178 thousand, mainly due to the granting of loans to an affiliated company in the amount of € 6,726 thousand and the dividend payment in the amount of € 5,937 thousand. As of December 31, 2011, bank balances included restricted cash serving as collateral amounting to € 6,808 thousand in connection with the existing bank guarantee facility. This cash was provided by the companies of the KHD Group as collateral for the portion of the bank guarantee credit facility utilized by them. The Company reported liabilities due to affiliated companies in the same amount. Following the conclusion of the new bank guarantee credit facility with a total volume of € 130 million in March 2012 and the underlying agreement for the 2012 financial year, no cash is required to serve as collateral. Accordingly, cash totaling € 6,808 thousand has been repaid to the Group companies.

5. Equity

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

In the previous year the articles of association have been changed following the capital increase that was carried out on the basis of a resolution passed by the Annual General Meeting of shareholders on March 23, 2010. The amendment to the articles of association was entered in the Commercial registry for the Company on February 16, 2011.

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 Company is authorized to acquire treasury shares in the overall amount of up to 10 % of its share capital as of the time of the resolution to do so. Together with other shares which the Company has already acquired and still holds, the shares purchased by virtue of this authorization may not at any time exceed 10 % of the Company's share capital. This authorization became effective at the end of the Annual General Meeting on October 5, 2012, and remains valid until October 4, 2017.

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 € 4.69 as of December 31, 2012. The carrying amount of treasury shares in the amount of € 229 thousand corresponds to 0.46 % of the Company's subscribed capital.

Changes in Equity in 2012

€ thousand	Subscribed capital	Treasury shares	Capital reserves	Legal reserve	Other revenue reserves	Net retained profit	Total
Dec.31, 2011	49,704	-229	60,236	1,538	1,776	6,353	119,378
Payment of dividends	0	0	0	0	0	-5,937	-5,937
Net profit for the year 2012	0	0	0	0	0	4,345	4,345
Dec.31, 2012	49,704	-229	60,236	1,538	1,776	4,761	117,786

In accordance with the resolution passed by the Annual General Meeting of shareholders, a dividend in the amount of € 5,937 thousand (€ 0.12 per share) was distributed to the Company's shareholders at the beginning of the fourth quarter of 2012. Net retained profit as of December 31, 2012, include profit carried forward from previous year of € 416 thousand (previous year: € 721 thousand).

6. Provisions and Accruals

	Dec. 31, 2012 € thousand	Dec. 31, 2011 € thousand	Change € thousand
Tax accruals	0	2,158	-2,158
Other provisions and accruals	1,542	3,874	-2,332
	1,542	6,032	-4,490

The significant decrease in other accruals is mainly due to the release of an accrual in the amount of € 1,976 thousand, as outlined in Note 2. Other accruals include personnel-related accruals, accruals for outstanding invoices, and costs for the preparation and audit of annual financial statements.

7. Liabilities

	Dec. 31, 2012 € thousand	Dec. 31, 2011 € thousand	Change € thousand
Trade payables	150	323	-173
Liabilities due to affiliated companies	1,147	9,115	-7,968
Other liabilities	25	90	-65
(of which tax liabilities)	(25)	(59)	(-34)
	1,322	9,528	-8,206

As in the previous year, all liabilities recognized as of December 31, 2012, have a residual term of less than one year.

As already described in Note 4, liabilities due to affiliated companies have mainly decreased due to the repayment of cash collateral for bank guarantees to HW in the amount of € 5,358 thousand and to ZAB in the amount of € 1,450 thousand.

Comparable with the previous year liabilities due to affiliated companies also relate to liabilities due to HW and ZAB arising from the tax unity for VAT.

8. Contingent Liabilities

KHD has contingent liabilities to affiliated companies in the amount of € 136.6 million (previous year: € 132.6 million) in the form of Group guarantees, letters of comfort, and sureties.

As of December 31, 2012 € 99,389 thousand (previous year: € 96,577 thousand) out of the total amount relate to contingent liabilities resulting from guarantees the Company has provided to KHD Group companies under the existing bank guarantee credit facility. The

Company also has guarantee credit facilities with other banks. Of these, an amount of € 11,990 thousand (previous year: € 0 thousand) had been utilized as of December 31, 2012.

Based on the 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 € 287 thousand (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.

9. Other Financial Obligations

Other financial obligations in the amount of € 23 thousand (previous year: € 22 thousand) relate to obligations arising from leases with a remaining term of up to 3 years.

10. Derivative Financial Instruments and Valuation Units (Section 254 of the German Commercial Code (HGB))

Hedged risks	Hedging instrument	Dec. 31, 2012 Hedged volume USD thousand	Positive fair value € thousand	Negative fair value € thousand
Exchange risk receivables	Foreign exchange forward contracts	8,500	244	-278

The derivative financial instruments only include foreign exchange forward contracts. They serve to hedge the currency risks arising from loans in the amount of USD 8,500 thousand (previous year: USD 0 thousand), which were granted to an affiliated company. As of December 31, 2012, these have been recognized in the amount of € 6,726 thousand (previous year: € 0 thousand) as receivables due from affiliated companies. The concluded foreign exchange forward contracts hedge the full nominal value of the underlying transactions (USD 8,500 thousand, previous year: USD 0 thousand). The foreign exchange forward contracts are combined with underlying transactions as single valuation units. As of December 31, 2012, negative changes in fair value of the underlying transactions amounting to € 278 thousand (previous year: € 0 thousand) are offset by positive changes in fair value of the foreign exchange forward contracts amounting to

€ 244 thousand (previous year: € 0 thousand). The market values of the foreign exchange forward contracts as of December 31, 2012 are derived from bank confirmations.

An assessment of the effectiveness of single valuation units is carried out both at the beginning of the hedge relationships as well as on every following balance sheet date on which this hedge relationship continues to exist. The prospective effectiveness test was performed on the basis of the critical terms match method. As the nominal amount and term (maturity) of the underlying and hedge transactions correspond with each other, the changes in fair value are expected to fully offset each other in the future. The valuation for documentation of effectiveness is performed by means of the dollar-offset method. Recognition is based on the so-called “net hedge presentation method.” The difference between the positive and negative fair values (€ 34 thousand) has been recognized through profit and loss by setting-up an accrual.

11. Other Operating Income

Other operating income mainly comprises income from charges to affiliated companies pursuant to the service and cost allocation agreement in the amount of € 2,635 thousand (previous year: € 2,954 thousand) and the bond arrangement agreement of € 2,838 thousand (previous year: € 2,152 thousand) as well as releases of accruals amounting to € 2,267 thousand (previous year: € 89 thousand).

12. Personnel Expenses

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

13. Other Operating Expenses

Other operating expenses comprise the following:

	2012 € thousand	2011 € thousand	Change € thousand
Write-off receivable from MFC Corporate Services	1,914	0	1,914
Group charges	615	633	-18
Legal and consulting costs	567	636	-69
Audit fees / tax advisory costs	386	453	-67
Supervisory Board compensation	269	291	-22
Investor relations	211	256	-45
Other	1,200	1,113	87
	5,162	3,382	1,780

14. Income from Investments

Income from investments amounted to € 4,000 thousand (previous year: € 6,300 thousand) and originated from the profit distribution of KHD Humboldt Wedag GmbH, Cologne, Germany.

15. Litigation

Action Brought by Shareholders (“Return of Contributions”):

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

One of the complaints has been withdrawn.

The remaining parties to the legal dispute ended all pending proceedings by way of a court settlement that was recorded on November 30, 2012, and published on December 7, 2012.

16. Other Disclosures

Employees

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

Tax Audit

An external tax audit was completed in the 2012 financial year. This audit did not result in any tax expense in the financial year. The tax audit related 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

17. Shareholdings

Company		Capital share in %	Currency	Equity	Net result for the year
Subsidiaries					
KHD Humboldt Wedag GmbH, Cologne	direct	100.00	€ thousand	32,749	8,901
Humboldt Wedag GmbH, Cologne	indirect	100.00	€ thousand	66,417	-4,019
ZAB Zementanlagenbau GmbH Dessau, Dessau	indirect	100.00	€ thousand	35,823	2,441
EKOF Flotation GmbH, Bochum	indirect	100.00	€ thousand	621	-108
Blake International Ltd., Road Town, British Virgin Islands	indirect	100.00	€ thousand	3,384	0
KHD Humboldt Wedag Industrial Services AG, Cologne	indirect	89.57	€ thousand	7,951	918
Paper Space GmbH, Cologne	indirect	89.57	€ thousand	63	0
Humboldt Wedag Australia Pty Ltd., Braeside, Australia	indirect	100.00	€ thousand	271	-96
Humboldt Wedag Inc., Norcross, USA	indirect	100.00	€ thousand	4,220	2,877
Humboldt Wedag India Private Ltd., Neu Delhi, India	indirect	100.00	€ thousand	16,295	-570
KHD Humboldt Wedag Machinery Equipment (Beijing) Co. Ltd., Beijing, China	indirect	100.00	€ thousand	299	-126
KHD Humboldt Engineering OOO, Moscow, Russia	indirect	100.00	€ thousand	1,744	-367
Humboldt Wedag Malaysia Sdn. Bhd., Kuala Lumpur, Malaysia	indirect	100.00	€ thousand	-19	-143
Humboldt Wedag Do Brasil Servicos Technicos Ltda, Belo Horizonte, Brazil	indirect	100.00	€ thousand	243	168
Joint Ventures					
KHD Engineering Holding GmbH, Vienna, Austria	indirect	50.00	€ thousand	209	29

The equity and net result for the year presented in foreign currencies – Blake (USD), HWAUS (AUD), HWUS (USD), HWIN (INR), HW Beijing (CNY), KHD Engineering (RUB), HW Malaysia (MYR) and HW Do Brasil (BRL) – were translated using the spot exchange rate as of the balance sheet date:

Spot exchange rate as of December 31, 2012 1 Euro corresponds to:	
AUD	1.2712
INR	72.2231
USD	1.3183
RUB	40.1982
CNY	8.2117
MYR	4.0333
BRL	2.6953

4.4 Members of the Supervisory Board and Management Board

Supervisory Board

Eliza Suk Ching Yuen

Chairperson of the Supervisory Board (since October 4, 2012)

Deputy Chairperson of the Supervisory Board (from June 1 until October 4, 2012)

Director of HLM CPA Limited

Luc Antoine Baehni

Deputy Chairman of the Supervisory Board (since October 4, 2012)

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
- Versicherungsverband Schweizerischer Schifffahrtsunternehmen Genossenschaft, Member of the Board of Directors

Hubert Keusch

Managing Director of ContiLink Services Limited

Michael Busch

(since October 5, 2012)

Management Board member of WashTec AG

Membership of Supervisory Boards and other governing bodies:

- WashTec AG, Chairman of the Supervisory Board – From August 1, 2012 to February 28, 2013 Mr. Busch was appointed to the Management Board of WashTec AG pursuant to Section 105 (2) of the German Stock Corporation Act (AktG). His membership in the Supervisory Board of WashTec AG was inactive during this period.

Seppo Kivimaki

(since October 5, 2012)

Director Business Development of MainExc International OY and Director Business Development of MainExc Marine OY

Helmut Meyer

(since October 5, 2012)

Independent Management Consultant

Heinz Otto Geidt

(until October 5, 2012)

Chairman of the Supervisory Board (from June 1 until October 4, 2012)

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 Beinhauer

(until May 31, 2012)

Chairman of the Supervisory Board

Managing Director of BBI Beteiligungs- und Handelsgesellschaft mbH

Membership of Supervisory Boards and other governing bodies:

- Web-Arts AG, Member of the Supervisory Board
- Gold Cache Inc., non-executive Member of the Board

Silke S. Stenger

(until May 31, 2012)

Deputy Chairperson of the Supervisory Board

Management Consultant

Management Board

Jouni Salo, Engineer

CEO and CFO of KHD

Yizhen Zhu, Engineer

COO Asia Pacific of KHD

4.5 Total Remuneration of current and former Members of the Management Board and of Members of the Supervisory Board

Total remuneration for members of the KHD Management Board expensed by KHD Group companies was € 1,091 thousand in the financial year 2012 (previous year: € 1,278 thousand). The total remuneration granted to members of the Supervisory Board for performing their duties amounted to € 269 thousand in the financial year 2012 (previous year: € 291 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 aspects 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 2012, members of the Supervisory Board received € 166 thousand as an advance (previous year: € 203 thousand) on their remuneration that is payable at the end of the financial year pursuant to the articles of association.

4.6 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

4.7 Reported Shareholdings

On June 16, 2010, Mr. Peter Kellogg notified us pursuant to Section 21 (1) of the German Securities Trading Act (WpHG) that his voting rights share had exceeded the 3 % and 5 % thresholds 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 28, 2011, the People's Republic of China, Beijing, China, notified us pursuant to Section 21 (1) 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 (1) 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 (1) 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 (1) No. 1 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 (1) 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 (1) No. 1 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 (1) 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 (1) No. 1 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 (1) 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 (1) No. 1 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 (1) 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 May 23 2012, the voting rights of Paul G. Desmarais, Canada, exceeded the threshold of 3 % and, as of that date, amounted to 3.15 % (corresponding to 1,563,301 voting rights). All 3.15 % (corresponding to 1,563,301 voting rights) are attributable to Paul G. Desmarais pursuant to Section 22 (1) Clause 1 No. 1 WpHG through Nordex Inc., Gelco Enterprises Ltd., Power Corporation of Canada, 171263 Canada Inc., Power Financial Corporation, Great-West Lifeco Inc., The Great-West Life Assurance Company, Canada Life Financial Corporation, The Canada Life Assurance Company, Canada Life Capital Corporation Inc., Canada Life International Holdings Limited, Canada Life Irish Holding Company Limited, Canada Life Europe Investment Limited, and Canada Life Assurance Europe Limited which are controlled by Paul G. Desmarais and which hold or are attributed 3 % or more of the voting rights.

On May 31, 2012, Setanta Asset Management Limited, Dublin, Ireland, notified us pursuant to Section 21 (1) WpHG that its voting rights share had exceeded the 3 % threshold on May 23, 2012, and amounted to a total of 3.15 % as of this date (corresponding to 1,563,301 voting rights). Pursuant to Section 22 (1) Clause 1 No. 6 WpHG, 3.15 % of the voting rights (corresponding to 1,563,301 voting rights) are attributable to the company through Canada Life Assurance Europe Limited.

On June 1, 2012, Canada Life Assurance Europe Limited, Dublin, Ireland, notified us pursuant to Section 21 (1) WpHG that its voting rights share had exceeded the 3 % threshold on May 23, 2012, and amounted to a total of 3.15 % as of this date (corresponding to 1,563,301 voting rights).

On July 4, 2012, Sterling Strategic Value Ltd., Tortola, British Virgin Islands, has notified us in the name and on behalf of the following companies and persons pursuant to Section 21 (1) WpHG about the following notifications regarding the voting rights held:

1. On July 3, 2012, the voting rights of Mr. Tito Tettamanti, Castagnola, Switzerland, exceeded the threshold of 10 % pursuant to Section 21 (1) WpHG and amounted

to 11.98 % (5,956,951 voting rights), as of this date. Of these voting rights, a total of 7.58 % (3,770,043 voting rights) are to be attributed to him pursuant to Section 22 (1) Clause 1 No. 1 and 11.98 % (5,956,951 voting rights) are to be attributed to him pursuant to Section 22 (2) WpHG. Attributed voting rights are held via the following companies that are controlled by Mr. Tettamanti and whose holdings of voting rights amount to 3 % or more, each:

- STERLING STRATEGIC VALUE LIMITED
- GRITLOT LIMITED

2. On July 3, 2012, the voting rights of GRITLOT LIMITED, Douglas, Isle of Man, exceeded the threshold of 10 % pursuant to Section 21 (1) WpHG and amounted to 11.98 % (5,956,951 voting rights) as of this date. Of these voting rights, a total of 7.58 % (3,770,043 voting rights) are to be attributed to GRITLOT LIMITED pursuant to Section 22 Paragraph 1 Clause 1 No. 1 and 11.98 % (5,956,951 voting rights) are to be attributed to GRITLOT LIMITED pursuant to Section 22 (2) WpHG. Attributed voting rights are held via the following companies that are controlled by GRITLOT LIMITED and whose holdings of voting rights amount to 3 % or more, each:

   - STERLING STRATEGIC VALUE LIMITED

3. On July 3, 2012, the voting rights of Mr. Massimo Pedrazzini, Massagno, Switzerland, exceeded the threshold of 10 % pursuant to Section 21 (1) WpHG and amounted to 11.98 % (5,956,951 voting rights), as of this date. Of these voting rights, a total of 11.96 % (5,945,086 voting rights) are to be attributed to him pursuant to Section 22 (2) WpHG. Voting rights of the following shareholders, whose holdings of voting rights amount to 3 % or more, each, are attributed to Mr. Pedrazzini:

   - STERLING STRATEGIC VALUE LIMITED

4. On July 3, 2012, the voting rights of MP ADVISORS SA, Lugano, Switzerland, exceeded the threshold of 10 % pursuant to Section 21 (1) WpHG and amounted to 11.98 % (5,956,951 voting rights), as of this date. Of these voting rights, a total of 11.96 % (5,945,086 voting rights) are to be attributed to it pursuant to Section 22 (2) WpHG. Voting rights of the following shareholders, whose holdings of voting rights amount to 3 % or more, each, are attributed to MP ADVISORS SA:

   - STERLING STRATEGIC VALUE LIMITED

5. On July 3, 2012, the voting rights of Mr. Jan-Kees Cornelis Marinus Berkhemer, The Hague, The Netherlands, exceeded the threshold of 10 % pursuant to Section 21 (1) WpHG and amounted to 11.98 % (5,956,951 voting rights), as of this date. Of these voting rights, a total of 11.98 % (5,956,526 voting rights) are to be attributed to him pursuant to Section 22 (2) WpHG. Voting rights of the following shareholders, whose voting rights share amounts to 3 % or more, each, are attributed to Mr. Berkhemer:
   - STERLING STRATEGIC VALUE LIMITED

6. On July 3, 2012, the voting rights of Ms. Giulia Nobili, Monaco, Principality of Monaco, exceeded the threshold of 10 % pursuant to Section 21 (1) WpHG and amounted to 11.98 % (5,956,951 voting rights), as of this date. Of these voting rights, a total of 11.87 % (5,900,951 voting rights) are to be attributed to her pursuant to Section 22 (2) WpHG. Voting rights of the following shareholders, whose voting rights share amounts to 3 % or more, each, are attributed to Ms. Nobili:
   - STERLING STRATEGIC VALUE LIMITED

7. On July 3, 2012, the voting rights of Mr. Patrick O'Sullivan Greene, Killarney, Ireland, exceeded the threshold of 10 % pursuant to Section 21 (1) WpHG and amounted to 11.98 % (5,956,951 voting rights), as of this date. Of these voting rights, a total of 11.98 % (5,954,701 voting rights) are to be attributed to him pursuant to Section 22 (2) WpHG. Voting rights of the following shareholders, whose voting interest amounts to 3 % or more, each, are attributed to Mr. Greene:
   - STERLING STRATEGIC VALUE LIMITED

8. On July 3, 2012, the voting rights of Mr. Anthony Bunker, Düsseldorf, Germany, exceeded the threshold of 10 % pursuant to Section 21 (1) WpHG and amounted to 11.98 % (5,956,951 voting rights), as of this date. Of these voting rights, a total of 11.97 % (5,952,331 voting rights) are to be attributed to him pursuant to Section 22 (2) WpHG. Voting rights of the following shareholders, whose voting interest amounts to 3 % or more, each, are attributed to Mr. Bunker:
   - STERLING STRATEGIC VALUE LIMITED

9. On July 3, 2012, the voting rights of STERLING STRATEGIC VALUE LIMITED, Tortola, British Virgin Islands, exceeded the threshold of 10 % pursuant to Section 21 (1) WpHG and amounted to 11.98 % (5,956,951 voting rights), as of

this date. Of these voting rights, a total of 4.40 % (2,186,908 voting rights) are to be attributed to it pursuant to Section 22 (2) WpHG.

On July 5, 2012, Monolith N.V., Amsterdam, Netherlands, notified us pursuant to Section 21 (1) WpHG, that its voting rights share exceeded the thresholds of 5 % and 10 % pursuant to Section 21 (1) WpHG on July 3, 2012, and amounted to 11.98 % of the voting rights (5,956,951 shares with voting rights) as of this date. 10.09 % (5,016,951 voting rights) are attributable to Monolith N.V. pursuant to Section 22 (2) WpHG. Voting rights of the following shareholders, whose voting interest in the Company amounts to 3 % or more, each, are attributed to Monolith N.V.:

- STERLING STRATEGIC VALUE LIMITED

On September 27, 2012, Hermes Administration Services Limited, London, England, as the authorized administration agent on behalf of BT Pension Scheme Trustees Limited, of Lloyds Chambers, London, England has notified us pursuant to Section 21 (1) WpHG in the name of Hermes Focus Asset Management Europe Limited, Lloyds Chambers, London, England (“HFAME”), about the following notification regarding the voting rights held:

- On September 27, 2012, the voting rights of HFAME fell below the thresholds of 10 %, 5 %, and 3 % pursuant to Section 21 (1) WpHG and amounted to 0 % (0 voting rights), as of this date.

On October 1, 2012, Hermes Administration Services Limited, London, England, as the authorized administration agent on behalf of BT Pension Scheme Trustees Limited, of Lloyds Chambers, London, England (“BTPST”), has notified us pursuant to Section 21 (1) WpHG about the following notifications regarding the voting rights held in the name of BTPST and its subsidiaries:

- On September 28, 2012, the voting rights of BT Pension Scheme Trustees Limited, Lloyds Chambers, London, England (“BTPST”) in the Company fell below the thresholds of 10 %, 5 %, and 3 % pursuant to Section 21 (1) WpHG and amounted to 0 % (0 voting rights), as of this date.

- On September 28, 2012, the voting rights of Britel Fund Nominees Limited, Lloyds Chambers, London, England (“BFN”) in the Company fell below the thresholds of 10 %, 5 %, and 3 % pursuant to Section 21 (1) WpHG and amounted to 0 % (0 voting rights), as of this date.

- On September 28, 2012, the voting rights of Britel Fund Trustees Limited, Lloyds Chambers, London, England (“BFT”) in the Company fell below the thresholds of 10 %, 5 %, and 3 % pursuant to Section 21 (1) WpHG and amounted to 0 % (0 voting rights), as of this date.

- On September 28, 2012, the voting rights of Hermes Fund Managers Limited, Lloyds Chambers, London, England (“HFM”) in the Company fell below the thresholds of 10 %, 5 %, and 3 % pursuant to Section 21 (1) WpHG and amounted to 0 % (0 voting rights), as of this date.

On October 1, 2012, RWC Partners Ltd. (“RWC”), London, England, has notified us pursuant to Section 21 (1) WpHG, that its voting rights share exceeded the thresholds of 3 %, 5 % and 10 % pursuant to Section 21 (1) WpHG on September 28, 2012, and amounted to 11.98 % (5,956,951 voting rights), as of this date.

- 2.36 % (1,171,748 voting rights) are attributable to RWC pursuant to Section 22 (1) Clause 1 No. 2 WpHG in conjunction with Section 22 (1) Clause 1 No. 6 WpHG in conjunction with Section 22 (1) Clause 2 WpHG; and

- 9.63 % (4,785,203 voting rights) are attributable to RWC pursuant to Section 22 (2) WpHG.

Voting rights of the following shareholders, whose voting rights share amounts to 3 % each or more, are attributed to RWC:

- STERLING STRATEGIC VALUE LIMITED

On January 2, 2013, Mr. Jan Kees Cornelis Marinus Berkhemer, The Hague, Netherlands, has notified us pursuant to Section 21 (1) WpHG, that his voting rights share fell below the thresholds of 10 %, 5 %, and 3 % on January 1, 2013, and amounted to 0.00 % (425 voting rights), as of this date.

4.8 Auditor's Fee

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

4.9 Corporate Governance

The Management Board and Supervisory Board of KHD issued the statement required pursuant to Section 161 of the German Stock Corporation Act (AktG) on February 28, 2013, and also made it permanently publicly available to shareholders on the Company's website (www.khd.com).

4.10 Appropriation of Net Retained Profit

The Management Board and Supervisory Board will propose to the Annual General Meeting of shareholders to be held on May 29, 2013 that out of the net retained profit of KHD Humboldt Wedag International AG– calculated pursuant to the German Commercial Code (HGB) – in the amount of € 4,761,620.89 an amount of € 2,968,466.22 (corresponding to € 0,06 per share) should be paid out as a dividend to the shareholders and the remaining amount of € 1,793,154.67 should be carried forward.

Cologne, Germany, March 18, 2013

The Management Board

(s) Jouni Salo

(s) Yizhen Zhu

5. Appendix to the Notes

Movements in Fixed Assets in the Financial Year 2012

		Gross carrying amounts				**Accumulated amortization, depreciation, and write-downs**				**Net book value**	
		Jan. 1, 2012	Additions	Disposals	Dec. 31, 2012	Jan. 1, 2012	Additions	Disposals	Dec. 31, 2012	Dec. 31, 2012	Dec. 31, 2012
		€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand
I.	**Property, plant, and equipment**										
	Other plants, operating and office equipment	3	1	0	4	0	1	0	1	3	3
II.	**Financial investments**										
	Shares in affiliated companies	26,410	0	0	26,410	0	0	0	0	26,410	26,410
		26,413	1	0	26,414	0	1	0	1	26,413	26,413

6 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, Germany, March 18, 2013

The Management Board

(s) Jouni Salo (s) Yizhen Zhu

7 [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 2012. 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.

Düsseldorf/Germany, 18 March 2013

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

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

8 Report of the Supervisory Board

Dear Shareholders,

In the financial year 2012, the Supervisory Board of KHD Humboldt Wedag International AG comprehensively performed supervisory and advisory functions as required by law, the articles of association, and the rules of procedure. It monitored and advised the Management Board on a continual basis and consulted with the Management Board in the course of numerous meetings, as well as through discussions outside of these meetings. The Supervisory Board was informed by the Management Board 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.

Cooperation between the Management Board and the Supervisory Board has always been constructive. The Chairperson 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 Chairperson 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 Supervisory Board

The Chairman, Mr. Gerhard Beinhauer, and the Deputy Chairperson of the Supervisory Board, Ms. Silke S. Stenger, resigned from the Supervisory Board with effect from May 31, 2012. On the basis of a Supervisory Board resolution of June 1, 2012, Mr. Heinz Otto Geidt was elected Chairman and Ms. Eliza Suk Ching Yuen Deputy Chairperson of the Supervisory Board.

Mr. Geidt stepped down in his function as Supervisory Board Chairman on October 4, 2012; the term of his Supervisory Board mandate ended at the end of the ordinary Annual General Meeting of shareholders on October 5, 2012. On the basis of a Supervisory

Board resolution of October 4, 2012, Ms. Yuen was elected Chairperson and Mr. Luc Antoine Baehni Deputy Chairman of the Supervisory Board.

Messrs. Michael Busch, Seppo Kivimaki, and Helmut Meyer were newly elected to the Supervisory Board at the Annual General Meeting of shareholders on October 5, 2012. The term of all Supervisory Board members will end at the end of the ordinary Annual General Meeting of shareholders for the financial year 2013.

Meetings and Resolutions of the Supervisory Board

In the financial year 2012, the Supervisory Board held a total of five meetings that took place in person, in which all matters that are of fundamental importance for KHD Group were comprehensively discussed. In addition, eight meetings were held by telephone conference. 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 27, 2012, 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, 2011. The Supervisory Board approved these as well as the proposal for the appropriation of net retained profit.

The agendas of the Supervisory Board meetings that took place in person in March, May, August, October, and December covered reports on business development, deviations of the actual business development from the budget and forecasts, the budget 2013 and the mid-term planning 2014-16, discussions about interim reports prior to publication, discussions about proposed resolutions for the Annual General Meeting of shareholders, the internal control system, the risk management system, the internal audit system, discussions related to Corporate Governance, resolutions concerning the compensation of the Management Board, discussions related to the recruitment of a Chief Financial Officer as well as organizational issues 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 meetings that were held by telephone conference in February (two meetings), May, June, July, August, October, and November (two meetings) dealt in particular with the mid-term planning 2013-15, discussions about interim reports and the half-year financial report prior to publication, decisions related to the preparation of the 2012 Annual General Meeting of shareholders, 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

The Supervisory Board had formed a Compensation and Strategy Committee, a Nomination and Corporate Governance Committee, and an Audit Committee. After Mr. Beinhauer and Ms. Stenger had resigned from the Supervisory Board with effect from May 31, 2012 the work in the committees was discontinued. The tasks which the by-laws delegated to the committees were performed by the full Supervisory Board since June 1, 2012. In the meeting on October 22, 2012 the newly composed Supervisory Board formed a Personnel Committee, an Audit Committee and a Nomination Committee.

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 three meetings in the financial year 2012. The committee evaluated the Company's corporate governance principles and dealt with issues of compliance; it also deliberated on Supervisory Board candidates to be proposed for election by the Annual General Meeting of shareholders.

The Audit Committee held three meetings in the financial year 2012. Tasks required pursuant to Section 107 (3) of the German Stock Corporation Act (AktG) were performed by the full Supervisory Board in the period from June 1 to October 22, 2012. The Audit Committee (the full Supervisory Board, respectively) 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 Audit Committee dealt with the proposal on the appointment of the auditor by the Annual General Meeting of shareholders, 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 monitored the independence, qualification, rotation, and efficiency of the auditors as well as the services provided by the auditors in addition to the audits of financial statements. 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. Significant opportunities and risks, including the risk situation, risk identification, and risk monitoring as well as the compliance structure and compliance issues within KHD Group have been discussed. The Head of Internal Audit reported on the tasks, responsibilities, and auditing activities of the Internal Audit department and submitted the audit plan for 2012/13 to the Audit Committee. The Audit Committee has 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 Personnel 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 February 2013. This has since been published and made permanently available to shareholders on the Company’s website at www.khd.com. Further information on corporate governance can be found in the Corporate Governance Report that is also available on the website.

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, 2012 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, 2012 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 of shareholders on October 5, 2012. 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 14, 2013 and in the Supervisory Board meeting convened to approve the financial statements on March 18, 2013. Both the auditors and the Management Board participated in the respective Audit Committee meeting and in the Supervisory Board 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 2012 and of the consolidated financial statements including the Group management report for the financial year 2012, as well as of the Management Board's proposal on the appropriation of net retained profit for the financial year 2012, 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 review of the documents submitted by the Management Board and the auditors, the Supervisory Board has no objections to raise and concurs with the result of the audit carried out by Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft. The Supervisory

Board approves the annual financial statements and the consolidated financial statements as of December 31, 2012 as prepared by the Management Board. The annual financial statements of KHD Humboldt Wedag International AG are therefore adopted. The Supervisory Board consents to the appropriation of net retained profit proposed by the Management Board.

Expression of Thanks

The Supervisory Board would like to thank all staff members and the Management Board for their successful work in a challenging business environment. Thanks and appreciation for their personal dedication are also given to the former Supervisory Board members.

Cologne, Germany, March 18, 2013

(s) Eliza Suk Ching Yuen
(Chairperson of the Supervisory Board)

9 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 2, 2012 the recommendations of the German Corporate Governance Code (the "Code") as amended on May 15, 2012 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 but no deductible has been agreed upon (Code item 3.8 para. 3).

The Company and the Supervisory Board are fully aware and fully accept the due care and diligence required from a prudent and conscientious Supervisory Board 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 Supervisory Board members perform their duties and functions.

- The payments to be made on premature termination of the employment contract are not limited to two years' compensation and the remaining term of the employment contract (Code item 4.2.3 para. 4).

One of the employment contracts does not include an explicit 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 additional severance, has to be paid. The management employment contracts do not provide for such a limitation as the Supervisory Board had deemed this as not advisable. 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 as 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 Supervisory Board has not defined an age limit for its members as recommended by the Code (Code item 5.4.1 para. 2 first sentence).

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

Cologne, February 28, 2013

For the Management Board		For the Supervisory Board
(s) Jouni Salo	(s) Yizhen Zhu	(s) Eliza Suk Ching Yuen

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