HUMBOLDT WEDAG

FINANCIAL STATEMENTS 2010

KHD Humboldt Wedag International AG

(formerly KHD Humboldt Wedag International (Deutschland) AG)

Management Report and Annual Financial Statements as at 31 December 2010

Management Report and Annual Financial Statements of
KHD Humboldt Wedag International AG for the Financial Year 2010

Contents

Abbreviations

Blake	Blake International Ltd., Road Town, Tortola/ British Virgin Islands
BRIC states	Brazil, Russia, India, China
CAGR	Compound Annual Growth Rate
CATIC	CATIC Beijing Co., Ltd., Beijing/China
CSC	Customer Service Centre
CSC Risks	Risks that relate to the individual Customer Service Centre
CMT	HUMBOLDT WEDAG Coal & Minerals Technology GmbH, Cologne/Germany
EKOF	EKOF Flotation GmbH, Bochum/Germany
Group Risks	Risks which impact 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 (formerly KHD Humboldt Wedag International (Deutschland) 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	Humboldt Wedag GmbH, Cologne/Germany
KHD SM	KHD Sales & Marketing Ltd., Hong Kong
KHD UAE	KHD Humboldt Wedag International FZE, Ras Al Khaimah/ United Arab Emirates
KIA	KHD Humboldt Wedag International GmbH, Vienna/Austria

KIS	KHD Humboldt Wedag Industrial Services AG, Cologne/Germany
MFC Corporate Services	MFC Corporate Services AG, Herisau/Switzerland
RBI	Raiffeisen Bank International AG (formerly Raiffeisen Zentralbank Österreich AG), Vienna/Austria
Terra Nova	Terra Nova Royalty Corp. (formerly KHD Humboldt Wedag International Ltd. (KHD Ltd.)), Vancouver/Canada
Weir	Weir Group PLC, Glasgow, Scotland/Great Britain
ZAB	ZAB Zementanlagenbau GmbH Dessau, Dessau/Germany
ZABIS	ZAB-Industrietechnik & Service GmbH, Dessau/Germany

1 Management report of KHD Humboldt Wedag International AG for the Financial Year 2010

1.1 The Company

The consolidated Group of KHD Humboldt Wedag International AG (formerly KHD Humboldt Wedag International (Deutschland) AG), Cologne/Germany, hereafter referred to as the "Group", is one of the world s leading suppliers of cement plant equipment and services. In its capacity as the managing holding company of the Group, KHD holds a 100% investment in KHD Humboldt Wedag GmbH, Cologne/Germany (KHD HW). In its strategic and operative alignment, the Group is focused on planning and constructing plants for the cement industry.

In the first quarter of 2010, the division of Terra Nova Royalty Corp. (formerly KHD Humboldt Wedag International Ltd.), Vancouver, Canada (Terra Nova) into two separate groups was concluded, and KHD became a holding company for the entire plant engineering segment and related services. The second group is Terra Nova, a company that specialises in licence revenue from mining, which continues to be listed on the New York Stock Exchange.

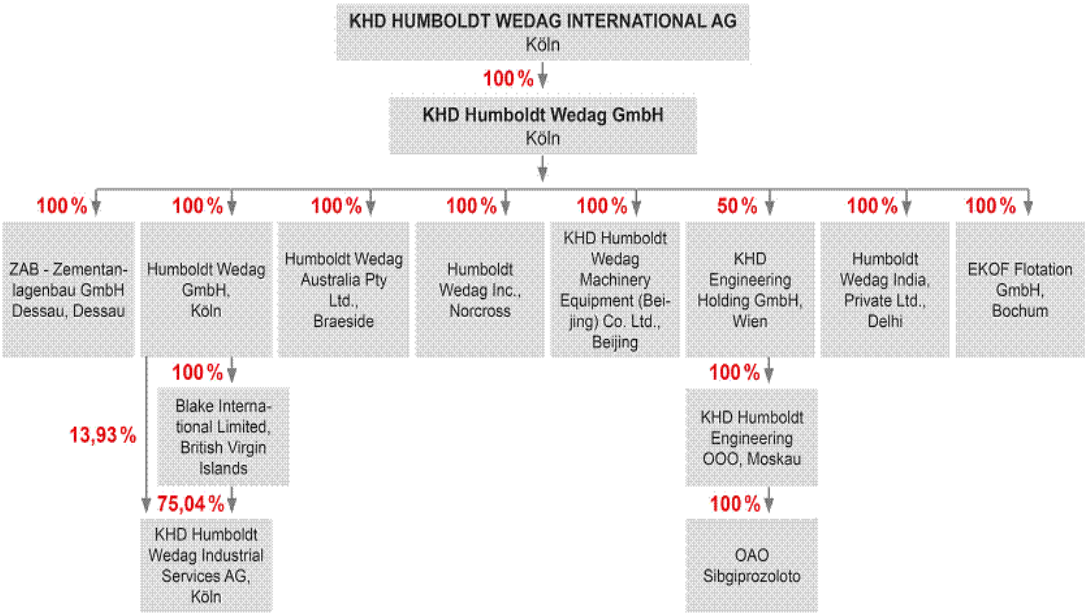
KHD has been a company listed on the Regulated Market of the Frankfurt Stock Exchange (General Standard) since the end of March 2010.

As part of this split, KHD HW acquired some companies from KHD Humboldt Wedag International GmbH, Vienna, Austria (KIA), a wholly-owned subsidiary of Terra Nova. These relate to companies that operate in the plant engineering segment and related services.

They comprise the following companies:

- Humboldt Wedag Australia Pty. Ltd. (Australia) (HWAUS),
- Humboldt Wedag Inc. (USA) (HWUS),
- Humboldt Wedag India Private Ltd. (India) (HWIN),
- KHD Humboldt Wedag Machinery Equipment (Beijing) Co. Ltd. (Beijing/China) (KHD Beijing),
- KHD Engineering Holding GmbH (Austria) (KHD Engineering), 50% of the shares,
- EKOF Flotation GmbH (Germany) (EKOF).

The KHD Group structure is as follows as of 31 December 2010:



KIS holds a 100% interest in the nonoperational company Paper Space GmbH, Cologne.

1.2 Major events during the year under review

Pursuant to a resolution passed by the Annual General Meeting of shareholders of 23 March 2010, a dividend of € 3.00 per share (before the stock split) was distributed to the Company's shareholders at the end of the first quarter of 2010 (total dividend amounting to € 49.4 million).

At the end of November 2010, the Company concluded a € 150 million bank guarantee credit facility with a banking consortium lead by Raiffeisen Bank International AG (formerly: Raiffeisen Zentralbank Österreich AG), Vienna, Austria (RBI). This bank guarantee credit facility is available to all operating KHD Group companies for various security instruments such as guarantees, letters of credit, or sureties. On 6 December 2010, the Company concluded a bond arrangement agreement with the operating KHD Group companies that regulates KHD's services relating to the provision, administration and securing of the bank guarantee credit line.

Following a resolution of the Annual General Meeting of shareholders of 23 March 2010 the share capital was newly divided in a 1:2 ratio by way of a stock split. This doubled the number of ordinary shares from 16,571,276 to currently 33,142,552. Each share corresponds to € 1.00 of the share capital.

On the basis of a resolution of the Annual General Meeting of shareholders of 23 March 2010, the Company's Management Board is authorised pursuant to § 5 Paragraph 1 of the Company's articles of association, to increase the Company's share capital until 22 March 2015, with Supervisory Board approval, through the issuing of up to 16,571,276 new no par ordinary bearer shares (each corresponding to € 1.00 of the share capital) against cash contributions, once or on several occasions, by up to a total of € 16,571,276.00 ("approved capital"). Shareholders are entitled to statutory subscription rights. The Management Board is also authorised to determine the further specifics of capital increases and their implementation with Supervisory Board approval.

With effect as of January 1, 2010, the Company has also concluded a service and cost allocation agreement with the operating KHD Group companies that regulates KHD's other services rendered for the operating KHD Group companies.

1.3 Company's position

Net assets:

The Company's total assets fell from T€ 97,808 (31 December 2009) to T€ 53,999 at the end of the financial year 2010 (minus T€ 43,809).

The significant reduction in receivables and other assets primarily reflects a reduction in other assets. This primarily results from prior year's tax receivable of T€ 11,035 due from the relevant tax office. The tax receivable related to a reimbursement claim in connection with an advance distribution of profit from KHD HW to its shareholder KHD at the end of the financial year 2009. The reimbursement was already made in full at the start of the financial year 2010. Receivables due from affiliated companies particularly relate to services rendered under the existing service agreements with KHD Group companies. Other assets primarily relate to a receivable due from Terra Nova in an amount of T€ 2,663. This comprises a capital gains tax reimbursement claim, which originated as a consequence of the tax audit of the German KHD Group companies of the fiscal years 2005 to 2007 that was concluded in the financial year 2010. KHD recognised an income tax accrual in the same amount.

The reduction in securities primarily arises from the disposal of shares in the former parent company Terra Nova, which were reported in the previous year shares in affiliated companies among current securities in an amount of T€ 2,787. The sale generated a T€ 249 disposal gain. The reserve for treasury shares was released accordingly. Due to an act amendment valid from 1 January 2010 (Accounting Law Modernisation Act of 25 May 2009) the presentation in the financial year 2010 differs from the previous year. Treasury shares were deducted from subscribed capital pursuant to § 272 Paragraph 1a of the German Commercial Code (HGB). The corresponding reserve for treasury shares was released, and the full amount was reclassified to other revenue reserves.

T€ 13,061 out of the total bank balances relate to restricted cash that was deposited as collateral in connection with the bank guarantee credit facility . Of this amount, KHD Group companies provided an amount of T€ 7,330 to the Company as collateral for the

portion of the bank guarantee credit facility utilised by them. The corresponding liabilities due to these companies are presented among liabilities due to affiliated companies.

The Company's equity decreased significantly, from T€ 90,797 to T€ 38,725 (minus T€ 52,072), particularly due to the dividend that was distributed in the year under review. The previous year's high level of net retained profits was primarily influenced by the high level of income from long-term equity investments arising from subsidiaries' dividend distributions. The income from subsidiaries was paid in order to prepare the profit distribution to the Company's shareholders in the first quarter of 2010. Given a lower level of total assets, equity now stands at an equity ratio of 71.7% (previous year: 92.8%).

Within accruals and provisions, tax accruals, in particular, have increased significantly and the liabilities due to affiliated companies also have increase significantly.

Results of operations:

In the financial year elapsed, the Company generated a result from ordinary activities of minus T€ 2,132. The negative result from ordinary activities is caused primarily by the Management Board compensation presented under personnel expenses, which was incurred for the first time in the year under review. In addition, expenses for legal and consultancy costs, including costs for the planned capital increase, annual financial statement and auditing costs, Supervisory Board compensation, Group charges, costs for the Annual General Meeting of shareholders, IPO costs, and other administrative costs, which were all presented among other operating expenses, contributed to the negative result. Due to fiscal and legal regulations a significant portion of these costs could not be charged to KHD Group companies. Personnel expenses of T€ 1,448 and other operating expenses of T€ 3,562– in sum, expenses of T€ 5,010– are partially covered by other operating income of T€ 2,952, which primarily result from charges for service provided to the operating KHD Group companies. The passing on of cost is based on the service and cost allocation agreement and the bond arrangement agreement.

A net loss of T€ 2,480 arises after taxes on income of T€ 348, which fed through to net retained profits of T€ 721 after taking into account the previous year's profit carried forward of T€ 414, the withdrawal from the treasury share reserve in an amount of T€ 3,008, and the transfer to other revenue reserves of T€ 221.

As already stated previous year's result was significantly positive due to the high level of income from long-term equity investments.

Financial position:

The Company's financing is secured due to the liquidity available at the end of 2010, and also as a result of the high level of liquidity and dividend distribution potential available at KHD Group companies.

Cash and cash equivalents fell from T€ 29,768 to T€ 20,213 due to cash-effective changes. Of cash in hand and bank balances of T€ 20,213, T€ 13,061 is attributable to restricted cash. One of the ash-effective changes result from the dividend payment in an amount of T€ 49,371 to shareholders, which resulted in negative cash flow from financing activities. The high cash outflow was primarily offset by a positive cash flow from operating activities (T€ 19,603, previous year: T€ 42,876), which was characterised by a payment received from the tax authorities related to a capital gains tax reimbursement.

1.4 Plant engineering business trends

Market and competitive environment:

General economic environment

As one of the world's leading providers of equipment and services for cement producers, KHD is active in both industrialised nations and numerous emerging markets. KHD's key markets comprise India, Russia and Brazil, but also include the Middle East and North Africa. Up to now, KHD has done comparatively little operative business in China. In future, however, this region is likely to gain in importance thanks to the cooperation agreement forged with CATIC.

After the severe crisis in 2009, global economic output rose by 4.8% in 2010[1]. Global development was far from uniform: While emerging markets recorded substantial growth rates, the industrialised nations recovered more sluggishly. 2010 saw many countries benefit from national economic stimulus programmes aimed at supporting economies and helping them stabilise again after the worldwide economic crisis.

A 4.5% rise in global gross domestic product (GDP) is anticipated for 2011. Experts from the International Monetary Fund (IMF) estimate that the risk of a renewed global economic downturn or stagnation in the industrialised world is low. The IMF anticipates growth of 3.0% for the US economy in 2011, following on from 2.8% growth in 2010. The Euro zone recorded growth of 1.8% in 2010, with the IMF forecasting an increase of 1.5% for 2011. For the emerging markets, particularly China, the IMF is expecting a sustained strong upwards trend. This will, however, also entail the risk of these economies overheating or suffering under the effects of inflation.

Based on current knowledge the nuclear catastrophe caused by an earthquake in Japan does not yet have a severe impact on the development of global economy. KHD does not have any considerable business activities in the Japanese market. Currently the further development of the catastrophe and its potential impacts cannot be estimated with sufficient reliability. In case of an increasing extension of nuclear contamination there is a growing danger that this might have an adverse impact on the expected growth of the

[1] International Monetary Fund, IMF Survey Magazine, 25 January 2011

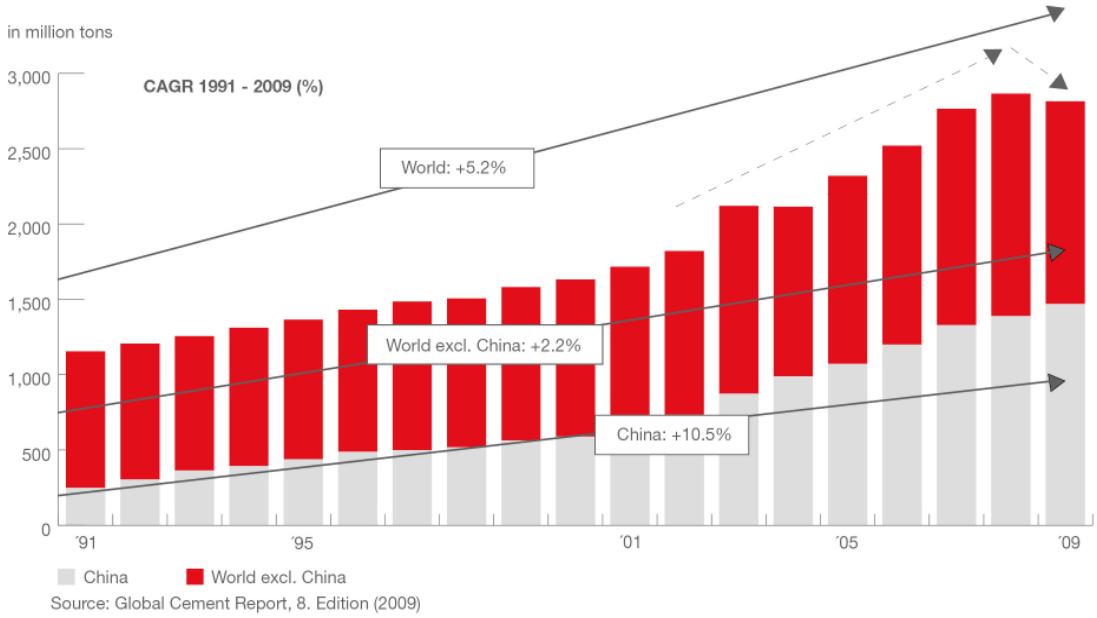
global economy. KHD is closely observing the incidents in Japan in order to develop an adequate response in case of a slowdown of expected growth of the global economy.

Industry environment

Cement production and cement consumption

In its role as a supplier of equipment for cement plants, KHD is dependent on the development of worldwide cement production and cement consumption. It should be noted that for many years the world's cement production volume has roughly equalled consumption volume. In 2009, global cement consumption totalled around 2,900 million tonnes, almost of half of which came from the Chinese market - the world's most important market for this building material by a wide margin. After China, the next largest markets are India (6%), USA (3%) and then Brazil and Russia (2% each). Between 1999 and 2009, the global cement market grew by an average 5.2% per annum, or 1.6 times of the respective growth of the gross domestic product[2]. China recorded the strongest growth in this period, with the cement market developing by an average growth of 10.5% per year.

Global cement market (II)



With a look to the future, market experts are anticipating the highest growth potential in Brazil, Russia, India and China (BRIC nations), where KHD is already well positioned in

[2] Study by Mainfirst

India and Russia. Future investment is also likely to be encouraged by environmental legislation in several other regions, such as the USA.

Around the world, there are around 2,500 installed cement pants with an average capacity of 1.2 million tonnes per year and an estimated capacity utilisation of 76%[3]. Half of these plants are between 25 and 50 years old and therefore hold potential for modernisation, extension or replacement by new plants carried out by market players like KHD. Aside from the considerable site development and infrastructure costs, the average price of a 1.5 million tonne cement plant is around € 150 million. As KHD basically does not supply the entire cement plant, its average order is between € 10 million and € 60 million.

Global cement production in 2009 was impacted by the recession. Although the growth rate still averaged 5.3%, this figure was largely supported by the 14.5% rise in China, while the rest of the world recorded an average fall of 3.7%. As the world rebounded from the economic crisis, cement production recovered by 7.2% in 2010. Annual production is expected to rise by 4% per year, increasing to 3,447 million tonnes by 2013. Of this figure, China and the other emerging markets are forecast to make up the largest share, as factors such as urbanisation, demographic development and infrastructure requirements are likely to lead to increased construction work in these countries. In contrast, consumption in the mature US market might decrease.

Market for cement plants and equipment

In the industrialised nations of North America and Western Europe, KHD's activities mainly focus on modernisation and optimisation of existing plants as well as carrying out maintenance work. The demand for new plants mainly stems from markets such as India and Russia, where producers have to respond to growing cement demand. The market for cement plants and equipment is dependent on a number of factors, including economic development, cement demand, consumption, prices and capacity utilisation. In addition, the demand for cement plants and equipment is also influenced by the willingness and ability of cement producers to invest in cement plants and secure the required financing

Since 1950, KHD has installed and launched in excess of 500 cement plants and equipped more than 5,000 plants with parts. Around 30% of these installations were made

[3] OneStone Intelligence

in Russia, a further 30% in Europe, 18% in the Asia-Pacific region, 12% in North and South America and around 10% in the Middle East and Africa. This installed base therefore provides a solid platform for the planned expansion of the service business.

In 2010, the global cement market was characterised by recovery after the recession, although financing bottlenecks, debt reduction and cost cutting were still important topics among cement producers. At the same time, the sector is characterized by sustained and fierce competition.

Continuously rising prices for energy sources such as coal, petroleum coke and heating oil are likely to ensure that alternative energy sources are more of a focus for the cement industry in the future, which will in turn lead to new technological developments.

According to a study by OneStone Intelligence, the worldwide capacity increases for cement production planned up to 2013 are likely to result in a production volume around 42% up on the level of 2009. At the same time, 21% of the production capacity is expected to be discontinued, with this mainly impacting old plants in China, Russia, Spain, Italy, the USA and Turkey. From the total expected 1,201 million tonnes of new capacity, around 420 million tonnes will be stem from China, 153 million tonnes from India and 55 million tonnes each from Vietnam and Russia.

1.5 Report on events following the balance sheet date

On 16 February 2011, after the close of the financial year 2010, KHD successfully completed the capital increase it announced on 21 December 2010. This transaction was a prerequisite for the effectiveness of the strategic partnership agreement with CATIC, headquartered in Beijing. As part of the transaction, KHD's share capital increased by € 16,561,021.00, from € 33,142,552.00 to € 49,703,573.00. The 16,561,021 new ordinary bearer shares (each corresponding to € 1.00 of the share capital), were issued at a price of € 4.53 per share. The gross issue proceeds from the transaction amounted to € 75,021,425.13. As a result, CATIC, via its Hong Kong-based subsidiary Max Glory Industries Ltd. (MGI), now holds 20% of KHD's share capital.

Together, KHD and CATIC aim to become a market leader in cement plant engineering by jointly tendering for a large number of project tenders, particularly for turnkey projects.

Such turn-key contracts were largely awarded to competitors in the past. The cooperation will allow KHD and CATIC to enjoy better access to contracts to be awarded by leading cement producers in the future. The cooperation also comprises procurement, as well as the rights for KHD to invest jointly with CATIC in an engineering company in China. KHD anticipates that the cooperation will significantly strengthen its presence and business development in China, the world's largest cement market, as well as in other countries or regions which KHD and CATIC regard as appropriate.

Contrary to the procedure described on page 151 of the securities prospectus of 29 December 2010, the new major shareholder Max Glory Industries Limited ("Max Glory") has not appointed a Supervisory Board member following the capital increase for KHD Humboldt Wedag International AG. The resignation of the Supervisory Board Chairman Gerhard Beinhauer as of the conclusion of the capital increase resulted in a shortfall in appointments to the Supervisory Board. On the basis of a court appointment of 23 March 2011, Gerhard Beinhauer was appointed as a member of the Supervisory Board of KHD Humboldt Wedag International AG, and was also re-elected Supervisory Board Chairman as the result of a resolution passed by the Supervisory Board on 23 March 2011.

There were no further events of particular significance that occurred after the conclusion of the financial year.

1.6 Report on risks and opportunities

Risk management

As a globally operating equipment construction manufacturer and service provider KHD Group is subject to a number of various risks. KHD is prepared to take on calculated entrepreneurial risks and can therefore take advantage of opportunities to sustainably increase the Group's value as they arise.

KHD's Management Board has implemented a comprehensive, systematic and effective risk management system, which is based on a formal risk policy. Risk management at KHD Group means taking a systematic approach towards identifying, recording and assessing risk. Essential components of our risk management system are the activities for mitigating risk, this means defining and implementing measures in response to recognised risks. Risk management is therefore a Group-wide continuous task that represents an integral part of every decision and business process within KHD Group.

The approach that KHD Group applies in its risk management considers both how to best utilise opportunities as well as how to minimise the effects and the probability of encountering negative events. With effective and reliable risk management, KHD is able to improve its chances of identifying and capitalising 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 guiding the Group; the corporate strategy forms the foundation for systematically identifying risk 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 mid-term planning on the other.

Our risk management is not limited to just the early recognition system set out in § 91 (2) German Stock Corporation Act (AktG), which covers business viability risks, but encompasses all substantial risks for KHD Group (operational, strategic, financial and compliance risks).

KHD Group's risk management system is embedded throughout our entire internal control system. The internal control system includes all controls and processes which act to avoid risk or to manage and monitor identified risks. The continual improvement of our risk management is ensured through regular checks and enhancement to relevant internal controls with the aim of ensuring an efficient and viable process. Process improvements and corrections are identified and implemented for CSCs as well as central functions.

Organisation, responsibilities, tools and reporting within risk management

KHD Group differentiates between risks that impact the entire Group or can only be managed at the Group management level (so-called Group risks) and risks that result from the activities of operative business units (CSC risks). Group risks are identified by members of the Management Board and Global Functional Heads and are controlled by Risk Owners, which are accordingly selected. CSC risks are managed by the heads of the operative business units in the Customer Service Centres. The respective Risk Owners in the CSCs are responsible for the systematic management of CSC risks. In this manner, they continually identify, analyse, control and monitor their risks.

In order to support and coordinate a Group-wide standardised identification and assessment of risks, KHD has assigned Risk Managers at the Group level as well as at the Customer Service Centre (CSC) level. Risk Managers are also responsible for monitoring and tracking the implementation of the respective measures for risk mitigation.. The central risk management department provides the operative units with the Group-wide standardised methods and tools for documentation (risk identification, assessment and mitigation).

Risk management includes the entire risk process – identification, analysis, assessment and management of risk. It also encompasses monitoring the affected measures for risk mitigation.

All substantial risks are entered into so-called risk registers. The Group risks in KHD's risk register centre around strategic and compliance risks, while the CSC risks gathered from the operative units mainly tend towards operational and financial risks. The risk register documents the estimated probability and the potential impact that each risk could pose as well as the existing and planned measures to manage these risks in a condensed and

easy-to-read format. The potential impact is assessed according to a calculated local materiality threshold for each CSC. To make the risk potential more accessible and to increase risk awareness, the probability of the risk occurring and its potential impact of each risk have to be assessed twice: once without and once with considering the measures and controls for risk mitigation. There is also the requirement that business viability risks for both the Group and CSCs are identified and entered into the risk register. A Risk Owner is assigned for each risk and is responsible for the measures to mitigate the respective risk. The risk register is regularly updated and offers decision-makers an overview of the entire risk landscape.

The employees responsible for risk management lead risk workshops together with the Global Functional Heads as well as the management teams of the operative units. These workshops focus on identifying and assessing risk as well as defining measures for risk mitigation.

The particular requirements of the project business are accounted for with 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, whereas 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 operative business unit, these risks are to be additionally entered into the affected CSC's risk register as a CSC risk.

Particular importance is accorded to reporting within the context of effective risk management. Reporting ensures that all risks from the CSCs are depicted according to uniform criteria, and are known to managers within the framework of their decision-making processes. The CSCs report directly to the Global Risk Manager. In addition to the regularly updated risk registers, risks that arise suddenly are communicated immediately (ad hoc) independently of the normal reporting routes. 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 supervises for all significant risks, the completeness, the assessment of potential impact and probability, the status of risk mitigation, and any changes that have occurred to them.

The Group Risk Manager is in constant contact with the Management Board regarding the risk position, and the effectiveness of the risk management system. The Group Risk Manager uses the risk register to present a detailed description of the risk situation to the Supervisory Board at half-yearly intervals. The head of risk management also explains his assessment of the effectiveness of the risk management system in an opinion directed to both the Management Board and the Supervisory Board of KHD.

The internal audit function also regularly reviews the functionality of the risk management system, and the relevant aspects of the internal controlling system. The review results are regularly reported to the Management Board. An annual summarised statement is also prepared concerning the internal audit's assessment of the effectiveness of the risk management system for presentation to the Management Board and Supervisory Board of KHD.

Risk management relating to financial instruments

As a globally operating Group, KHD is exposed to various financial risks (currency, interest rate, default, credit and liquidity risks), that may have a significant impact on the Group's net assets, financial position and results of operations. The KHD Group financial risk management function aims to hedge and/or reduce financial risks through the appropriate deployment of hedging instruments, including derivative financial instruments.

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

Interest-rate risk arises through market-related fluctuations in interest rates. As of the balance sheet date, KHD Group reports no significant interest-bearing liabilities, although 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 mitigated as receivables are spread out worldwide reflecting the Group's customer structure. Credit risk is also diminished by payment terms, especially advances, agreed by the Group with its customers, which avert a high level of receivables. Internal guidelines ensure that products are generally sold to customers with appropriate credit histories. Counterparty default risk management is based on regular monitoring and analysis of the receivables position and its structure. At KHD Group receivables from export contracts are to a large extent secured against default risks by confirmed and unconfirmed letters of credit, as well as through guarantees and cover notes, which are also include export credit agencies (e.g. Hermes).

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For many years, the KHD Group has pursued a conservative and forward-looking policy it possesses a very high level of cash and cash equivalents. On the basis of financial and liquidity planning, cash and cash equivalents are allocated in such a way that KHD Group is able at all times to fully meet its payment obligations. In order to secure the future growth path, a bank guarantee credit facility was concluded with a banking consortium, which allows individual KHD Group companies to provide bank guarantees on favourable terms for its customers worldwide.

Accounting-related internal controlling system

Along with the risk management system, the KHD Group internal control system (ICS) particularly also comprises extensive control activities to secure proper and reliable accounting and financial reporting, as well as the internal audit function as a process-

independent control function. The ICS is also oriented toward ensuring compliance with relevant laws and standards, as well as the commercial efficiency of operating processes.

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

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The control activities to ensure proper and reliable accounting primarily comprise automated controls such as system access controls based on an user authorisation concept, or plausibility checks for financial accounting figures, as well as manual controls such as deviation and trend analyses based on defined key indicators, and comparisons with budgeted figures.

At KHD and all of its significant subsidiaries the entire accounting-related ICS is documented using process descriptions (narratives). In this context, key controls are identified for each process, and summarised in a Risk Control Matrix (RCM). The responsible process owners constantly monitor the operating effectiveness of all significant control activities, as well as the preparation of appropriate documentation.

Accounting transactions are recorded by the subsidiaries of KHD Group. The ICS measures that are oriented towards proper preparation and reliability of Group accounting ensure that business transactions are recorded completely and on a timely basis according to statutory and other regulatory requirements. It is also ensured that assets and liabilities are recognised, measured and presented appropriately. The "two sets of eyes" principle and segregation of duties are fundamental principles of the ICS at KHD Group; this also assures that the possibility of fraudulent activities is reduced.

The locally reported monthly financial statements are combined with supplementary information in order to produce a Group reporting package, which is then reported to the central consolidation department using a Group-wide standardised reporting system. The consolidation and Group financial statement preparation process is centrally implemented

and supervised. Uniform Group guidelines for accounting, measurement and reporting ensure that statutory regulations are complied with.

The internal audit function regularly performs a systematic review of the ICS's effectiveness. 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 permanent further development of the ICS.

Risk areas

The following section describes key risk areas as well as the risk mitigation strategy. The risk areas bundle a large number of individual risks, and, for its part, the risk management strategy presented below comprises a large number of specific individual measures and activities.

Risks arising from economic conditions

As a group that operates globally, KHD depends on global economic trends. Order intake, which receded heavily in the previous year as a consequence of the global financial and economic crisis, underwent marked growth again in the year under review. As a supplier of technical equipment for cement plants, dependence on the cement demand cycle nevertheless remains. There is also a risk of market share loss and falling margins due to tough competition.

The KHD Group operates as a plant engineering company in many countries and regions, which results in risk reduction due to geographic diversification. These risks are additionally mitigated through the targeted expansion of our service business (including spare parts business), and our activities in the mining industry area (roller presses), as well as the systematic expansion of our position in growth markets, and in markets where we have previously had little presence. We counter competition risks through continuous analysis of our market environment and competitive situation. Constant customer contact together with the expansion of our key account management function, and resultant market proximity, provide us with important information about our customers' requirements. The information we gather allows us to develop and offer products in line with demand, as well as to improve our competitive position.

Country risks

As a globally operating group, the KHD Group is exposed to potential country risks. These comprise legal risks, capital transfer prohibitions, other regulatory restrictions, trade receivables default, war, riots and other disturbances.

From as early as the tendering phase, individual projects are assessed considering such country risks in order to manage them. Export business default risks are measured, and potentially limited through cover notes provided by export credit agencies (e.g. Hermes guarantees).

Procurement risks

The reliable availability of particular products and services in an appropriate quality, volume, and at competitive market prices, comprises a critical success factor. For this reason, interruptions or disturbances to the procurement process represent a key risk for the KHD Group.

In order to reduce risk, the procurement function pursues a global strategy based on the systematic analysis of the quality, delivery performance, and price structure of existing and potential suppliers. The CSCs' purchasing organisations are integrated into the process in order to utilise 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

Innovative strength is a key success factor for a technology company such as the KHD Group. Besides customer requirements, it is important in this context to also take into account rising environmental protection requirements in the development of our products. Our research and development activities are also particularly oriented to the standardisation of components that are deployed for customer-specific solutions, as well as to the improvement and cost-reduction of existing products.

The KHD Group also ensures the highest degree of market proximity for our research and development activities through constant communication with the sales department, and the establishment of cross-divisional teams. A development process entailing defined milestones and predetermined budgets identifies deviations from target as early as possible, and instigates corresponding corrective measures.

Impairments to interests in companies

The interests in affiliated companies are tested annually for impairment.

Project risks

Complex and large projects in plant engineering present particular challenges to our risk management function. Our projects regularly entail contractual periods of significantly longer than twelve months; the contract value of individual projects is not only significant for individual subsidiaries, but also from the KHD Group's perspective. Such large projects typically comprise all activities relating to the planning, engineering and delivery of complete cement plant equipment, or at least significant parts of such plant. Potential project risks arise in this context in terms of the uncertainties entailed in project cost calculations, unexpected technical problems, supply bottlenecks or quality problems at suppliers of important components, interruptions to budgeted cash flows, and unforeseeable developments during the erection phase on site.. There are also warranty risks following the commissioning of the plant.

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

Personnel risks

KHD is distinguished by a corporate culture based on trust. The focus in this context is on our employees' responsible and entrepreneurially oriented thinking and actions. KHD Group's success is directly dependent on our employees' commitment, motivation and capabilities. Risks exist particularly if management positions cannot be filled rapidly, and with qualified candidates.

We counter personnel risks through early identification and promotion, particularly 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. We are also developing a long-term succession planning.

Legal risks

As an internationally operating Company, KHD Group is exposed to a large number of legal risks. Please also refer to the related comments in the notes to the financial statements in this context. Legal risks particularly include risks arising from warranty, competition and patent law, and fiscal law. The outcome of currently pending or future legal proceedings in most cases cannot be predicted with certainty. The risk that the 2002 to 2005 sets of annual financial statements will become null and void ensues from the actions brought by the shareholders described in the notes to the consolidated financial statements.

Existing and pending litigation is identified and analysed continuously, and their juridical and financial consequences are qualitatively and/or quantitatively assessed. The management utilises such assessments to promptly initiate appropriate measures, and to set-up balance sheet provisions if required.

Tax risks

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

The KHD Group takes fiscal risks into account through the permanent monitoring of current and changing tax legislation, and through consulting external tax advisors. Balance sheet provisions are set up for tax risks that cannot be estimated reliably.

IT risks

All key business processes (accounting and controlling, project management, purchasing, sales etc.) at the KHD Group depend on the functionality and availability of the IT systems that are deployed within the Group. For this reason, disruptions of system operations entail disruptions to the work flow and to business and operational processes.

Great attention is paid to IT resource and system availability in order to guarantee that operations are free of interruptions and failures. We also focus on ensuring the integrity and confidentiality of important information (data protection). In addition, we continuously monitor the effectiveness and efficiency of the software solutions deployed within the KHD Group with regard to our business processes. Measures to update and replace software solutions and hardware are determined as part of IT strategy.

Summary statement on the KHD Group's risk position

To the extent required, balance sheet provisions were set-up in the financial year 2010 for the risks explained in this report. The identified risks do not jeopardise the KHD Group as a going concern, either individually or in combination. All preconditions have been created in organisational terms in order to receive early information about changes to the risk position that may emerge.

Opportunities

The risks that have been presented generally also present opportunities for the further development of KHD Group. These opportunities result, for example, from an improvement in our market and competitive position due to the development of cost-effective products, or the further optimisation of our procurement activities. The planned expansion of our service business (including spare parts business), and the systematic extension of our position in growth markets, as well as in markets in which we have had little presence to date, also comprise significant opportunities. Below, we separately discuss significant opportunities and potentials for future development.

With the typical time delay, the global economic recovery is now also increasingly exerting an impact on the markets for long-term capital goods. Particularly in emerging economies, advancing urbanisation and the drive to expand infrastructure is resulting in cement demand growth. Pproduction capacity is being augmented, and existing cement plants are being modernised and/or expanded. Through its strong market position in emerging economies, KHD Group identifies further growth opportunities, particularly in India and Russia. We also anticipate positive future growth effects from the expansion of market activities in Brazil and other South American countries.

We regard rising regulatory requirements to reduce cement plants' environmental impacts, such as the Environmental Protection Agency (EPA) regulations in the USA, as opportunities. KHD Group offers its customers environmentally friendly solutions whereby we consider the environmental impacts of the cement production process from as early as the tendering phase. We also constantly further develop our products with regard to environmental aspects; in this context we concentrate on achieving lower emission levels, as well as the efficient deployment of resources, materials and energy.

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KHD entered into a long-term cooperation agreement with Weir in 2010. Weir already functions as an exclusive global sales partner for the deployment of roller presses in the mining industry. Thanks to their high operational and energy efficiency, our roller presses offer far-reaching application possibilities for ore processing, which supplement our cooperation partner's product portfolio. As a supplier of equipment and services to the mining industry, Weir is outstandingly positioned to facilitate KHD's direct access to these markets.

KHD forged a strategic partnership with CATIC in December 2010. Since February 2011, when CATIC Group acquired a 20% interest in KHD following a capital increase, CATIC is also an anchor shareholder of KHD. Besides improved access to the Chinese sales market, we anticipate that the partnership with CATIC will feed through to simpler and more extensive recourse to the Chinese procurement market. Our cooperation partner's market position will make it significantly easier for us to access cost-effective and high-quality manufacturing capacities in China. KHD Group nevertheless regards the opportunity to now also offer turnkey cement plants to our customers as a critical opportunity provided by the strategic partnership. This will allow a new business area to be tapped. KHD Group functions as exclusive supplier of cement plant equipment to CATIC on the basis of the cooperation that has been agreed. In turn, CATIC is acting as the exclusive contractual partner for turnkey plants for KHD. The combination of CATIC's experience as a general contractor for turnkey systems and KHD's technological expertise in cement plant equipment allows us to anticipate a significant strengthening of our global competitive position.

1.7 Outlook

According to the current planning status, the Company anticipates that its results on ordinary activities in 2011 and 2012 will be at a level comparable to the result on ordinary activities in 2010, excluding the impact from long-term equity investments that report negative results on ordinary activities.

The Company's financing is secured due to the liquidity available at the end of 2010, but also as a result of the KHD Group affiliate companies' high level of liquidity and dividend distribution potential. For instance, the two German subsidiaries HW and ZAB alone command liquidity totalling € 227.9 million as of 31 December 2010. Both companies together generated earnings after tax of € 22.0 million (previous year: € 52.3 million).

1.8 Corporate Governance Report in accordance with § 289a of the German Commercial Code (HGB)

I. Compliance with the German Corporate Governance Code (the "Code") and Declaration of Compliance Statement

Following the admission to trading in the shares of KHD Humboldt Wedag International AG (KHD), Cologne, on the regulated market (General Standard) of the Frankfurt Stock Exchange on 30 March 2010 KHD became a public listed company. Activities of the Management Board and the Supervisory Board are based on recognised principles of responsible corporate governance and management. KHD views corporate governance as an ongoing process and will continue to follow future developments closely.

Management Board and Supervisory Board have made the annual declaration of compliance in accordance with § 161 AktG:

Declaration by the Management Board and Supervisory Board
of KHD Humboldt Wedag International AG
in accordance with § 161 of the German Stock Corporation Act ("AktG")
on the recommendations of the
"Government Commission on the German Corporate Governance Code"

Pursuant to § 161 para. 1.1 of the German Stock Corporation Act (AktG), the Management Board and Supervisory Board of a listed company must declare every year that the recommendations of the "Government Commission on the German Corporate Governance Code" published by the Federal Ministry of Justice in the official section of the electronic Federal Gazette have been or are being complied with or which recommendations have not been or are not being complied with and why not.

The Management Board and Supervisory Board of KHD Humboldt Wedag International AG hereby declare that the recommendations of the German Corporate Governance Code ("the Code") as amended on 26 May 2010 have been complied with or are being complied with and will be complied with in future with the following exceptions:

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

upon (Code item 3.8 para. 3).

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

- The severance payment (to be made on termination of the employment contract) is fixed in the employment contracts of the Management Board members. The employment contracts limit the severance payment to one and two years' fixed compensation, respectively, but they do not limit the severance payment to the compensation for the remaining term of the contract (Code item 4.2.3 para. 4).

Mr. Salo's employment contract does not include a severance pay cap in case of termination of the employment contract without serious cause. As the SVB deems such a cap as not advisable the management employment contract does not provide for a severance pay cap. In general a premature termination of a management employment contract can only be achieved by amicable rescission of the contract. Even in case the SVB would insist on a severance pay cap in case of conclusion or prolongation of the respective management employment contract it cannot be ruled out that the severance pay will be subject to negotiations in case of premature termination of the contract. Furthermore, amicable rescission of the contract is hindered significantly for management employment contracts including a severance pay cap and having a remaining term of more than two years. In such cases adherence to the severance pay cap would be disadvantageous to the Management Board member compared with adherence to the employment contract and claiming the ongoing compensation.

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

As the SVB consists of only three members, the SVB decided that no committees shall be established. The issues normally delegated to committees are jointly handled by all three SVB members whereby each member of the SVB reports to the SVB as a whole on those topics specifically allocated to his/her responsibility.

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

Reference is made to the explanation given in connection with item 5.3.1 of the Code. The objective of Code item 5.3.2 is still met as all SVB members are independent and no

member of the SVB is a former member of the Management Board of the Company. At least one member of the SVB has specialist knowledge and experience in the application of accounting principles and internal control processes.

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

Due to its small size the SVB has not formed any committees. Nevertheless, the objective of Code item 5.3.3 is met, because all members of the SVB are shareholder representatives.

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

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

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

The SVB considered the equal roles and responsibilities as executed in a SVB with just three members. Therefore, the SVB decided that an equal allocation of the compensation among the SVB members does best reflect the actual roles and responsibilities.

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

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

The following recommendation of the German Corporate Governance Code ("the Code") has not been complied with in the fiscal year 2010, but the Management Board and Supervisory Board of KHD Humboldt Wedag International AG aim for complying with this recommendation in future:

- The half-year Consolidated Financial Statements were published 48 days after the end of the reporting period instead of publishing them within 45 days as

recommended by the Code (Code item 7.1.2).

The Company published the respective report within the period stipulated in the German Securities Trading Act (WpHG), which deviates from the reporting period recommended by the Code. The short delay was caused by the reorganization of the internal reporting process following the listing of the Company on the regulated market (General Standard) of the Frankfurt Stock Exchange as of end of March 2010. In future the Company will publish the respective reports within the timeframe recommended by the Code.

Cologne, 23 March 2011

For the Management Board: For the Supervisory Board:

(s) Jouni Salo (s) Manfred Weinandy (s) Gerhard Beinhauer

The current Compliance Statement concerning the German Corporate Governance Code is available on the Company's website at www.khd.com.

II. Corporate Governance practices

KHD places great importance on good responsible management and supervision with the objection of creating sustainable value added. Good corporate governance promotes confidence in KHD Group among investors, customers and the workforce. Basis for successful corporate governance are close and effective cooperation between the Management Board and the Supervisory Board, consideration of the interests of our shareholders as well as open and transparent corporate communication.

Code of Conduct

The Management Board of KHD has drawn up and implemented effectively a Code of Conduct that stipulates that KHD Group's business activities comply with all laws as well as with high ethical standards. The Code of Conduct is binding for all executives and all employees across KHD Group. Furthermore, KHD implemented a Whistleblower Policy as an important element of its compliance system. The Whistleblower Policy allows employees to report concerns with regard to possible violation of law or KHD Group policies. Informants can remain anonymous if they wish.

Compliance organisation

Compliance (measures that ensure compliance with law and regulations as well as with KHD Group policies) and the responsible handling of risks are essential management responsibilities at KHD. To ensure compliance with legal regulations as well as with internal policies a system of measures and responsibilities was established throughout KHD Group. The effectiveness of our compliance system is reviewed regularly.

III. Management Board and Supervisory Board Procedures

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

Management Board

Currently the Management Board of KHD consists of two persons. The Management Board is responsible for the management of the company and its business. It coordinates the strategic approach of KHD Group with the Supervisory Board and ensures that the overall strategy is implemented. Furthermore, the Management Board is responsible for planning and budgeting, the preparation of financial statements, the implementation of an appropriate risk management and risk control system, compliance with legal regulations and internal policies as well as for providing regular, prompt and detailed reports to the Supervisory Board.

The Supervisory Board has implemented Rules of Procedure for the Management Board, which amongst others govern the work performed by the Management Board, the assignment of functional responsibilities to each member of the Management Board as well as the procedural rules for Management Board meetings and resolutions. Furthermore, the Rules of Procedure for the Management Board specify measures and transactions of fundamental importance that require pre-approval of the Supervisory Board.

Supervisory Board

The Supervisory Board appoints the Management Board members; it advises and monitors the Management Board in the management of KHD. As the Supervisory Board of KHD currently consists of three members only it has not formed any committees.

The Chairman of the Supervisory Board coordinates the work of the Board and chairs the meetings. The Chairmen of both, the Supervisory and the Management Board are in regular contact with each other and share information. In its Rules of Procedure the Supervisory Board defined amongst others terms for its composition, responsibilities, resolutions as well as dealing with potential conflicts of interest.

The Supervisory Board resolves on the adoption of the annual financial statements and the approval of the consolidated financial statements and engages the auditors. It monitors in particular the effectiveness of the internal control system, the internal audit system and the risk management system. It supervises the accounting process and the audit and also deals with compliance issues. Moreover, it discusses the interim reports with the Management Board prior to their publication.

In the Rules of Procedure for the Management Board the Supervisory Board defined a pre-approval process for measures and transactions of fundamental importance; in an Information Policy the Supervisory Board specified the Management Board's information and reporting duties in detail.

1.9 Compensation report

The compensation report sets out the principles, structure and amount of Management Board and Supervisory Board compensation. The compensation report takes the German Corporate Governance Code's recommendations into account. It also includes the disclosures required pursuant to § 285 Paragraph 1 Number 9 Letter a Clauses 5 to 8 of the German Commercial Code (HGB); for this reason, these disclosures are not provided additionally in the notes to the consolidated financial statements.

Compensation system for the members of the Management Board in 2010

The legislator created new requirements for determining management board remuneration with the German Law on concerning the Appropriateness of Management Board Remuneration (VorstAG), which came into force on 5 August 2009. The transparent and comprehensible presentation of its Management Board compensation forms an element of good corporate governance at KHD.

The Supervisory Board has concerned itself intensively with the statutory regulations of the VorstAG and the recommendations of the German Corporate Governance Code. These regulations were implemented at KHD in 2010 with the exception of the divergences presented in the Declaration of Compliance. The Supervisory Board determines individual Management Board members' total compensation. The Supervisory Board resolved the Management Board compensation system, which it continues to subject to review regularly, along with compensation levels. The compensation system presented below has been valid since 1 April 2010.

Remuneration of the Management Board Chairman (CEO) Jouni Olavi Salo and the Chief Financial Officer (CFO) Manfred Weinandy consists of fixed (not performance-related) and variable (earnings- and performance-related) compensation. As a basic remuneration that is independent of performance, fixed compensation is paid monthly as salary. Management Board members also receive ancillary payments in the form of non-cash benefits. These consist primarily of the value of company car use in accordance with tax regulations, accident insurance contributions and other non-cash benefits.

Variable compensation (bonus) is based on KHD Group's business performance, as well as on individual Management Board members' personal performance determined on the basis of qualitative performance factors. When assessing personal performance, the Supervisory Board particularly takes individual contributions to the Group's medium and long-term development into particular account.

The Supervisory Board defined three clearly delineated quantitative targets (based on key figures) for each of the Management Board members. The target parameters (e.g. order intake and profitability targets) are also applied generally among senior staff, in order to thereby ensure that the target system is uniform across the entire KHD Group. The Supervisory Board set the weighting of the target parameters at 25% each. In other words, Management Board members receive 75% of maximum variable compensation given 100% target attainment over the entire assessment period for all quantitative targets over the entire observation period. The Supervisory Board uses its discretion to assess individual Management Board members' personal performance based on qualitative factors and on the Group's medium and long-term development; personal performance accounts for 25% of maximum variable compensation.

The bonus is limited to a maximum level (cap), which amounts to 100% for Mr. Salo of annual fixed compensation, and to one third of fixed annual compensation for Mr. Weinandy. Since the Management Board members' employment contracts were concluded at the end of March/early April 2010, the maximum bonus for the financial year 2010 is derived as a proportional amount since the start of the employment contracts.

When measuring variable compensation, each quantitative target is assessed separately. In other words, when exceeding a target (target attainment > 100%), this excess performance cannot be applied to another target (target attainment < 100%). A lower limit is set for each quantitative target. When reaching the relevant lower limit, the bonus

amounts to 80% of the corresponding bonus portion; where targets are not attained (non-attainment of the lower target limit), the corresponding portion of variable compensation is disqualified in its entirety. The variable compensation component based on qualitative factors, which the Supervisory Board determines at its discretion are based on qualitative factors set at three steps (0% / 50% / 100%).

In order to base variable compensation components on sustainable corporate development, and to furnish them with long-term incentive effect, these components are based on assessment periods that extend beyond one financial year. An assessment as to whether targets have been reached or not is not finally made until these assessment periods have elapsed. The average degree of target attainment over the entire assessment period is decisive for the individual target. Mr. Weinandy's first assessment period for variable compensation was determined as the period between 1 April 2010 and 31 December 2011. Mr. Salo's assessment period is between 1 April 2010 and 31 December 2012.

In view of the assessment periods that extend beyond the financial year, variable compensation for individual Management Board members is not due for payment until the 2011 and 2012 annual financial statements have been approved.

Semi-annual advance payments on the variable compensation can be made on the basis of interim target attainment assessments made by the Supervisory Board. However, these advance payments may not exceed 50% of the theoretical claim calculated on the basis of the interim assessment. Any advance payments that have already been paid must be repaid if the fixed lower limit is not attained when finally determining target attainment following the expiry of the assessment period.

Other payments and commitments

The Company has agreed a one-off signing fee of € 475,000 with Mr. Salo, which is payable in four instalments, in order to offset disbenefits that he incurred compared to his previous employment contract as a result of signing his current employment contract. Three instalments totalling € 316,666 have already been paid to Mr. Salo in the financial year 2010. The remaining instalment of € 158,334, which is due for payment in December 2011, has been fully accrued.

Commitments to Management Board members for termination of employment

Where the appointment to the Management Board is cancelled, but the Company does not cancel the employment contract with good cause, the employment contract ends with the expiry of the contractually agreed termination period, or as the result of the expiry of time until the contractually agreed date, if this is earlier. Mr. Weinandy's notice period is twelve months, while Mr. Salo's is three months. The severance payment to be paid by the Company is then the amount of fixed compensation which the Management Board member would have received in a 12-month period (€ 180,000) in Mr. Weinandy's case, and in a 24-month period (€ 750,000) in Mr. Salo's case, from the date of premature dismissal, less compensation actually paid during the period between premature dismissal and the contractual end of the employment contract. Also, in the event that the employment contract terminates as a result of the elapse of time, Mr. Weinandy receives an amount equivalent to one year's fixed salary as severance payment; given the same circumstances, Mr. Salo would receive a severance payment equivalent to two years' fixed salary.

A settlement claim does not exist if the appointment to the Management Board is cancelled with good cause that entitles the Company to cancel the employment contract with good cause without notice, or where the Management Board member submits his or her notice.

The agreement relating to the severance payment to be paid to Mr. Weinandy and Mr. Salo in the instance of termination of employment does not limit the severance payment to the compensation for the residual term of the employment contract. This regulation was agreed with Mr. Salo since it commercially best approximates the compensation regulation that existed between him and the former Group parent company. The regulations in Mr. Weinandy's employment contract are based on the consideration of an appropriate equal treatment within the compensation system, whereby the divergence in the underlying period (12 months instead of 24 months) is based on the fact that Mr. Weinandy held no position at the former Group parent company.

In case Management Board employment contracts are extended several times, they terminate at the latest when Management Board members have reached the age of 65. The present value of compensation that has been granted to Mr. Salo and Mr. Weinandy for the instance of regular termination due to attainment of the age limit amounts to € 394,798 and € 118,241 respectively as of 31 December 2010. As the severance

payment would require payment at the latest on attainment of the age limit KHD set-up corresponding accruals by way of instalment. As of 31 December 2010, the accrual for Mr. Salo amounted to € 28,200, and to € 11,824 for Mr. Weinandy.

Total compensation paid to Management Board members

Overview of key data for Management Board members:

Name	Management Board member since	Management board employment contract until:	Employment contract with KHD since:
Alan Hartslief	28/01/2008	28/03/2010	n/a
Jouni Olavi Salo	11/12/2008	10/12/2013	01/04/2010
Manfred Weinandy	01/04/2010	28/03/2013	29/03/2010

The total remuneration of KHD's Management Board members was T€ 1,338 in 2010 (previous year: T€ 126). The following table shows the total compensation for individual Management Board members with the breakdown between fixed and variable compensation components:

€	Jouni Olavi Salo	Manfred Weinandy	Alan Hartslief
Fixed compensation	281,250	135,000	0
Other payments (signing fee)	475,000	0	0
Variable compensation	281,250	45,000	0
Service & cost allocation	18,012	0	16,215
Non-cash benefits	32,816	12,948	0
Other	28,200	11,824	
Total	**1,116,528**	**204,772**	**16,215**

In the first quarter of 2010, as in the previous year, the Management Board did not receive any direct compensation. The compensation of the Management Board members for their activities within the Group was paid through a Service & Cost Allocation Agreement with the KIA.

As commented upon in the remarks on the compensation system, variable compensation for individual Management Board members is not due for payment until the 2011 and 2012 annual financial statements have been approved, given the assessment periods that extend beyond the financial year. No advance payments were disbursed in the financial year 2010. Accruals were set-up in the year under review for theoretical claims to variable compensation calculated on the basis of a provisional assessment of target attainment.

In the financial year 2009, KHD Group, through the Service & Cost Allocation Agreement, incurred charges of € 77,381 for Mr. Salo's Management Board activity (of which € 0 directly charged to KHD), and € 48,473 for Mr. Hartslief's Management Board activity (of which € 1,139 directly charged to KHD).

The year-on-year increase in Management Board compensation in 2010 is particularly due to the fact that, in 2009, compensation paid to Mr. Salo and Mr. Hartslief was largely granted by the former parent company of KHD for their management activities at the holding company. Only Management Board members' activities that were assignable to KHD Group companies were included in the cost charged through the Service & Cost Allocation Agreement . Management Board compensation in the financial year 2010 is also affected by the one-off amount in connection with Mr. Salo’s signing fee.

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Compensation of Supervisory Board members

The former Supervisory Board members Reimund Berner, Andrew Blythe and Richard Kelsey resigned as Supervisory Board members with effect as of the end of the Annual General Meeting of shareholders on 23 March 2010. For this reason, the Annual General Meeting of shareholders elected Mr. Gerhard Beinhauer, Mrs. Silke Stenger and Mr. Gerhard Rolf as new Supervisory Board members. The Supervisory Board members are appointed until the end of the Annual General Meeting of shareholders that passes a resolution concerning the discharge of the Supervisory Board members for the second financial year after the start of their period of office, whereby the financial year in which the period of office commences is not included in the calculation. Consequently they are appointed until the end of the 2013 Annual General Meeting of shareholders. At the constituent Supervisory Board meeting held on 25 March 2010, Mr. Gerhard Beinhauer was elected Supervisory Board Chairman, and Mrs. Silke Stenger was elected Deputy Supervisory Board Chairwoman.

Compensation of Supervisory Board members is set out in § 13 of the Company's articles of association (in the version amended as a result of the resolution passed by the Annual General Meeting of shareholders of 23 March 2010). The Supervisory Board passes a resolution concerning the distribution of total compensation among individual Supervisory Board members. The Supervisory Board has decided that Supervisory Board compensation should be distributed equally when considering individual Supervisory Board members' tasks, and particularly the balanced roles and responsibilities within a body consisting of three members. The following table shows individual total compensation for each of the Supervisory Board members:

€ '000	**Gerhard Beinhauer**	**Silke Stenger**	**Gerhard Rolf**
Fixed compensation	72,000	72,000	72,000

Two Supervisory Board members have each received € 48,000 as an advance on the compensation that is payable after the expiry of the financial year pursuant to the articles of association.

Supervisory Board members do not receive a performance-based remuneration element, but instead receive exclusively fixed compensation. The Company regards payment of exclusively fixed compensation as appropriate given the Supervisory Board's consultative and supervisory function.

Compensation of Supervisory Board members Reimund Berner, Andrew Blythe and Richard Kelsey, who held office until the end of the Annual General Meeting of shareholders on 23 March 2010, was based on § 13 of the articles of association (in the version valid until 23 March 2010). Following the mutual routine established over many years, the former Supervisory Board members have not claimed any remuneration for their activities. Accordingly, the former Supervisory Board members received no compensation in either the financial year 2010 or the previous year.

1.10 Report and remarks on disclosures pursuant to § 289 Paragraph 4 of the German Commercial Code (HGB)

Composition of issued capital

The Company's issued capital (share capital) amounted to € 33,142,552 as of 31 December 2010, and is divided into 33,142,552 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 31 December 2010.

Restrictions affecting voting rights or the transfer of shares

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

Direct or indirect interests in the share capital exceeding 10% of voting rights

On 22 November 2010, Mr. Krister Graf notified us pursuant to § 21 Paragraph 1 of the German Securities Trading Act (WpHG) that his percentage of voting rights in KHD on 18 November 2010 has fallen below the threshold of 25%, and amounted to a total of 21.86% (7,244,951 voting rights) as of this date. Of these voting rights, a total of 21.86% (corresponding to 7,244,951 voting rights) are attributed to him, and specifically 0.00% (corresponding to 50 voting rights) pursuant to § 22 Paragraph 1 Number 1 WpHG via KGC Strategische Dienstleistungen UG (haftungsbeschränkt), Cologne (KGC), and 21.86% (corresponding to 7,244,901 voting rights) pursuant to § 22 Paragraph 2 WpHG via Terra Nova.

On 22 November 2010, KGC notified us pursuant to § 21 Paragraph 1 WpHG that its percentage of voting rights in KHD on 18 November 2010 has fallen below the threshold of 25%, and amounted to a total of 21.86% (7,244,951 voting rights) as of this date. Of these voting rights, a total of 21.86% (corresponding to 7,244,901 voting rights) are attributed to it pursuant to § 22 Paragraph 2 WpHG via Terra Nova.

On 22 November 2010, Terra notified us pursuant to § 21 Paragraph 1 WpHG that its percentage of voting rights in KHD on 18 November 2010 has fallen below the threshold of 25%, and amounted to a total of 21.86% (7,244,951 voting rights) as of this date. Of these voting rights, a total of 0.00% (corresponding to 50 voting rights) are attributed to it pursuant to § 22 Paragraph 2 WpHG.

The Management Board has not been informed of further shareholders whose voting rights directly or indirectly exceed 10% of the total voting rights as of the balance sheet date.

Shares with special rights granting control authorisations

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

Method of voting right control if employees own shares and do not directly exercise their controlling rights

There iare no shares owned by employee in the meaning of § 289 Paragraph 4 Number 5 of the German Commercial Code (HGB).

Regulations governing the appointment and recall from office of Management Board members, and regulations governing changes to the articles of association

The Management Board consists of one or several persons whom the Supervisory Board appoints for a term of office of a maximum of five years pursuant to § 84 AktG. Reappointment or the extension of term of office is permitted. The Supervisory Board can appoint one of the Management Board members to be the Management Board Chairperson. A court may appoint a Management Board member in exceptional cases pursuant to § 85 AktG. The Supervisory Board may revoke a Management Board appointment, or the Management Board Chairperson nomination, if there is good cause to do so pursuant to § 84 Paragraph 3 AktG.

The articles of association may be changed only by a resolution passed by the General Meeting of shareholders pursuant to §§ 119 Paragraph 1 Number 5, 179 AktG. Unless determined otherwise by mandatory statutory regulations, resolutions by the General Meeting of shareholders are passed with a simple majority of votes submitted and, if required, by a simple majority of the issued share capital represented, pursuant to § 133 AktG, and § 18 Paragraph 2 of the articles of association. The Supervisory Board

may pass resolutions to amend the articles of association, which relates solely to their wording, pursuant to § 20 of the articles of association. Amendments to the articles of association become effective when they have been entered in the commercial register, pursuant to § 181 Paragraph 3 AktG.

Management Board authorisations, particularly concerning the possibility to issue or repurchase shares

The Management Board is authorised, with Supervisory Board assent, to increase the Company's share capital in the period between 23 March 2010 and 22 March 2015 inclusive, once or on several occasions, by a total of up to € 16,571,276 against cash and/or non-cash capital contributions through the issue of up to 16,571,276 new ordinary bearer shares.

As part of the above authorisation, the Management Board, with Supervisory Board assent, passed a resolution on 21 December 2010, to perform a capital increase from approved capital while granting statutory subscription rights for existing shareholders. The capital increase was concluded on 16 February 2011 when it was entered in the commercial register. The Company's issued capital was increased by € 16,561,021, from € 33,142,552 to € 49,703,573, as part of this transaction. The new ordinary bearer shares, each with a notional amount in the share capital of € 1.00 per share, were issued at a price of € 4.53 per share. They carry dividend entitlement from 1 January 2010.

Significant agreements subject to a change of control following a takeover offer

KHD Group may utilise a bank guarantee credit facility of up to € 150 million as part of a Bonding Line Facility Agreement with a banking consortium. In the instance of a change of control in the meaning of this agreement, the Company will immediately inform the banks of this change of control, and enter into negotiations with the lead-managing bank, Raiffeisen Bank International AG, Vienna/Austria, concerning the continuation of the Bonding Line Facility Agreement.

Compensation agreements that the Company has entered into with Management Board members or employees for the instance of a takeover offer

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

1.11 Representation of the Management Board on relationships with affiliated companies

Pursuant to § 312 Paragraph 1 of the German Stock Corporation Act (AktG) the Management Board of KHD prepared a report on relationships with affiliated companies.

The related representation of the Management Board is as follows:

"In respect of the legal transactions and measures referred to above, our Company has received, for each legal transaction, an appropriate compensation under the circumstances that were known to us at the time the legal transactions were performed or the measures were taken and has not been placed at a disadvantage due to the fact that measures were taken or failed to be taken."

Cologne, 25 March 2011

The Management Board

Jouni Salo Manfred Weinandy

2 Balance Sheet as at 31 December 2010

Assets	31 Dec. 2010 € '000	31 Dec. 2009 € '000
A. Fixed assets		
Long-term financial investments		
Shares in affiliated companies	26,410	26,410
B. Current assets		
I. Receivables and other assets		
1. Receivables due from affiliated companies	1,358	809
2. Other assets	5,996	17,600
	7,354	18,409
II. Securities		
1. Shares in affiliated companies	0	2,787
2. Treasury shares	0	221
3. Other securities	0	0
	0	3,008
III. Cash in hand, bank balances	20,213	49,981
	27,567	71,398
C. Prepayments and deferred expenses	22	0
	53,999	97,808

Equity and liabilities	31 Dec. 2010 € '000	31 Dec. 2009 € '000
A. Equity		
I. Subscribed capital	33,143	33,143
./. Treasury shares	-229	0
Issued capital	32,914	33,143
II. Capital reserves	1,776	1,776
III. Revenue reserves		
1. Legal reserve	1,538	1,538
2. Reserve for treasury shares	0	3,008
Of which from controlling companies T€ 0 (previous year: T€ 2,787)		
3. Other revenue reserves	1,776	1,547
	3,314	6,093
IV. Net retained profits	721	49,785
	38,725	90,797
B. Accruals and provisions		
1. Tax accruals	2,663	148
2. Other accruals and provisions	3,610	2,345
	6,273	2,493
C. Liabilities		
1. Trade payables	549	9
2. Liabilities due to affiliated companies	8,266	4,445
3. Other liabilities	36	64
Of which tax liabilities T€ 16 (previous year: T€ 6)		
	8,851	4,518
D. Deferred income	150	0
	53,999	97,808

3 Income statement 2010

		2010 € '000	2009 € '000
1.	Other operating income	2,952	3,759
2.	Personnel expenses		
a)	Wages and salaries	1,432	288
b)	Social security costs	16	37
		1,448	325
3.	Other operating expenses	3,562	475
4.	Income from long-term equity investments	0	52,388
	Of which from affiliated companies T€ 0 (previous year: T€ 52,388)		
5.	Income from long-term loans	0	1
	Of which from affiliated companies T€ 0 (previous year: T€ 1)		
6.	Other interest and similar income	93	92
7.	Expenses under loss transfer agreements	0	929
8.	Interest and similar expenses	167	0
	Of which to affiliated companies T€ 0 (previous year: T€ 0)		
9.	Result from ordinary activities	-2,132	54,511
10.	Taxes on income	348	240
11.	Other taxes	0	0
12.	Net income/loss for the year	-2,480	54,271
13.	Profit/loss carried forward from previous year	414	-2,678
14.	Withdrawals from revenue reserves		
	From treasury share reserve	3,008	0
	Of which for shares in a controlling company T€ 2,787 (previous year: T€ 0)		
15.	Allocation to revenue reserves		
a)	To the legal reserve	0	-1,383
b)	To the reserve for treasury shares	0	-425
	Of which for shares in a controlling company T€ 0 (previous year: T€ 425)		
c)	To other revenue reserves	-221	0
16.	Net retained profits	721	49,785

4 Notes to the Financial Statements 2010

4.1 General notes

Accounting

The annual financial statements of KHD Humboldt Wedag International AG (formerly: KHD Humboldt Wedag International (Deutschland) AG), Cologne (KHD or Company), for the financial year 2010 have been prepared according to German Commercial Code (HGB) regulations for large corporations while taking into account the German Accounting Law Modernisation Act (BilMoG), and the regulations of the German Stock Corporation Act (AktG). The figures of the previous year were not adjusted in application of the option provided for in Article 67 Paragraph 8 Clause 2 of the Introductory Act to the German Commercial Code (EGHGB). The financial statements have been prepared in Euro. All amounts, including prior-year figures, are generally stated in thousands of Euro (T€ or € '000). All amounts have been commercially rounded. The nature of expense method was applied to the income statement. KHD is a large corporation in the meaning of § 267 Paragraph 3 in combination with § 264d of the German Commercial Code (HGB).

4.2 Accounting principles

Fixed assets

Long-term financial investments are reported at cost.

Current assets

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

Equity

Subscribed capital corresponds to the articles of incorporation and the entry in the commercial register.

Other accruals and provisions

All risks and contingent liabilities identifiable as at the balance sheet date had been taken into account while setting-up appropriate accruals and provisions.

Liabilities

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

Foreign currency translation

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

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

4.3 Notes to the balance sheet and income statement

1. Fixed assets

Please refer to the statement of movements in fixed assets in the financial year 2010 which is attached as an exhibit to the notes to the financial statements.

2. Receivables and other assets

Receivables due from affiliated companies relate primarily to services invoiced as of December 2010 to KHD Group companies based on the service and cost allocation agreement and the bond arrangement agreement.

Other assets primarily relate to a receivable due from Terra Nova in an amount of T€ 2,663. This comprises a capital gains tax reimbursement claim, which originated as a consequence of the tax audit of the German KHD Group companies of the years 2005 to 2007 that was concluded in the financial year 2010. KHD recognised an income tax

accrual in the same amount. Other assets in the previous year mainly arose from a tax receivable of T€ 11,035 due from the relevant tax office. This related to a reimbursement claim in connection with an advance distribution of profit from KHD HW to its shareholder KHD as at the end of the financial year 2009. The reimbursement was already made in full at the start of the financial year 2010.

Other assets also include a receivable of T€ 1,914 due from MFC Corporate Services AG, Herisau, Switzerland. This receivable results from a ruling by the Cologne Regional Court of 4 November 2006. KHD accounts for other accruals in the same amount.

Other assets also include a VAT credit in an amount of T€ 928 (previous year: T€ 4,451). Of this amount, T€ 828 (previous year: T€ 4,445) are attributable within the existing VAT group taxation relationship to Humboldt Wedag GmbH, Cologne (HW) and ZAB Zementanlagenbau GmbH Dessau, Dessau (ZAB). For this reason, this amount is reported to the same level as part of liabilities due to affiliated companies.

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

3. Securities

The Company has held treasury shares since 2002. The shares have been acquired in order to manage the share price, and as a provision for any reconciliation of residual amounts that might eventually be required in the context of capital increases. They were accounted in the balance sheet at their cost of € 1.93 per share. Due to an act amendment valid from 1 January 2010 (Accounting Law Modernisation Act of 25 May 2009) the presentation in the financial year 2010 differs from the previous year. Treasury shares were deducted from subscribed capital pursuant to § 272 Paragraph 1a of the German Commercial Code (HGB). The corresponding reserve for treasury shares was released, and the full amount was reclassified to other revenue reserves. Following a resolution of the Annual General Meeting of shareholders of 23 March 2010 the share capital was newly divided in a 1:2 ratio by way of a stock split. This doubled the number of ordinary shares from 16,571,276 to currently 33,142,552. Each share corresponds to € 1.00 of the share capital.

The stock split also increased the number of treasury shares from 114,568 to 229,136. The share's stock market price was € 6.16 as of 31 December 2010.

The shares in Terra Nova that were reported as shares in affiliated companies among current securities were sold in the year under review. The sale generated a T€ 249 disposal gain.

As at 31 December 2010 the Company accounts for shares in an amount of € 118.70 among current other securities. These are measured at cost or fair value (stock market/market price), whichever is lower).

4. Cash in hand and bank balances

T€ 13,061 out of the total bank balances relate to restricted cash that was deposited as collateral in connection with the bank guarantee credit facility . Of this amount, KHD Group companies provided an amount of T€ 7,330 to the Company as collateral for the portion of the bank guarantee credit facility utilised by them. The corresponding liabilities due to these companies are presented among liabilities due to affiliated companies. The Company has also directly furnished collateral for Group companies in an amount of T€ 5,731.

5. Equity

The dividend payment of € 49.4 million was disbursed to shareholders at the end of the first quarter of 2010 pursuant to the resolution of the Annual General Meeting of shareholders.

Share capital

The Company's share capital amounts to € 33,142,552.00, and is divided into 33,142,552 ordinary bearer shares.

The treasury shares reported among securities in the previous year were reclassified and the equivalent of their notional value was deducted from subscribed capital .

On the basis of a resolution of the Annual General Meeting of shareholders of 23 March 2010, the Company's Management Board is authorised pursuant to § 5 Paragraph 1 of the Company's articles of association, to increase the Company's share capital until 22 March

2015, with Supervisory Board approval, through the issuing of up to 16,571,276 new no par ordinary bearer shares (each corresponding to € 1.00 of the share capital) against cash contributions, once or on several occasions, by up to a total of € 16,571,276.00 ("approved capital"). Shareholders are entitled to statutory subscription rights. The Management Board is also authorised to determine the further specifics of capital increases and their implementation with Supervisory Board approval. The amendment to the articles of association was entered in the Company's commercial register on 25 March 2010.

Changes in equity in 2010

€ '000	Issued capital	Capital reserves	Legal reserve	Reserve for treasury shares	Other revenue reserves	Net retained profits	Total
Balance 31 Dec. 2009	33,143	1,776	1,538	3,008	1,547	49,785	90,797
Treasury shares	-229	0	0	-221	229	0	-221
Dividend payment	0	0	0	0	0	-49,371	-49,371
Withdrawn from reserve for shares in parent entity	0	0	0	-2,787	0	2,787	0
Net loss 2010	0	0	0	0	0	-2,480	-2,480
Balance 31 Dec. 2010	32,914	1,776	1,538	0	1,776	721	38,725

A dividend of € 3.00 per share (before the stock split) was distributed at the end of the first quarter of to the Company's shareholders (total dividend amounting to € 49.4 million). Profit carried forward of T€ 414 is included in net retained profits as of 31 December 2010. A loss carried forward of T€ 2,670 was reported as of 31 December 2009.

6. Accruals and provisions

	31 Dec. 2010 € '000	Previous year € '000	Change € '000
Tax accruals	2,663	148	2,515
Other accruals and provisions	3,610	2,345	1,265
	6,273	2,493	3,780

The tax audit for the German companies of KHD Group covering the fiscal years 2005, 2006 and 2007 was started in the previous year and was concluded in the first half of 2010. As the result of the tax audit, tax expenses for previous years totalling T€ 645 were determined for the Company; those taxes have already been paid in the financial year 2010.

The T€ 2,663 tax accrual comprises a capital gains tax reimbursement claim due to the external tax audit for the years 2005 to 2007 for the German companies of the KHD Group, which was concluded in the year under review. This tax accrual is offset by a receivable due from former majority shareholder Terra Nova in the same amount.

Other accruals and provisions particularly contain an item in an amount of T€ 1,976, which was formed in previous years in connection with the shareholders' lawsuit referred to under note 13. It was formed for the risk that MFC Corporate Services, on the basis of the claim that KHD has asserted for return of contributions, for its part asserts a reimbursement claim to the level of expenses that it has incurred. Other accruals and provisions also include personnel related costs, costs for the preparation of annual financial statements, and accruals for outstanding invoices.

7. Liabilities

	31 Dec. 2010 € '000	31 Dec. 2009 € '000	Change € '000
Trade payables	549	9	540
Liabilities due to affiliated companies	8,266	4,445	3,821
Other liabilities	36	64	(28)
(of which tax liabilities)	(16)	(64)	(-48)
	8,851	4,518	4,333

As in the previous year, liabilities reported as of 31 December 2010 have a residual term of less than one year.

Liabilities due to affiliated companies include amounts corresponding to collaterals for bank guarantees from HW (T€ 5,615), ZAB (T€ 1,700) and HWAUS (T€ 15), these liabilities bear interest. The cash received for bank guarantee collateral is presented among bank balances as restricted cash.

Liabilities due to affiliated companies also relate to liabilities arising from the VAT group taxation relationship, which are attributable to HW and ZAB, as in the previous year.

8. Contingent liabilities

KHD has provided € 45.7 million (previous year: € 3.9 million) for affiliated companies as guarantees and/or Group guarantees, letters of comfort, and sureties.

As part of the existing bank guarantee credit facility, the Company has directly provided guarantees amounting to T€ 106,722 for KHD Group companies as of 31 December 2010. The guarantees that have been furnished are collateralised by proportional cash collateral with the banking consortium led by Raiffeisen Bank International AG, Vienna (RBI).

Drawings of guarantees are not anticipated on the basis of corporate budgets for the respective KHD Group companies.

DEUTZ AG, Cologne, has provided a deed of release for KHD for a subsidiary liability to Unterstützungsgesellschaft mbH of Maschinenfabrik Fahr AG in an amount of € 0.3 million. HypoVereinsbank AG, Munich, has provided a guarantee for satisfaction by DEUTZ AG, Cologne, arising from this matter.

9. Other financial obligations

Other financial obligations on the part of KHD existed primarily to affiliated companies as of the balance sheet date. These arise from a service agreement for administrative services that are provided by HW. The monthly obligation amounts to T€ 20 with a residual term of up to one year.

10. Other operating income

Other operating income primarily comprises income from the passing on of expenses to affiliated companies pursuant to the service & cost allocation agreement (T€ 2,280) and the bond arrangement agreement (T€ 304).

11. Personnel expenses

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

12. Other operating expenses

Other operating expenses are composed as follows:

	2010 € '000	Previous year € '000	Change € '000
Legal and consultancy costs	829	50	779
Audit fees/tax consultancy costs	579	210	369
Costs related to the capital increase	494	0	494
Supervisory Board compensation	216	0	283
Group charges	647	12	635
Costs of the Annual General Meeting of shareholders	94	25	69
Investor relations	142	0	142
IPO costs	59	71	-12
Other	502	108	327
	3,562	475	3,087

13. Litigation

Litigation

Action brought by shareholders ("Return of Contributions"):

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

The subject matters of the actions were fees in the amount of T€ 1,206 ("placement fee") and in the amount of T€ 1,914 ("merchant banking fee"), which had been paid by KHD to MFC Corporate Services at the end of 2002 for the placing of the capital increase in

December 2002, and for provision of merchant banking services. In the plaintiffs' opinion, these payments were inadmissible because they constituted a return of contributions, and the said items of the annual financial statements had been understated due to failure to book a corresponding repayment claim.

Based on the regional court ruling, the Company had already booked with profit and loss impact in its financial statements for previous years an account receivable from MFC Corporate Services in the amount of the merchant banking fee (T€ 1,914), and asserted this claim against MFC Corporate Services in its letter dated 16 February 2006. The court ruling does not relate to the placing fee.

In view of the actual expenses in the amount of T€ 1,976 in connection with the services provided to KHD under the merchant banking agreement, which have been substantiated in detail by MFC Corporate Services, the Company also already carried a corresponding liability in previous year's financial statements for the event whereby, should eventually a claim be utilised by KHD, MFC Corporate Services on its part asserts a reimbursement claim for the expenses incurred.

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

One of the complaints has meanwhile been withdrawn. In respect of the complaint still pending, the Company anticipates that there are still good reasons to assume that its appeal will succeed. A corresponding ruling is still outstanding on account of many postponements.

Action brought by shareholders ("Valuation of Companies Sold"):

KHD was served the complaint by a shareholder on 27 February 2007 in connection with the valuation of the companies sold. The subject matter of this complaint is assertion of nullity of the approved annual financial statements as at 31 December 2005 and of the resolutions according to which the members of the Management Board and Supervisory Board were formally discharged.

This lawsuit was terminated through a settlement agreement of 19 April 2010 at the Cologne Higher Regional Court.

Application filed by shareholders for appointment of a special auditor

In connection with valuing the five companies sold in 2005/2006, an investment fund has, in its capacity as a KHD shareholder, filed an application for the appointment of the special auditor Dr. Klaus Lippmann to examine the transactions in the area of the conduct of affaires of the Management Board and Supervisory Board in connection with the disposal of the companies in 2005/2006.

This lawsuit was terminated through a settlement agreement of 19 April 2010 at the Cologne Higher Regional Court.

14. Other disclosures

Employees

The Company employed one salaried staff member on average during the year (previous year: four). The company does not employ industrial staff members.

Tax audit

The external tax investigation for the years 2005 to 2007 at the German companies of KHD Group was concluded in the financial year elapsed. As a result of the audit, tax payments of T€ 645 for previous year were determined for the Company. During the financial year under review these taxes have already been paid in full by the Company.

An external wage and salaries tax audit was conducted for the years 2007 to 2009 during the 16 August until 22 September 2010 period. This was concluded in the year under review, and resulted in no significant retrospective tax payments.

A special VAT audit was also conducted for February 2010 and April 2010 within the VAT group taxation relationship, respectively at the German companies of KHD Group, namely HW, KHD, KHD HW and ZAB. The special VAT audit was also concluded in the year under review, and resulted in no significant retrospective tax payments.

15. Shareholdings

Company		Capital share in %		Equity	Net profit/loss for year € '000
Subsidiaries					
KHD Humboldt Wedag GmbH, Cologne	direct	100.00	€ '000	25,638	-826
Humboldt Wedag GmbH, Cologne	indirect	100.00	€ '000	55,871	17,974
ZAB Zementanlagenbau GmbH Dessau, Dessau	indirect	100.00	€ '000	39,931	4,057
EKOF Flotation GmbH, Bochum	indirect	100.00	€ '000	795	215
Blake International Ltd., Tortola/BVI	indirect	100.00	€ '000	3,365	0
KHD Humboldt Wedag Industrial Services AG, Cologne	indirect	88.97	€ '000	6,169	463
Paper Space GmbH, Cologne	indirect	88.97	€ '000	64	-1
Humboldt Wedag Australia Pty Ltd., Braeside, Australia	indirect	100.00	€ '000	1,315	597
Humboldt Wedag Inc., Norcross, USA	indirect	100.00	€ '000	1,053	-2,498
Humboldt Wedag India Private Ltd., New Delhi, India	indirect	100.00	€ '000	22,440	4,468
KHD Humboldt Wedag Machinery Equipment (Beijing) Co. Ltd., Beijing, China	indirect	100.00	€ '000	224	-82
Joint ventures					
KHD Engineering Holding GmbH, Vienna/Austria	indirect	50.00	€ '000	1,195	799
OOOKHD Humboldt Engineering, Moscow/Russia	indirect	50.00	€ '000	4,296	4,174

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

Foreign currency cash rate as of 31 December 2010
1 Euro equals:

AUD	1.4423
INR	60.5878
USD	1.3257
RUB	40.2629
RMB	8.7697

The liquidation of HIT Paper Trading GmbH, Vienna, Austria, was launched pursuant to a resolution of 30 September 2010. This liquidation was fully completed in the financial year 2010. ZAB Industrietechnik & Service GmbH, Dessau, was merged into ZAB Zementanlagenbau GmbH Dessau, Dessau, with effect as of 1 January 2010.

Supervisory and Management board members

Supervisory Board

Gerhard Beinhauer, Managing Director of BBI Beteiligungs- und Handelsgesellschaft mbH, Wehrheim
Supervisory Board Chairman (from 23 March 2010 until 14 February 2011),
(since 23 March 2011)

Membership of supervisory boards and other governing bodies:

- Web-Arts AG, Supervisory Board member
- omniwatt AG, Supervisory Board Chairman
- Gold Cache Inc, Non-executive Member of the Board

Silke Stenger, Independent controller and Managing Director of Management One Human Capital Consultants Limited, Frankfurt am Main
Deputy Supervisory Board Chairwoman (since 23 March 2010)

Gerhard Rolf, retired
(since 23 March 2010)

Reimund Berner, businessman
Supervisory Board member / Supervisory Board Chairman
(until 23 March 2010)
Vice President Commercial and Treasurer of HWUS

Membership of supervisory boards and other governing bodies:

- KIS, Supervisory Board Chairman

Andrew Blythe, engineer
Supervisory Board member (until 23 March 2010)
Deputy Supervisory Board Chairman (until 23 March 2010)
Senior Vice President Sales and Services of KHD
Membership in supervisory boards and other governing bodies

- HWIN, Non-executive Member of the Board of Directors (until 16 February 2011)
- KIS, Supervisory Board

Richard Kelsey, businessman
Supervisory Board member (until 23 March 2010)
Head of Corporate Development of KHD

Management Board

Jouni Salo, engineer, Bratislava, Slovakia
CEO of KHD

Manfred Weinandy, businessman, Mettmann (since 29 March 2010)
CFO of KHD

Membership in supervisory boards and other governing bodies

- HWIN, Non-executive Member of the Board of Directors (since 21 February 2011)

Alan Hartslief, businessmen, Vienna , Austria (until 28 March 2010)
CFO of KHD Humboldt Wedag International Ltd., Vancouver/Canada

4.4 Total remuneration of current and former members of the Management Board and the Supervisory Board

Total compensation of KHD's Management Board members from the KHD Group companies was T€ 1,338 in the financial year 2010 (previous year: T€ 126). The total remuneration granted to the Supervisory Board members for performing their duties amounted to T€ 216 in the financial year 2010 (previous year: T€ 0). The compensation report contains further remarks about Management Board and Supervisory Board compensation. The compensation report forms part of the management report, and also describes the main points of the compensation system.

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

Two Supervisory Board members have each received T€ 48 as an advance on the compensation that is, pursuant to the articles of association, payable after the expiry of the financial year 2010.

4.5 Parent company and the consolidated financial statements

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

4.6 Reported shareholdings

KGC Strategische Dienstleistungen UG (haftungsbeschränkt), Cologne (KGC), represented by its managing director, Mr. Krister Graf, Frankfurt / Main, and Terra Nova (formerly: KHD Ltd.) concluded a voting commitment agreement on 27 March 2010, according to which KHD Ltd. will exercise its voting rights arising from the shares solely according to KGC's instructions. The shares held by KHD Ltd. are consequently attributable to KGC and vice versa.

On 1 April 2010, Terra Nova and KGC and Mr. Krister Graf notified the Company that their voting rights as of this date amounted to 97.64%.

On 5 May 2010, Terra Nova and KGC and Mr. Krister Graf notified the Company that their voting rights had fallen to below 75%, and amounted to 74.34% as of this date.

On 1 June 2010, Mr. Peter Kellogg notified that his voting rights share had exceeded the 5% threshold, and that 5.69755% of the voting rights were attributable to him as of this date via IAT Reinsurance Company Ltd.

On 2 June 2010, Mr. Peter Kellogg notified that his voting rights share had exceeded the 3% threshold and fallen below the 5% threshold of voting rights, and that as of this date 4.68% of the voting rights were attributable to him via IAT Reinsurance Company Ltd.

On 7 June 2010, Mr. Peter Kellogg notified that his voting rights share had exceeded the 3% threshold, and that 4.68% of the voting rights were attributable to him as of this date via IAT Reinsurance Company Ltd.

On 16 June 2010, Mr. Peter Kellogg notified that his voting rights share had exceeded the 3% and 5% threshold of voting rights, and that as of this date 5.70% of the voting rights were attributable to him via IAT Reinsurance Company Ltd.

On 6 October 2010, Terra Nova and KGC and Mr. Krister Graf notified that their voting rights had fallen below the 50% threshold, and amounted to 48.59% as of this date.

In accordance with § 21 of the German Securities Trading Act (WpHG), Terra Nova and KGC made notification on 19 November 2010 that their voting rights on this date had fallen below the 25% threshold, and amounted to 21.86% as of this date.

On 9 February 2011, KGC and Mr. Krister Graf notified that their voting rights share had fallen below the 20%, 15%, 10% and 3% thresholds, and amounted as of this date to 0% (corresponding to 50 voting rights).

On 14 February 2011, Terra Nova notified that its voting rights share had fallen below the 20%, 15% and 10% thresholds, and amounted to 6.56% as of this date (corresponding to 2,173,656 voting rights).

On 16 February 2011, Lang & Schwarz Broker GmbH, Düsseldorf, notified that its voting rights share had exceeded the 3%, 5%, 10%, 15%, 20% and 30% thresholds, and amounted to 33.32% as of this date.

On 22 February 2011, Lang & Schwarz Broker GmbH, Düsseldorf, notified that its voting rights share had fallen below the 30%, 25%, 20%, 15%, 10%, 5% and 3% thresholds, and amounted to a total of 2.73% as of this date.

On 28 February 2011, the People's Republic Of China, Beijing, China, notified us pursuant to § 21 Paragraph 1 of the German Securities Trading Act (WpHG) that its voting rights share had reached and exceeded the 3%, 5%, 10%, 15% and 20% thresholds on 22 February 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 § 22 Paragraph 1 Number 1 of the German Securities Trading Act (WpHG) via the following companies whose voting rights share amounts to 3% or more:

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

Pursuant to § 21 Paragraph 1 of the German Securities Trading Act (WpHG), AVIC International Holding Corporation, Beijing, China, notified us on 28 February 2011 that its voting rights share had reached and exceeded the 3%, 5%, 10%, 15% and 20% thresholds on 22 February 2011, and that it 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 § 22 Paragraph 1 Number 1 of the German Securities Trading

Act (WpHG) via the following companies whose voting rights share amounts to 3% or more:

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

On 28 February 2011, CATIC Beijing Co. Limited, Beijing, China, notified us pursuant to § 21 Paragraph 1 of the German Securities Trading Act (WpHG) that its voting rights share had reached and exceeded the 3%, 5%, 10%, 15% and 20% thresholds on 22 February 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 § 22 Paragraph 1 Number 1 of the German Securities Trading Act (WpHG) via the following companies whose voting rights share amounts to 3% or more:

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

Pursuant to § 21 Paragraph 1 of the German Securities Trading Act (WpHG), Kairong Limited, Hong Kong, China, notified us on 28 February 2011 that its voting rights share had reached and exceeded the 3%, 5%, 10% and 15% and 20% thresholds on 22 February 2011, and that it 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 § 22 Paragraph 1 Number 1 of the German Securities Trading Act (WpHG) via the following companies whose voting rights share amounts to 3% or more:

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

On 28 February 2011, Kaihang Industrial Limited, Hong Kong, Beijing, China, notified us pursuant to § 21 Paragraph 1 of the German Securities Trading Act (WpHG) that its voting rights share had reached and exceeded the 3%, 5%, 10%, 15% and 20% thresholds on 28 February 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 § 22 Paragraph 1 Number 1 of the German Securities Trading Act (WpHG) via Max Glory Industries Limited, Hong Kong, China, whose voting rights share amounts to 3% or more.

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

Pursuant to § 21 Paragraph 1 of the German Securities Trading Act (WpHG), Mr. Jan-Kees Berkhemer, Netherlands, notified us on 8 March 2011 that his voting rights share had exceeded the 3% threshold on 2 March 2011, and amounted to a total of 3.0594% as of this date (corresponding to 1,520,608 voting rights). Of these voting rights, a total of 3.0589% of the voting rights (corresponding to 1,520,383 voting rights) are attributable to him pursuant to § 22 Paragraph 2 of the German Securities Trading Act (WpHG).

Pursuant to § 21 Paragraph 1 of the German Securities Trading Act (WpHG), Mr. Patrick O'Sullivan Greene, Ireland, notified us on 8 March 2011 that his voting rights share had exceeded the 3,0594% threshold on 2 March 2011, and amounted to a total of 3.0594% as of this date (corresponding to 1,520,608 voting rights). Of these voting rights, a total of 3.0549% of the voting rights (corresponding to 1,518,358 voting rights) are attributable to him pursuant to § 22 Paragraph 2 of the German Securities Trading Act (WpHG).

Pursuant to § 21 Paragraph 1 of the German Securities Trading Act (WpHG), Mr. Anthony Bunker, Germany, notified us on 8 March 2011 that his voting rights share had exceeded the 3% threshold on 2 March 2011, and amounted to a total of 3.0594% as of this date (corresponding to 1,520,608 voting rights). Of these voting rights, a total of 3.0501% of the

voting rights (corresponding to 1,515,988 voting rights) are attributable to him pursuant to § 22 Paragraph 2 of the German Securities Trading Act (WpHG).

Pursuant to § 21 Paragraph 1 of the German Securities Trading Act (WpHG), Mrs. Giulia Nobili, Principality of Monaco, notified us on 8 March 2011 that her voting rights share had exceeded the 3% threshold on 2 March 2011, and amounted to a total of 3.0594% as of this date (corresponding to 1,520,608 voting rights). Of these voting rights, a total of 2.9467% of the voting rights (corresponding to 1,464,608 voting rights) are attributable to her pursuant to § 22 Paragraph 2 of the German Securities Trading Act (WpHG).

Pursuant to § 21 Paragraph 1 of the German Securities Trading Act (WpHG), MP ADVISORS SA, Lugano, Switzerland, notified us on 8 March 2011 that its voting rights share had exceeded the 3% threshold on 2 March 2011, and amounted to a total of 3.0594% as of this date (corresponding to 1,520,608 voting rights). Of these voting rights, a total of 3.0544% of the voting rights (corresponding to 1,518,108 voting rights) are attributable to it pursuant to § 22 Paragraph 2 of the German Securities Trading Act (WpHG).

Pursuant to § 21 Paragraph 1 of the German Securities Trading Act (WpHG), Mr. Massimo Pedrazzini, Switzerland, notified us on 8 March 2011 that its voting rights share had exceeded the 3% threshold on 2 March 2011, and amounted to a total of 3.0594% as of this date (corresponding to 1,520,608 voting rights). Of these voting rights, a total of 0.0050% of the voting rights (corresponding to 2,500 voting rights) are attributable to him pursuant to § 22 Paragraph 1 Clause 1 Number 1 of the German Securities Trading Act (WpHG), and 3.0544% (corresponding to 1,518,108 voting rights) of the voting rights are attributable to him pursuant to § 22 Paragraph 2 of the German Securities Trading Act (WpHG).

Pursuant to § 21 Paragraph 1 of the German Securities Trading Act (WpHG), STERLING STRATEGIC VALUE LIMITED, Road Town, Tortola, British Virgin Islands, notified us on 8 March 2011 that its voting rights share had exceeded the 3% threshold on 2 March 2011, and amounted to a total of 3.0594% as of this date (corresponding to 1,520,608 voting rights). Of these voting rights, a total of 0.132% (corresponding to 65,595 voting rights) are attributed to it pursuant to § 22 Paragraph 2 of the German Stock Corporation Act (WpHG).

Pursuant to § 21 Paragraph 1 of the German Securities Trading Act (WpHG), GRITLOT LIMITED, Douglas, Isle of Man, notified us on 8 March 2011 that its voting rights share had exceeded the 3% threshold on 2 March 2011, and amounted to a total of 3.0594% as of this date (corresponding to 1,520,608 voting rights). Of these voting rights, a total of 2.9274% of the voting rights (corresponding to 1,455,013 voting rights) are attributable to it pursuant to § 22 Paragraph 1 Clause 1 Nr Number 1 of the German Securities Trading Act (WpHG), and 0.1320% (corresponding to 65,595 voting rights) of the voting rights are attributable to it pursuant to § 22 Paragraph 2 of the German Securities Trading Act (WpHG).

Pursuant to § 21 Paragraph 1 of the German Securities Trading Act (WpHG), Mr. Tito Tettamanti, Switzerland, notified us on 8 March 2011 that his voting rights share had exceeded the 3% threshold on 2 March 2011, and amounted to a total of 3.0594% as of this date (corresponding to 1,520,608 voting rights). Of these voting rights, a total of 2.9274% of the voting rights (corresponding to 1,455,013 voting rights) are attributable to him pursuant to § 22 Paragraph 1 Clause 1 Number 1 of the German Securities Trading Act (WpHG), and 0.1320% (corresponding to 65,595 voting rights) of the voting rights are attributable to him pursuant to § 22 Paragraph 2 of the German Securities Trading Act (WpHG).

4.7 Auditor's fee

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

4.8 Corporate governance

The Management Board and Supervisory Board of KHD issued the declaration required pursuant to § 161 of the German Stock Corporation Act (AktG) on 25 March 2011, and have also made it available to shareholders on the Company's website at (www.khd.com).

4.9 Appropriation of net retained profits

The Management Board and Supervisory Board propose to the Annual General Meeting of shareholders that it carries forward the net retained profits of T€ 721 reported in the financial statements of the financial year 2010 to a new account.

Cologne, 25 March 2011

The Management Board

Jouni Salo Manfred Weinandy

5 Movements in Fixed Assets in the Financial Year 2010

(Exhibit to the Notes)

	Gross book values				Accumulated amortisation, depreciation and write-downs				Net book values	
	Balance as at 1 Jan. 2010 €'000	Additions €'000	Disposals €'000	Balance as at 31 Dec. 2010 €'000	Balance as at 1 Jan. 2010 €'000	Additions €'000	Disposals €'000	Balance as at 31 Dec. 2010 €'000	Balance as at 31 Dec. 2010 €'000	31 Dec. 2009 €'000
Long-term financial assets										
Shares in affiliated companies	26,410	0	0	26,410	0	0	0	0	26,410	26,410

Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the financial statements give a true and fair view of the net assets, financial position and profit or loss 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, 25 March 2011

The Management Board

Jouni Salo Manfred Weinandy

[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 2010. 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 Board of Directors. 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 Board of Directors, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

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

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

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

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

Nevertheless, addressing the regional court ruling, the Company had capitalised in the annual financial statements as at 31 December 2005, and discloses unchanged in its annual financial statements as at 31 December 2010, an account receivable from MFC Corporate Services AG (formerly: MFC Merchant Bank S.A.), Herisau/Switzerland, in the amount of EUR 1,914 thousand. For the expenses in connection with the services substantiated in detail by MFC Corporate Services AG (formerly: MFC Merchant Bank S.A.), Herisau/Switzerland, to the Company, a provision for contingent liabilities in the

amount of EUR 1,976 thousand had been made in the annual financial statements as at 31 December 2005; this provision is also disclosed unchanged as at 31 December 2010.

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

Düsseldorf/Germany, 25 March 2011

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

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

Report of the Supervisory Board

Dear Shareholders,

In the financial year 2010 the Supervisory Board of KHD Humboldt Wedag International AG comprehensively performed the supervisory and advisory functions incumbent to it by virtue of the law, the articles of association and the rules of procedure. It monitored and advised the Management Board continuously and consulted with the Management Board in numerous ordinary and extraordinary meetings as well as through discussions outside the meetings. The Supervisory Board was regularly, in due time and comprehensively informed by the Management Board in writing or orally on the intended Company's policy, fundamental issues of financial, investment and personnel planning, the course of business and the profitability of the Group and its material Group companies. The Management Board also reported on the strategic approach of the Company and the status of strategy implementation.

The Supervisory Board was involved in decisions of fundamental importance for KHD Group. These include measures to be taken and business transactions to be carried out by the Management Board which require the approval of the Supervisory Board. These comprise, in particular, the approval of the annual budget and the medium-term planning as well as the approval to the acceptance of major orders.

Cooperation between the Management Board and the Supervisory Board has always been constructive. The Chairman of the Supervisory Board was in regular contact with the Chairman of the Management Board, also outside the meetings. The Management Board Chairman notified the Supervisory Board Chairman without delay of any important events, which were essential for the evaluation of the situation and the development of KHD Group.

Personnel Changes in the Supervisory Board and the Management Board

The former Supervisory Board members Reimund Berner, Andrew Blythe and Richard Kelsey resigned as Supervisory Board members with effect as of the end of the Annual General Meeting of shareholders on 23 March 2010. For this reason, the Annual General Meeting of shareholders elected Mr. Gerhard Beinhauer, Mrs. Silke Stenger and

Mr. Gerhard Rolf as new Supervisory Board members. At the constituent Supervisory Board meeting held on 25 March 2010, Mr. Gerhard Beinhauer was elected Supervisory Board Chairman, and Mrs. Silke Stenger was elected Deputy Supervisory Board Chairwoman.

Effective 14 February 2011 Mr. Beinhauer resigned from the Supervisory Board.

Contrary to the procedure described on page 151 of the securities prospectus of 29 December 2010, the new major shareholder Max Glory Industries Limited ("Max Glory") has not appointed a Supervisory Board member following the capital increase for KHD Humboldt Wedag International AG. The resignation of the Supervisory Board Chairman Gerhard Beinhauer as of the conclusion of the capital increase resulted in a shortfall in appointments to the Supervisory Board. On the basis of a court appointment of 23 March 2011, Gerhard Beinhauer was appointed as a member of the Supervisory Board of KHD Humboldt Wedag International AG, and was also re-elected Supervisory Board Chairman as the result of a resolution passed by the Supervisory Board on 23 March 2011.

On 28 March 2010, Mr. Alan Hartslief resigned from the Management Board. With effect from 29 March 2010, Mr. Manfred Weinandy was appointed member of the Management Board; he is responsible for the financial department.

Meetings and Resolutions of the Supervisory Board from 1 January to 23 March 2010

Until 23 March 2010, the Supervisory Board held one ordinary meeting. All members of the Supervisory Board attended this meeting. At the Supervisory Board meeting for approval of the financial statements on 9 February 2010, the Supervisory Board dealt comprehensively, inter alia, with the annual financial statements and the consolidated financial statements for the financial year ending 31 December 2009 of KHD Humboldt Wedag International AG (formerly KHD Humboldt Wedag International (Deutschland) AG). The Supervisory Board approved the annual financial statements and the consolidated financial statements and consented to the proposal for appropriation of net retained profits.

Other resolutions (inter alia, approval of business transactions of major importance for the Group) were adopted by the written procedure on the basis of documents made available outside Supervisory Board meetings.

Meetings and Resolutions of the Supervisory Board after 23 March 2010

After its constituent meeting on 23 March 2010, the Supervisory Board held three ordinary meetings in the financial year 2010. All company relevant matters were comprehensively discussed at these meetings, namely on 26 May 2010, on 10 August 2010 and on 11 and 15 November 2010. Moreover, six extraordinary meetings were held on 23 March 2010, on 17 April 2010, on 20, 22 and 23 September 2010 and on 17 December 2010. All members of the Supervisory Board attended these meetings. In urgent cases, resolutions were adopted by circulation in writing.

The agendas of the ordinary Supervisory Board meetings in May, August and November covered reports on business development, deviations of the actual business development from the plans, resolutions concerning the German Corporate Governance Code, the internal control system and the subscription to a D&O insurance. Moreover, the Supervisory Board was informed about operational issues.

At the extraordinary meetings in March, April, September and December the main topics on the agendas were above all the constitution of the new Supervisory Board, decisions on the compensation of the members of the Management Board, decisions regarding Corporate Governance, operational issues and the approval of the budget for 2011. Moreover, the planned strategic partnership with CATIC Beijing Co., Ltd. was discussed.

Further resolutions (inter alia, approval of business transactions of major importance for the Group) were adopted by the written procedure on the basis of documents made available outside Supervisory Board meetings.

Corporate Governance and Declaration of Compliance

The independence criteria of the German Corporate Governance Code have been fulfilled by the members of the Supervisory Board. There are no conflicts of interest as defined by the German Corporate Governance Code.

In March 2011 the Management Board and the Supervisory Board have issued a declaration of compliance according to Section 161 of the German Stock Corporation Act (AktG). This declaration has been published in the meantime and is permanently available for shareholders on the Company's website at www.khd.com. Please find further information on Corporate Governance in the Group Management Report in the section „Corporate Governance Report in accordance with § 289a of the German Commercial Code (HGB)".

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 for the financial year 2010 (prepared in accordance with principles set out in the German Commercial Code (HGB)), the consolidated financial statements including the Group management report for the financial year 2010 (prepared in accordance with IFRS principles as adopted by the European Union) as well as the report on relations with affiliated companies (dependence report). The annual financial statements including the management report as well as the consolidated financial statements including the Group management report were audited by Deloitte & Touche GmbH, Düsseldorf, who have issued unqualified audit opinions on both sets of financial statements. Furthermore, the auditors confirmed that the risk management system complies with the legal requirements set out in Section 91, Para. 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 auditing reports were issued to all members of the Supervisory Board in due time. They were subject to extensive deliberations at the Supervisory Board meeting for approval of the financial statements on 29 March 2011. The auditors as well as the Management Board participated in these discussions. The auditors presented the focal points of their audit as well as the audit results. In addition, the auditors were available to provide further information and to answer questions.

The Supervisory Board conducted its own examination of the annual financial statements including the management report and the consolidated financial statements including the Group management report as well as of the Management Board's proposal on the

appropriation of the net retained profits for the financial year 2010 while taking into account the auditors' reports.

The Supervisory Board examined all documents submitted and 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. The Supervisory Board approves the annual financial statements and the consolidated financial statements of KHD Humboldt Wedag International AG for the financial year 2010 as prepared by the Management Board. Hence, the annual financial statements of KHD Humboldt Wedag International AG are adopted. Furthermore, the Supervisory Board consents to the appropriation of net retained profits proposed by the Management Board.

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

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

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

The Management Board submitted the dependence report to the Supervisory Board, and the Supervisory Board has examined the report. After the concluding results of their examination the Supervisory Board has no objections to raise against the Management Board's final declaration in the dependence report or against the result of the audit carried out by the auditors.

Duties pursuant to Section 107, Para. 3 of the German Stock Corporation Act (AktG)

The Supervisory Board has not formed any committees, because it consisted of only three members in the financial year 2010. The duties that would otherwise be delegated to

committees (especially to the Audit Committee) are discharged collectively by all three members of the Supervisory Board.

The Supervisory Board monitored the accounting process. Based on reports from the Management Board it also discussed the interim management statements and the half-year financial report prior to their release. Moreover, the Supervisory Board dealt with the proposal on the appointment of the auditor by the Annual General Meeting, the issuing of the audit mandate, determining the focal points of the audit as well as with the agreement on fees with the auditors. Furthermore, the Supervisory Board monitored the auditor's independence, qualification, rotation and efficiency of the auditors as well as the services provided by the auditor in addition to financial statements audits.

The Supervisory Board was also informed on the effectiveness and further development of the risk management system, the risk situation, risk identification and risk monitoring as well as on the compliance structures and compliance issues within the Group.

On the basis of reports from the Management Board and the head of Internal Audit the Supervisory Board dealt with the effectiveness of the Group's internal control system. The head of Internal Audit reported on tasks and responsibilities, provided information about auditing activities and submitted the internal audit plan 2010/11.

Expression of Thanks

The Supervisory Board would like to thank the Management Board for its open and constructive cooperation as well as all staff members for their highly committed, responsible and successful work in the past financial year 2010 and wishes them every success for the new financial year 2011.

Cologne, 30 March 2011

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