KHD Humboldt Wedag International AG
Colonia-Allee 3
51067 Cologne
Germany

KHD HUMBOLDT WEDAG - ANNUAL REPORT 2010

KHD HUMBOLDT WEDAG

ANNUAL REPORT 2010

GROUP FINANCIAL FIGURES – OVERVIEW

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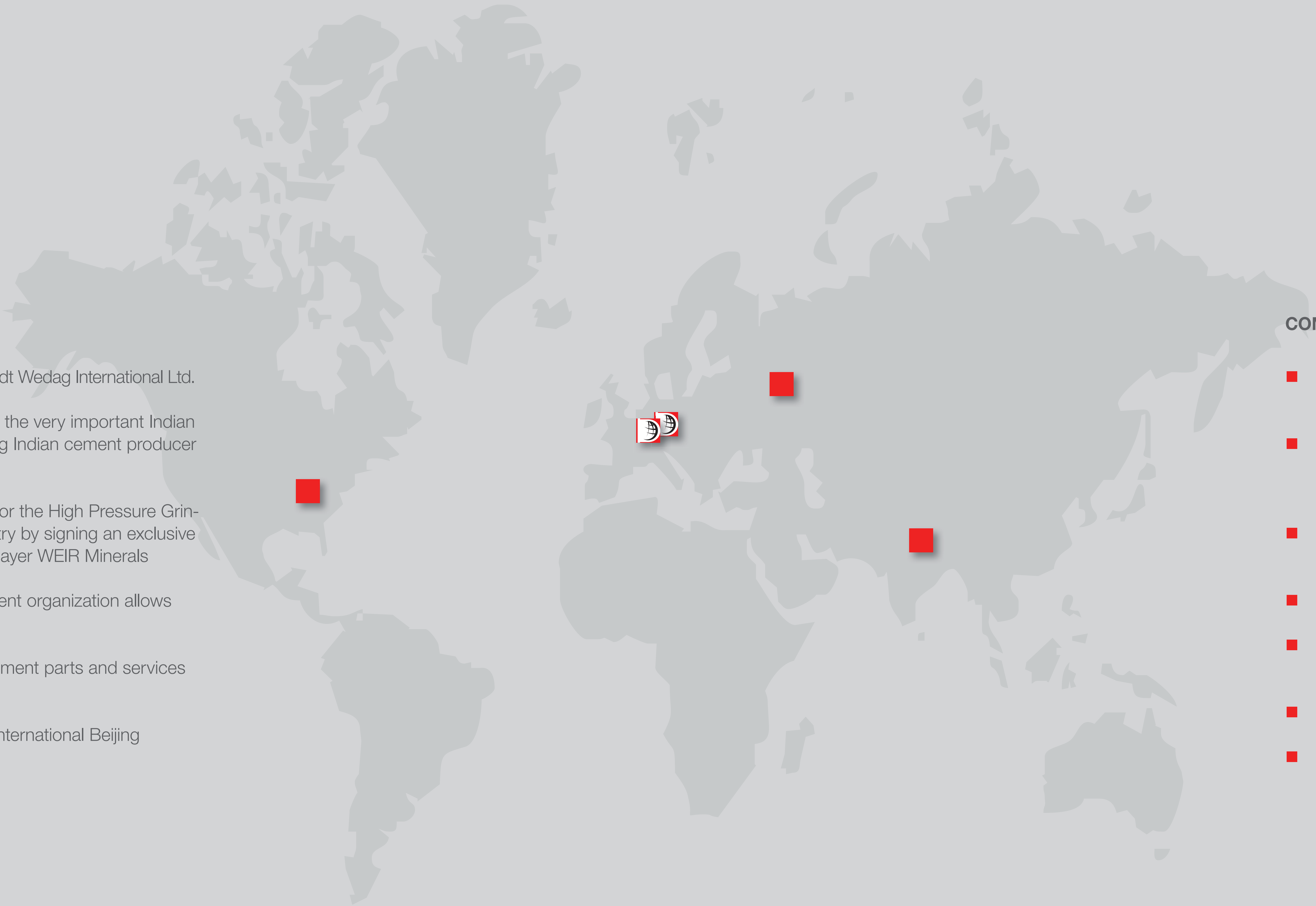
in € million	31 Dec. 2010	31 Dec. 2009	Change in %
Order intake	268.9	57.6	366.8
Order backlog	303.5	213.1	42.4
Revenue	286.9	360.3	-20.4
Gross profit	57.4	66.0	-13.0
EBIT	25.0	49.7	-49.7
EBT	26.0	53.7	-51.6
Net profit for the year	15.8	37.2	-57.5
EPS in Euro, Cent	0.47	1.13	-58.4
Cash and cash equivalents	293.1	225.8	29.8

Pro-forma

in € million	31 Dec. 2010	31 Dec. 2009	Change in %
Order intake	307.9	123.6	149.1
Order backlog	303.5	304.2	-0.2
Revenue	307.9	393.7	-21.8
Gross profit	60.9	76.8	-20.7
EBIT	26.7	64.0	-58.3
EBT	28.1	68.8	-59.2
Net profit for the year	17.0	45.8	-62.9
EPS in Euro, Cent	0.51	1.39	-63.3
Cash and cash equivalents	293.1	246.8	18.9

HIGHLIGHTS OF 2010

- Successful company split from KHD Humboldt Wedag International Ltd.
- Strengthened the already strong position in the very important Indian market, including a major order from leading Indian cement producer for two 10.000 tpd kiln lines
- Expanded sales and aftermarket activities for the High Pressure Grinding Rolls technology in the minerals industry by signing an exclusive agency agreement with renowned global player WEIR Minerals
- Newly launched Global Account Management organization allows to better focus on the major players
- Laid groundwork for expanding the replacement parts and services business in 2011
- Strategic partnership with Chinese CATIC International Beijing Company Ltd. opens new markets



COMPANY PROFILE

- Global supplier of equipment and services for the cement industry based in Cologne
- History of over 150 years of building on new technologies, innovations and high-end processes to meet the global cement industry demand
- Technology focused company specialized in process engineering and project execution
- Wide range of services and products for the cement industry
- High competence in eco-friendly and efficient products for pyro processing and grinding
- Worldwide 767 employees
- Presence in emerging markets like India, Russia/CIS, as well as in USA and EMEA

CONTENTS

LETTER TO THE SHAREHOLDERS

Jouni Salo

CEO, at KHD since 2008. More than 25 years of experience in the international construction and mining equipment business

Manfred Weinandy

Joined KHD in 2003, appointed CFO 2010. More than 20 years of experience in the areas of finance, IT and personnel

Dear shareholders,
colleagues and business partners,

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.

The year brought numerous positive and trendsetting changes for KHD Humboldt Wedag International AG ("KHD"). At the end of March the former parent company, the Canadian KHD Humboldt Wedag International Ltd., split its business activities into two separate groups, the mining royalty business which was continued by it under its new name Terra Nova Royalty Corporation, listed on the NYSE and the German KHD Humboldt Wedag International AG listed on the regulated market of the Frankfurt stock exchange.

From then on, KHD headed the industrial plant portion of the business and continued as one of the leading companies for cement plant technology, equipment and services. With 767 employees worldwide the KHD group of companies operates through customer service centers in growing markets like India and Russia. Other major customer service centers include the Americas, based in Atlanta, covering both North and South America and Cologne is home to the EMEA (Europe, Middle East and Africa) customer service center. A customer service center for Asia Pacific will be launched in 2011.

The strategic partnership agreement with Chinese government-owned CATIC Beijing Company Ltd is very exciting. CATIC has made a long-term commitment to the partnership by acquiring 20 % of KHD's share capital through a capital increase. All details were finalized in late 2010 and the two companies have already started working together on common projects. We anticipate minor positive effects from our partnership in 2011, however the impact on a larger scale will be reflected onwards from 2012.

By combining CATIC's construction expertise and competitive cost structure with our 150 years of process know-how and our „made in Germany" equipment and systems, customers now have a new option for turn-key cement plant projects. This strategic partnership combines the best of East and West. Through the strategic partnership with CATIC, KHD has also increased its market exposure as it further opens the Chinese market, which is 50 % of global cement capacity. In addition, the Chinese government is actively pushing to implement energy-efficient and environmentally-friendly industrial technologies, which could not come at a better time.

In May 2010 KHD also concluded an exclusive sales agency agreement with Weir Minerals. Weir Minerals possesses an excellent sales and service network in the mining industry and now operates as KHD's exclusive global agent and aftermarket partner for our High Pressure Grinding Rolls technology in the mining industry. This allows us to expand our activities for this equipment in the minerals processing sector.

We were able to strengthen our already strong position in the very important Indian market and received a major order from leading Indian cement producer UltraTech Cement Ltd. This order entails a volume of € 85 million with two kiln lines and 13 roller presses with a combined daily output of 20,000 tons.

Operational improvements also continued in 2010 and our newly launched Global Account Management structure allows us to better focus on the major players in the market to serve their needs. Preparations to further expand our replacement parts and services business have also been made and will be put into action during 2011.

Before corporate restructuring several of our legal entities were reported under former parent company through Q1 2010. Therefore, the legal reporting in this report does not completely reflect the full performance of the whole group. The legal structure recorded revenues of € 287 million, whilst full year performance of all group entities was € 308 million (pro forma) as compared with total group pro forma revenues of € 394 million in 2009. The reduced figure reflects the very low order intake during economic crisis year 2009.

We are very pleased to report an EBIT margin 8.7 % or € 25.0 million (pro forma € 26.7 and 8.7 %). In the former corporate structure total SG&A costs added up to over € 55 million in 2009 – of which the overwhelming majority was required for the industrial plant business. When comparing this on a pro forma basis, the management successfully implemented restructuring measures to reduce this figure by over € 16 million down to € 38.8 million for 2010.

KHD booked new order intake of € 269 million for 2010 (pro forma basis: € 308 million) and as of December 31, 2010 our order backlog of € 304 million provides a sound basis for 2011.

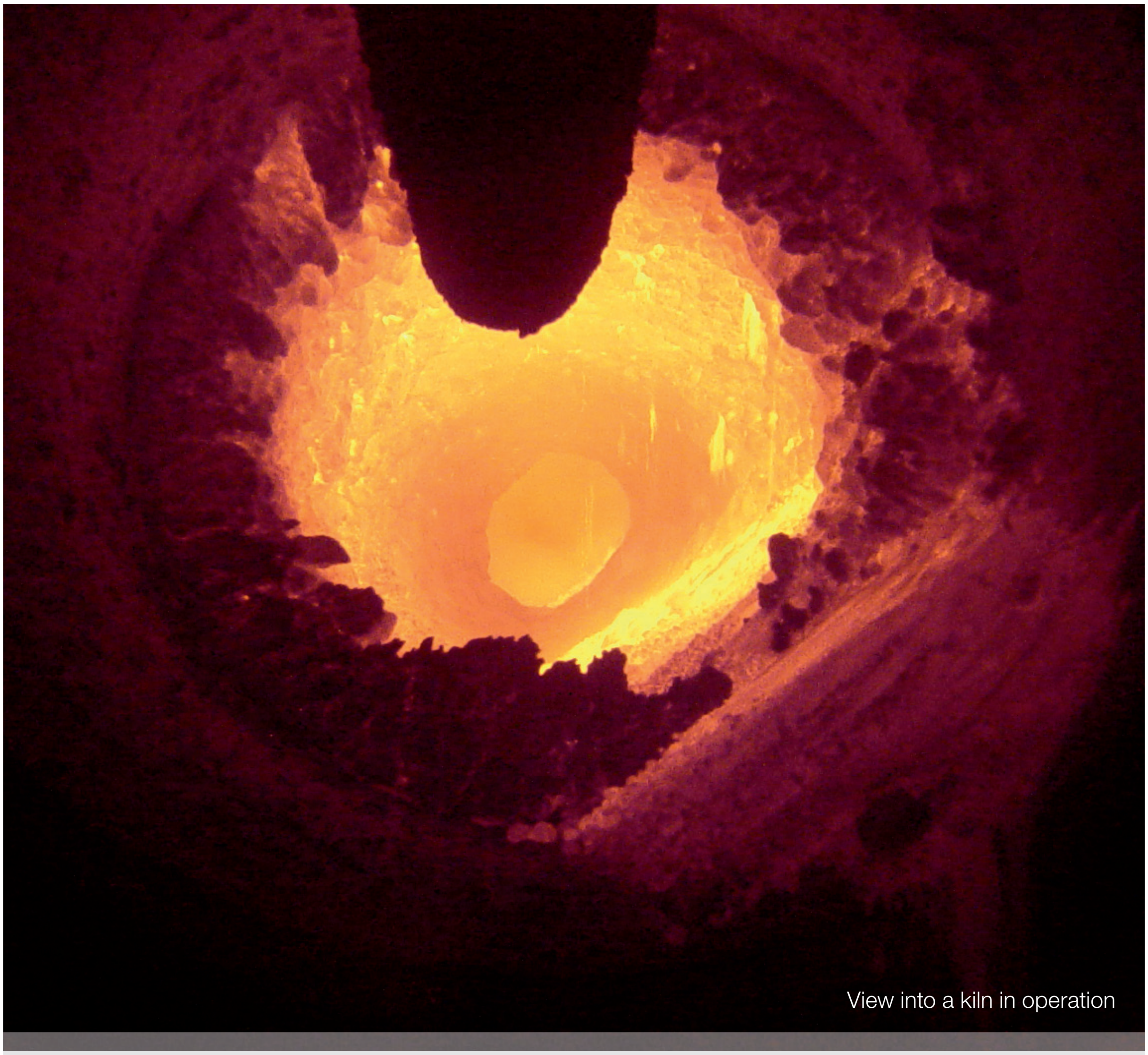
In looking ahead to 2011 we would like to note that we finalized this report only days after the tragic events in Japan. It is also too early to tell how the political turmoil in North Africa and the Middle East will change these regions and their demand for cement capacity.

Nevertheless, we do expect growth to continue in the cement industry, especially in emerging markets like India and China, where we are now well-positioned to participate in the growth of both regions. We also expect some new business from South America.

As you can see a lot has changed at KHD and we will continue to gear up to become even stronger in 2011. We would like to thank you, our shareholders and business partners, for your confidence and trust and we invite you to join us on our journey to becoming an even stronger force in the industry.

We would also like to to sincerely thank our entire global staff for their commitment and teamwork in bringing KHD forward.

Jouni Salo	Manfred Weinandy
Chief Executive Officer	Chief Financial Officer



View into a kiln in operation

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

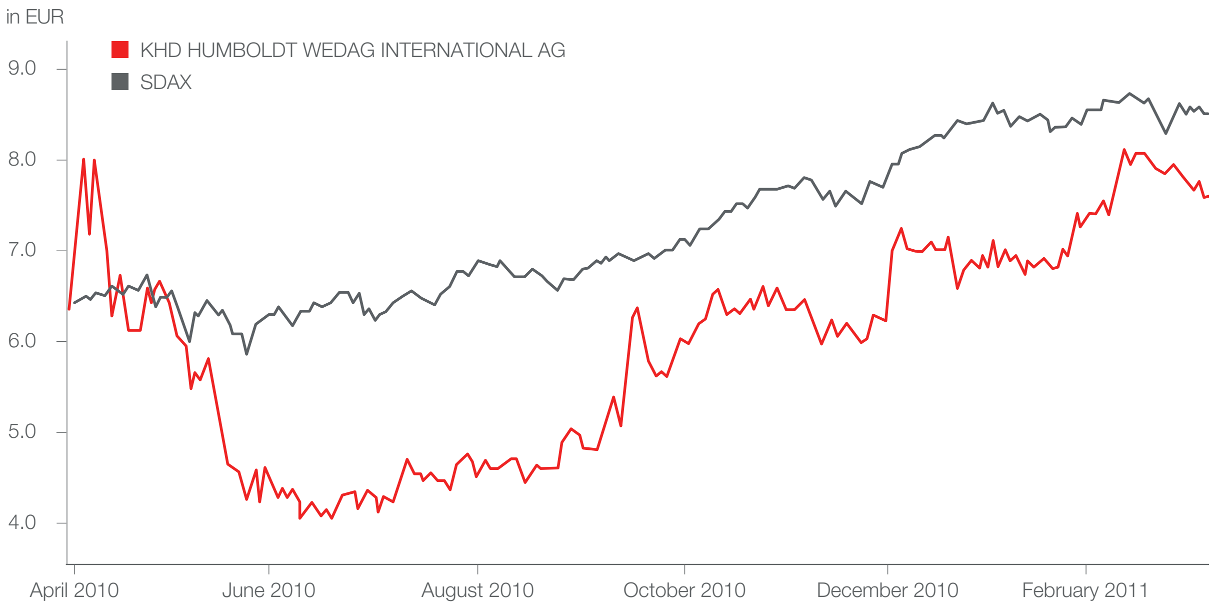
G. Beinhauer

Gerhard Beinhauer
(Chairman of the Supervisory Board)

INFORMATION ON THE SHARE

Share price

Period: 31 March 2010 until 15 March 2011



On 31 March 2010, KHD switched from the Regulated Unofficial Market to the Regulated Market (General Standard) of the Frankfurt Stock Exchange. Following the company‘s spin-off from NYSE-listed parent company Terra Nova, the share, which was still relatively unknown in Germany, initially fell during spring 2010, marking its low for the year at € 4.00 on 17 June on the Xetra platform (intraday basis). The share nevertheless put in a rapid turnaround, gathering significant momentum. This reflected growing investor demand, a generally positive trend on the German equity market, and continuing macroeconomic recovery.

The share booked strong additional gains over subsequent months and performed largely in line with the SDAX small cap index in this context. The positive trend in the KHD share price fed through to an increase in its Xetra trading volumes: while just 600,000 shares were traded in April 2010, by December this figure had already grown to 2.7 million shares traded. The share quoted at € 6.95 at the end of the final trading day of the year (30 December). As a consequence, the company boasted a market capitalisation of € 230.3 million as of the 31 December reporting date. KHD continued its share price ascent in the new 2011 business year, accompanied by high share turnover, and reached its highest level since its segment switch at € 8.24 on 11 February.

Key data:

ISIN	DE0006578008
German Securities Identification Number (WKN)	657800
Ticker symbol	KWG
Economic sector	Industrial plant and services
Stock market sector	Plant engineering
Trading segment	Regulated Market of the Frankfurt Stock Exchange (General Standard)
Currency	Euro
Listing on Regulated Market	31 March 2010
Issued capital as of 31 December 2010	€ 33,142,552
Issued capital as of 31 March 2010	€ 49,703,573
Number of shares as of 31 December 2010	33,142,552
Number of shares as of 31 March 2010	49,703,573
Type of shares	Ordinary bearer shares
Designated Sponsor	Lang & Schwarz
Financial year-end	31 December
2010 share price high	€ 7.25
2010 share price low	€ 4.00
Share year-closing price year as of 30 December 2010	€ 6.95

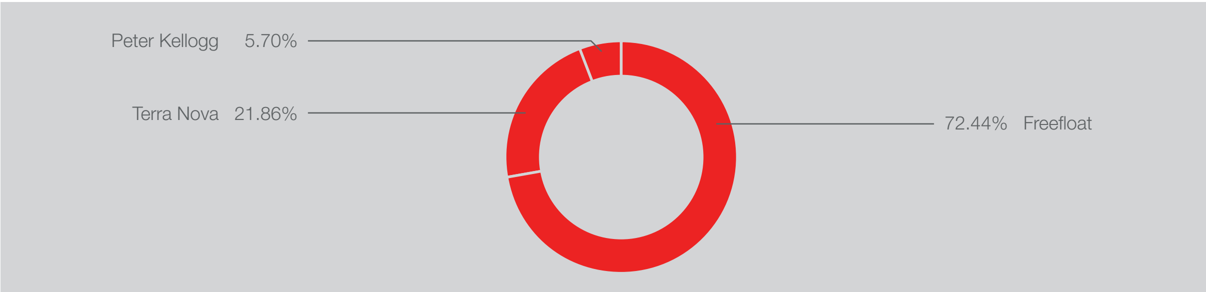
Capital increase

As part of a cooperation agreement with the Chinese company AVIC International Beijing Co. Ltd. (formerly CATIC Beijing Co. Ltd.), KHD passed a resolution on 21 December 2010 to implement a rights issue. This was concluded successfully on 16 February 2011. The new ordinary bearer shares, each with a notional amount in the share capital of EUR 1.00 per share, were issued at a price of € 4.53 per share. Existing shareholders subscribed for a total of 6,620,306 shares. Max Glory Industries Ltd. („MGI“) acquired the shares that were not subscribed for, and holds 20% of KHD shares as a consequence. MGI is an indirect subsidiary of AVIC.

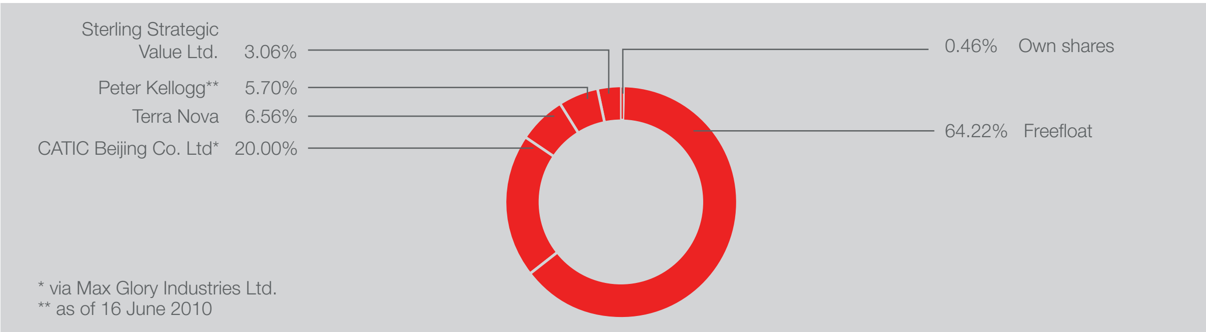
KHD‘s share capital increased by € 16,561,021, from € 33,142,552 to € 49,703,573, with the conclusion of the transaction. The gross issue proceeds from the transaction amounted to around € 75.0 million. The new shares were included in trading on 21 February 2011. As a consequence, the company‘s market capitalisation amounted to € 355.4 million as of 15 March.

Shareholder structure

Shareholder structure as of 31 December 2010 as per voting rights notifications submitted pursuant to the German Securities Trading Act (WpHG):



Shareholder structure as of 28 March 2011 as per voting rights notifications submitted pursuant to the German Securities Trading Act (WpHG):



Investor relations

With its switch from the Regulated Unofficial Market to the Regulated Market, KHD obligated itself to satisfy higher transparency standards. Besides a half-yearly financial report, the company also published interim reports for the first and third quarters of the 2010 financial year in this connection. KHD also mandated securities trading bank Lang & Schwarz as its Designated Sponsor, in order to ensure optimal tradability for its shares on the capital market. In addition, investor relations work was intensified from autumn 2010 through the support of cometis AG, and the company's investor relations website was revised. With a look to the new 2011 business year, the company has set itself the target of informing capital market participants promptly, and as comprehensively as possible, concerning respective current business trends. In this context, the publication of the half-yearly and annual reports are to be accompanied in the future by telephone conferences with webcasts. The Management Board is also planning to strengthen communication with capital market participants in the new year through roadshows conducted in both Germany and abroad, as well as through participation at capital market conferences.

2011 financial calendar

2010 annual report	31 March
Interim report for the first quarter of 2011	12 May
Ordinary General Meeting of Shareholders	24 May
Half-yearly financial report 2011	12 August
Interim report for the third quarter of 2011	10 November

Girth gear assembly for kiln drive

GROUP MANAGEMENT REPORT

GROUP MANAGEMENT REPORT FOR THE FINANCIAL YEAR 2010 OF KHD HUMBOLDT WEDAG INTERNATIONAL AG

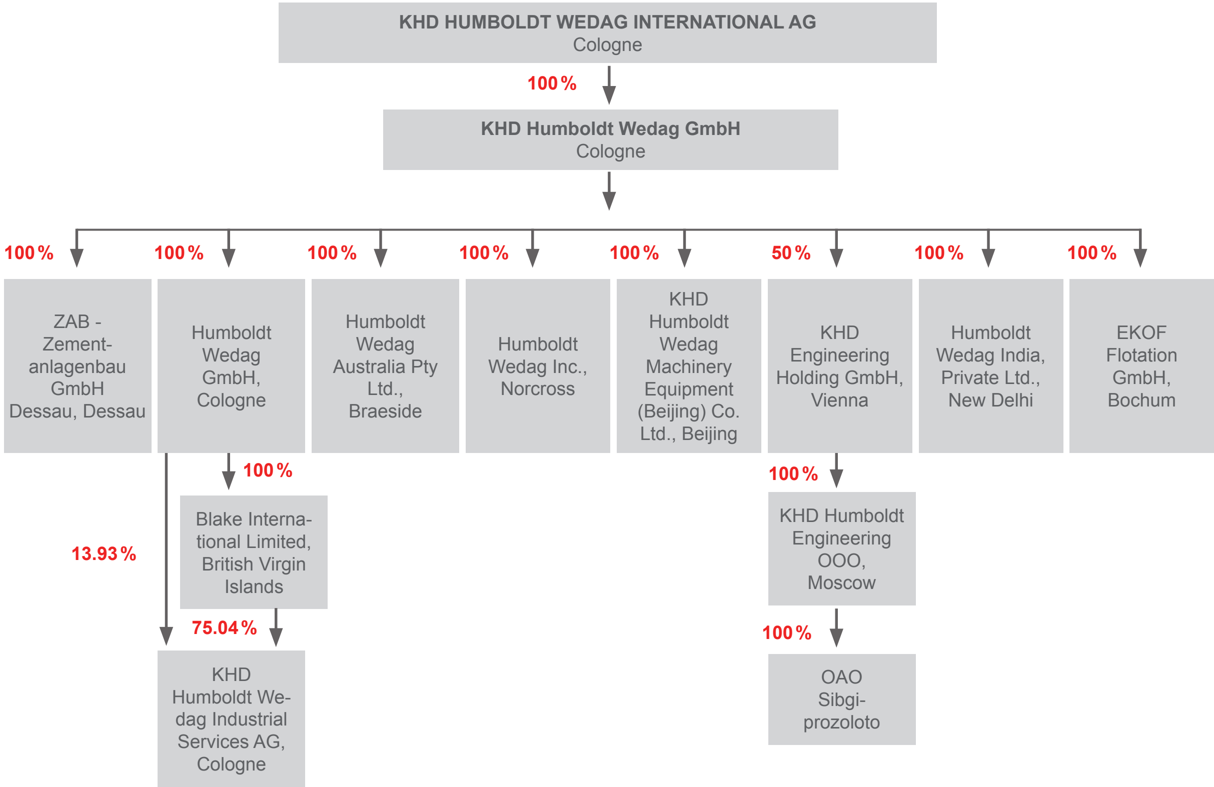
GENERAL BUSINESS DEVELOPMENT

Group structure and shareholdings

KHD Humboldt Wedag International AG (KHD, formerly KHD Humboldt Wedag International (Deutschland) AG), Cologne / Germany, hereafter referred to as the „Group“, ranks as one of the world‘s leading equipment suppliers and service companies for the cement industry. 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). The twelve KHD Group companies focus on the business segment of industrial plant engineering as well as related services. In its strategic and operational alignment, the Group is focused on planning and constructing plants for the cement industry. The Group also includes six companies which KHD acquired from KHD Humboldt Wedag International GmbH, Vienna / Austria (KIA), a wholly-owned subsidiary of Terra Nova Royalty Corp., Vancouver / Canada (Terra Nova), (formerly KHD Humboldt Wedag International Ltd., Vancouver / Canada (KHD Ltd.)), in the financial year 2010. These companies are also specialised in plant engineering as well as related services:

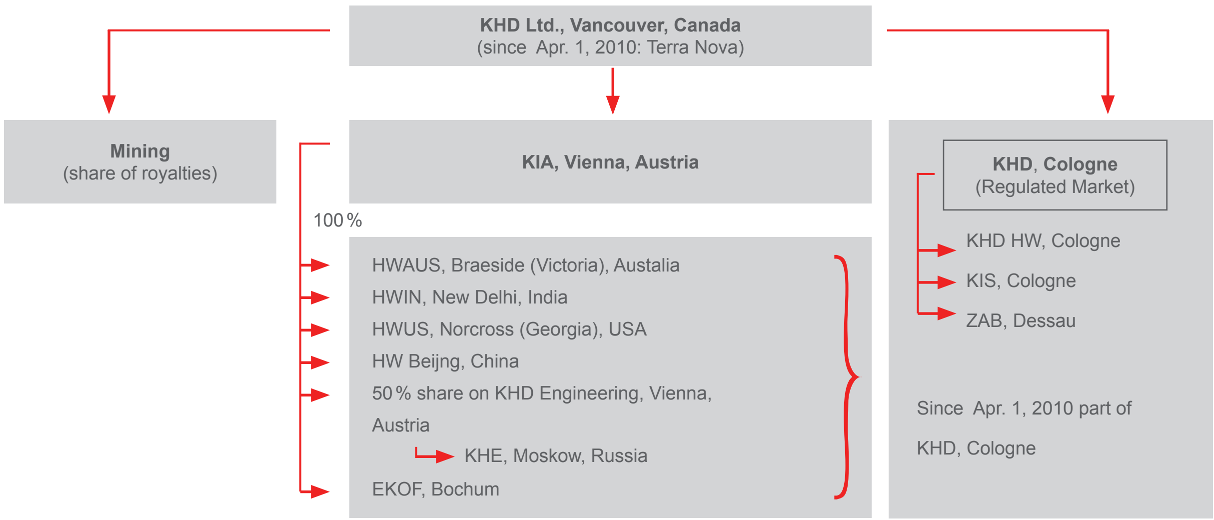
- Humboldt Wedag Australia Pty. Ltd. (Australia) (HWAUS)
- Humboldt Wedag Inc. (USA) (HWUS)
- Humboldt Wedag India Private Ltd. (India) (HWIN)
- KHD Humboldt Wedag Machinery Equipment (Beijing) Co. Ltd. (China) (KHD Beijing)
- KHD Engineering Holding GmbH (Austria) (KHD Engineering), 50 % shareholding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

The Group structure of KHD Humboldt Wedag International AG as of 31 December 2010:



Changes to the Group structure during the financial year 2010

Until the end of March 2010, KHD was a subsidiary of KHD Ltd., now Terra Nova, which is listed on the New York Stock Exchange (NYSE). In January 2010, the Board of Directors of KHD Ltd. took the decision to separate its two business areas (mineral royalty business and industrial plant engineering). The plant engineering companies were sold to KHD and the Terra Nova Group was therefore split into two independent groups. Terra Nova distributed 25,115,927 of its KHD shares to its shareholders. On 15 November 2010, Terra Nova announced that it will also distribute its remaining KHD shares to its shareholders. As part of the reorganisation, KHD Ltd. changed its name to Terra Nova in March 2010.



At the KHD Annual General Meeting of Shareholders on 23 March 2010, shareholders adopted the resolution to change the name of the Company from KHD Humboldt Wedag International (Deutschland) AG to KHD Humboldt Wedag International AG. This change of name was entered into the commercial register on 25 March 2010.

Employees

As of 31 December 2010, KHD Group employed a total of 767 people plus two trainees. In the previous year, this figure was 391 employees and five trainees. On the reporting date, the Company's workforce was distributed internationally as follows:

Germany	373
India	308
USA	38
Russia	38
China	10

Products and services

KHD ranks as one of the world's top five plant engineering and equipment supply companies for cement plants. The Company's services encompass designing and engineering, project management and supplying technical equipment, as well as supervising the erection and commissioning of cement plants and related equipment. Customer services such as supplying spare parts, plant optimisation of cement plants and training plant personnel round out KHD's service portfolio.

KHD supplies a core range of technical equipment, including systems for grinding, which represent essential elements of every cement plant. The Company's grinding technology is utilised in raw material and clinker grinding and comprise crushing, grinding and separation equipment. KHD's second core competency centres on all the key components of the kiln line, such as preheaters, calciner systems, burners, rotary kilns and clinker coolers. Moreover, the Company has developed a range of systems automation products, which are used with process control systems and for optimisation of the plant performance. Manufacturing is almost entirely outsourced to external manufacturers who produce components and equipment in accordance with KHD's specifications.

Generally speaking, KHD delivers its products and services directly to the operator of a cement plant or as part of a consortium including other equipment specialists. Depending on customer requirements, the Company can provide either individual equipment or 'full-line' technical equipment for a cement plant. The latter may also include equipment from other specialised equipment suppliers; KHD usually takes responsibility for the coordination and technology provided. KHD equipment is currently at work in over 500 plants worldwide.

The Company's most important successes in the financial year 2010 include the acquisition of a major order in India. This order encompasses two pyro-processing lines with a nominal capacity of 10,000 tpd each, as well as 13 roller presses for grinding raw material and clinker. Overall, KHD experienced high levels of customer acceptance for its roller press technology for grinding raw material and clinker. KHD products stand out from its competitors thanks to their comparatively low energy consumption, favourable maintenance expenses, low vibration and noise emission, as well as low levels of wear.

KHD plans to further expand its customer service business in the financial year 2011. In particular, the Company will focus on the supply of spare parts and parts subject to wear as well as supervising the erection and commissioning and the performance of the plants. In addition, KHD will be offering function tests (plant audits), particularly with regards to process engineering, mechanical equipment, electrical equipment, automation, quality and chemical processes, as well as consulting services with regard to environmental issues.

Research and development

As one of the world's leading providers of equipment and services for cement producers, KHD's R&D activities are closely aligned with customer needs and therefore the future market requirements. The focus is to develop eco-friendly and sustainable products and technologies characterized by high energy efficiency, allowing the realisation of optimal processes in cement manufacturing. A total of some 35 members of staff were involved in R&D activities during the 2010 financial year. These professionals consisted mainly of engineers specialising in a variety of different disciplines. In addition, other members of staff are also generally available for R&D-related work, depending on the order situation.

In 2010, R&D activities focused on standardising major components and boosting the efficiency of cement production plants. In the field of grinding technology, KHD completed in the first quarter of 2010 the development work on its largest roller press for ore processing (RPS20).

This product is also intended for cement-related applications in the future. In addition, the first COMFLEX® complete grinding system developed by KHD was launched on the market, marking another important milestone in the development of the COMFLEX® portfolio.

In the field of pyro-process technology, the development of preheaters with larger capacities and lower pressure loss featured as the most important project of 2010. The Company completed this work successfully during the financial year. As part of these activities, KHD focused on the three largest performance capacities and now offers two-string preheaters with nominal capacity for the production of 10,000 to 12,000 tpd of clinker. The development of the Pyrofloor® clinker cooler, which is characterised through its efficiency and cost efficient design, continued during the financial year 2010. In addition, there were numerous advancements in the development of our rotary kilns. Further key developments were also made in the field of kiln drive systems in 2010, with more planned for 2011.

In the process automation segment, the focus was on developing and optimising new control sequences for both specific products as well as for the entire cement plant process as a whole. KHD has also earmarked the use of alternative fuels and the improvement of energy efficiency as important R&D topics for the coming years. One example of R&D work in this area is the development of new burners that are more suited to the use of alternative fuels. The development of a new burner was completed in 2010 and the respective product has now already entered testing.

KHD‘s highly successful R&D work is underlined by the fact that it has registered 33 German patents over the last three years. In total, KHD now owns 407 patents / patent applications as well as 15 registered designs.

Marketing and sales

Sales

KHD sells its products and services worldwide, with the strongest demand emanating from the emerging markets. In the financial year 2010, India, China and other Asian countries featured as the most important markets measured by order intake, accounting for a total of 61 % of this key figure. Eastern Europe and Russia made up 13 % of order intake respectively, with the Middle East weighing in at 10 %.

KHD‘s customer base is primarily made up of cement producers from all corners of the globe. Maintaining close contact with this target group is therefore key to the success of KHD‘s business. In the past financial year, KHD once again enhanced its customer-centric approach by launching a new key account management structure.

The Group ensures high quality customer care with its sales teams, which are organised both regionally and by customer group. Internationally, KHD is operating four large customer service centres, each responsible for a specific region. The advantage of this approach is the CSC’s proximity to the various customers and the knowledge of local factors of the CSC respective employees. KHD employs sales agents with a view to gaining access to markets in which the

Company is not yet represented with its own sales force. In view of to the strong technical aspect of the sales activities, the sales as well as the after-sales teams are primarily made up of engineers.

The four CSCs are aligned as follows:

EMEA

Among other activities the sales team at the Cologne site is responsible for the global sales strategy as well as for working on international tenders. The CSC based in Cologne covers Europe, the Middle East, Africa, China and the Pacific region. In addition, the team is also currently preparing to establish a branch office in South Africa.

Russia

The CSC Russia made up of a company in Moscow and a company based in Dessau (Germany) covers the 15 countries of the former Soviet Union and Mongolia. Aside from new plants, this CSC places major focus on taking advantage of the huge potential in the region for modernisation and extension investments. Overall, while the spare parts and services business have only accounted for a small share of business in this region up to now, the Group plans to expand in this area in future. In 2010, the CSC Russia succeeded in gaining one of the few major projects tendered for in Russia during the financial year. In addition, the CSC also stepped up its cooperation with Belgorod State University (Belarus) with a view of promoting the development of young talent within the industry.

Americas

The CSC Americas is responsible for the USA, Canada, Mexico, Central and South America and is located in Norcross. In 2010, business in North America was particularly strongly impacted by the effects of the recession. While activities in this region were mainly driven by environmental legislation, there are now initial signs that customers‘ willingness to invest is on the rise again. In contrast, South America is at the beginning of a boom phase from KHD‘s point of view. Over the past few months the Group has experienced very high demand in particular in Brazil, Chile and Peru. 2010 saw KHD gain its first major order in Brazil and strengthen its customer relationship with large cement groups in the region.

India

KHD already boasts an excellent position in the vital market of India, where the Company is represented by a CSC in New Delhi. Experts are anticipating strong growth in cement consumption in the region over the coming years. In 2010, KHD achieved an important milestone in its business development in India by gaining a major order with a volume of € 85 million.

Marketing

KHD restructured its marketing approach in 2010 and has since pooled its global marketing activities at its Indian base. Marketing measures, however, are still implemented by employees at each location. KHD marketing documents, such as brochures, case studies and press releases on new projects and on the commissioning of new plants are regularly updated and published. The Group succeeded in raising its media profile in 2010 and also launched a new advertising campaign. In addition, the Company website (www.khd.com) was relaunched, while an Intranet was implemented for employees. In 2010, another focus was planning and holding customer events, which are designed to showcase KHD products and services for the target groups.

In an effort to maintain close contact with its target groups, KHD also attended and exhibited its products and technology at numerous international trade fairs and conventions, including the following five major events:

- CEMTECH – Istanbul, Turkey
- 16th Arab International Cement Conference and Exhibition, Ras Al Khaimah, UAE
- FICEM – APCAC XXVII Technical Process, Jamaica
- INTERCEM Americas, Rio de Janeiro, Brazil
- 25th IEEE-IAS / PCA, Colorado Springs, USA

KHD plans to intensify its marketing efforts further in the future, with measures such as target group-specific advertising campaigns and maintaining a higher profile in the relevant media.

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 the global gross domestic product (GDP) is anticipated for 2011. Experts from the International Monetary Fund (IMF) estimate that the danger 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 eurozone recorded growth of 1.8 % in 2010, with the IMF forecasting an increase of 1.5 % for 2011. For the emerging

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

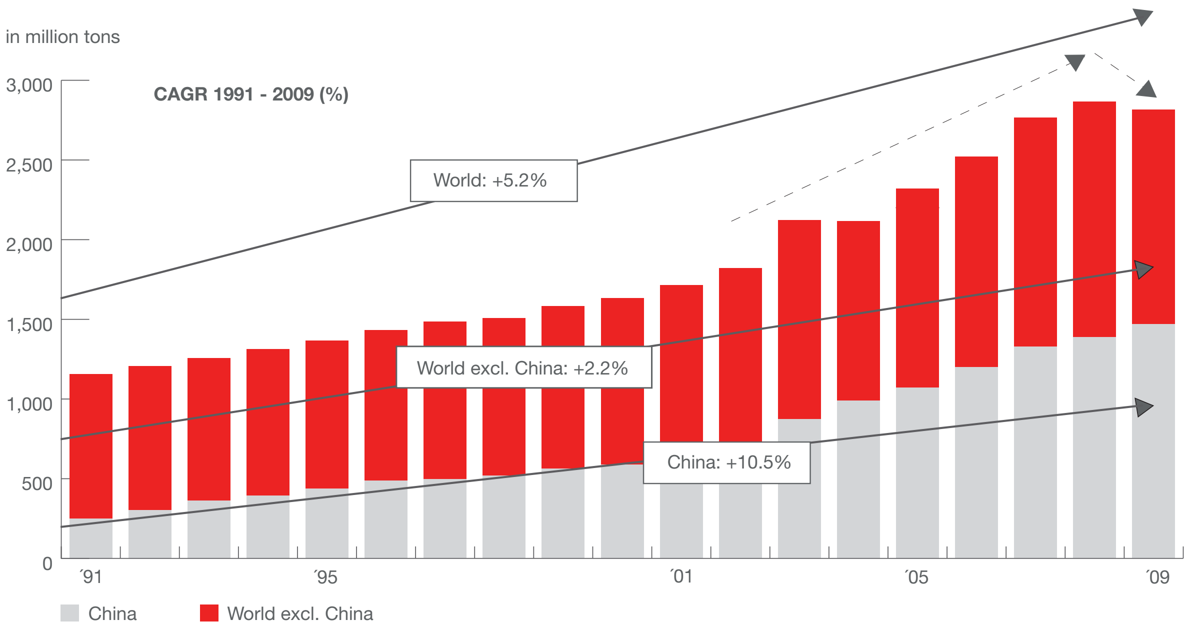
markets, particularly China, the IMF is expecting a sustained strong upwards trend. This will, however, also entail the risk of these economies overheating or suffering under the effects of inflation.

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 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.



Source: Global Cement Report, 8. Edition (2009)

[2] Study by Mainfirst

For the future, market experts are anticipating the highest growth potential in the BRIC nations, where KHD is already well positioned in 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 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.

[3] OneStone Intelligence

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.

Objectives and strategy

KHD provides products and services for cement producers. The Company is aiming to further extend its position as leading provider of eco-friendly technologies with its innovative products. To this end, it is striving to enhance its competitive edge and optimise its procurement process. KHD is particularly endeavouring to bolster its position in emerging markets such as Russia and India, as well as expand its market presence in China and South America (especially Brazil). Furthermore, it is striving to optimise its positioning with large, global cement producers with the aim of becoming a „preferred supplier“. KHD is also planning to expand the services business in an effort to offset the typically cyclical nature of the Group‘s project business and improve the sustainability of its earnings.

In order to achieve these objectives, KHD plans to extend its product range with strategic partnerships, among other things. In addition, it works on improving its competitiveness by increasingly standardising its products. With a view to providing customers with enhanced consulting and customer service in future, the Company has implemented a key account management system and offers its customers attractive products and services. Furthermore, KHD plans to step up its service business in the areas of spare parts, technical assistance, function tests (plant audits), consulting and training.

Analysis of business results and description of results of operations, net assets and financial position

Due to the reorganisation within KHD Group in spring 2010, the key figures for the reporting year can only be compared to those from the financial year 2009 to a limited extent. In the following presentation, the legal Group structures of both years are depicted side-by-side. The 2009 key figures relate to the German subgroup of Terra Nova. Since the second quarter, the figures for the financial year 2010 also include the cement activities of the KHD entities outside Germany purchased from KIA as well as EKOF in Bochum.

In certain areas, KHD is also providing so-called pro-forma figures. These pro-forma figures assume that the cement activities of all companies are compared for the entire financial year 2009 and 2010. In case the analytical information presented deviates from the legal structure, this is explicitly expressed.

General business development in 2010

KHD recorded positive business development overall in the reporting year despite the lower sales volume and a lower net result compared to the previous year. It should be noted that the previous year‘s key figures were impacted by several positive one-time effects. The financial year 2010 was supported by the increasing recovery of the global economy after the recession as well as by the high levels of construction and willingness to invest in the emerging markets. KHD was able to record satisfactory order intake, especially in its established markets in India and Russia. In a comparison of all markets, the Indian market made an above-average contribution to the success of the Group during the reporting year, accounting for 50 % of the Group order intake. This was mainly attributable to a major order for pyro-processing lines and roller press grinding units with a total order volume of € 85 million from UltraTech Cement Ltd., India‘s largest cement producer. The Russian market accounted for around 13 % of the Group‘s order intake.

After the low order intake in 2009 of just € 58 million in the German subgroup, or € 124 million on pro-forma basis, KHD was able to record a substantial rise in order intake to € 269 million (pro-forma € 308 million) in the 2010 financial year. As of 31 December 2010 the order backlog amounts to € 304 million - a level which would arithmetically fully utilise KHD capacity for one year.

It should be noted that in the comparison of both years ongoing contracts amounting to € 62 million were cancelled and were therefore considered as negative order intake in the previous year. In the 2010 financial year, € 39 million of these cancellations were reversed.

When comparing revenue, please note that 2009 was an exceptionally good year for the German subgroup thanks to the high order intake in the previous years. In addition, positive one-time effects led to above-average profitability in 2009. In contrast, the revenue recognised in 2010 was impacted by the low order intake in 2009. As a result, revenue fell by around 20 % in both the legal and pro-forma figures for 2010.

Revenue and results of operations

Despite the expansion of the scope of consolidation, revenue fell from € 360.3 million in the previous year to € 286.9 million in 2010, which represents a drop of 20.4 %. This was mainly due to the low order intake in the crisis year of 2009.

The gross profit fell 13 % from € 66.0 million to € 57.4 million. However, the profitability (gross margin) improved from 18.3 % to 20 %. This increase came as a result of the order structure as well as orders being executed under cost budget, particularly in the Russian market.

Other operating income came in at € 3.5 million, down on the high figure from 2009 of € 9.0 million. The financial year 2009 was positively impacted by the effects from the release of provisions for cancelled contracts totalling € 5.4 million. In addition, the sale of the coal and minerals customer group (CMT) as well as the sale of the workshop in Cologne-Kalk led to a positive effect of € 2.0 million. In 2010, the execution of previously cancelled contracts led to positive impact on other operating income of € 1.3 million. Furthermore, KHD provided IT and administrative services amounting to € 1.2 million to third parties (previous year: € 0.3 million) to companies outside KHD Group.

Distribution costs of € 11.9 million include the costs of the Group's sales and tendering activities. Total distribution costs only show a small increase compared to the previous year figure of € 11.7 million. Please note in this context that the Group companies included in the consolidated financial statements for the first time contributed € 3.0 million to this total. In contrast, the costs of sales and tendering activities in the German Group companies came in significantly lower year-on-year.

General and administrative expenses increased by € 9.1 million to € 18.9 million (previous year: € 9.8 million). This rise came on the back of the separation of Terra Nova into two distinct groups, which caused all group management functions to be taken over by KHD.

In addition, the newly acquired companies included in the consolidated financial statements for the first time contributed to a further increase in general and administrative expenses. Aside from the compensation for the Management Board and costs for general administration, the general and administrative expenses especially contain legal and consulting costs, financial statements closing costs, remuneration of the Supervisory Board, costs related to the initial public offering as well as investor relations costs.

Other expenses include the costs of research and development activities totalling € 3.4 million (previous year: € 3.1 million). These also contain € 1.8 million expenses for short-time work imposed in the first half of the year at HW, as well as expenses for consulting services on ongoing reorganisation projects and exchange rate losses.

Due to lower restructuring costs, the Group was able to release restructuring provisions totalling € 2.9 million (previous year: € 3.8 million). The measures for adjusting headcount implemented at HW have been largely completed, with most terminations made in a socially acceptable manner and at a lower cost than planned.

Due to the decrease in business volume and a substantial rise in general and administrative costs, EBIT fell by almost half from € 49.7 million in 2009 to € 25.0 million in 2010. The EBIT margin came in at 8.7 %, well down on the previous year's record figure of 13.8 %. It should be noted that the previous year's key figures were impacted by several positive one-time items.

Interest income for the financial year 2010 was recorded at € 2.9 million (previous year: € 3.7 million). Due to the generally low interest rates offered for short-term deposits the interest income remained at a relatively low level.

The tax rate for the 2010 financial year was unusually high at 39.3 %, with this likely to fall again in 2011. The tax rate was affected by a one-time effect of around € 1.6 million that resulted from the tax audit of the financial years 2005 - 2007 completed in 2010. Excluding this one-time item, the tax rate would have been recorded at around 33 %. In the financial year 2009, the tax rate was 30.7 %.

The Group net profit was reported at € 15.8 million (previous year: € 37.2 million), which represents a profit margin of 5.5 % (previous year: 10.3 %). The previous year‘s mark was an exceptionally high figure that was mainly attributable to positive one-time items.

Net assets

On the reporting date 31 December 2010, total assets were recorded at € 413.3 million and were therefore around 4 % down on the mark of € 429.9 million reported in the previous year.

At year-end 2010, equity was € 148.6 million, compared to € 169.7 million in the previous year. The decrease is mainly attributable to the dividend distribution of € 49.4 million in April 2010. Group comprehensive income of € 16.4 million, and equity changes of € 11.8 million due to business combinations, exerted a counter effect.

Subscribed capital remained unchanged at € 33.1 million. The equity ratio fell from 39.5 % to 35.9 % by the end of 2010, maintaining its high level compared to industry peers. Total non-current and current liabilities also showed little change: Non-current liabilities only increased from € 46.2 million to € 49.2 million on the reporting date due to the rise in non-current provisions.

Current liabilities were reported at € 215.6 million (previous year: € 213.9 million), with trade payables falling from € 100.8 million to € 92.3 million. After deducting the trade payables from the newly acquired companies included in the consolidated financial statements for the first time, it can be seen that trade payables especially at the German companies of the Group decreased significantly on the back of lower business volume. Income tax liabilities totalled € 20.9 million compared to € 11.0 million in the previous year. The tax accruals primarily cover two tax assessment periods for the German subsidiary HW.

In total, provisions remained almost unchanged from the previous year at € 50.1 million (previous year: € 50.3 million).

Non-current assets totalled € 9.3 and therefore fell to 2.2 % of total assets. In the previous year, this figure was reported at € 55.9 million, which represented 13.0 % of total assets. This reduction primarily relates to the complete repayment of a loan granted to KIA totalling € 47.7 million at the end of the first quarter 2010. On the reporting date of 31 December 2010, current assets totalled € 404.0 million (previous year: € 373.9 million), which made up around 98 % of total assets (previous year: 87 %). The increase mainly relates to the € 67.3 million rise in cash and cash equivalents to € 293.1 million.

Financing

Agreeing a new bank guarantee credit facility

At the end of November 2010, KHD secured a bank guarantee credit facility worth € 150 million from a consortium of banks lead by RBI. This is available for all operative companies in KHD Group for various hedge instruments such as bank guarantees, letters of credit and payment securities.

Liquidity and financial position

As of the end of the 2010 financial year, the Group had maintained its high level of cash, with liquid funds reported at € 293.1 million.

For the financial year 2010, the Group statement of cash flow shows increased unrestricted cash and cash equivalents of € 279.3 million, up € 54.1 million from the previous year. This increase was attributable to the net inflow of cash from the companies included in the consolidated financial statements for the first time (after deducting the purchase price paid of € 20.9 million) as well as the positive EBIT figure (earnings before interest and tax) of € 25.0 million. The cash outflow from the dividend distributed to shareholders totalling € 49.4 million was largely offset by the repayment of the loan granted to KIA worth € 47.7 million.

From the Group‘s point of view, this sustained high level of liquidity means that there are no foreseeable risks for the Group‘s ability to meet payment obligations in the near future.

REPORT ON POST-BALANCE SHEET DATE EVENTS

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

There were no further events of particular significance occurring after the balance sheet date.

RISKS AND OPPORTUNITIES REPORT

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 the early risk 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 for central functions.

Organisation, responsibilities, management 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 the 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 mitigate 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 business 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 control 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. KHD Group's 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 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).

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.

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 recorded monthly financial statements are combined with supplementary information in order to produce a Group reporting package, which is then submitted to the central consolidation department using a Group-wide 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 legal 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 mitigation 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), 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, 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, 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. 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 KHD Group. Besides customer requirements, it is important in this context to also take into account growing environmental protection requirements in the development of our products. 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 costreduction of existing products.

KHD Group 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.

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 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 Group, KHD Group is exposed to a large number of legal risks. Please also refer to the related comments in the notes to the consolidated 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 can 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 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 2010 financial year 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. Production 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.

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 positio.

OUTLOOK

From the Company's perspective, KHD's business progress in 2010 was satisfactory given the effects of the economic recession on the project business. The Company is confident that the economy, as one of the most important influencing factors in the markets that are relevant to the Group, will remain on its positive course over the coming months. In particular, strong economic growth should continue in the BRIC states, and likewise drive global cement consumption. However, the global economic conditions could be adversely impacted by the nuclear catastrophe in Japan and in case of continuing riots in Arabian countries.

With CATIC's role as an anchor shareholder and as an industrial investor, 2011 will also be characterised by the operational implementation of this cooperation. In view of the long-term nature of tenders and project execution, KHD management expects the first effects on the Group's revenue and earnings positions from the CATIC cooperation to emerge in 2012 at the earliest. At the same time, the Management Board anticipates that the cooperation with Weir in the marketing of roller presses in the mining industry will report positive developments in the future.

For the current 2011 financial year, KHD expects that order intake and revenue to be recorded approximately at their 2010 levels. Due to the cooperations described above, and on the basis of favourable economic conditions KHD anticipates an fur increase in order intake and revenue for 2012. At the same time, the Management Board anticipates that the price erosion in its industry segment will exert a greater impact on the 2011 EBIT margin, as a consequence the 2011 EBIT margin is expected to decrease slightly compared with 2010. KHD notes the possibility of a slight EBIT margin improvement in 2012.

OTHER DISCLOSURES

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

Compliance with the German Corporate Governance Code (the „Code") and Declaration of Compliance

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 declaration of compliance with the German Corporate Governance Code is available on the Company’s website under www.khd.com.

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.

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.

Compensation report

The compensation report sets out the principles, structure and amount of Management Board and Supervisory Board compensation. The compensation report forms part of the Group management report and takes into account the recommendations of the German Corporate Governance Code (GCGC). It also includes the disclosures required pursuant to § 314 Paragraph 1 Number 6 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 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 review regularly, along with compensation levels. The compensation system presented below has been valid since 1 April 2010.

Management Board compensation is measured so that it is internationally competitive, and is oriented toward sustainable growth of the Group and sustainable enhancement of corporate value within a dynamic environment. Criteria for the appropriateness of compensation reflect both KHD Group‘s international operations, individual Management Board members‘ tasks, personal performance, the economic situation and financial position, KHD Group‘s performance and future prospects, as well as the common level of the compensation taking into account peer companies and the compensation structure that otherwise prevails within the Group.

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 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. 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, is 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:

in €	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.

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:

in €	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.

Report and remarks on disclosures pursuant to § 315 Paragraph 4 of the German Commercial Code (HGB)

Explanatory report of KHD Management Board concerning disclosures pursuant to § 315 Paragraph 4 of the German Commercial Code (HGB) in the 2010 Group management report.

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, 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 are no shares owned by employees in the meaning of § 315 Paragraph 4 Number 5 HGB.

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

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.

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

View of mill building under construction

CONSOLIDATED FINANCIAL STATEMENT

CONSOLIDATED FINANCIAL STATEMENT

GROUP INCOME STATEMENT FOR THE FINANCIAL YEAR 2010 OF KHD HUMBOLDT WEDAG INTERNATIONAL AG

in € ´000	**Note no.**	**2010**	**2009**
Revenue	4	286,890	360,295
Cost of sales		(229,477)	(294,285)
Gross profit		**57,413**	**66,010**
Other operating income	20	3,463	9,038
Distribution costs*	21	(11,886)	(11,657)
General and administrative expenses*	22	(18,981)	(9,818)
Other expenses*	23	(7,937)	(7,633)
Restructuring income	15	2,881	3,773
Finance income	24	3,364	5,505
Finance expenses	24	(2,296)	(1,553)
Profit before tax		**26,021**	**53,665**
Income tax expense	25	(10,221)	(16,497)
Net profit for the year		**15,800**	**37,168**
Of which are attributable to:			
Parent company shareholders		15,583	37,102
Non-controlling interests		217	66
		15,800	**37,168**

* Previous year figures adjusted due to changes in presentation

GROUP STATEMENT OF COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR 2010 OF KHD HUMBOLDT WEDAG INTERNATIONAL AG

in € ´000	2010	2009
Net profit for the year	15,800	37,168
Foreign currency translation differences	597	-
Comprehensive income	**16,397**	**37,168**
Of which are attributable to:		
Parent company shareholders	16,180	37,102
Non-controlling interests	217	66
	16,397	**37,168**

As in the prior year, no income taxes were payable on foreign currency translation differences.

EARNINGS PER SHARE

	2010	2009
Net profit attributable to shareholders (in €)	15,583,000	37,102,000
Weighted average number of shares outstanding	32,913,416	32,913,416
Basic (undiluted) and diluted earnings per share (in €)	0.47	1.13

GROUP BALANCE SHEET AS OF 31 DECEMBER 2010 OF KHD HUMBOLDT WEDAG INTERNATIONAL AG

Assets

in € ´000	Note no.	2010	2009
Non-current assets			
Property, plant and equipment	5	3,045	1,526
Goodwill	6	2,127	2,127
Other intangible assets	6	913	316
Deferred tax assets	8	3,191	237
Non-current financial assets	7	16	51,741
Total non-current assets		**9,292**	**55,947**
Current assets			
Inventories	9	8,267	13,663
Gross amount due from customers for contract work	9	21,159	38,413
Trade and other receivables	7	57,448	49,387
Intercompany receivables	7	-	3,678
Payments made in advance		21,203	26,235
Other financial assets	10	1,857	5,260
Income tax assets		1,046	11,461
Cash and cash equivalents	11	293,060	225,844
Total current assets		**404,040**	**373,941**
Total assets		**413,332**	**429,888**

Equity and liabilities

in € ´000	Note no.	2010	2009
Equity			
Issued capital		33,142	33,142
Capital reserves		1,776	1,776
Treasury shares		(221)	(221)
Currency translation differences		544	(53)
Retained earnings		112,473	134,428
Share of equity attributable to parent company shareholders		147,714	169,072
Non-controlling interests		841	659
Total equity	**12**	**148,555**	**169,731**
Non-current liabilities			
Other liabilities	16	8,318	7,558
Pension benefit obligations	14	20,388	21,159
Deferred tax liabilities	8	9,681	9,755
Provisions	15	10,772	7,748
Total non-current liabilities		**49,159**	**46,220**
Current liabilities			
Trade and other payables	16	92,381	100,791
Intercompany liabilities	16	-	4,914
Financial liabilities	13	-	3,552
Commitments under construction contracts	17, 9	63,048	51,136
Income tax liabilities	16	20,864	10,970
Provisions	15	39,325	42,574
Total current liabilities		**215,618**	**213,937**
Total equity and liabilities		**413,332**	**429,888**

GROUP STATEMENT OF CASH FLOW FOR THE FINANCIAL YEAR 2010 OF KHD HUMBOLDT WEDAG INTERNATIONAL AG

in € ´000	2010	2009
Cash flow from operating activities		
Net profit for the year	15,800	37,168
Income tax expense recognised in the income statement	10,221	16,497
Net finance cost recognised in the income statement	(1,068)	(3,952)
Earnings before interest and tax (EBIT)	**24,953**	**49,713**
Amortisation, depreciation and write-downs of non-current assets	1,245	1,087
Book gain on disposal of fixed assets	(17)	(2,029)
Decrease/increase (-) in trade receivables and financial assets	28,127	7,102
Decrease/increase (-) in inventories and gross amount due from customers for contract work	28,213	(883)
Increase/decrease (-) in payments made in advance and other financial assets	21,370	944
Increase/decrease (-) in trade and other payables, and in gross amount due to customers for contract work	(51,290)	(55,979)
Increase/decrease (-) in pension provisions	(490)	55
Increase/decrease (-) in provisions and non-current liabilities	(7,393)	12,597
Cash inflow from operating activities	**44,718**	**12,607**
Other non-cash transactions	1,694	67
Dividends received	-	68
Income tax received	10,415	-
Income tax paid	(6,351)	(17,200)
Cash flow from operating activities	**50,476**	**(4,458)**
Cash flow from investing activities		
Interest received from intercompany loans	81	650
Cash outflow for intangible assets	(937)	(112)
Cash outflow for property, plant and equipment	(1,433)	(616)
Cash inflow from disposal of property, plant and equipment	50	132
Cash inflow from disposal of consolidated companies and other business units less cash transferred	-	2,642

in € ´000	2010	2009
Cash outflow from addition of consolidated companies and other business units less cash received	20,881	-
Cash inflow from repayment of non-current receivables	47,676	18,591
Cash flow from investing activities	**66,318**	**21,287**
Cash flow from financing activities		
Interest received	2,861	3,092
Payment for purchase of shares from non-controlling interests	(35)	(45)
Net amount of loans raised and repaid	(3,552)	2,385
Dividends paid to parent company shareholders	(49,370)	-
Increase in non-current liabilities	-	(1,053)
Change in restricted cash (collateral for bank guarantees)	(13,067)	1,006
Cash flow from financing activities	**(63,163)**	**5,385**
Change in unrestricted cash and cash equivalents	**53,631**	**22,214**
Opening balance of cash and cash equivalents	225,183	202,969
Exchange rate effects	518	-
Closing balance of unrestricted cash and cash equivalents	**279,332**	**225,183**

in € ´000	31.12.2010	31.12.2009
Composition of cash and cash equivalents		
Bank balances and cash	74,513	91,210
Short-term bank deposits and restricted cash	218,547	134,634
Total cash and cash equivalents	**293,060**	**225,844**
Restricted cash (collateral for bank guarantees)	(13,728)	(661)
Closing balance of unrestricted cash and cash equivalents	**279,332**	**225,183**

In 2010, the Group statement of cash flow reflects an increase in cash and cash equivalents of € 54.1 million to € 279.3 million. The main reason for this increase is the addition of cash and cash equivalents from companies included in the consolidation scope for the first time offset with the purchase price paid for those entities (net amount of T€ 20,881), as well as the positive earnings before interest and tax of T€ 24.953. The cash outflow from the dividend payment of T€ 49,370 that was distributed to shareholders was largely compensated by the cash inflow from the repayment of T€ 47,676 of loans granted to KIA.

GROUP STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR 2010 OF KHD HUMBOLDT WEDAG INTERNATIONAL AG

in € ´000	Issued capital	Capital reserves	Treasury shares
31 Dec. 2008	**33,142**	**1,776**	**(221)**
Net profit for the year	-	-	-
Comprehensive income	-	-	-
Other changes	-	-	-
Non-controlling interests		-	-
31 Dec. 2009	**33,142**	**1,776**	**(221)**
Net profit for the year	-	-	-
Foreign exchange translation differences	-	-	-
Comprehensive income	-	-	-
Dividend payments	-	-	-
Change in equity due to acquisition of Group entities	-	-	-
Purchase of non-controlling interests	-	-	-
31 Dec. 2010	**33,142**	**1,776**	**(221)**

Currency translation differences	Retained earnings	Equity attributable to parent company shareholders	Non-controlling interests	Total
(53)	**97,319**	**131,963**	**638**	**132,601**
-	37,102	37,102	66	37,168
-	37,102	37,102	66	37,168
-	7	7	-	7
-	-	-	(45)	(45)
(53)	**134,428**	**169,072**	**659**	**169,731**
-	15,583	15,583	217	15,800
597	-	597	-	597
597	15,583	16,180	217	16,397
-	(49,370)	(49,370)	-	(49,370)
-	11,832	11,832	-	11,832
-	-	-	(35)	(35)
544	**112,473**	**147,714**	**841**	**148,555**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR 2010 OF KHD HUMBOLDT WEDAG INTERNATIONAL AG

1. Summary of major accounting and measurement principles

A. Basis of preparation and other notes

The parent company of KHD Group is KHD Humboldt Wedag International AG (formerly KHD Humboldt Wedag International (Deutschland) AG), with registered office in Colonia-Allee 3, 51067 Cologne/Germany, entered with the number 36688 in the Cologne Commercial Register, Department B. The Group of KHD Humboldt Wedag International AG is hereafter referred to as the „Group“ or „KHD Group“.

Since the end of March 2010, the shares of the company are being traded on the Regulated Market (General Standard) of the Frankfurt Stock Exchange.

KHD‘s consolidated financial statements have been prepared according to uniform accounting and measurement principles. The consolidated financial statements have been prepared in accordance with prevailing International Financial Reporting Standards (IFRS) and their related interpretations as applicable in the EU, and are in harmony with the statutory obligations that are applicable for companies that are required to submit mandatory reports to the capital market pursuant to § 315a Paragraph 1 of the German Commercial Code (HGB) in combination with Article 4 of Regulation (EC) Number 1606/2002 of the European Parliament and Council of July 19, 2002 relating to the application of current international accounting standards in their respective valid version (IAS Regulation). These consolidated 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 Group income statement has been prepared using the nature of expense method. The financial year of KHD and of its subsidiaries and joint ventures included in the consolidated financial statements corresponds to the calendar year.

The change in the Group structure compared with the previous year results in limited comparability with the corresponding previous year‘s figures.

B. Consolidation

Subsidiaries are companies where KHD holds, directly or indirectly, more than 50 % of the voting rights, or controls the business activities in another manner. These companies are, as a general rule, consolidated. Subsidiaries are consolidated from the date when actual control is transferred to KHD, and are deconsolidated from the date when control no longer exists. All intercompany transactions, balances and unrealised profits or losses on intragroup transactions are eliminated. The accounting and measurement principles applicable to subsidiaries under statutory law are adjusted in order to ensure consistency with the accounting and measurement principles of KHD. Non-controlling interests are presented and commented upon separately.

Joint ventures are included in the consolidated financial statements on a proportional basis. The proportional assets and liabilities, and proportional income and expenses, of joint ventures that are attributable to the Group are summarised with the corresponding items in the consolidated financial statements, and are presented in the following table. The consolidation principles detailed above are otherwise applicable.

Proportional assets and liabilities, and proportional income and expenses, of joint ventures:

in € ´000	31.12.2010
Assets	
Current assets	4,874
Cash and cash equivalents	4,431
Non-current assets	25
Total assets	**9,330**
Equity and liablilities	
Current liabilities	7,535
Non-current liabilities	158
Equity	1,637
Total equity and liabilities	**9,330**

in € ´000	01.04. – 31.12.2010
Income	15,627
Expenses	-14,508

The Group‘s subsidiaries and joint ventures are listed under note 2 of the notes to the consolidated financial statements.

C. Foreign currency translation

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

Individual financial statements prepared by the foreign subsidiaries are translated into Euro according to the functional currency concept. The equity is translated at historical rates, assets and liabilities are translated at the rate in effect at the balance sheet date, and income and expenses at average rates. The functional currency of the Group is the Euro. Expenses and income of foreign subsidiaries included in the Group for the first time are translated using the average rate since the start of first-time consolidation.

The applicable exchange rates are set out in the following table.

	Currency	Closing rate as of 31 Dec. 2010	Average rate 1 Jan. to 31 Dec. 2010	Average rate * 1 Apr. until 31 Dec. 2010
	1 EURO =			
Australia	AUD	1.3121	1.4428	1.4650
India	INR	59.6528	60.5881	60.6014
USA	USD	1.3282	1.3266	1.3236
Russia	RUB	40.5280	40.2606	39.9815

* For companies included in the Group for the first time since April 1, 2010

D. Intangible assets

Goodwill

In line with IFRS 1 exemptions, goodwill was included in the first-time IFRS consolidated financial statements at the carrying amounts that were measured according to the previously applicable accounting principles (§ 301 of the German Commercial Code [HGB]).

For all acquisitions subsequent to this date, goodwill corresponds to the positive difference between the acquisition costs for a business combination and the acquired remeasured assets, liabilities, and contingent liabilities, which remains after performing a purchase price allocation, in particular, the identification of intangible assets. Goodwill is presented separate from intangible assets. It is subject to impairment tests, which are performed at annual intervals and/or on specific occasions. Goodwill is measured at cost less impairment losses to a lower recoverable amount.

Licenses

Licences are recognised at amortised cost. Software licenses are amortised on a straight-line basis over a useful life of three years. Development costs that require capitalisation were not incurred in the year under review.

E. Property, plant and equipment

Property, plant and equipment is measured at cost less scheduled straight-line depreciation. Besides the purchase price, acquisition costs also include directly attributable costs to transfer the asset to the location and to achieve operative condition. The useful life of operating and office equipment, and of other plant, is generally between three and ten years. Leasehold improvements are depreciated over the lease term. Gains and losses on the disposal of property, plant and equipment are measured by reference to their carrying amount, and are recognised through the income statement.

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

Under the leases concluded, the major risks and benefits from the leased assets remain with the lessor. As a consequence, all leases comprise so-called „operating leases". For this reason, all payments for operating leases are expensed according to the accruals concept. Property, plant and equipment of companies included for the first time in the Group is recognised at the carrying amount as of the date of first-time consolidation.

F. Borrowing costs

Borrowing costs are capitalised within the KHD Group to the extent that they are attributable to the purchase or production of qualified assets. Borrowing costs are otherwise expensed through the income statement in finance expenses. No borrowing costs were capitalised in 2010.

G. Impairment test of non-current assets

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

H. Financial investments, other financial assets and financial liabilities

Financial assets in the meaning of IAS 39 currently relate in KHD Group either to

- financial assets that are measured at fair value through profit or loss, or
- loans and receivables

and are classified correspondingly. Financial assets are measured at fair value on initial recognition. Transaction costs that are directly attributable to the acquisition of an asset are also considered at initial recognition of financial assets that are not measured at fair value through profit or loss.

Financial assets are designated to the measurement categories at the time of initial recognition. Except for derivatives held for trading, all arm's length acquisitions and disposals of financial assets are accounted for at the settlement date, i.e. at the date when an asset is delivered to or by the Group. Derivatives are recognised at the trade date, i.e. at the date when the Group entered into the commitment to purchase or sell an asset. Arm's length acquisitions or disposals are acquisitions or disposals of financial assets that require delivery of an asset within a period defined by arm's-length rules or standards.

Financial assets measured at fair value through profit or loss

At KHD Group, the group of financial assets measured at fair value through profit or loss comprises financial assets held for trading. KHD Group has not to date utilised the option to designate financial assets as financial assets measured at fair value through profit or loss at the date of initial recognition.

Financial assets are classified as held for trading if they are acquired for the purpose of disposal in the near term. Derivatives are always classified as held for trading.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments, and which are not quoted on an active market. This category comprises trade receivables as well as and other receivables and other assets. They arise if money, goods or services are directly provided to a debtor by KHD Group. They are classified as current assets, except for those that are not due within twelve months after the balance sheet date, or which are classified as non-current on the basis of their economic structure. The latter are reported as non-current assets. After initial recognition, loans and receivables are measured at amortised cost by applying the effective interest rate method less any impairment. Gains and losses are recognised in income for the period if loans and receivables have been de-recognised or impaired, as well is within the context of amortisation.

Impairment of financial assets

Except for financial assets measured at fair value through profit or loss, financial assets are examined, as at each balance sheet date, for objective indications of impairment (such as considerable financial difficulties of a debtor, a high probability of insolvency proceedings against a debtor, the loss of an active market for a financial asset, a major change in the technological, economic, and legal environment as well as in the market environment of an issuer, or a persisting decline of the fair value of a financial asset below amortised cost).

If there is objective evidence that an asset accounted for at amortised cost has been impaired, the amount of the impairment loss is calculated as the difference between the carrying amount of the asset concerned and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred), discounted at the financial asset's original effective interest rate, i.e. the effective interest rate computed at initial recognition. The impairment loss is expensed.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. The new carrying amount of the asset concerned must, however, not exceed amortised cost at the time of the reversal. The amount of the reversal is recognised in the income statement.

If there is objective evidence with respect to trade receivables that not all amounts due will be received in accordance with the originally agreed terms stated on the invoice (such as, for example, doubtful solvency of a debtor, disagreement on the existence or amount of an account receivable, lack of enforceability of an account receivable for legal reasons, etc.), a valuation allowance is accounted for by way of an allowance account. Receivables are derecognised if they are considered as irrecoverable.

Impairment of other receivables and other assets are taken into account by directly writing down the related carrying amount.

Cash and cash equivalents

Cash and cash equivalents include cash as well as bank balances immediately available, call deposits at banks and money market investments, excluding overdraft facilities, with an original term to maturity of up to three months that are accounted for at nominal value. Cash that is not freely available is stated separately. Cash and bank balances are measured at amortised cost.

Financial liabilities

Financial liabilities within the meaning of IAS 39 relate to financial liabilities that are measured at amortised cost.

The financial liabilities at KHD Group principally relate to

- financial liabilities (bank borrowings and intercompany liabilities), and
- trade and other payables.

Financial liabilities are classified as current if KHD Group is not entitled to settle the financial liability concerned no earlier than at least twelve months from the balance sheet date.

At the time of initial recognition, financial liabilities are measured at fair value including transaction costs. In the following periods, they are measured at amortised cost using the effective interest rate method.

Derivative financial instruments and hedges

The Group regularly utilises derivative financial instruments to mitigate foreign currency risk of recognised assets and liabilities or of planned transactions denominated in foreign currencies. All derivative contracts concluded are foreign exchange forward contracts.

These are initially recognised at fair value at the date the contract is concluded, and measured at fair value in subsequent periods. The fair value of derivatives is calculated using quoted market prices. If no such prices are available, discounted flow analyses are applied, using corresponding yield curves for the term to maturity of the instruments concerned.

As the derivative financial instruments concluded by KHD do not meet the strict hedge accounting requirements, changes in value of the derivative financial instruments are recognised directly in the income statement.

I. Inventories

Inventories are recognised at the lower of cost or net realisable value. Net realisable value is composed of the estimated selling price in the course of ordinary transactions less estimated cost of completion and costs to make the sale.

J. Construction contracts

Revenue and profits from long-term construction contracts are recognised according to the stage of completion in accordance with IAS 11. The stage of completion is calculated as the relation of contract costs incurred as at the end of the financial year to the estimated total contract cost at the completion of the contract. Expected losses from construction contracts are fully recognised as an expense in the financial year in which the losses become identifiable irrespective of the stage of completion. Long-term construction contracts which are measured according to the percentage-of-completion method are presented under gross amounts due from customers for contract work or gross amounts due to customers for contract work depending on the amount of progress billings. Contract revenue is measured at cost incurred plus a proportionate profit depending on the stage of completion. To the extent that contract revenue (contract costs incurred and proportionate contract profit recognised) exceeds the progress billings, the construction contracts are presented as an asset under gross amount due from customers for contract work. If there is a negative balance after deducting progress billings, this balance is presented as a liability under gross amount due to customers for contract work. Expected contract losses are recognised through write-downs or loss order provisions. All identifiable risks are taken into account when determining such contract losses.

K. Pension benefit obligations and retirement benefit plans

The pension benefit obligations presented on the face of the balance sheet is based on the present value of the defined benefit obligations as at the balance sheet date. The present value of the defined benefit obligations is determined annually by independent actuaries according to the projected unit credit method. The present value of the defined benefit obligations is calculated by discounting the estimated future cash outflows using a discount rate based on market yields on high-quality industrial corporate bonds.

The Group applies the so-called corridor method under IAS 19. According to this method, actuarial gains or losses from measurement of pension obligations do not have to be recognised if they are due only to a change in actuarial assumptions and the total actuarial gain or loss varies within a corridor of 10 % above or below the defined benefit obligation at the end of the previous reporting period. Excess amounts are recognised over the expected average remaining working lives of the employees participating in the respective pension plan. Since 1996, the Group has not granted any new pension commitments.

Personnel expenses of some subsidiaries include contributions for defined contribution plans. Payments are made to pension insurance funds on a contractual basis. The companies enter into no obligations beyond the rendering of contribution payments.

L. Provisions

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

The scope of liability for all products covered by warranty terms is estimated by the Group as at the balance sheet date. The measurement of the provision is made on the basis of services provided in the past. The company is party to various legal disputes.

M. Deferred income tax

Deferred tax is recognised and measured in accordance with IAS 12. Deferred tax assets and deferred tax liabilities are shown as separate balance sheet items in order to take into account the future tax effect of temporary differences between the amount of assets and liabilities recognised in the balance sheet and the tax base of the respective assets and liabilities.

Deferred tax assets for tax loss carryforwards are recognised only if they are likely to be realised in the near future. Deferred tax assets and liabilities are measured at the amount of the expected tax expense or benefit of subsequent financial years taking into account the tax rates applicable at the time of realisation.

N. Recognition of income and expenses

Revenue and other operating income are, as a general rule, realised only if the service has been provided or the goods or products have been delivered and the risk has consequently passed to the customer. Operating expenses are recognised as an expense upon receipt of the service or at the time they are incurred.

Interest is recognised as expense or income on the accrual accounting basis.

With respect to long-term construction contracts in the industrial plant engineering business, income and expenses are recognised according to the percentage-of-completion method.

Cost of sales primarily include cost of purchased material and services, transportation costs, wages and salaries, overheads, commission and customs duties.

O. Estimates and assumptions

The assumptions made and estimates used in preparing the consolidated financial statements have an influence on the recognition and the measurement of the assets, liabilities, income, and expenses, as well as on contingent liabilities and contingent assets disclosed. These assumptions and estimates basically refer to the determination of uniform economic useful lives, the determination of the stage of completion for construction contracts, the assumption used while determining the recoverability of goodwill, the measurement of provisions, and the extent to which tax loss carryforwards can be utilised. In specific cases, actual amounts can deviate from the underlying assumptions and estimates. Effects from such changes are generally recognised in the income statement in the period the better information becomes available.

Applying new or revised International Financial Reporting Standards

Application of new and amended standards

In the reporting period, the Group applied all new and revised standards and interpretations that were published by the International Accounting Standards Board (IASB) and by the International Financial Reporting Interpretations Committee (IFRIC) of the IASB to the extent that these were relevant for the Group‘s operating activities, and to the extent that these had taken effect for reporting periods beginning on 1 January 2010.

- Revision of IFRS 1, additional exceptions concerning retroactive application of the IFRSs (applicable for financial years beginning on or after 1 July 2009).
- Revision of IFRS 3 as well as amendment of IAS 27 concerning the changed presentation of given aspects of business combinations in consolidated financial statements (applicable for financial years commencing on or after 1 July 2009). Changes to the level of interest held in a subsidiary without loss of control are to be reported exclusively as equity transactions.
- Amendment to IAS 39 concerning eligible hedged items (applicable for financial years commencing on or after 1 July 2009).
- Change to IAS 39 and IFRIC 9 concerning embedded derivatives (applicable for financial years ending on or after 30 June 2009).

- IFRIC 12 Service Concession Arrangements (applicable for financial years commencing on or after 29 March 2009).
- IFRIC 17 Distributions of Non-cash Assets to Owners (applicable for financial years commencing on or after 1 July 2009).
- IFRIC 18 Transfer of Assets by Customers (applicable for financial years commencing on or after 1 July 2009).
- Standard amendment within the framework of the annual IFRS improvement process (April 2009), minor changes to various IFRSs (mostly applicable for financial years commencing on or after 1 January 2010).
- Amendment of IFRS 1 concerning additional exemptions for retroactive application of the IFRSs (applicable for financial years commencing on or after 1 January 2010).
- Amendment to IFRS 2 concerning Group Cash-Settled Share-based Payment Transactions (applicable for financial years commencing on or after 1 January 2010).

The application of these revised requirements had no significant impact on the Group's net assets, financing position and results of operations.

The following standards or changes to, and revisions of, standards as well as interpretations were not yet mandatorily applicable:

- Amendment of IAS 24, Related Party Disclosures – Government Business Enterprises and Definition of a Related Party (applicable for financial years beginning on or after 1 January 2011).
- Amendment of IAS 32 Financial Instruments: Presentation - accounting treatment of rights issues (applicable for financial years commencing on or after 1 February 2010).
- IFRS 9 Financial Instruments (applicable for financial years commencing on or after 1 January 2013).
- Amendment of IFRIC 14 and IAS 19 concerning the limitation of a defined benefit asset, minimum funding requirements and their interaction (applicable for financial years beginning on or after 1 January 2011).

In addition, the following standards, respectively amendments and revisions of standards and interpretations that were also not yet mandatorily applicable were issued in 2010:

- Change standard within the framework of the annual IFRS improvement process (May 2010), minor changes to various IFRSs (mostly applicable for financial years beginning on or after 1 January 2011).
- Amendment to IFRS 7 Financial Instruments: Disclosures. The amendment concerns quantitative and qualitative disclosures about assets where the transferred assets were not fully de-recognised, or where there is a continuing commitment in the case of the transferring entity (applicable for financial years commencing on or after 1 July 2011).
- Amendment to IFRS 9 Financial Instruments: financial liabilities accounting. These regulations replace previous IAS 39 regulations: Financial Instruments: Recognition and Measurement (applicable for financial years commencing on or after 1 January 2013).

- Amendment to IAS 12: Deferred Tax: Recovery of Underlying Assets. The amendment determines what type of realisation is to be imputed for particular assets. This is important in cases where different tax consequences result depending on realisation type. The new ruling abolishes SIC 21: Income Taxes - Recovery of Revalued Non-Depreciable Assets (applicable for financial years commencing on or after 1 January 2012).

The Group anticipates that the application of the publications referred to above, to the extent that these are applicable to the Group's business activities, will have no major impact on the net assets, financing position and results of operations in the period of first-time adoption.

2. Subsidiaries and joint ventures of KHD Humboldt Wedag International AG as at 31 December 2010

The Group companies include:

Name of company	Based in	Share-holding in %		Currency	Capital stock/share capital
Subsidiaries					
KHD Humboldt Wedag GmbH	Cologne	100.00	D	€	15,339,300
Humboldt Wedag GmbH	Cologne	100.00	I	€	7,000,000
ZAB Zementanlagenbau GmbH Dessau	Dessau	100.00	I	€	2,000,000
Blake International Ltd.	Tortola	100.00	I	USD	1,000
KHD Humboldt Wedag Industrial Services AG	Cologne	88.97	I	€	3,600,000
EKOF Flotation GmbH	Bochum	100.00	I	€	51,129
Humboldt Wedag Australia Pty Ltd.	Braeside	100.00	I	AUD	200,002
Humboldt Wedag Inc.	Norcross	100.00	I	USD	1,000
Humboldt Wedag India Private Ltd.	New Delhi	100.00	I	INR	19,200,000
KHD Humboldt Wedag Machinery Equipment (Beijing) Co. Ltd	Beijing	100.00	I	USD	780,000
Joint ventures					
KHD Engineering Holding GmbH	Vienna	50.00	I	€	100,000
OOO KHD Humboldt Engineering	Moscow	50.00	I	RUB	3,350,000

D = directly owned
I = indirectly owned

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

As part of this separation, KHD acquired several companies from KHD Humboldt Wedag International GmbH, Vienna, Austria (KIA), a wholly-owned subsidiary of Terra Nova. The acquired companies generally operate in the business of plant engineering 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. (China) (KHD Beijing),
- KHD Engineering Holding GmbH (Austria) (KHD Engineering), 50 % of the shares, and its wholly-owned subsidiary OOO KHD Humboldt Engineering (Russia), Moscow
- EKOF Flotation GmbH (Germany) (EKOF).

Besides KHD, the consolidated companies comprised five German companies (31 December 2009: five) and five foreign companies (31 December 2009: one) Due to the purchase of the shares in the international companies effective as of 29 March 2010, five companies were fully consolidated for the first time, and two joint ventures were consolidated on a proportional basis for the first time. One company was liquidated.

One subsidiary and one joint venture were not included in the scope of consolidation since their impact on the Group‘s net assets, financial position and results of operations is not significant.

3. Business combinations

The purchase of the shares in the international companies by KHD GmbH, a direct KHD subsidiary, was performed with effect as of 29 March 2010 at a total purchase price of T€ 12,621. The purchase was treated as a business combination involving entities under common control; the consolidation was done analogously to the pooling-of-interests method. Under this method the consolidation is generally based on the carrying amounts at the acquisition date as presented in the parent company‘s consolidated financial statements; in other words, in this case these equal the carrying amounts that had been presented in the consolidated financial statements of KHD Ltd. Differences between purchase price and acquired net assets at carrying amounts were added to equity (T€ 11,832).

The following assets and liabilities are attributable to the newly acquired companies as of 29 March 2010, on the basis of measurement as of the acquisition date:

in € ´000	
Assets	
Current assets	47,865
Cash and cash equivalents	33,485
Non-current assets	1,595
Total assets	**82,945**
Equity and liabilities	
Current liabilities	57,224
Non-current liabilities	1,268
Equity	24,453
Total equity and liabilities	**82,945**

The revenue and net profit for the period of the companies acquired as part of the merger are as follows:

in € ´000	**01.01. - 31.03.2010**	**01.01. - 31.12.2010**
Revenue	21,494	116,329
Net profit for the period/year	1,149	3,560

The purchase price was paid in cash and amounted to T€ 12,621, which were offset by net assets of T€ 24,453.

4. Segment Reporting

External segment reporting is based on intragroup management control as well as internal financial reporting depending on the nature of the products and services offered. The Group has only a single reportable segment because it almost exclusively operates in the industrial plant engineering business. The activities related to the holding function are not a separate part of internal financial reporting and are neither reviewed separately with regard to performance nor with regard to allocation of resources. Management control is especially based on balance sheet and income statement figures. The revenue figure analysed is comprised of revenue under construction contracts and from service revenue in the after-sales business. The major business activity of the Group is the development, production and distribution of industrial equipment, especially plant engineering for cement plants. The measurement principles used for the internal reporting are in line with the IFRS principles used for the consolidated financial statements. The Management Board as chief operating decision makers assess the profitability of the business based on operating results (profit before tax).

The following table provides an overview of business for the financial years 2009 and 2010:

in € mill.	2010	2009
Order intake	269	58
Order book position	304	213
Revenue	287	360
Cost of sales	229	294
Gross profit	58	66
Expenses / other income (net)	-32	-12
Profit before tax	26	54
Increase in cash and cash equivalents	54	22
Total assets (31 December)	413	430
Liquidity (31 December)	293	226
Liabilities (31 December)	265	260

Comparability with the previous year is limited due to the companies that were deconsolidated in 2010.

The project data were allocated to the different geographical areas according to the contract site of the deliveries and services provided.

	Revenue		Non-current assets	
in € ´000	**2010**	**2009**	**2010**	**2009**
Germany	15,033	19,935	5,104	3,969
Russia	83,180	128,533	8	-
Rest of Europe	5,216	43,377	-	-
North America	2,064	2,188	94	-
South America	5,662	-	-	-
Middle East	21,888	99,192	-	-
India	70,755	28,179	878	-
China	12,461	26,340	1	-
Rest of Asia	32,271	6,639	-	-
Africa	29,772	5,150	-	-
Other	8,588	762	-	-
	286,890	**360,295**	**6,085**	**3,969**

	Order intake		Order backlog	
in € ´000	**2010**	**2009**	**2010**	**2009**
Germany	6,115	5,356	3,012	3,302
Russia	36,107	30,203	72,357	110,323
Rest of Europe	2,622	-1,213	2,641	6,436
North America	970	3,701	1,947	2,500
South America	15,778	-	10,959	-
Middle East	26,792	23,903	29,398	42,862
India	134,354	14,880	133,201	8,904
China	5,081	14,622	5,070	10,722
Rest of Asia	23,489	-44,185	30,059	23,358
Africa	7,817	8,974	6,950	4,182
Other	9,799	1,322	7,936	500
	268,924	**57,563**	**303,530**	**213,089**

The order backlog of companies included in the Group for the first time in 2010 amounted to € 109.3 million as of initial recognition date. In the comparable period, the cancellation of orders in the previous financial year resulted in a negative order intake figure in the regions Rest of Europe and the Rest of Asia.

Information about key customers

Of the Group revenue of € 287 million (2009: € 360 million), around € 131 million (previous year: € 197 million) was attributable to the Group's largest customers. An analysis is as follows:

in € mill.	2010	2009
Customer 1	36	62
Customer 2	35	41
Customer 3	29	39
Customer 4	18	28
Customer 5	13	27

The above table shows the largest customers in the respective years.

5. Property, plant and equipment

in € ´000	Leasehold improvements	Operating and office equipment	Total
Cost			
31 Dec. 2008	**717**	**18,630**	**19,347**
Additions	-	627	627
Disposals	(657)	(12,887)	(13,544)
31 Dec. 2009	**60**	**6,370**	**6,430**
Additions	258	1,177	1,435
Additions due to changes to consolidation scope	147	877	1,024
Disposals	-	(107)	(107)
Foreign currency translation	-	(21)	(21)
31 Dec. 2010	**465**	**8,296**	**8,761**
Accumulated depreciation/write downs			
31 Dec. 2008	**505**	**16,218**	**16,723**
Additions	42	804	846
Disposals	(520)	(12,145)	(12,665)
31 Dec. 2009	**27**	**4,877**	**4,904**
Additions	36	863	899
Disposals	-	(87)	(87)
31 Dec. 2010	**63**	**5,653**	**5,716**
Carrying amount			
31 Dec. 2009	**33**	**1,493**	**1,526**
31 Dec. 2010	**402**	**2,643**	**3,045**

The additions to property, plant and equipment primarily relate to additions of T€ 1,024 resulting from companies included in the Group for the first time in 2010.

6. Goodwill and other intangible assets

in € ´000	Goodwill	Licenses	Total
Cost			
31 Dec. 2008	**2,127**	**2,241**	**4,368**
Additions	-	106	106
Disposals	-	(90)	(90)
31 Dec. 2009	**2,127**	**2,257**	**4,384**
Additions	-	943	943
Disposals	-	(10)	(10)
31 Dec. 2010	**2,127**	**3,190**	**5,317**
Accumulated amortisation / write-downs			
31 Dec. 2008	**-**	**1,796**	**1,796**
Additions	-	241	241
Disposals	-	(96)	(96)
31 Dec. 2009	**-**	**1,941**	**1,941**
Additions	-	346	346
Disposals	-	(10)	(10)
31 Dec. 2010	**-**	**2,277**	**2,277**
Carrying amount			
31 Dec. 2009	**2,127**	**316**	**2,443**
31 Dec. 2010	**2,127**	**913**	**3,040**

The licences are essentially recognised at HW. The predominant portion of amortisation and write-downs are included in cost of sales.

Goodwill

The goodwill reported as of 31 December 2010 rises from the acquisition of shares in KHD HW, and is allocated to the cash generating unit (CGU) cement plant engineering of HW. Goodwill is subjected to an annual impairment test as part of the preparation of financial statements through comparing the CGU's carrying amount (including goodwill) with its recoverable amount. In this context, the recoverable amount is calculated as value in use based on the discounted cash flow method.

The (pre-tax) cash flows that are taken into account are based on the management-approved medium-term planning comprising a four-year time horizon. In order to calculate the value contribution arising from the perpetual return (value contribution after expiry of the detailed planning horizon), the long-term operating cash flows were calculated as the arithmetic average of the 2011 to 2014 planning years. A 1.0 % growth rate was applied to the perpetual return. This growth rate reflects the management's long-term expectation.

The capitalisation rate was derived from market data taking the company's specific risk position into account, and amounts to 13.49 % before tax (previous year: 12.01 %). Since the calculated value in use exceeds the CGU's carrying amount (including goodwill), there was no impairment loss pursuant to IAS 36.

A change to the key measurement assumptions (either a 10 % reduction of the estimated cash flows, or a 20 % increase in the capitalisation rate) would not have resulted in an impairment loss.

7. Receivables and financial assets

in € ´000	31 Dec. 2010	31 Dec. 2009
Current financial assets		
Trade receivables	48,289	42,264
Less valuation adjustments for impaired receivables	(2,567)	(652)
Trade receivables – net	45,722	41,612
Intercompany receivables	-	3,678
Other financial assets	1,857	5,260
Financial receivables	8,726	2,846
Current financial assets	**56,305**	**53,396**
Other receivables	**3,000**	**4,929**
Current financial assets and other receivables	**59,305**	**58,325**
Non-current financial assets		
Non-current intercompany loans	-	47,676
Other non-current financial assets	16	4,065
Non-current financial assets	**16**	**51,741**

Carrying amounts of trade and other receivables		
Trade receivables – net	45,722	41,612
Intercompany receivables	-	51,354
Other financial assets	1,857	5,260
Other receivables	11,726	7,775
Other non-current financial assets	16	4,065
Total of carrying amounts of trade and other receivables	**59,321**	**110,066**

Intercompany receivables and loans reported in the previous year in an amount of T€ 51,354 were reduced to T€ 0 due to the change in the Group structure in 2010. In the previous year, the intercompany receivables and loans primarily related to free liquidity of T€ 47,676 invested in the form of loans granted to the former sister company KIA as this company was responsible for the treasury function. Trade receivables increased by T€ 4,110, from T€ 41,612 to T€ 45,722. This is due to a trade receivables position of T€ 26,031 as of 31 December 2010 from the companies that were newly acquired and consolidated for the first time in the financial year under review. After deducting the T€ 21,921 reduction in trade receivables from the companies that formed part of the Group in the previous period, this resulted in a T€ 4,110 net increase in the trade receivables position.

Other receivables in an amount of T€ 3,000 arise from VAT reimbursement claims (previous year: T€ 4,929). A receivable due from the former majority shareholder Terra Nova is recognised in an amount of T€ 2,663. This receivable results from a capital gains tax reimbursement claim. KHD recognised an income tax liability in the same amount, which originated as a consequence of the tax audit of the German companies of the years 2005 to 2007, which was concluded in the financial year 2010. A customer receivable in an amount of T€ 3,251, which was reported among other non-current assets in the previous year, was transferred to current financial assets due to its term structure.

For trade receivables in the amount of T€ 6,319 (previous year: T€ 1,492), which were overdue at the balance sheet date, no valuation allowances were made, because no material change in the credit standing of these debtors was identified and the outstanding amounts are expected to be settled within the near future.

Age structure of overdue receivables for which no valuation allowance was recognised

in € ´000	**31 Dec. 2010**	**31 Dec. 2009**
60 to 90 days	1,537	241
91 to 120 days	833	20
Over 120 days	3,949	1,231
Total	**6,319**	**1,492**

Overdue receivables are reviewed at monthly intervals. Specific bad debt reserves (valuation allowances) are recognised if there is objective evidence of impairment.

Overdue receivables for which no valuation allowance was recognised increased year-on-year by T€ 4,827 to T€ 6,319. This was due to overdue receivables of T€ 5,002 from the companies that were newly acquired in 2010. The portion attributable to the companies that formed part of the Group in the previous year has fallen.

Movement in valuation allowances on trade receivables

in € ´000	2010	2009
Valuation allowances as of 1 January 2010	652	762
Addition	1,835	405
Addition due to first-time consolidation	958	-
Utilisation	(171)	(377)
Currency translation differences	39	-
Reversal	(746)	(138)
Valuation allowances as of 31 December 2010	**2,567**	**652**

The valuation allowances correspond to the net value (excluding VAT) of the impaired receivables.

8. Deferred tax assets and liabilities

The Group has recognised deferred tax arising from temporary differences of assets and liabilities between the IFRS amount and the tax base. Deferred tax assets and liabilities are calculated on the basis of local tax rates. The temporary differences primarily relate to the German companies of KHD Group. The 31.6 % tax rate applied was the same as the previous year‘s.

For tax loss carryforwards deferred tax assets are recognised only to the extent that a future tax benefit is probable.

Total Group loss carryforwards amounted to € 51.2 million for corporation tax (previous year: € 57.4 million), and € 61.8 million for trade tax (previous year: € 62.4 million). Of these amounts, loss carryforwards in an amount of € 4.8 million (previous year: € 8.9 million) for corporate tax and € 4.6 million on (previous year: € 0.0 million) for trade tax were considered while recognising deferred tax assets on tax loss carryforwards. On loss carryforwards of € 46.4 million (previous year: € 48.5 million) for corporation tax and € 57.2 million (previous year: € 62.4 million) for trade tax no deferred tax assets were recognised. Of the total amount of tax loss carryforwards (before tax audit), tax loss carryforwards in an amount of T€ 3,298 for corporation tax and trade tax will lapse in 2030.

Deferred tax assets and liabilities arise from the following items:

in € ´000	31 Dec. 2010	31 Dec. 2009
Deferred tax assets		
Provisions	2,549	1,143
Tax loss carryforwards	1,724	2,155
Offset with deferred tax liabilities	(1,082)	(3,061)
	3,191	**237**
Deferred tax liabilities		
Construction contracts/PoC method	(10,763)	(12,816)
Offset with deferred tax assets	1,082	3,061
	(9,681)	**(9,755)**

9. Inventories

in € ´000	31 Dec. 2010	31 Dec. 2009
Raw materials, consumables and supplies	8,089	9,056
Work in progress	1,371	7,609
Write-downs to net realisable value	(1,193)	(3,002)
	8,267	**13,663**

In the financial year 2010, inventories in an amount of T€ 12,036 (prior year: T€ 5,893) were expensed as part of cost of sales. The write-downs to net realisable values in the year under review amounted to T€ 1,193 (previous year: T€ 3,002). These write-downs exclusively relate to raw materials, consumables and supplies, whose carrying amount is T€ 5,865 (previous year: T€ 6,624). The components resulting from cancelled contracts that were recognised among work in progress in the previous year were largely sold in the year under review.

Construction contracts

in € ´000	31 Dec. 2010	31 Dec. 2009
Costs incurred to date for construction contracts	245,071	127,644
Proportionate profits under these contracts recognised to date	43,541	41,702
Total costs incurred and profits recognised	288,612	169,346
Less recognised contract losses	(1,833)	(1,772)
Less progress billings	(311,794)	(176,574)
Balance of construction contracts account	**(25,015)**	**(9,000)**
This amount is reported in the balance sheet as follows:		
Gross amount due from customers for contract work	21,159	38,413
Gross amount due to customers for contract work	(46,174)	(47,413)
	(25,015)	**(9,000)**
Gross amount due to customers for contract work	(46,174)	(47,413)
Advances received for construction contracts (before related work is performed)	(16,874)	(3,723)
Commitments under construction contracts	**(63,048)**	**(51,136)**

Of the revenue of T€ 286,890 booked in 2010, T€ 262,317 (previous year: T€ 360,295) is attributable to construction contracts for which revenue was recognised on the basis of percentage of completion.

10. Other financial assets

The T€ 3,403 reduction in other financial assets, from T€ 5,260 to T€ 1,857, is primarily attributable to the sale of securities in 2010.

11. Cash and cash equivalents

The Group reports cash and cash equivalents of T€ 293,060 (previous year: T€ 225,844). Of this amount, T€ 13,728 (previous year: T€ 661) is deposited as collateral for bank guarantees. The cash collateral essentially relates to collateral connected with the € 150 million bank guarantee credit facility existing through KHD since the end of November 2010, which is available to all operating KHD Group companies.

in € ´000	31 Dec. 2010	31 Dec. 2009
Bank balances and cash	74,513	91,210
Short-term bank deposits	204,819	133,973
Restricted cash (collateral for guarantees)	13,728	661
	293,060	**225,844**

12. Equity

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

The share capital was newly divided in a 1:2 ratio by way of a stock split due to a resolution of the Annual General Meeting of shareholders of 23 March 2010. This doubled the number of ordinary shares from 16,571,276 to 33,142,552 (as of the balance sheet date). 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. The amendment to the articles of association was entered in the company's commercial register on 25 March 2010.

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 are accounted in the balance sheet at their cost of € 1.93 per share. The share's stock market price was € 6.16 as of 31 December 2010. The number of treasury shares increased from 114,568 to 229,136 as a result of the stock split. This represents 0.69 % of the shares comprising share capital.

The non-controlling interests relate exclusively to the 11.03 % (previous year: 12.34 %) minority shareholders of KIS. The 0.01 % non-controlling interest in Blake was acquired in the year under review.

13. Financial liabilities

in € ´000	31 Dec. 2010	31 Dec. 2009
Current financial liabilities		
Loans granted by banks or third parties	-	152
Loans granted by affiliated companies	-	3,400
	-	**3,552**

The financial liabilities reported in the previous year were fully settled in 2010.

14. Pension benefit obligations

The defined benefit plan granted to employees in KHD Group relates exclusively to Germany. The company pension scheme is granted under defined benefit pension plans, which are covered by setting-up pension benefit obligations. After the pension plans were frozen in 1996, it is no longer possible for employees to acquire additional vested rights to future pensions. The claims to payment of non-forfeitable pension benefit obligations under the pension plans arise upon application by the beneficiaries, and through the provision of supporting evidence that the statutory pension may be drawn.

Interest expenses on pensions of T€ 1,133 (prior year: T€ 1,219) were booked through the Group income statement in the financial year under review.

As in the previous year, the Group applied the so-called corridor method as per IAS 19 in 2010. The pension benefit obligations are not funded by a separate fund or in the form of plan assets.

The most important actuarial assumptions made are as follows:

	31 Dec. 2010	31 Dec. 2009	31 Dec. 2008	31 Dec. 2007	31 Dec. 2006
Discount rate	4.95 %	5.30 %	6.00 %	5.34 %	4.75 %
Pension trend	2.00 %	2.00 %	1.50 %	1.50 %	1.50 %
Employee turnover rate	0 %	0 %	0 %	0 %	0 %

in € ´000	31 Dec. 2010	31 Dec. 2009	31 Dec. 2008	31 Dec. 2007	31 Dec. 2006
Defined benefit obligation	22,272	21,656	21,374	22,080	23,073
Experience adjustments	-245	-197	-81	-	-

No experience adjustments were calculated for 2006 and 2007.

The defined benefit obligation is reported as follows in the balance sheet:

in € ´000	31 Dec. 2010	31 Dec. 2009
Defined benefit obligation (unfunded)	22,272	21,656
./. Unrecognised actuarial gains / losses	(1,884)	(1,311)
Amount carried on the balance sheet	20,388	20,345

The previous year‘s pension benefit obligations included T€ 814 for deferred compensation.

Reconciliation of present value of obligation (beginning/end of year)

in € ´000	31 Dec. 2010	31 Dec. 2009
Defined benefit obligation on 1 January	21,656	21,374
Addition to scope of consolidation	461	-
Interest cost	1,133	1,219
Benefits actually paid (total)	(1,474)	(1,377)
Transfer	(2)	(777)
Gains due to experience adjustments	(245)	(197)
Actuarial gains/losses due to change in actuarial assumptions	743	1,414
Defined benefit obligation on 31 December	22,272	21,656

Future benefits

Prospective pension payments

in € ´000	
in 2011	1,463
in 2012	1,527
in 2013	1,558
in 2014	1,583
in 2015	1,592
2016 to 2020	7,895

15. Provisions

in € ´000	Warranty	Litigation risks	Restruc-turing	Anticipated losses	Total
Provisions as of 1 January 2010	38,087	102	5,450	6,683	50,322
Addition due to consolidation scope	7,927	8	68	1,152	9,155
Additions	15,328	1,097	-	3,077	19,502
Release	(2,517)	(19)	(2,884)	(4,239)	(9,659)
Interest accrual	728	-	-	-	728
Currency exchange rate effects	155	-	3	23	181
Utilisation / reclassification	(15,535)	(150)	(1,697)	(2,750)	(20,132)
Provisions as of 31 December 2010	**44,173**	**1,038**	**940**	**3,946**	**50,097**

in € ´000	31 Dec. 2010	31 Dec. 2009
Non-current (warranty)	10,772	7,748
Current	39,325	42,574
	50,097	**50,322**

The provisions for warranty cover all risks identifiable as at the balance sheet date which relate to guarantee and warranty commitments. The provisions are measured on a contract-by-contract basis according to the best estimate. The amounts reported as non-current include warranty commitments of longer than one year. The anticipated maturities range between one and four years.

The release of the restructuring provision is primarily due to staff turnover in 2010, as well as a provision adjustment.

The set-up of the provision for anticipated losses in the previous year primarily comprised obligations towards suppliers resulting from purchase orders linked to cancelled contracts. Most of these provisions were released through the income statement in 2010.

16. Liabilities

in € ´000	31 Dec. 2010	31 Dec. 2009
Current financial liabilities		
Trade payables	83,628	96,622
Current financial liabilities	-	3,552
Liabilities due to affiliated companies	-	4,914
Other current payables	8,632	4,111
Current financial liabilities	**92,260**	**109,199**
Other current liabilities		
Taxes and social security	121	58
Income tax liabilities	20,864	10,970
Other current liabilities	**20,985**	**11,028**
Total current liabilities	**113,245**	**120,227**
Non-current other liabilities	**8,318**	**7,558**

The other non-current liabilities include commitments due to warranty cases recognised in the amount of T€ 8,318 (previous year: T€ 7,558).

The trade payables disclosed as at the balance sheet date are subject to the usual retentions of title. The intercompany liabilities in the previous year exclusively related to services provided by KIA Group. As in the previous year, current liabilities include a liability of T€ 1,976 for the reimbursement of expenses incurred by MFC Corporate Services for services provided to KHD.

The carrying amounts disclosed as at the balance sheet date essentially correspond to their fair values. Trade payables increased by T€ 32,687 as a result of companies included in the scope of consolidation for the first time. Corresponding to the trade receivables the total trade payables position decreased by T€ 12,994.

Income tax liabilities of T€ 20,864 contain capital gains tax payable in an amount of T€ 2,663 due to the external tax investigation for the years 2005 to 2007 for the companies of the German group, which was concluded in the year under review. This liability is offset by a receivable in an equal amount due from former majority shareholder Terra Nova (formerly KHD Ltd.).

17. Commitments under construction contracts

This item contains commitments under construction contracts which are presented in accordance with IAS 11. This commitment represents the net liability of the amounts explained in note 9. This item also includes advances received before the related work was performed by the KHD Group. Those have to be recognised separately in accordance with IAS 11. They were paid by customers at the time when the construction contract became effective.

18. Personnel Expenses

in € ´000	2010	2009
Wages and salaries	34,385	34,742
Social security contributions and costs, including pension costs	5,040	5,460
	39,425	**40,202**

Total personnel expenses include costs of € 7.6 million from companies included in the scope of consolidation for the first time. The increase in personnel expenses was, among other factors, compensated by previous year's sale of the subsidiary CMT and the workshop of HW. The headcount adjustment measures implemented at HW also contributed to a reduction in personnel expenses.

in € ´000	As of 31 March 2010	As of 30 June 2010	As of 30 Sept. 2010	As of 31 Dec. 2010
Salaried employees	399	722	707	706
Industrial employees	0	49	61	61
Total	399	771	768	767

Due to the addition of the new companies, the number of employees as of the balance sheet date increased by 376, from 391 to 767.

In the year under review, the average number of employees was 648, 43 of whom comprised industrial employees (previous year: 522 employees, of whom industrial: 73 employees). 28 (prior year: 0) employees were employed at joint ventures. None of those employees was an industrial employee.

Staff costs include employer contributions to statutory pension insurance in Germany in an amount of T€ 2,153 (previous year: T€ 2,408), and expenses for contractual defined contribution plans of T€ 857 (previous year: T€ 218).

19. Total remuneration of current and former members of the Management Board and the Supervisory Board

The total remuneration of KHD‘s Management Board members was T€ 1,338 in 2010. 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 was paid through a Service & Cost Allocation Agreement with KIA. For this, the Group incurred total charges of around € 1.4 million in 2009. This included an amount of T€ 126 for Management Board compensation. 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 Group 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 2010 financial year.

20. Other operating Income

in € ´000	2010	2009
Exchange gains	574	67
Gains on the disposal of fixed assets and companies	17	2,029
Income from cancelled contracts	1,272	5,366
Other income	1,600	1,576
	3,463	**9,038**

Gains on the disposal of fixed assets in the previous year relate to the sale of HW‘s workshop and the shares in CMT. Other income fell by T€ 5,575, from T€ 9,038 to T€ 3,463, as previous year’s income was exceptionally high due to income from cancelled contracts in an amount of T€ 5,366, and gains on the disposal of fixed assets and companies in an amount of T€ 2,029. Current year’s other income primarily contains income from services provided to third-parties in an amount of T€ 1,174 (previous year: T€ 339).

21. Distribution costs

Current year's costs for tendering amounting to T€ 5,425 are included in distribution costs; in the financial year 2009 these were presented within cost of sales. For the purposes of comparability prior year's costs for tendering amounting to T€ 6,350 were reclassified to distribution costs.

22. General and administrative expenses

General and administrative expenses increased by T€ 9,163, from T€ 9,818 to T€ 18,981. This was particularly due to the separation of Terra Nova into two separate groups which caused all group management functions previously handled by the former holding companies to be taken over by KHD.

Above and beyond this, the companies included in the consolidated financial statements for the first time made a significant contribution to a further increase in general and administrative expenses. Aside from the compensation for the Management Board and costs for general administration, general and administrative expenses particularly include legal and consulting costs, financial statements closing costs, remuneration of the Supervisory Board, costs related to the initial public offering as well as investor relations costs.

In the previous year, and partially also still during the first half of 2010, the former sister company KIA was handling the group management functions and charged costs related thereto to the companies of KHD Ltd. Group through Service & Cost Allocation Agreements. The charging of such expenses by KIA was reported in the previous year among other expenses within the German subgroup.

23. Other expenses

in € ´000	**2010**	**2009**
Research and development	3,357	3,090
Costs charged by affiliated companies	353	3,758
Miscellaneous expenses	4,227	785
	7,937	**7,633**

The T€ 3,405 reduction in costs charged by affiliated companies is primarily due to the change in the structure of KHD Group compared with the previous year. Existing service agreements, as well as other agreements existing between KHD Group companies and Terra Nova Group companies, were cancelled in their entirety at the end of March 2010.

Miscellaneous expenses reported among other expenses include as a major amount cost of T€ 1,835 related to short-time working performed at HW in the first half of the year.

Miscellaneous expenses also contain expenses for consultancy services for ongoing reorganisation projects as well as exchange rate losses.

In the previous year's income statement other expenses included IT services and payroll accounting expenses. These were reclassified to general and administrative costs in an amount of T€ 1,363, in order to facilitate comparability with the 2010 financial year.

24. Net finance income

Net finance income is composed as follows:

in € ´000	2010	2009
Interest income	2,861	3,092
Interest received from affiliated companies	81	650
Total interest income	**2,942**	**3,742**
Gains on securities	407	1,695
Dividend income	15	68
Finance income	**3,364**	**5,505**
Other finance cost	(240)	(332)
Interest related to pension benefit obligations and non-current provisions	(1,861)	(1,221)
Interest expenses	(195)	-
Finance expenses	**(2,296)**	**(1,553)**
Net finance income	1,068	3,952

Interest income primarily contains interest from loans, bank deposits, and cash equivalents. An amount of T€ 2,469 relates to interest income from term deposits. The T€ 2,141 reduction in financial income to T€ 3,364 essentially reflects the decline in gains on securities. As in the previous year, interest income is attributable exclusively to financial assets not measured at fair value through profit or loss.

Finance expenses include the interest on pension benefit obligations in an amount of T€ 1,133 (previous year: T€ 1,219). No interest expenses are attributable to liabilities not measured at fair value through profit or loss (previous year: T€ 2). In the year under review, interest expenses related to non-current provisions amounted to T€ 728 (previous year: T€ 0).

25. Income tax

The income tax expense in the financial year 2010 amounted to T€ 10,221 (previous year: T€ 16,497), it is composed as follows:

in € ´000	2010	2009
Current tax expense	(12,656)	(11,724)
Deferred tax income / expense	2,435	(4,773)
Tax expense for the year	**(10,221)**	**(16,497)**

The product of accounting profit multiplied by the applicable tax rate is reconciled to the tax expense for the year as follows:

in € ´000	2010	2009
Profit before taxes	26,021	53,665
Average tax rate	31,60 %	31,60 %
Expected tax expense	(8,223)	(16,958)
Effects of tax-free income	69	978
Effects of non-tax-deductible expenses	(95)	(285)
Effects of unutilised tax losses not recognised as deferred tax assets and offset possibilities	(953)	0
Effects of originally unrecognised unutilised tax losses and offset possibilities, which are now reported as deferred tax assets, and effects arising from changes to previous years‘ tax loss carryforwards	319	240
Effects of subsidiaries' divergent tax rates	275	0
Adjustments for previous years' taxes recognised in the current period	(1,588)	(300)
Other non-tax-effective additions and deductions	(25)	(172)
Tax expense for the year	**(10,221)**	**(16,497)**

The tax audit for the years 2005 to 2007 at the German companies of KHD Group was concluded in the financial year 2010. The German companies of KHD Group accounted for tax expenses for previous years of T€ 1,588 as a result of this audit, those taxes have already been fully paid in the financial year elapsed. Taxation rates that differ from the average Group tax rate are attributable primarily to the USA, India and Russia.

The effective tax rate at Group level is 39.28 % (previous year: 30.74 %).

26. Earnings and dividend per share

Earnings per share

For reasons of comparability, the weighted average number of shares outstanding in the previous financial year was adjusted from 16,456,708 to the number of ordinary shares (following the stock split) as of 31 December 2010. The basic and diluted earnings per share amount to € 0.47 (previous year: € 1.13).

	2010	2009
Net profit attributable to shareholders (in €)	15,583,000	37,102,000
Weighted average of number of shares outstanding	32,913,416	32,913,416
Basic (undiluted) and diluted earnings per share (in €)	0.47	1.13

Dividend per share

According to the company's articles of association, KHD's Annual General Meeting of shareholders passes a resolution concerning the appropriation of unappropriated retained earnings.

In the financial year 2010, the Company paid a dividend of € 3.00 per share (on the number of shares outstanding before the stock split).

27. Total fees charged by the auditors for the financial year

The total fees invoiced by the auditors Deloitte & Touche GmbH and other member companies of the Deloitte & Touche network for the financial year were composed as follows:

in € ´000	2010	2009
Financial statement audit services	643	409
of which Deloitte & Touche GmbH	(571)	(409)
of which for the previous year	(111)	-
Other certification services	318	-
of which Deloitte & Touche GmbH	(308)	-
Tax advisory services	42	73
of which Deloitte & Touche GmbH	(27)	(73)
Other services	44	-
of which Deloitte & Touche GmbH	(31)	-
	1,047	**482**

28. Commitments and contingent liabilities / contingent assets

Commitments for operating leases

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

in € ´000	31 Dec. 2010	31 Dec. 2009
Within one year	1,752	1,435
Between two and five years	1,661	1,425
After five years	487	-
Total lease and rental commitments	3,900	2,860

The total expense for leased and rented office space and office equipment in the financial year 2010 that was accounted for in the Group income statement amounts to T€ 2,741 (prior year: T€ 2,554). Of the 2010 expense, T€ 1,067 is attributable to companies that were newly included in the scope of consolidation in the year under review.

Contingent liabilities

Contingent liabilities arising from guarantees as part of normal business transactions are explained in more detail in the additional notes concerning financial instruments.

Purchase commitments of KHD Group amounted to € 74.2 million (previous year: € 70.1 million).

Contingent assets

As part of the disposal of HW's workshop in Cologne-Kalk / Germany to an Indian acquirer as at 7 October 2009, a contingent purchase consideration (maximum amount of T€ 2,850) was agreed beyond the purchase consideration paid. The contingent purchase consideration depends on the occurrence of certain utilisation related criteria. This contingent component of the maximum possible purchase price, which will become due after the expiry of four years following the sale date; it was not recognised in the Group balance sheet as 31 December 2010.

29. Additional notes on financial instruments

a) Financial risk factors

As a Group that operates globally, 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.

b) Capital management

The primary goal of KHD Group's capital management is to ensure that the company's ability to pay debts is maintained in the future and that its financial standing is safeguarded.

Financial security is measured essentially by means of the equity ratio. This ratio's components are equity and total assets as reported in the Group balance sheet. The equity ratio is used as a key ratio while communicating with investors, analysts, banks and rating agencies.

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

KHD is subject to the minimum capital requirements applicable to German stock corporations. Compliance with these requirements is monitored continuously. The Group was in compliance with these requirements in 2010.

in € ´000	**31 Dec. 2010**	**31 Dec. 2009**
Equity in € '000	148,555	169,731
Total assets in € '000	413,332	429,888
Equity ratio as %	35.94	39.48

Net result for the year of T€ 15,583 had a positive impact on the equity ratio. The equity ratio fell to 35.94 % due to the T€ 49,730 dividend that was paid in the year under review.

c) Market risk

Currency risk

In the case of foreign currency exchange risks, a differentiation should be made between currency risks related to the execution of construction contracts in different currency areas, and risks arising from translation of individual Group companies' financial statements denominated in a foreign currency at different reporting dates. As part of the execution of construction contracts, 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. The Group recognised assets and liabilities denominated in foreign currencies translated to a carrying amount of T€ 7,062. These primarily relate to assets and liabilities in India and the USA. A 10 % change in exchange rates would change Group earnings by T€ 483 (previous year: T€ 0).

The individual financial statements prepared by the foreign subsidiaries are translated into Euro according to the functional currency concept. The functional currency of the Group is the Euro. Assets and liabilities are translated at the balance sheet closing rate. Currency translation differences resulting from translating the foreign subsidiaries' assets and liabilities denominated in local currencies into the Group's functional currency may have an impact on the Group equity. Due to annual net profits and equity denominated in foreign currencies currency translation effects on the following positions can impact Group equity: the US dollar (USD) in a translated amount of T€ 1,160, the Russian rouble (RUB) in an amount of T€ 1,089, the Indian rupee (INR) in an amount of T€ 21,875, and the Australian dollar (AUD) in an amount of T€ 1,445. A 10 % change in foreign currency exchange rates would change consolidated equity by T€ 2,557.

Price risk

The Group reports securities in its balance sheet, and is exposed to standard market price risk relating to securities. As performance and price are set out in individual contracts, the Group is not exposed to commodity price risk.

d) Credit and default risko

The Group is not exposed to significant credit risks. 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 also include export credit agencies (e.g. Hermes). Securities for receivables amounted to T€ 4,736 in the year under review (previous year: T€ 10,503).

The default risk arising from financial assets consists in the risk of counterparty default and is consequently limited to the positive carrying amounts of the respective financial assets.

Credit and default risks are addressed through allowances made for outstanding receivables that became doubtful.

e) Liquidity risk

For many years, the KHD Group has pursued a conservative and forward-looking policy of securing its liquidity; it possesses a very high level of cash and cash equivalents.

To avoid financial risks from the plant engineering business, construction contracts are executed through customer payments made in advance, which led to a net cash inflow as at the balance sheet date. 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. Most of the current liabilities disclosed as at the balance sheet date are payable within 60 days.

Within the scope of its normal business transactions, the Group has commitments due to advance guarantees, performance bonds and guarantees for warranty obligations. The Group does not anticipate any material cash outflows due to these commitments. In order to secure the future growth path, a € 150 million bank guarantee credit facility was concluded with a bank consortium, which allows individual KHD Group companies to provide bank guarantees on favourable terms for its customers worldwide.

Within the scope of its normal business activities, the Group has provided bank guarantees in an amount of € 106.7 million (previous year: € 83.5 million). In the previous year the bank guarantee credit facility was held by the former sister company KIA.

f) Interest-rate risk

The Group holds assets that are affected by changes to market interest rates over the course of time. Group profit would have been T€ 1,004 higher or lower given a 50 basis point increase or decrease in the market interest-rate level as of 31 December 2010 (previous year: T€ 947).

g) Net earnings per category

The net earnings per category of financial assets and liabilities are as follows:

2010	**Financial assets**		**Financial liabilities**		**Total**
in € ´000	**Fair value through profit and loss**	**Amortised cost**	**Fair value through profit and loss**	**Amortised cost**	
Expenses due to valuation allowances on financial assets	0.0	-1,835.0	-	-	-1,835.0
Interest income / expense	-	2,942.0	-	-	2,942.0
Other net earnings	182.0	959.0	-	-	1,141.0
Net earnings	**182**	**2,066**	**0**	**0**	**2,248**

2009	**Financial assets**		**Financial liabilities**		**Total**
in € ´000	**Fair value through profit and loss**	**Amortised cost**	**Fair value through profit and loss**	**Amortised cost**	
Expenses due to valuation allowances on financial assets	-	-267.0	-	-	-267.0
Interest income / expense	0.0	3,742.0	-	-2.0	3,740.0
Other net earnings	1,431.0	67.0	-	-	1,498.0
Net earnings	**1,431**	**3,542**	**0**	**-2**	**4,971**

The net earnings especially include interest income, income and expenses from translating monetary items denominated in foreign currency, fair value changes of securities as well as valuation allowances on financial assets.

h) Lists of financial assets and liabilities by category

31 Dec. 2010 in € ´000	Financial assets Fair value through profit and loss	Amortised cost	Not in IAS 39 application area
Non-current financial assets	-	16	-
Trade receivables	-	45,722	-
Other financial assets	1,857	-	-
Derivatives	411	-	-
Other receivables	-	8,315	3,000
Cash and cash equivalents	-	293,060	-
Total financial assets	**2,268**	**347,113**	**3,000**
Other liabilities	-	-	-
Trade payables	-	-	-
Total financial liabilities	**0**	**0**	**0**

31 Dec. 2009 in € ´000	Financial assets Fair value through profit and loss	Amortised cost	Not in IAS 39 application area
Non-current financial assets	-	51,741	-
Trade receivables	-	41,612	-
Intercompany receivables	-	3,678	-
Other financial assets	5,260	0	-
Derivatives	176	-	-
Other receivables	-	2,670	4,929
Cash and cash equivalents	-	225,844	
Total financial assets	**5,436**	**325,545**	**4,929**
Other liabilities	-	-	-
Trade payables	-	-	-
Intercompany liabilities	-	-	-
Total financial liabilities	**0**	**0**	**0**

Financial liabilities			
Amortised cost	Not in IAS 39 application area	Carrying amount	Fair value
-	-	16	-
-	-	45,722	-
-	-	1,857	1,857
-	-	411	411
-	-	11,315	-
-	-	293,060	-
0	**0**	**352,381**	**2,268**
8,632	8,318	16,950	-
83,628	-	83,628	-
92,260	**8,318**	**100,578**	**0**

Financial liabilities			
Amortised cost	Not in IAS 39 application area	Carrying amount	Fair value
-	-	51,741	-
-	-	41,612	-
-	-	3,678	-
-	-	5,260	5,260
-	-	176	176
-	-	7,599	-
-	-	225,844	-
0	**0**	**335,910**	**5,436**
4,111	7,558	11,669	-
96,622	-	96,622	-
4,914	-	4,914	-
105,647	**7,558**	**113,205**	**0**

The fair values of financial assets and financial liabilities were determined according to the following hierarchy:

- The fair values of the listed securities that are held for trading are determined by reference to listed market prices.
- The fair values of derivatives are calculated using quoted market prices. If such prices are not available, the calculation is based on discounted cash flow analyses, using corresponding yield curves for the term to maturity of the derivative instruments.

Non-current financial assets accrue interest at arm's length conditions.

i) Securities held for trading

Securities held for trading amounted to T€ 1,857 (previous year: T€ 5,260). A variance in the market price by 10 % would lead to a variance of T€ 186 (previous year: T€ 526) in the Group's profit.

j) Receivables

Receivables that are due for more than 60 days after the agreed payment date are treated as overdue receivables. Overdue receivables, including receivables on which valuation allowances were made, () amounted to T€ 8,424 (prior year: T€ 1,978). After deducting securities (letters of credit and Hermes cover), the resulting risks are estimated by the Group at T€ 5,857 (prior year: T€ 485). A 10 % change in the risk amount would affect earnings by T€ 401. The receivables on which valuation allowances were made are essentially more than 90 days overdue.

k) Derivatives

The derivative financial instruments utilised exclusively comprise foreign exchange forward contracts. These are measured at fair value in line with IAS 39.

Foreign exchange forward contracts are measured at quoted market prices (based on the forward exchange rate and the corresponding yield curves which are derived from the listed interest rates of corresponding terms to maturity). The derivatives carry a fair value of T€ 411 (previous year: T€ 176). A 10 % change in the exchange rate hedged by the derivatives would impact earnings by T€ 982 (previous year: T€ 12). The total of underlying transactions allocated to foreign exchange forward contracts amounts to € 14 million. The Euro currency was hedged by foreign subsidiaries.

30. 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.

Arbitration court lawsuit against Dalmia Cement Ventures Limited (Dalmia)

On 15 February 2010, HW brought an arbitration court lawsuit against Dalmia for payment of compensation of T€ 4,291 including interest, after Dalmia cancelled several agreements with HW. The location of the arbitration court is Zurich.

On 21 August 2010, HWIN brought an arbitration court lawsuit against Dalmia at the arbitration court in New Delhi, after Dalmia cancelled several contracts with HWIN. The value of the claim amounts to INR 268.1 million, to which is added the HWIN lawsuit against Dalmia in an amount of INR 90 million for repayment of the amount drawn on Dalmia arising from a bank guarantee.

The HW and HWIN litigation is to be settled prospectively in the first quarter of 2011, with the pending arbitration proceedings thereby being completed.

Mustagheem AG

An arbitration court submission from Mustagheem AG was submitted to KHD HW on 13 December 2010 for payment of outstanding commissions in an amount of T€ 20,683.

Given that KHD HW has no contractual arrangement with Mustagheem, KHD HW is not the proper party with respect to the plaintiff‘s claim in these proceedings, and has rejected the arbitration submission in its entirety.

31. Related party disclosures

The separation of the Terra Nova Group into two distinct groups was successfully concluded in the first quarter of 2010.

KGC Strategische Dienstleistungen UG (haftungsbeschränkt), Cologne („KGC“), represented by its managing director, Mr. Krister Graf, Frankfurt/Main, and 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.

In accordance with § 21 of the German Securities Trading Act (WpHG), Terra Nova and KGC made notification on 9 February 2011 that the voting rights on this date had fallen below the 3% threshold, and amounted to 0% as of this date.

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

In connection with the separation of the group described above, the following agreements existing between the KHD Group companies and the Terra Nova Group subsidiaries were terminated at the end of March 2010:

- Treasury Agreements/Service & Cost Allocation Agreements
- Loan Offer Agreements
- Asset and Portfolio Management Agreement
- Framework Agency Agreement
- Technology Licence Agreement

At the end of November 2010, KHD agreed a € 150 million bank guarantee credit facility with a banking consortium led by RBI. This bank guarantee credit facility is available to all operating KHD Group companies for various security instruments such as bank guarantees and letters of credit.

Business combinations

On this topic, please refer to the more extensive remarks on business combinations under note 2 of the notes to the consolidated financial statements „Subsidiaries and joint ventures of KHD Humboldt Wedag International AG as of 31 December 2010“.

Income

Income from related companies amounted to T€ 466. The income of T€ 7,535 reported in the previous year related exclusively to income from Terra Nova Group companies.

in € ´000	**2010**	**2009**
Joint ventures	293	-
Terra Nova Group	173	7,535
	466	**7,535**

Expenses

Expenses arising from transactions with related parties are composed as follows.

in € ´000	**2010**	**2009**
Terra Nova Group	2,469	35,139
Joint ventures	219	-
	2,688	**35,139**

Receivables

A receivable due from the former majority shareholder Terra Nova was recognised in an amount of T€ 2,663 among other receivables. This receivable results from a capital gains tax reimbursement claim. KHD recognised an income tax liability in the same amount, which originated as a consequence of the tax audit of the German companies of the years 2005 to 2007, which was concluded in the financial year 2010.

The prior year's receivables due from Terra Nova (T€ 51,354) primarily related to loans granted to KIA.

Liabilities

As of 31 December 2010 liabilities due to joint ventures amount to T€ 191 (prior year: T€ 0).

In the prior year the Group had liabilities due to Terra Nova in an amount of T€ 8,314.

32. Corporate Governance

The Management Board and Supervisory Board of KHD issued the statement required pursuant to § 161 of the German Stock Corporation Act (AktG) on 23 March 2011, and have also made it available to shareholders on the company's website at (www.khd.com).

In addition, the Management Board and Supervisory Board of the listed Group company KIS issued the statement required pursuant to § 161 of the German Stock Corporation Act (AktG) on 2 February 2010, and have also made it available to shareholders on the company's website at (www.khdis.de).

33. Events after the balance sheet date

Subsequent to the end of the financial year, on 16 February 2011, KHD successfully concluded the capital increase that it had announced on 21 December 2010. This transaction was the pre-requisite for the effectiveness of an agreement with Beijing-based CATIC concerning the strategic partnership between the two companies. 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.

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 plants. Such turn-key contracts were largely awarded to competitors in the past. The corporation will allow KHD and CATIC to enjoy better access to contracts 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 the world's largest cement market, China, as well as in other countries and regions which KHD and CATIC regard as appropriate.

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

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

34. Release for publication by the Management Board

These consolidated financial statements were released for publication by the Management Board resolution of 25 March 2011. Supervisory Board approval should be issued at the Supervisory Board meeting on 28 March 2011.

The Management Board

Cologne, 25 March 2011

Jouni Salo   Manfred Weinandy

RESPONSIBILITY STATEMENT

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

Cologne, 25 March 2011

The Management Board

Jouni Salo Manfred Weinandy

INDEPENDENT AUDITORS' REPORT

We have audited the consolidated financial statements prepared by KHD Humboldt Wedag International AG, Cologne/Germany, - comprising the income statement as well as the statement of other comprehensive income, the balance sheet, the cash flow statement, the statement of changes in equity and the notes to the financial statements - and the discussion and analysis by the management of the parent company for the business year from 1 January to 31 December 2010. The preparation of the consolidated financial statements and the discussion and analysis by the management of the parent company in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a (1) HGB are the responsibility of the parent company's Board of Directors. Our responsibility is to express an opinion on the consolidated financial statements and on the discussion and analysis by the management of the parent company based on our audit.

We conducted our audit of the consolidated 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 consolidated financial statements in accordance with the applicable financial reporting framework and in the discussion and analysis by the management of the parent company are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group 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 consolidated financial statements and the discussion and analysis by the management of the parent company are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements and the discussion and analysis by the management of the parent company. 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 consolidated financial statements of KHD Humboldt Wedag International AG, Cologne/Germany, comply with IFRS, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a (1) HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The discussion and analysis by the management of the parent company are consistent with the consolidated financial statements and as a whole provide a suitable view of the Group's position and suitably present the opportunities and risks of future development.

Düsseldorf/Germany, 25 March 2011

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

Signed: Graetz	Signed: Neu
German Public Auditor	German Public Auditor

LIST OF ABBREVIATIONS

Blake	Blake International Ltd., Road Town, Tortola/British Virgin Islands
BRIC nations	Brazil, Russia, India, China
CAGR	Compound Annual Growth Rate
CATIC	CATIC Beijing Co. Ltd., China (CATIC)
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 that 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	KHD 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

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Concept, text and design
cometis AG

This annual report is published in German and English. In the event of any discrepancies, the German version prevails.

Legal disclaimer
This annual report contains forward-looking statements concerning KHD‘s future developments, its business, and its net assets, financing position and results of operations. These forward-looking statements are based on the management‘s current assessments. Such statements are characterised by words such as „foresee“, „believe“, „expect“, „predict“, „plan“, „estimate“, „assume“, „can/could“, „should“ and similar formulations. These statements are based exclusively on circumstances on the date of their publication, and are consequently subject to certain risks and uncertainties. Should these risks be realised either wholly or partially, should one or several of the uncertainties occur, or should the assumptions underlying the statements prove incorrect, actual results may diverge significantly from the expectations referred to, or from the expectations that have been expressed implicitly. We do not intend, nor do we assume the responsibility, to update forward-looking statements continuously. This annual report is published in both German and English. The German version is the authoritative version.