ANNUAL REPORT 2011

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

HUMBOLDT WEDAG

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Key Figures

in € million	Legal			Proforma*		
	Dec. 31, 2011	Dec. 31, 2010	Variance in %	Dec. 31, 2011	Dec. 31, 2010	Variance in %
Order Intake	224.7	268.9	–16.4	224.7	307.9	–27.0
Order Backlog	293.7	303.5	–3.2	293.7	303.5	–3.2
Revenue	234.6	286.9	–18.2	234.6	307.9	–23.8
Gross Profit	52.5	57.4	–8.6	52.5	60.9	–13.8
EBIT	17.6	25.0	–29.6	17.6	26.7	–34.1
EBIT-Margin (in %)	7.5	8.7	–13.8	7.5	8.7	–13.8
EBT	20.7	26.0	–20.5	20.7	28.1	–26.3
Group net profit	13.5	15.8	–14.6	13.5	17	–20.6
EPS in EURO, Cent	0.28	0.47	–40.4	0.28	0.51	–45.1
Operating cash flow	(65.8)	50.5	–230.3			
Cash flow from investing activities	(4.3)	66.3	–106.5			
Cash flow from financing activities	81.4	(63.2)	228.8			
Equity	233.5	148.6	57.2			
Equity ratio (in %)	54.1	35.9	50.7			
Cash/Securities	300.3	293.1	2.5			
Employees	765	767	0			

* expanded group

Facts & Figures

KHD was able to keep order backlog at nearly the previous year's level, to achieve a satisfactory EBIT margin of 7.5% – despite falling order intake and declining revenue – under difficult market conditions.

€ 225 million

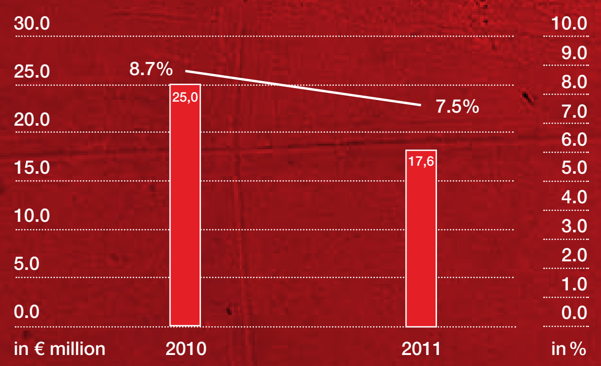
order intake (–16.4%)

€ 294 million

order backlog (–3.2%)

€ 235 million

Group revenue (–18.2%)



EBIT and EBIT-margin (%)

Preferred Partner

KHD Humboldt Wedag is the preferred technology and service partner for cement producers around the world: this is the standard we strive for and to which we hold ourselves. To achieve this we are investing in strengthening our customer focus around the globe by expanding our service business and developing a sustainably competitive cost position. We are also developing processes that help operators to meet tomorrow's environmental standards today. Together with our strong partners, we stand for premium technology, high efficiency, and rapid availability. These features – combined with a solid capital base and liquidity position – help us to steer our future growth with a focus on value creation. To the benefit of customers, employees, and shareholders alike.

FOREWORD OF THE BOARD OF MANAGEMENT

Dear shareholders, customers, business partners, and friends of the Company,

KHD Humboldt Wedag International AG looks back on a challenging year – the debt crisis in Europe, inflationary tendencies in emerging economies, and political insecurity in North Africa as well as in the Middle East have all left their mark on KHD's relevant markets. We accepted the challenges and consolidated our position in the market. KHD starts 2012 with intensified strategic partnerships, stronger sales activities, more services, and an even more efficient organizational structure. This will enable us to benefit even more directly and comprehensively from the promising medium and long-term perspectives of the cement markets than in previous years.

With signs of the economic boom slowing down in Asia (especially in India) as well as in the growth centers of Europe and South America, cement producers decided to delay or postpone numerous construction and modernization projects in 2011. KHD was unable to escape the impact of these factors. As the process of awarding and executing projects became increasingly sluggish, both order intake and revenue remained well below original forecasts. However, there were also some remarkably positive trends. In Turkey, we were able to secure three significant orders. An acceptable order intake level can be attributed to a major order from an unnamed cement producer in the third quarter 2011.

Despite a decline in the volume of business, we were able to maintain the EBIT margin at 7.5%, nearly constant compared to the previous year. This is thanks to the high earnings quality of completed orders and our flexible cost management system, though costs for our global tendering activities and research and development rose. With this, we are investing in our future market share as well as in securing our advantageous technological position over the long term. Earnings development was also underlined by a valuation effect relating to the acquisition of the remaining 50% stake in KHD Humboldt Engineering OOO in Moscow, at the end of the third quarter of 2011, which we acquired in full so as to improve our ability to leverage the market. In addition, the pleasing net finance income also had an effect on the Group net profit for the year of € 13.5 million, which almost reached 2010 levels, on the basis of our high liquidity.

Our high liquidity and equity base represent a solid foundation for shaping our value-centered growth. In 2012, we will play to the strengths we bolstered in previous years. Our objective here is to serve our customers even more directly with premium technology and offerings. Efficient internal processes as well as technological leadership and cost competitiveness are the standards to which we hold ourselves.

»KHD starts 2012 with intensified strategic partnerships, stronger sales activities, more services, and an even more efficient organization.«

JOUNI SALO, CEO

In terms of future development, the close collaboration with our Chinese partner AVIC – who is also our largest shareholder – is eminently important. With AVIC, we offer an attractive and unique combination of engineering expertise, global networking, and cost efficiency through procurement in the Chinese market plus experience in assembly and construction. In addition, our chances of winning tenders for turnkey (EPC) cement plants have been given a considerable boost. At the same time, our local customer service teams, which have been strengthened appreciably, will help to react even more quickly to the needs of our customers. Our partnership with Weir Minerals offers additional opportunities, as we have created direct access to customers in the mineral-processing industry.

KHD has thus laid the strategic foundations for order intake to increase in financial year 2012, and there is also reason to be cautiously optimistic in the market. Although the global economic climate may yet cool off further, we view the anticipated demand for cement in 2012 and beyond positively. Urbanization and demographic change create the need for new infrastructure, and this will lead to a significant level of construction activity, particularly in developing and emerging economies. However, there continue to be problems when it comes to project financing.

Other growth drivers are the increasingly stringent environmental standards. With our tried-and-tested concepts for environmentally friendly technology, we help our customers to comply with requirements and to meet their sustainability targets.

We appreciate the trust that you, our shareholders, have placed in us and invite you to accompany us further along our sustainable path.

At this point, I would like to say thank you to all our highly motivated employees for the extraordinary commitment they have shown over the past financial year. They work around the globe to ensure that KHD is recognized as a reliable, innovative, and service-oriented partner.

Best regards,

Jouni Salo

»We are now in a stronger position«

The Management Board of KHD Humboldt Wedag International AG, Jouni Salo and Yizhen Zhu, in a discussion about strategic partnerships, customer orientation and the individual path of the Company.

Mr. Salo, order intake was down 16%, revenue 18% – hardly a good year for KHD, wouldn't you agree?

Salo: You're right – but only at first glance. Our customers in the cement industry are of course quite cautious in the current economic climate and have postponed projects to construct or modernize plants. In India, a particularly important market for us, the negative impact was especially hard. This affected us both in terms of new business and order backlog. In such an environment, it can happen that ambitious targets for order intake and revenue will not be reached. Nevertheless, 2011 was also a good year, since we were able to end the year in a much better competitive position than at the beginning of the year. More service, more customer orientation, more efficiency, more prospects in tenders for turnkey plants around the world – these are the highly positive results of the year that have given us a favorable starting position for 2012 and beyond.

The strategic partnership with the Chinese company AVIC was surely the most outstanding event in 2011. When will you start to revolutionize the Chinese market?

Salo: The primary objective of the partnership is completely different: we will integrate our premium technology with German engineering heritage into a convincing comprehensive package for turnkey cement plants. Tenders for such EPC orders (engineering, procurement, construction) are ongoing around the world, in locations such as Africa and South America. AVIC brings its extensive experience in EPC business as well as cost-effective structures to the table. At the moment, our main interest in China is its procurement market: we are gaining access to cost-effective yet high-quality production capacities through the joint procurement center in Beijing.

And the Chinese sales market, which consumes more than half of the world's cement, isn't of interest?

Zhu: We, of course, also have a foot in the door to the world's largest cement market via this partnership. However, we must be realistic and focus on high-growth niche markets where we can utilize our strengths. An example of just such a niche is in environmentally friendly processes. In its current five-year plan, China has placed considerable emphasis on this. Many older plants do not meet the growing requirements and thus need to be modernized or replaced. Overall, this represents an enormous amount of capacity. Together, KHD and AVIC are well positioned to acquire a share of this future market. KHD's low CO_2 and low NOx emission technologies are compelling arguments that we will leverage accordingly in our sales activities.

»KHD's low CO_2 and low NOx emission technologies are compelling arguments that we will leverage accordingly in our sales activities.«

YIZHEN ZHU, COO

ROLLER PRESS, SURFACE

Reconditioning Roller Presses

SERVICE WITH HIGHEST CUSTOMER ORIENTATION

KHD's roller press technology has been established as an energy-efficient process to grind limestone, clinker, and slag. Over 80 such roller presses have since been installed in India alone, which are responsible for around half of the grinding capacity. After approximately one year of full operation (7,000–12,000 hours of operation, depending on the material), the surfaces of the rollers generally need to undergo maintenance. This means that several hundred kilograms of material needs to be welded onto the surface over several weeks.

Therefore, KHD has set up a maintenance line for roller presses in its existing manufacturing and assembly workshop near Delhi. Following a successful trial run, the machine has been in full commercial operation since February. This is already generating a lot of interest, as the only other alternatives are local providers – mostly without quality certification, or costly transport to a workshop outside India.

With the capacity provided by the line, KHD is not yet able to fully meet the expected demand for maintenance work, which is why attention has been turned to the next steps: such as the possibility of regular inspections and maintenance of the KHD roller presses on site at the customer via a mobile workshop, or investment in a second line. However, whether mobile or stationary, KHD has strengthened its direct link to customers with its service and laid the foundations for developing its service business. And not just in India, but any place where there is growing demand for service and quality made by KHD.

»The KHD-AVIC partnership is a new force to be reckoned with in the market, having already secured its first EPC contract at the turn of year in Venezuela.«

YIZHEN ZHU, COO

How successful are the partners outside of China?

Salo: Just one year down the line, we can say: KHD and AVIC are doing very well. The potential customers we have met consider us to be a real alternative in the EPC market – this combination of western technology and cost advantages typical for Asia is unique in the market. Our close proximity to customers, regardless of the market, is another factor.

Zhu: Of course, we first concentrated on putting together a convincing overall package. This also involved standardizing and modularizing the plant concepts, harmonizing processes and supplier management. However, the new force has now arrived on the market – and already landed its first EPC contract at the start of the New Year in Venezuela.

The cooperation agreement with Weir Minerals has been running longer, since 2010. Was this well received by the customers?

Salo: Absolutely. Weir Minerals is one of the leading equipment suppliers and service providers for the mining industry and the exclusive global sales and service partner for our roller presses in this sector. This technology is increasingly in demand because of its high efficiency ratio and lower energy requirements. Especially since our R & D efforts to develop a larger HPGR with increased capacity has resulted in the launch of the new RP20 roller press. For us, this is the perfect way to round off our portfolio, and the direct access to the mineral-processing industry through Weir Minerals also means additional opportunities to generate revenue. In 2011, the partnership more than met our expectations. However, our home territory continues to be the cement industry.

You mentioned rounding out the portfolio: it seems that consolidation in the cement plant construction sector is still in full swing, with your competitors making purchases or announcing intentions to this effect. What is KHD's strategy here?

Zhu: External growth remains an option for KHD. With our comfortable financial position, we can take advantage of opportunities as they arise. Above all, we are interested in complementary, environmentally friendly technologies.

Salo: However, the main aspect here is that we are pursuing our own strategic path and not letting ourselves be influenced by the current wave of mergers and acquisitions. KHD focuses on its core technological competencies, purchases complementary products and services from the best companies, and opens up new markets through strategic partnerships. The advantage here is that we have very little capital tied up along the value chain. This makes us flexible and allows us to concentrate fully on customers instead of on capacity utilization, even during weak market phases. Asset-light, knowledge-intense, customer-driven – that is the KHD way.

Nevertheless, you are investing in expanding your service activities. Doesn't that contradict the asset-light approach?

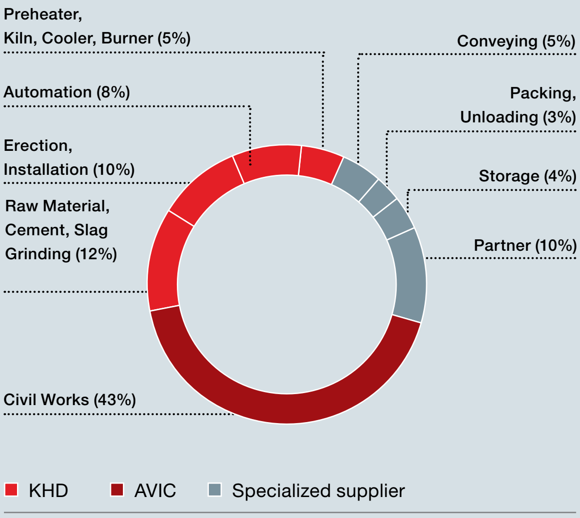
Salo: Not at all. It is not our objective to establish a comprehensive network of manufacturing sites. Instead, we are proceeding prudently, offering services at locations where we have access to sufficient installed capacity that is close to our core technological competencies as well.

»Asset-light, knowledge-intense, customer-driven – this is the KHD way.«

JOUNI SALO, CEO

Zhu: The best example of this is the new plant for preparing roller press surfaces in India. Here, we are using the existing workshop near Delhi, exactly where many roller presses are in operation. We are very confident of being able to fully utilize this workshop from the outset, as the benefits to the customers are clear – quality, costs, and speed.

Shared responsibility in the EPC business



EPC Business

KEY FACTORS: COMPETENCE AND EXPERIENCE

Many of the orders awarded in the cement plant construction industry are in the form of EPC contracts. EPC stands for engineering, procurement, and construction, meaning the contractor assumes responsibility for the entire project up to its turnkey delivery and must provide all required services itself or through contracted third parties. The scope of services ranges from consultancy services – such as analyzing the intended site, the underlying regulatory conditions, and the supply situation – to erecting the production complex, including installation plant components, all the way up to supervising construction and training personnel.

The benefits for the customer are plain to see: they have one contact partner who bears overall responsibility for the entire project. The consequence is, the project can be managed more easily, especially when it comes to quality issues. Furthermore, the EPC contractor also is usually required to bear the economic risk, depending how the contract is designed.

Thus, in addition to its core technological expertise, a preferred EPC contractor must have a great deal of experience in managing turnkey projects as well as access to high-quality, reliable, and cost-effective supply sources. This attractive combination is exactly what the partners KHD and AVIC offer. AVIC acts as general contractor, while KHD is the process designer, equipment engineering provider and supplier of key technological components. Together, the partners cover almost 80% of the value creation of a cement plant, with only 20% needing to be purchased from specialist suppliers.

»The service business allows us to come even closer to customers and also enables us to give impetus to plant construction where possible.«

JOUNI SALO, CEO

Are similar services imaginable for other regions, then?

Salo: We are evaluating the situation at every location where there is sufficient installed capacity. And we are even considering the option of mobile workshops in order to be able to serve our customers even faster. The service business allows us to be much closer to customers and also opens up opportunities for cement plant construction projects.

Even though KHD's perspectives are good in the mid-term, do you expect the outlook to be brighter for 2012?

Salo: 2012 will definitely be just as challenging as the previous year. The somewhat unsatisfactory order intake in 2011 has not improved the revenue and earnings outlook. Furthermore, the situation in a number of markets, including India, remains difficult. Despite a lack of enthusiasm for investment among several cement producers, we expect order intake to pick up – simply because we are now much more broadly and cost-efficiently positioned than we were last year.

Zhu: We are also better positioned when it comes to sales. Our network of Customer Service Centers (CSC) and sales offices has become much more effective. For example, we now have a dedicated CSC in Beijing for the Chinese and Southeast Asian markets.

With so many changes, how are the employees coping with the new challenges?

Salo: I think I am allowed to be a little proud here – proud of our KHD team, which is cooperating increasingly better internationally and which has a shared understanding of customer orientation, excellence, and commitment. This also applies to our cooperation with AVIC, where we have really created something together. This makes us strong in our markets – and thus justifies a healthy dose of optimism for the coming months and years.

JOUNI SALO,
CEO AND CFO

Born November 9, 1959 in Finland, Jouni Salo has more than 25 years of international business experience in the industrial equipment market. He joined KHD in 2008 and prior to that worked in a variety of senior positions with Metso Minerals Inc. and related operations. Before joining KHD, he was President of the Construction Materials Division at Metso Minerals Inc. He holds a Bachelor of Science degree in Mechanical Engineering from the Polytechnic College in Hameenlinna, Finland.

YIZHEN ZHU,
COO ASIA-PACIFIC

Born December 27, 1971 in China, Yizhen “Mario” Zhu has held a variety of senior management positions at AVIC and has been a strong driver in developing AVIC’s cement plant construction business. Mr. Zhu has been in charge of developing the global EPC business together with our strategic partner AVIC since 2011 and is also responsible for KHD’s new Customer Service Center for the Asia-Pacific region. He holds both an MBA as well as an engineering degree and has longstanding experience working abroad.

REPORT OF THE SUPERVISORY BOARD

Dear Shareholders,

In the financial year 2011, the Supervisory Board of KHD Humboldt Wedag International AG comprehensively performed the supervisory and advisory functions incumbent it by virtue law, the articles of association, and the rules of procedure. It monitored and advised the Management Board on a continual basis and consulted with the Management Board in the course of numerous ordinary and extraordinary meetings, as well as through discussions outside these meetings. The Supervisory Board was informed by the Management Board regularly, in due time, and comprehensively, both in writing and verbally, about the intended Company policy, fundamental issues concerning financial, investment, and personnel planning, the course of business and the profitability of the Group and of the material Group companies. The Management Board also reported on the strategic alignment of the Group and the status of strategy implementation.

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

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

PERSONNEL CHANGES IN THE MANAGEMENT BOARD AND SUPERVISORY BOARD

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

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

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

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

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

MEETINGS AND RESOLUTIONS OF THE SUPERVISORY BOARD

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

At the meeting convened to approve the financial statements on March 29, 2011, the Supervisory Board dealt comprehensively, among other things, with the annual financial statements and the consolidated financial statements of KHD Humboldt Wedag International AG for the financial year ending December 31, 2010. The Supervisory Board approved these as well as the proposal for the appropriation of net retained profits.

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

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

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

COMMITTEES AND ASSOCIATED MEETINGS

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

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

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

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

CORPORATE GOVERNANCE AND DECLARATION OF COMPLIANCE

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

The Supervisory Board, in particular the Nomination and Corporate Governance Committee, monitor the ongoing development of corporate governance standards on a continual basis, as well as the implementation of the recommendations of the German Corporate Governance Code at KHD Humboldt Wedag International AG. The Management Board and Supervisory Board issued an updated Declaration of Compliance pursuant to Section 161 of the German Stock Corporation Act (AktG) in March 2012. This has since been published and made permanently available to shareholders on the Company's website at www.khd.com. Further information on corporate governance can be found in the Annual Report in the Corporate Governance Report.

ANNUAL FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

The Management Board prepared in due time the annual financial statements of KHD Humboldt Wedag International AG including the management report as of December 31, 2011 in accordance with principles set out in the German Commercial Code (HGB), and the consolidated financial statements including the Group management report as of December 31, 2011 in accordance with IFRS as adopted by the European Union. The annual financial statements including the management report and the consolidated financial statements including the Group management report were audited by Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft, Düsseldorf, who were appointed by the Annual General Meeting on June 16, 2011. The auditors have issued an unqualified audit opinion on both sets of financial statements. Furthermore, the auditors confirmed that the early risk recognition system complies with the legal requirements set out in Section 91 (2) of the German Stock Corporation Act (AktG); no risks that might affect the viability of the Company as a going concern were identified. The auditors did not report any significant weakness in the internal control system.

The documents relating to the financial statements and the audit reports were issued to all members of the Supervisory Board in due time. They were subject to extensive deliberations by the Audit Committee on March 24, 2012 and in the Supervisory Board meeting convened to approve the financial statements on March 27, 2012. Both the auditors and the Management Board participated in the meeting that dealt with the approval of the financial statements. The auditors presented the focal points of their audit as well as the audit results and they were available to provide further information and to answer questions. The Audit Committee also reported on the result of its examination to the Supervisory Board.

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

The Supervisory Board examined all relevant documents together with the audit reports and discussed them in detail. After considering the final results of the Supervisory Board's review of the documents submitted by the Management Board and the auditors, the Supervisory Board has no objections to raise and concurs with the result of the audit carried out by Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft. The Supervisory Board approves the annual financial statements and the consolidated financial statements as of December 31, 2011 as prepared by the Management Board. The annual financial statements of KHD Humboldt Wedag International AG are therefore adopted. The Supervisory Board consents to the appropriation of net retained profits proposed by the Management Board.

EXPRESSION OF THANKS

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

Cologne, Germany, March 27, 2012

Gerhard Beinhauer
(Chairman of the Supervisory Board)

MEMBERS OF THE SUPERVISORY BOARD

Members	Mandates
Gerhard Beinhauer Chairman of the Supervisory Board (until February 14, 2011 and since March 23, 2011) Managing Director of BBI Beteiligungs- und Handelsgesellschaft mbH	– Web-Arts AG, Member of the Supervisory Board – omniwatt AG, Chairman of the Supervisory Board (until October 17, 2011) – Gold Cache Inc., non-executive Member of the Board
Silke S. Stenger Deputy Chairperson of the Supervisory Board Management Consultant	
Luc Antoine Baehni (since June 22, 2011) CEO of CGN-Compagnie Générale de Navigation sur le Lac Léman SA	– Fondation de Prévoyance PROFELIA, Member of the Foundation Board
Eliza Suk Ching Yuen (since June 22, 2011) Managing Partner of HLM & Co.	
Heinz Otto Geidt (since October 19, 2011) Head of Investment Management of the Software AG Foundation	– Software AG, Member of the Supervisory Board – Bingenheimer Saatgut AG, Chairman of the Supervisory Board – Birken AG; Chairman of the Supervisory Board
Hubert Keusch (since June 22, 2011) Managing Director of ContiLink Services Limited	
Gerhard Rolf (until September 30, 2011) retired	

SUPERVISORY BOARD COMMITTEES

At the meeting of the Supervisory Board on August 9, 2011 the Supervisory Board established a Compensation and Strategy Committee, an Audit Committee as well as a Nomination and Corporate Governance Committee.

Remuneration and Strategy Committee
Gerhard Beinhauer (Chairman)
Luc Antoine Baehni
Hubert Keusch

Audit Committee
Silke S. Stenger (Chairperson)
Eliza Suk Ching Yuen
Heinz Otto Geidt

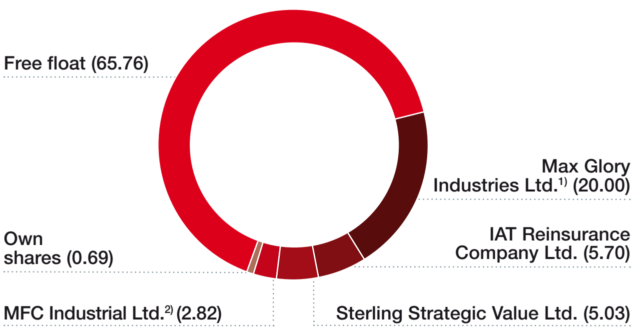
Nomination and Corporate Governance Committee
Heinz Otto Geidt (Chairman)
Gerhard Beinhauer
Silke S. Stenger

THE KHD SHARE

KHD is listed on the Regulated Market (General Standard) of the Frankfurt Stock Exchange. In 2011, KHD completed its first full year on the stock exchange, after its initial listing in spring of 2010. The KHD share attained its high for the year on February 11 at € 8.10. The lowest price of the year was recorded on September 26 with € 4.31. KHD ended the year 2011 with a share price of € 5.00 on December 30. Market capitalization at year-end 2011 amounted to approximately € 248 million, with monthly trading volumes ranging between 1.4 million and 2.6 million shares in the course of the year. Till March 15, 2012 the price for KHD shares rose to € 6.40.

Share
in €

Shareholder structure
share in %



65.76% of KHD shares are publicly owned (free float). Max Glory Industries, an indirect subsidiary of the Chinese company AVIC (formerly CATIC), owns 20%. IAT Reinsurance has a 5.7% stake and Sterling Strategic Value 5.03%.

[1] Max Glory Industries is a 100% subsidiary of AVIC International Beijing Company Ltd.
[2] formerly Terra Nova Royalty Corporation

CAPITAL INCREASE

As part of a cooperation agreement with the Chinese company CATIC Beijing Co. Ltd., KHD agreed to a capital increase with rights issue on December 21, 2010. This was brought to a successful conclusion on February 16, 2011. The new ordinary bearer shares, with a notional amount in the share capital of € 1.00 per share, were issued at a price of € 4.53 per share. Overall, existing shareholders subscribed to 6,620,306 shares. Of the unsubscribed shares 9,940,715 were acquired by Max Glory Industries Ltd. (MGI), meaning that it now holds 20% of KHD shares.

When the transaction was completed, the KHD share capital had increased by € 16,561,021, from € 33,142,552 to € 49,703,573. The gross issue proceeds from the transaction amounted to around € 75.0 million. The new shares were included in trading activities from February 21, 2011.

Key Figures

ISIN	DE0006578008
German securities identification code (WKN)	657800
Stock exchange symbol	KWG
Industry	Industrial plants and services
Sector	Plant engineering
Trading segment	Regulated Market of the Frankfurt Stock Exchange (General Standard)
Currency	euro
Commencement of trading in the Regulated Market	March 31, 2010
Share capital as of Dec. 31, 2011	€ 49,703,573
Number of shares as of Dec. 31, 2011	49,703,573
Type of shares	Ordinary bearer shares
Designated sponsor	Lang & Schwarz
End of the financial year	December 31
Share price high for the year	€ 8.10
Share price low for the year	€ 4.31
Closing price on Dec. 30, 2011	€ 5.00

INVESTOR RELATIONS

By listing on the Regulated Market, KHD has committed itself to corresponding transparency standards. As a result, the Company published interim reports for the first and third quarters of the financial year 2011, in addition to the half-year financial report.

In order to further increase KHD's presence on the capital market, KHD participated in the 2011 Equity Forum of Deutsche Börse and KfW and held numerous talks with investors there. KHD also dedicated itself to a more explicit investor relations policy in 2011. As part of this, the Management Board and Supervisory Board have committed themselves to upholding the standards of good corporate governance and treat this as a priority issue. The focus of this objective is placed clearly on our investors in that every investor should be afforded the same access to information that affects the Company's interests and could therefore influence the share price.

In its IR policy, KHD has also set itself the target of informing capital market participants promptly and as extensively as possible about developing business trends in the new financial year 2012. In the future, the publication of half-year and annual financial reports is also to be accompanied by telephone conferences with webcasts.

Financial Calendar 2012

Annual report 2011	March 30, 2012
Interim report for the first quarter 2012	May 15, 2012
Annual General Meeting	June 13, 2012
Half-year financial report 2012	August 15, 2012
Interim report for the third quarter 2012	November 9, 2012

Corporate Governance Report

CORPORATE GOVERNANCE REPORT

(including Declaration on Corporate Governance)

Good corporate governance is a key factor for long-term corporate success. The Management Board and the Supervisory Board of KHD are committed to the principles of good corporate governance. At KHD, the concept of corporate governance means managing and controlling the Group in a responsible manner and ensuring long-term success, promoting targeted and efficient cooperation between the Management Board and the Supervisory Board, paying attention to the interests of our employees and shareholders, as well as employing fair business practices with every party. Transparency and accountability when making commercial decisions, together with an appropriate treatment of risks, also constitute part of KHD's corporate principles.

01 DECLARATION ON CORPORATE GOVERNANCE IN ACCORDANCE WITH SECTION 289A OF THE GERMAN COMMERCIAL CODE (HGB)

COMPLIANCE WITH THE GERMAN CORPORATE GOVERNANCE CODE (THE CODE) AND DECLARATION OF COMPLIANCE

The Management Board and Supervisory Board of KHD Humboldt Wedag International AG (KHD) act according to the recognized principles of responsible corporate governance. KHD sees corporate governance as an ongoing process and will continue to pay close attention to future developments.

The Management Board and the Supervisory Board have made the annual declaration of compliance in accordance with Section 161 of the German Stock Corporation Act (AktG):

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Cologne, March 2, 2012

For the Management Board:

(s) Jouni Salo

(s) Yizhen Zhu

For the Supervisory Board:

(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 employees, investors, and customers. The basis for successful corporate governance lies in the 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 compiled and implemented effectively a Code of Conduct, which 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.

Compliance Organization

Measures at KHD to ensure compliance with laws and statutory regulations as well as with the corporate policies of KHD Group constitute a key aspect of management and supervisory tasks, together with a responsible attitude towards risks. In order to ensure that legal regulations and corporate policies are followed, there is a Group-wide system of measures and defined responsibilities in place, which is regularly evaluated for its effectiveness.

An important element of the compliance system in KHD Group is the whistleblower policy. The whistleblower policy gives employees the opportunity to report concerns regarding possible violations of laws KHD Group policies. Informants can remain anonymous if they wish.

WORKING PRACTICES OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

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. Pursuant to the dual board system, the Management Board is responsible for managing the Company, while the Supervisory Board carries out 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, employees, and other stakeholders.

Management Board

The Management Board of KHD currently consists of two members. It bears responsibility for the Group and manages its business activities. The Management Board determines the strategic alignment of KHD Group in regular consultation with the Supervisory Board and is responsible for implementing the strategy. Furthermore, the Management Board is responsible for planning and budgeting, preparing financial statements, implementing an appropriate risk management and risk control system, complying with legal regulations and internal policies, as well as for providing regular, prompt, and detailed reporting 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. In addition, the Rules of Procedure for the Management Board specify measures and transactions of fundamental importance that require consent of the Supervisory Board. The Supervisory Board has provided further details on the Management Board's obligation to report and inform in its information policy.

Supervisory Board
The Supervisory Board appoints the Management Board members and advises and monitors the Management Board in the management of KHD. The Chairman of the Supervisory Board coordinates the work of the full Board and chairs the meetings. The Chairmen of both, the Supervisory Board and the Management Board are in regular contact with each other and exchange information. In its Rules of Procedure the Supervisory Board defined, amongst others, terms on its composition, scope of responsibility, passing of resolutions, and on how potential conflicts of interest are to be dealt with.

The Supervisory Board resolves on the adoption of the annual financial statements and the approval of the consolidated financial statements and engages the auditors. Please refer to the Report of the Supervisory Board for more detailed information concerning the activities of the Supervisory Board and its committees, as well as its cooperation with the Management Board in the financial year 2011.

Committees of the Supervisory Board
Following the enlargement of the Supervisory Board to six members, the Supervisory Board created three committees from its members. The Committees established are the Compensation and Strategy Committee, the Audit Committee, and the Nomination and Corporate Governance Committee. The composition of the Supervisory Board and its committees is presented in the Group Annual Report under the section “Members of the Supervisory Board”.

The Compensation and Strategy Committee forwards proposals to the Supervisory Board concerning the passing of resolutions on the remuneration system for the Management Board, including the terms of the employment contracts and the total compensation of individual Management Board members. In addition, a key task of the committee is to discuss strategy and Group development and to prepare the passing of resolutions on strategic matters by the Supervisory Board. This includes in particular fundamental issues concerning business policy, business strategy, and the market position. In addition to the Chairman of the Supervisory Board, who is also the Chairman of this committee, two other members of the Supervisory Board belong to the Compensation and Strategy Committee.

The Audit Committee comprises three members. It prepares Supervisory Board resolutions on the adoption of the annual financial statements and the approval of the consolidated financial statements and reaches agreements with the auditors. In particular, it monitors the accounting process and the effectiveness of the internal control system, of the risk management system and the internal auditing system, as well as of the audit process. Furthermore, it discusses the interim and half-year reports with the Management Board prior to publication.

The Nomination and Corporate Governance Committee is composed of three members. The committee forwards proposals to the Supervisory Board concerning the appointment and revocation of Management Board members. It also proposes candidates to the Supervisory Board for recommendation to the Annual General Meeting. Moreover, it evaluates corporate governance in the Company, makes recommendations on how this can be improved, and prepares the Supervisory Board’s resolution on the Declaration of Compliance with the German Corporate Governance Code. In addition, the committee also handles issues relating to compliance.

Objectives for the Composition of the Supervisory Board
Following the amendment to Section 10 of the articles of association in the financial year 2011, the KHD Supervisory Board currently consists of six members. The Supervisory Board of KHD is to be composed in such a way as to ensure that the Management Board is properly supervised and offered competent advice by the Supervisory Board. The Supervisory Board, in its entirety, should have the knowledge, ability, and

professional experience required to supervise and advise the Management Board of an internationally active Group. When candidates are proposed to the Supervisory Board, particular attention should be paid to the personality, integrity, motivation, professionalism and independence of each candidate.

In accordance with Section 5.4.1 of the German Corporate Governance Code, the Supervisory Board has set the following concrete objectives regarding its composition, taking into account the international activity of the Group, diversity, and potential conflicts of interest, with due regard to the Group's specific situation. The objectives, and the implementation of the objectives, are set out below:

- International expertise
  In view of the international activity of KHD Group, members of the Supervisory Board should possess international expertise.

The majority of the Supervisory Board members have extensive international experience; a short biography of each member of the Supervisory Board is available at www.khd.com.

- Potential conflicts of interest
  Pursuant to the Rules of Procedure of the Supervisory Board, the principle of independence applies to every Supervisory Board member. Supervisory Board members should not have any business or personal relationship with the Company or its Management Board which could be inferred as a conflict of interest. Any conflicts of interest, such as holding an executive role or providing consultancy services to significant customers or suppliers must be disclosed to the full Supervisory Board. Not more than two former members of the Management Board shall belong to the Supervisory Board.

Every member of the Supervisory Board fulfills the principle of independence; there are no conflicts of interest. There are currently no former members of the Management Board serving on the Supervisory Board.

- Diversity
  The Supervisory Board strives for diversity in its composition, in particular to aim for an appropriate consideration of women.

The requirements concerning diversity in the composition of the Supervisory Board have already been fulfilled at KHD due to its international make-up; one third (two of six) of the Supervisory Board members are female.

02 ADDITIONAL INFORMATION ON CORPORATE GOVERNANCE

Through its investor relations work, KHD informs investors about the development of KHD Group developments in an open and comprehensive way. A fundamental aspect of the investor relations policy is that shareholders, analysts, business partners, employees, and other stakeholders are informed equally and promptly about the position of the Group and any major changes affecting our business. KHD also make extensive use of the internet for reporting purposes; in addition to interim reports, half-year, and annual reports, ad-hoc announcements, analyst presentations, and press releases, the financial calendar for the current year, which contains important publication dates for financial reports and the date of the Annual General Meeting, is published at www.khd.com.

KHD is committed to transparent reporting and informs its shareholders four times in the financial year about business development as well as the financial and earnings position. The Annual General Meeting is usually held in the first five months of the financial year. The reports, documents, and information required by law for the Annual General Meeting, including the annual report and Group annual report, are made available online, together with the agenda of the Annual General Meeting and any possible counter-proposals or election proposals by shareholders that require publication.

Opportunities for sustainable growth and a sustained rise in the Company's value can only be exploited if there is the willingness to undertake calculated business risks. As a result, effective risk management, which identifies and evaluates for both risks and opportunities accordingly, is a core element of corporate governance at KHD. Further details on the risk management system at KHD are provided in the Group management report in the section titled "Risk and Opportunities Report."

03 COMPENSATION REPORT

(Part of the Group Management Report)

The compensation report presents the principles, structure, and amount of both Management Board and Supervisory Board remuneration in KHD Group. The compensation report forms part of the Group management report and incorporates the recommendations made by the German Corporate Governance Codex (GCGC). It also contains information required by Section 314 Paragraph 1 Number 6 Letter a Sentences 5–8 of the German Commercial Code (HGB); this information is therefore not provided additionally in the notes to the consolidated financial statements.

COMPENSATION SYSTEM FOR MEMBERS OF THE MANAGEMENT BOARD IN FINANCIAL YEAR 2011

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

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

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

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

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

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

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

When measuring the variable compensation, each quantitative target is considered separately, i.e. exceeding a target value (target achievement > 100%) cannot be used to compensate for other target values (target achievement < 100%). A lower limit is set for every quantitative target. If the respective lower limit is achieved, the bonus amounts to 80% of the corresponding bonus portion. If the targets are not achieved (failure to reach the lower target limit – cumulative for periods under consideration over several years), the Management Board member's entitlement to the corresponding portion of variable compensation is forfeited. The variable compensation components to be determined on the basis of qualitative factors at the discretion of the Supervisory Board is divided into three levels (0% / 50% / 100%).

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

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

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

Other Payments and Commitments

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

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

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

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

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

TOTAL COMPENSATION PAID TO MANAGEMENT BOARD MEMBERS

Overview of key data concerning the Management Board:

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

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

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

In financial year 2010, the amounts were as follows:

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

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

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

COMPENSATION PAID TO SUPERVISORY BOARD MEMBERS

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

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

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

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

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

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

in €	Fixed compensation	Advance payment
Gerhard Beinhauer (Chairman)[1]	72,000	–
Silke S. Stenger (Deputy Chairperson)[2]	72,000	48,000
Gerhard Rolf[7]	72,000	48,000
Summe	**216,000**	**96,000**

[1] Member of the Supervisory Board until February 14, 2011 and since March 23, 2011, Chairman of the Compensation and Strategy Committee, member of the Nomination and Corporate Governance Committee
[2] Chairwomen of the Audit Committee member of the Nomination and Corporate Governance Committee
[3] Member of the Supervisory Board since June 22, 2011, member of the Audit Committee
[4] Member of the Supervisory Board since June 22, 2011, member of the Compensation and Strategy Committee
[5] Member of the Supervisory Board since June 22, 2011, member of the Compensation and Strategy Committee
[6] Member of the Supervisory Board since October 19, 2011, Chairman of the Nomination and Corporate Governance Committee, member of the Audit Committee
[7] Member of the Supervisory Board until September 30, 2011

Group Management Report

GROUP MANAGEMENT REPORT

AT A GLANCE

In the 2011 financial year, KHD Humboldt Wedag International AG, headquartered in Cologne, Germany, ("KHD" or the "Group") was able to successfully consolidate its position in the market under increasingly difficult market conditions. Due to growth risks brought on by the sovereign debt crisis in Europe, inflationary tendencies in emerging markets, and ongoing political unrest in North Africa and the Middle East, cement producers held back on making investments and delayed executing orders that had already been awarded. Even in India, traditionally a key market for KHD, business development was modest. The result was a drop in order intake by 16.4% to € 224.7 million in conjunction with a fall in Group revenue by 18.2% to € 234.6 million. The order backlog remained largely unchanged and constituted € 293.7 million at the end of the year.

Despite the significantly lower order volume, we were able to keep the EBIT margin at 7.5%, close to the previous year's level of 8.7%. This is attributed to a successful execution of a large high-margin order and flexible cost structures, as well as valuation effects relating to the purchase of the remaining shares of the Russian subsidiary KHD Humboldt Engineering OOO, Moscow, Russia. The improved net finance income was in particular a result of the comfortable liquidity position of KHD. The Group net profit for the year of € 13.5 million – corresponding to € 0.28 per share – equals a net margin of 5.8%.

In 2011, we also set the course for growth and value enhancement for the coming years. A key event here was sealing the strategic partnership with the Chinese company AVIC in February 2011. The partnership was underpinned by the acquisition of 20% of the share capital of KHD by AVIC. In order to achieve this, the share capital was increased by 50% in February 2011. The gross issue proceeds of around € 75 million boosted KHD's equity base and liquidity position. By linking the premium technology of KHD with the construction experience of AVIC and the competitive cost structure as a result of the improved access to the Chinese market, the partners are already well placed in a number of project tenders for turnkey cement plants.

Additional measures to expand the market position included the establishment of a Customer Service Center Asia Pacific responsible for China and Southeast Asia. Sales offices were also opened in Brazil and Turkey. Expanding our market position is also linked to the expansion of the service and spare parts business. Furthermore, we intensified our partnership initiated in 2010 with Weir Minerals, which is geared towards the use of roller presses (high-pressure grinding rolls or HPGR) for the minerals industry. Thanks to their high energy efficiency, our roller presses are met with increasing acceptance in the mining industry.

In view of our greater market presence and improved structures, we expect to see a moderate increase in order intake during 2012. However, based on the current order situation, revenue and EBIT margin levels are not forecast to reach those of 2011. The expected positive order intake trend is the basis for the targeted increase in revenue in subsequent years.

STRUCTURE AND BUSINESS MODEL

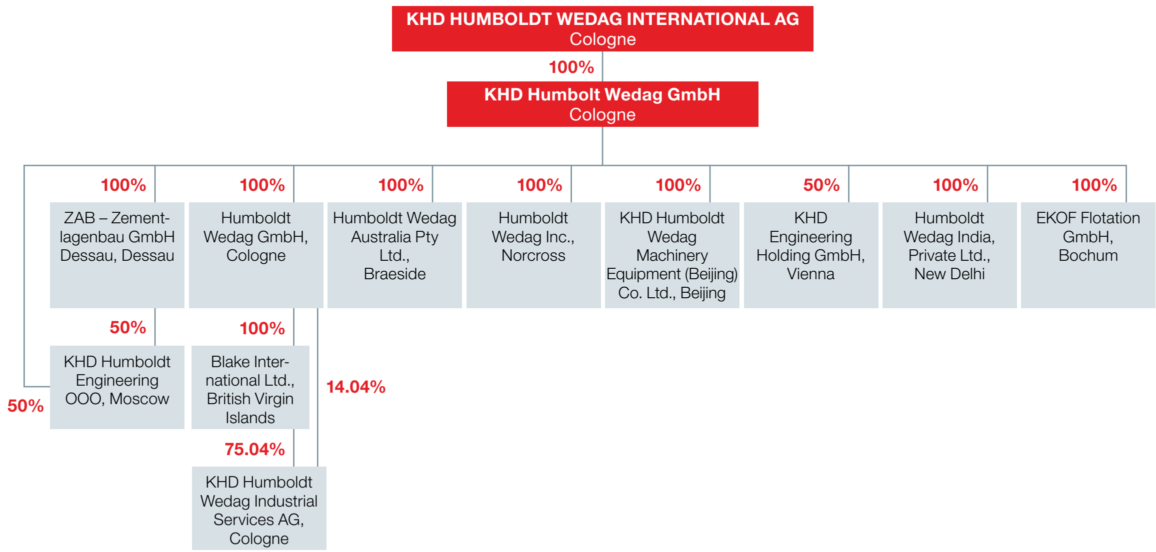
With its subsidiaries, KHD ranks as one of the world's top four equipment suppliers and service companies for the cement industry. The scope of services encompass process knowhow and design, basic and detailed engineering, supply of technology and equipment, project management with supervising the erection and commissioning of cement plants and related equipment. Customer services such as supplying spare parts, optimization of cement plants, and training plant personnel round out KHD's service portfolio. Our focus here is primarily on knowledge-intensive areas, in particular the design and engineering of the core components of a cement plant (grinding, kiln line, system automation), customer service, and training. The manufacturing of plant the equipment is almost entirely outsourced to quality-certified, external manufacturers who work in accordance with KHD's specifications.

GROUP STRUCTURE AND SHAREHOLDINGS

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

An important change during the reporting year was the acquisition of the remaining 50% of shares in the Moscow-based KHD Humboldt Engineering OOO (KHD OOO) in the third quarter of 2011. Activities in Russia are set to be expanded through the Group company now wholly owned by KHD.

Corporate Structure



STRATEGIC PARTNERSHIPS

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

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

Through the exclusive sales and service agency agreement concluded with **Weir Minerals** in May 2010, KHD is able to benefit from Weir's sales and service network in the mineral-processing industry. Weir Minerals, a business unit of Weir Group PLC based in Glasgow, United Kingdom, operates as KHD's global distribution agent sales partner for the sale of roller presses (HPGR) and the corresponding spare parts.

PRODUCTS AND SERVICES

KHD supplies a wide range of technical equipment, including systems for grinding and pyro processing, which represent essential elements of every cement plant. Our grinding technology is utilized in raw material and clinker grinding and comprises crushing, grinding, and separation equipment. KHD's pyro processing equipment covers all of the key components of the kiln line, such as preheaters, calciner systems, burners, rotary kilns, and clinker coolers. Moreover, KHD has developed a range of system automation products, which are used together with process control systems to optimize plant performance.

Our products stand out from those of our competitors thanks to their comparatively low energy consumption, low maintenance costs, reduced vibrations and noise emissions, as well as minimal wear.

KHD's services comprise supervision of erection and commissioning, technical audits, training of customers' personnel as well as supplying spare parts and offering a broad range of after-sales activities.

MARKETING AND SALES

KHD's customer base is primarily made up of cement producers from around the world. Maintaining close contact with this target group is one of the keys to the success of the Group's business activities. Decisive importance for these activities lies with our Key Account Management that had been established in 2010. Through Key Account Management we ensure that our global key customers are serviced in accordance with their individual needs. We ensure direct customer care mainly through customer service centers (CSC), which were increased to five during the reporting year with the opening of the CSC Asia-Pacific. Sales offices provide support for the CSCs.

The advantage of this structure lies in the global coordination combined with the proximity to the various customers and the knowledge of local market environment. In order to tap markets in which the Group is not represented by its own sales force, KHD employs sales agents. Overall, the sales and after-sales teams largely consist of engineers, given the heavy focus of these activities on technical matters.

The five customer service centers are as follows:

CSC EMEA

The CSC EMEA is directly responsible for the markets in Europe with a focus on Southern Europe and Turkey. In addition, CSC EMEA services the markets in the Middle East and in Aftrica. In financial year 2011 new sales offices were established in Turkey and South Africa.

CSC Asia Pacific

The CSC Asia-Pacific is in charge of coordinating the cooperation with AVIC and of accelerating market development in China and Southeast Asian countries. The focus here is on key cement markets in Indonesia and Malaysia, among others.

CSC Russia

With a company in Dessau, Germany, and a location in Moscow, the CSC Russia covers the 15 states of the former Soviet Union plus Mongolia. In addition to new plants, the focus is on taking advantage of the huge potential for modernization and expansion projects.

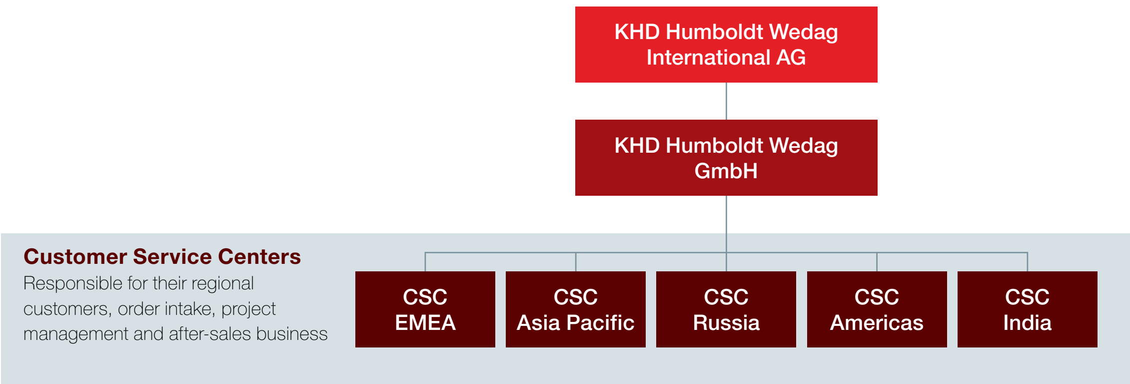
CSC Americas

The CSC Americas is responsible for the entire North and South American continent and is located in Norcross (near Atlanta), in the USA. A sales office was also opened in Brazil in financial year 2011 for the important Brazilian market and has been assigned to the CSC Americas.

CSC India

The CSC in New Delhi is solely responsible for the important Indian market as well as the neighboring countries of Nepal, Bhutan, and Sri Lanka . With a large installed base in India the CSC is adding focus on expanding its service business in the region.

Customer Service Centers (CSC)



Marketing

In an effort to maintain close contact with its target groups, KHD also attended and exhibited its products and technology at various international trade fairs and conventions in the 2011 financial year. We participated in the following events for the cement industry:

- the 20th Anniversary International Conference – The Cement Business and the Market "BusinessCem" in Moscow in April 2011;
- the 12th Cementtech, held in Beijing (China) in April 2011
- the 7th Green Cementtech held in Hyderabad (India) in May 2011
- the 53rd IEEE IAS/PCA Cement Industry Technical Conference, held in St. Louis, MO, (USA) in May 2011
- the 12th National Council for Cement and Building Materials (NCB), International Seminar held in New Delhi (India) in November 2011, where KHD received an award for the best presentation of COMFLEX®

and for the mining industry (together with Weir Minerals)

- the 113th National Western Mining Conference (SME), held in Denver, CO (USA) in February and March 2011
- the EXTEMIN Mining Show, held in Arequipa (Peru) in September 2011

Yet another focal point was the planning and execution of customer events, at which KHD products and services are presented to the appropriate target groups.

EMPLOYEES

As of December 31, 2011, KHD Group employed 765 people. This represents an only minimal change compared with the previous year (767).

As of the end of 2011, approximately 46% of employees in the Group were working in Germany and 34% in India.

SHARE AND SHAREHOLDER STRUCTURE

KHD is listed on the Regulated Market (General Standard) of the Frankfurt Stock Exchange.

The Company carried out a capital increase with rights issue during the reporting year. This was the condition for the cooperation agreement with AVIC to take effect, the latter thereby indirectly acquiring 20% of the share capital through the subsidiary Max Glory Industries Ltd. KHD share capital was increased by € 16,561,021, from € 33,142,552 to € 49,703,573. The 16,561,021 new ordinary bearer shares, with a notional amount in the share capital of € 1.00 per share, were issued at a price of € 4.53 per share. The gross issue proceeds from the transaction amounted to approximately € 75.0 million.

In addition to Max Glory Industries Ltd., the other major shareholders of KHD include IAT Reinsurance Company Ltd., Sterling Strategic Value Ltd., and MFC Industrial Ltd. (formerly Terra Nova Royalty Corp.). Furthermore, the Company holds own shares representing 0.46% of the share capital. 65.76% of the shares are publicly owned (free float).

MANAGEMENT AND SUPERVISION

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. Pursuant to the dual board system, the Management Board is responsible for managing the Company, while the Supervisory Board carries out advisory and monitoring functions. Both boards cooperate closely to the benefit of the Company with the goal of ensuring sustainable value creation, taking into account the interests of the shareholders, employees, and other stakeholders.

The Management Board of KHD currently consists of two members: CEO Jouni Salo and Yizhen Zhu. The latter was appointed by the Supervisory Board on April 1, 2011 and, as Chief Operating Officer (COO) Asia-Pacific, is responsible for the EPC business conducted jointly with AVIC and for expanding operations in both China and the Asia-Pacific region as a whole. CFO Manfred Weinandy resigned from the Management Board with effect from September 7, 2011. His function as CFO was assumed by the Chief Executive Officer, Jouni Salo.

The Company is managed and controlled in accordance with the standards set out in the German Corporate Governance Code (GCGC). The main aspects of corporate governance at KHD are listed in the corporate governance declaration, including the declaration of compliance pursuant to Section 161 of the German Stock Corporation Act (AktG). The declaration of compliance is permanently available on KHD's website (www.khd.com/Investor Relations).

The corporate governance report (see Section 3.10 of the GCGC) included in this Group Annual Report provides further details concerning corporate governance. The corporate governance report includes the compensation report, which sets out the principles of the compensation system in place for the Management Board and Supervisory Board and presents the total compensation.

VALUE-ORIENTED STRATEGY AND LEADERSHIP

KHD's strategy focuses primarily on offering customers from the cement industry around the world an attractive portfolio of technology and services at competitive prices, thereby successively increasing its market share. In doing so, we are able to build on a comfortable position with regards to our technology, which is being used in over 500 installed plants worldwide. High energy efficiency and low maintenance costs are two of the product characteristics that have made KHD a preferred supplier worldwide. Through the expansion of our market position and continued work on our business model, we intend to grow with a focus on profits and with limited risks, while at the same time reducing our susceptibility to cyclical or seasonal fluctuations. In the long term, this should ensure sustainable added value for our shareholders.

The cornerstones of our Group strategy are:

- Customer-oriented growth through consistent key account management and the expansion of service and sales activities;
- to extend our technological lead by means of intensive research and development activities, modular standard plants and products, and investment in key technologies;
- to open up, as yet, underdeveloped markets and to secure long-term competitiveness through strategic partnerships;
- to promote a shared culture of excellence and commitment across the entire Company.

In future, KHD will continue to pursue a so-called "asset-light" approach. The manufacturing of plant equipment has been almost completely outsourced to certified suppliers. This means that we can concentrate on knowledge-intensive and correspondingly high-margin core competencies and implement a flexible cost management system, helping us to react faster to different market situations. Moreover, we will also focus our attention in the future on the technology-intensive core components of cement plants, which represent almost one third of the order value of an entire cement plant. In this way, it becomes possible to purchase the remaining components from the best provider, thus enabling us to offer the customer a convincing and comprehensive package.

CUSTOMER-ORIENTED GROWTH

Against a backdrop of market consolidation among cement producers, KHD has shifted its customer care towards global key account management. In the year under review, more experienced account managers were recruited in the target markets, providing corresponding reinforcement to the customer-oriented teams.

This was accompanied by the expansion of the Customer Service Centers and sales offices. The newly established CSC Asia-Pacific underlines the importance of Chinese and Southeast Asian markets. The increased proximity to the market, also thanks to the collaboration with AVIC, should help to establish a solid market position in China, the world's largest cement market, as well as in Indonesia and other Asian growth markets.

The other four CSCs are supported by local sales offices. In the year under review, a new branch was opened in Turkey and a new sales office in South Africa, which are led by the CSC EMEA and are aimed at enabling the Group to react even quicker to the needs of cement producers in these key regions. We are also pursuing the same objective with the sales office established in Brazil in 2011, which strengthens CSC Americas's presence in the local market considerably. Finally, the completed acquisition of KHD OOO in Russia is linked with efforts to increase sales capacity there. Sales teams have access to a comprehensive range of information material on products and processes as well as marketing material, all of which were overhauled in the reporting year.

In tandem with the work to expand our global network, we have redrawn the lines defining the tasks of the CSCs. Building on experience gained in on-site project management, they are now responsible for developing and expanding the service business in their respective markets as well as generating new business.

In intensifying our service activities as part of the asset-light business model, we hold true to our technological core competencies and concentrate on regions with a sufficient number of installed plant components. An example here is the roller press refurbishment line built in our manufacturing plant near Delhi, which came into operation in the first quarter of 2012. Strong customer demand due to the large number of installed roller presses in India makes us optimistic of being able to strengthen our customer relationships with this new service, as well as the service and spare parts business in general. Additionally, KHD will place greater emphasis on technical audits, which provide an early indication of the needs of individual customers for high-quality services and spare parts, thereby helping us to serve them better. Such audits have already been successfully implemented in several regions, including Russia.

We also pursue customer-oriented growth at the process level through our new customer relationship management system (CRM), which has enabled us since December 2011 to streamline the evaluation and prioritization of all customer activities, especially during the critical tendering phase. With this and other measures, we anticipate more sales clout. Following its launch in CSC Americas, the system will be rolled out across the Group in 2012 and this way foster customer relationships around the world. In addition by switching additional processes to SAP we will realize further benefits, particularly as far as project management and order execution are concerned, as we expect significantly enhanced processes in 2012.

EXPANDING OUR TECHNOLOGICAL POSITION

In the 2011 financial year, KHD spent around 1.6% of revenue on research and development.

Technical leadership is important at KHD. The world's first suspension preheater or the first two-stage short rotary kiln are KHD developments. KHD was also instrumental in developing high pressure grinding and was among the first to successfully commission roller press grinding technology.

KHD's recently developed COMFLEX® (COMpact and FLEXible) grinding system combines KHD roller presses and separators for one of the most energy efficient grinding circuits. In times of ever increasing energy costs the COMFLEX® system is gaining in popularity in comparison to tradition ball mills or vertical mills. KHD's pyro processing equipment like our rotary kilns, burners and coolers undergo continuous improvement to make the entire process more efficient and use less energy, while at the same time providing our customers with a high amount of availability.

In 2011 KHD focused its development efforts around the major trends in the cement industry:

Industry Trend	KHD Technology Focus Area
Consolidation of global cement producers	– Standardization of products and processes to be able to serve our customers better, faster and more cost efficient
Energy efficient plants needed for lowering operating costs	– Use of KHD roller presses and COMFLEX® in more grinding applications – Increased use of waste heat – Improve kiln fuel efficiency and use of alternative fuels – Improved maintenance management – Improved productivity through better automation and process control
Use of alternative fuels – cost and legislation driven	– Further develop KHD's already leading technologies for the use of alternative fuels
Greater requirements for mission controls	– Increased use of COMFLEX® technology to grind clinker as well as replacements like fly ash, slag, etc. – Development and Use of KHD low emissions technologies
Plant size is increasing	– Designing efficient and environmentally friendly high-capacity plants to lower production cost and meet the environmental requirements

Throughout 2011 standardization played and will continue to play a major role in our technology development. The aim of our standardization efforts is to be able to offer customized plants to our customers through the use of modular products and designs. This saves time and money for everyone involved.

In 2011 the company also initiated an online innovation management system to collect, analyze and manage new ideas from KHD employees from around the globe, regardless of their position or location. Over half of the ideas collected last year have made it past the first round of evaluations and several of them already have been included in the R&D projects for 2012.

KHD registered a total of 40 patents (including one registered design) in the year under review. At the end of the year, KHD owned the rights to 418 items of intellectual property, of which 402 were for patents and 16 for registered designs.

In the year under review, KHD settled all disputes with Claudius Peters Projects GmbH in respect of possible patent infringements, the legal validity and/or the infringement of intellectual property rights of the ETA Cooler technology and of other associated areas or arising from these. Both companies have agreed to a comprehensive settlement as well as a non-exclusive, conditional, and non-transferable licensing agreement on the use of select aspects of the ETA Cooler technology. As part of the agreement, KHD agreed to make a one-time payment of € 1.5 million.

STRATEGIC PARTNERSHIPS

The cooperation agreement with AVIC signed in the first quarter of 2011, which was underlined by AVIC taking a 20% stake in KHD, significantly improved the strategic positioning of KHD. With a pooled portfolio, the two partners are able to cover almost 80% of added value when building a cement plant, whereby AVIC is primarily responsible for construction and erection as the general contractor and KHD for the engineering and supply of the core equipment for cement plants.

Combining KHD's premium technology with AVIC's efficient and cost-effective construction expertise makes their joint market presence unique. AVIC and KHD look forward to becoming one of the market leaders in the global cement plant construction industry. The focus of EPC activities is on cement markets outside of China. Furthermore, the partnership presents KHD with the opportunity to land new orders in attractive niches of the Chinese market. The emphasis here is on the implementation of energy-efficient and environmentally friendly technologies, which is being spearheaded by the Chinese government.

In 2011, the cooperation with AVIC resulted in the establishment of a common procurement center in Beijing. With this, we will be able to exploit the cost advantages of the Chinese supply market and ensure competitive prices for equipment and services. In this way, KHD now has access to cost-effective, high-quality production capacities in China. Following its launch in 2010, the partnership with Weir Minerals, a supplier of products and services for the mineral-processing industry, developed positively in the year under review. In this long-term cooperation agreement, Weir Minerals operates as the exclusive global sales partner for roller presses in the mining industry. When processing minerals, our roller presses (high-pressure grinding rolls or HPGR) have a wide range of applications thanks to their high-efficiency ratio and lower energy consumption. The result of this cooperation for KHD is direct access to the mining industry as well as economies of scale throughout our entire value chain.

GROUP-WIDE CULTURE OF EXCELLENCE AND COMMITMENT

Different demands are being placed on KHD's employees as a consequence of intensified international cooperation and a greater emphasis on customer and service orientation. We are therefore supporting them with targeted measures to foster both team and managerial development, including management training seminars, workshops, and conferences as well as the regular exchange of information and ideas between experts at the individual CSCs. The Group-wide standardization of processes using SAP and the CRM system will also help to simplify cooperation in teams spread across several sites. Of equal importance was the confirmation of the ISO certification achieved in 2010 for all KHD sites.

Key organizational measures comprised the transfer of approximately 20 employees from the operating Group company Humboldt Wedag GmbH to the intermediate holding company KHD Humboldt Wedag GmbH, which has since then covered the core strategic functions of the Group. In this context, the management structure was realigned with an eye on the strategic goals of increasing the customer and service orientation.

The new management structure created during the year under review represents the market-oriented focus and lays the foundations for strengthening the Group-wide culture of excellence and commitment further. Similarly, the intention is also to link the performance-based remuneration of key employees more closely to key customer and service-related performance indicators.

VALUE-ORIENTED MANAGEMENT

The value-oriented strategy of KHD also manifests itself in the way the Group is managed. Using a uniform system of key financial and non-financial performance indicators based on international standards across the Group, we ensure a common understanding of how to measure success and excellence.

KHD's key financial performance indicators are calculated monthly. They include:

- Order intake, order backlog, and revenue, broken down by key category (project business and service business)
- Earnings before taxes and interest (EBIT) as well as the ratio to revenue (EBIT margin)
- Development of operating cash flow

The non-financial performance indicators, incorporate customer satisfaction, order execution speed, and employee-related figures.

BUSINESS ENVIRONMENT

ECONOMIC ENVIRONMENT

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

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

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

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

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

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

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

Growth of real GNP in selected regions

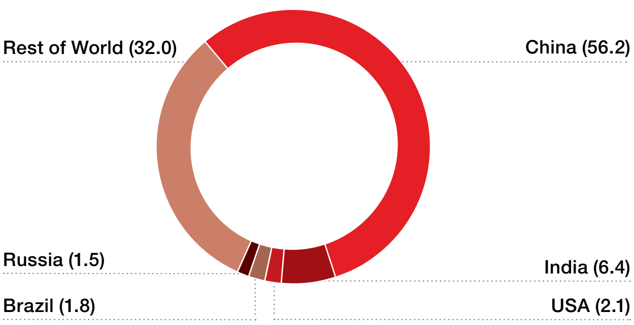
in %	2010	2011e	2012e
China	10.4	9.2	8.2
India	9.9	7.4	7.0
Russia	4.0	4.1	3.3
Turkey	9.0	8.3	0.4
Brazil	7.5	2.9	3.0
OECD countries	3.2	1.6	1.2
World	**5.2**	**3.8**	**3.3**

Source: IWF

INDUSTRY ENVIRONMENT

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

Global cement consumption: Over 3bn tons
in %

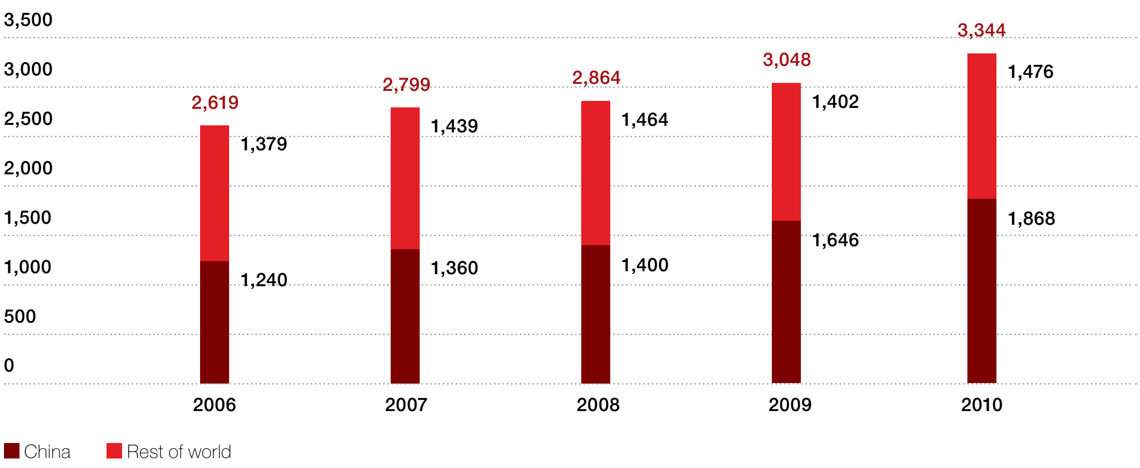


In Russia, a government drive to encourage people to build their own homes had a positive effect on cement consumption, among other factors. Early assessments point to a market growth rate of around 8%. By the same token, the largely outdated Russian cement plants present considerable opportunities for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

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

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

Global cement production capacity
in Mio. tons



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

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

BUSINESS DEVELOPMENT

Market-side negative factors impacted KHD's business in the year under review. In view of the overcapacity in the market and lower expectations concerning future cement consumption, cement producers held back with the construction of new plants or investment in extending existing facilities. In addition, orders that had already been issued were pushed back in some cases. Consequently, order intake fell well short of our original forecast with € 224.7 million. This represents a drop of 16.4% (2010: € 268.9 million), translating to a slump of 27.0% on a pro-forma basis.

The lower order intake in India – a market that is currently under significant strain – had a particular impact here. In the previous year, KHD had been able to secure a large order for kiln lines and roller press grinding plants, whereas in the year under review there were no new orders of a similar size.

In Russia, our second most important market in past years after India, order intake fell by more than half.

However, business development in Turkey was much more stable, with order intake approaching the level of the previous year.

- In March 2011, KHD was awarded an order by Askale Cimento to build a clinker production line with a capacity of 3,500 tons per day at the cement plant in Van (east Anatolia). The order comprises engineering, supplying the equipment, supervision of erection, and commissioning of the plant, scheduled for the third quarter of 2012, as well as training the employees.
- In May 2011, the Turkish producer KCS (Kahramanmaras Cimento Beton Sanayii Ve Madencilik Isletmeleri) placed an order with KHD to construct a kiln line with a capacity of 4,500 tons per day as well as a COMFLEX® system for a second production line. The first production line is already based on KHD technology. The plan is to commission the line at the end of 2012.
- In July 2011, KHD was tasked with supplying a kiln line with a capacity of 4,000 tons per day for Askale Cimento's cement plant in Gümüshane. Commissioning of the plant is scheduled early 2013.

Pleasing was the order placed by the Brazilian producer Cementos Liz for preparatory engineering work related to the construction of a production line with a daily capacity of 5,000 tons. Following the successful completion of this preliminary phase, the project is set to be expanded to a total volume of US$ 120 million. However, the corresponding contract had not yet come into force at the end of 2011. Due to the significant volume of the order, coming into force of this contract would represent a significant improvement in KHD's positioning in the Brazilian market.

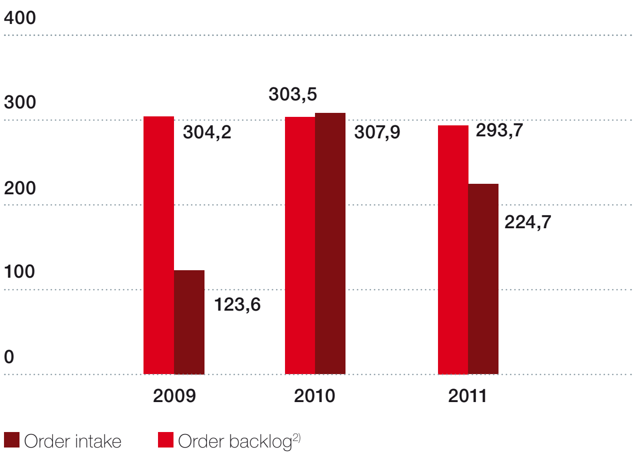
In the third quarter, KHD announced a contract with a cement producer to construct two new lines for a total order volume of approximately € 80 million. The order encompasses basic and detail engineering, equipment supply, and supervision services. It has been agreed with the customer not to disclose any further details.

As much as 14% of total order intake was attributable to projects in the mineral-processing industry. With our strategic partner Weir Minerals, we have successfully convinced customers of the benefits of our roller presses for minerals applications. Order intake primarily related to end customers in Australia and South America. We have declared it a strategic goal to further increase the proportion of our total order volume accounted for by minerals projects.

We also made inroads in the year under review regarding our target of expanding our service activities.

The strategic partnership with AVIC started promisingly. As partners, we participated in several project tenders for turnkey plants (EPC), focusing on the regions of Africa, South America, and Russia. The reaction of producers confirmed the exceptionally high level of competitiveness of our offers. In the first few weeks of the financial year 2012, buoyant activity resulted in our first EPC order in South America (see report on events after the reporting period). However, the cooperation did not yet have an impact on order intake in the year under review.

Order intake and order backlog[1]
in € million



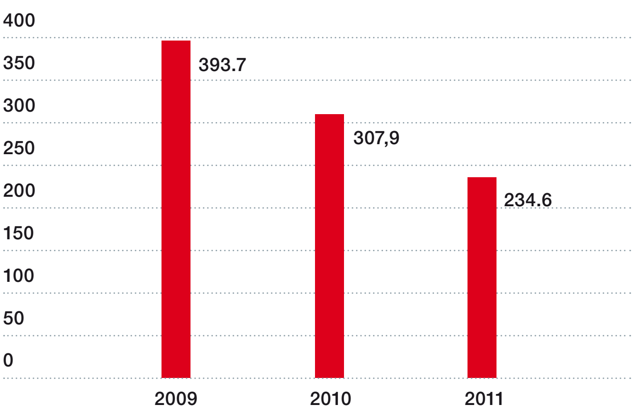
[1] Previous years pro-forma
[2] at end of year

Order backlog remained virtually stable in view of the near parity between order intake and revenue, registering € 293.7 million at the end of the year (previous year: € 303.5 million). Statistically speaking, the order backlog at the end of the year corresponds to 1.25 times the annual revenue in 2011.

RESULTS OF OPERATIONS

The decline in Group revenue by 18.2% to € 234.6 million (previous year: € 286.9 million) reflects the difficult conditions prevailing in the global cement market. Due to insufficient capacity utilization in several regions as well as a more pessimistic outlook for short and medium-term cement demand, a number of our customers decided to delay completion of orders that had already been issued or to postpone projects to next year in some cases. Other reasons included increasingly challenging financing conditions as a result of the revival of the financial markets and banking crises. By the same token, revenue contributions from new orders in the year under review failed to match expectations, in part because of the unsatisfactory order intake recorded in the first six months of 2011.

Group revenue[1]
in € million



[1] Previous years pro-forma

Revenue slumped by 23.8% on a pro-forma basis. This comparison also includes KHD subsidiaries which were not yet consolidated in the first quarter of 2010 and which were added to the Group's volume of business for the entirety of the year under review.

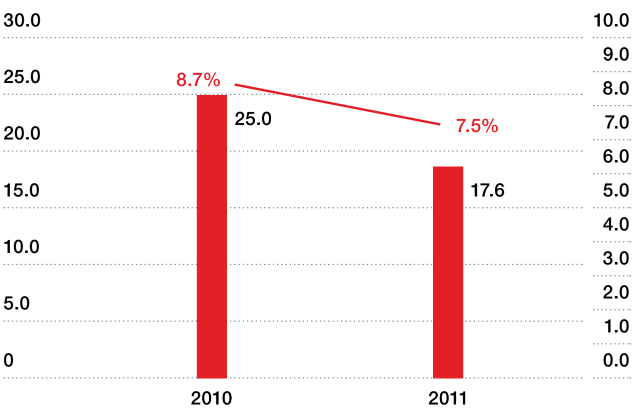
Despite this drop in revenue, gross profit only fell short of the previous year's level by 8.5% at € 52.5 million. This is due to orders being executed under cost budget, particularly in the Russian market. Other operating income rose to € 4.3 million (previous year: € 3.5 million). In the course of acquiring the remaining shares of KHD OOO, the 50% stake held up to that point was remeasured at fair value at the time of acquisition. Profit from this remeasuring amounted to € 2.4 million. In addition to this, services and foreign exchange gains contributed to other operating income.

The rise in sales expenses of 16.9% to € 13.9 million (previous year: € 11.9 million) primarily reflects the intensification of our key account management and our tendering activities for new cement plants for our globally operating customers – among other things by virtue of our growing regional presence in Turkey and Brazil. Furthermore, these expenses were also higher as a result of an increase in the marketing budget due to the fundamental redesigning of marketing materials and the running of advertisements.

General and administrative expenses in the year under review amounted to € 18.4 million, representing a year-on-year decline of € 0.6 million. Aside from the costs of general administration, they include in particular legal and consulting costs, costs for preparing and auditing financial statements, Management Board remuneration, Supervisory Board remuneration, and costs related to the KHD's stock exchange listing.

Other expenses fell by 8.2% to € 7.3 million (previous year: € 7.9 million). These include research and development costs totaling € 3.7 million; this means that 1.6% of revenue was funneled into research and development (previous year: 1.2%). In addition, other expenses also include one-time effects resulting from write-downs on inventories as well as expenses from foreign VAT. Expenses last year were affected in particular by expenses for short-time working imposed by the Group company Humboldt Wedag GmbH.

EBIT and EBIT margin (in %)
in € million



After deduction of the expenses, earning before interest and taxes (EBIT) came to € 17.6 million. The EBIT margin was 7.5% (previous year: 8.7%).

Net finance income recorded year-on-year growth of € 1.1 million to € 3.1 million. The driving force behind this development was an almost 100% increase in interest income to € 5.7 million (previous year: € 2.9 million), which was due to the combined effect of higher interest rates and the higher average liquid funds for the year. Income from foreign exchange forward contracts also exceeded the previous year's level. As in 2010, the largest single item under finance expenses, which totaled € 3.2 million (previous year: € 2.3 million), was the interest related to pension benefit obligations and provisions. Finance expenses also include the decline in share price for shares held as well as interest expenses relating to VAT.

Profit before tax fell short of the previous year's level (€ 26.0 million) by 20.5% at € 20.7 million as of December 31, 2011. The Group net profit for the year amounted to € 13.5 million (previous year: € 15.8 million). Consequently, both basic and diluted earnings per share came to € 0.28, whereby the year-on-year decline (previous year: € 0.47) is primarily a result of the higher number of issued shares due to the capital increase in the first quarter of 2011.

Appropriation of Net Retained Profits
The Management Board and the Supervisory Board will propose to the Annual General Meeting held on May 30, 2012 that the net retained profits of KHD Humboldt Wedag International AG in the amount of 6.4 million reported pursuant to the German Commercial Code (HGB), will be carried forward to new account.

FINANCIAL POSITION AND NET ASSETS

PRINCIPLES OF THE FINANCE STRATEGY

KHD counters the accounting-related risks typical of the plant construction industry with a comfortable liquidity position both at the Group level and in the individual operating companies, as well as with a strong, equity-based financing strategy. At the same time, this is also the pre-requisite for the course of our internal and external growth over the next few years, which includes investing in technologies and expanding the business model.

Contracts are generally concluded in the local currency of the respective KHD company. Foreign exchange risks are hedged using derivative financial instruments; these exclusively comprise foreign exchange forward contracts.

All operating companies in KHD Group have access to a bank guarantee credit facility in the amount of € 150 million, provided by a consortium of banks, for various hedging instruments such as guarantees, letters of credit, or letters of comfort. As of December 31, 2011, € 96.6 million of the bank guarantee credit facility had been drawn down, meaning that there was remaining credit available of € 53.4 million. In March 2012, the existing credit facility was replaced by a new credit facility with a total volume of € 130 million and with a term of three years provided by a consortium of banks led by Deutsche Bank AG and Raiffeisenbank International AG (see Report on Events after the Reporting Period).

LIQUIDITY POSITION

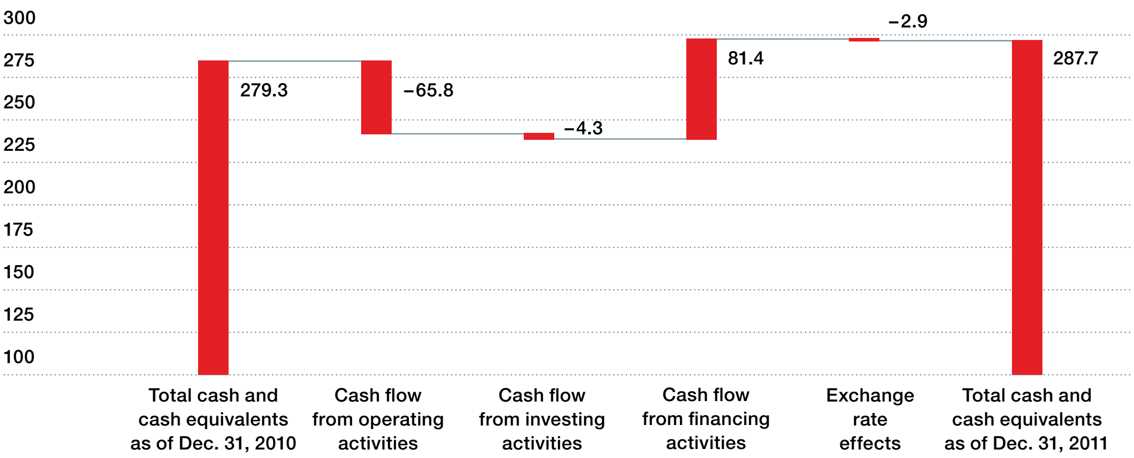
KHD's unrestricted cash and cash equivalents came to € 287.7 million at the end of 2011, representing a slight increase over the amount reported as of December 31, 2010 (€ 279.3 million). The amount corresponds to the cash and cash equivalents recognized in the balance sheet of € 300.3 million (previous year: € 293.1 million) less liquid funds of € 12.6 million (previous year: € 13.7 million) pledged as collateral for bank guarantees and therefore not freely available.

Cash flow from operating activities was negative at € –65.8 million. The main reasons for this were the lower order intake compared to the previous year and delays in completing projects on the part of customers during financial year 2011. In addition, KHD paid a total of € 32.9 million in taxes during the year under review.

Cash outflow from investing activities in the amount of € –4.3 million is primarily due to the work on enhancing our systems for project execution and customer care. The most significant project here is the SAP project, which led to a cash outflow of € 1.6 million in the financial year. Furthermore, cash outflow from investing activities also comprised net payments related to the acquisition of the remaining shares in KHD OOO.

The outflows of liquid funds from operating and investing activities were more than compensated for by cash flow from financing activities, which totaled € 81.4 million. This largely comprises net inflows of around € 74.6 million from the capital increase performed in the first quarter of 2011. In addition, interest received was around twice as much as in the previous year.

Cash flow
in € million



NET ASSETS

Net assets were recorded at € 431.9 million and were primarily comprised of current assets, notably liquid funds, as in the previous year. Cash and cash equivalents made up 69.5% of assets (previous year: 70.9%).

Non-current assets increased in the space of one year from € 9.3 million to € 15.3 million. The main factor behind this rise relates to additional goodwill of € 3.0 million resulting from the acquisition of 100% of the shares in KHD OOO. In spite of its increase, the still-low volume of non-current assets reflects KHD's business model: given the fact that manufacturing has been almost completely outsourced to external manufacturers, KHD does not have to hold comprehensive production facilities itself.

Of current assets, € 21.2 million (previous year: € 21.2 million) relate to gross amounts due from customers for contract work. As of the end of 2011, costs incurred plus recognized profits exceeded progress billings for the respective projects. The lower level of advance payments made to suppliers compared to the previous year is the result of the decline in business volume. The decrease in other financial assets resulted from the decrease in share price of share hold. Receivables from income taxes largely relate to the payment of capital gains tax on the distribution of profits by a subsidiary, which resulted in tax claims by the parent company.

FINANCING

The structure of equity and liabilities in the balance sheet changed significantly in the year under review. Equity increased by 57.2% to € 233.5 million (previous year: € 148.6 million) and therefore represents 54.1% (previous year: 35.9%) of balance sheet total. The capital increase performed in the first quarter is reflected both in the rise in issued capital and the increase in capital reserves. The growth in retained earnings was mainly the result of the Group net profit for the 2011 financial year.

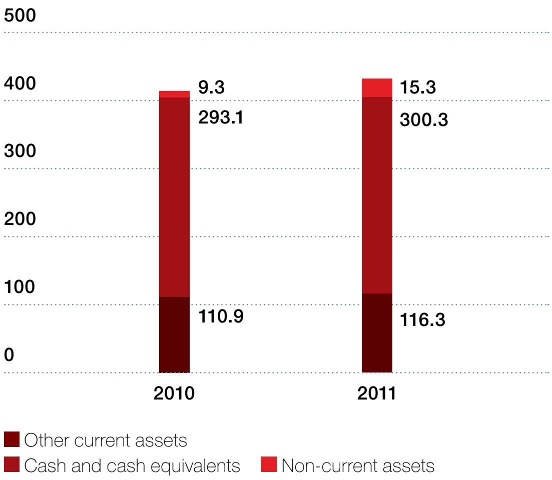
The moderate rise in non-current liabilities by 8.0% to € 53.1 million (previous year: € 49.2 million) is largely due to an increase in non-current provisions, which have been set aside to meet guarantee and warranty obligations from projects in the warranty phase.

Current liabilities fell by around a third to € 145.3 million (previous year: € 215.6 million). The primary reason for this was, as detailed in connection with the cash flow statement, the decrease in business volume. Furthermore, the payment of tax liabilities from previous years also had an impact here.

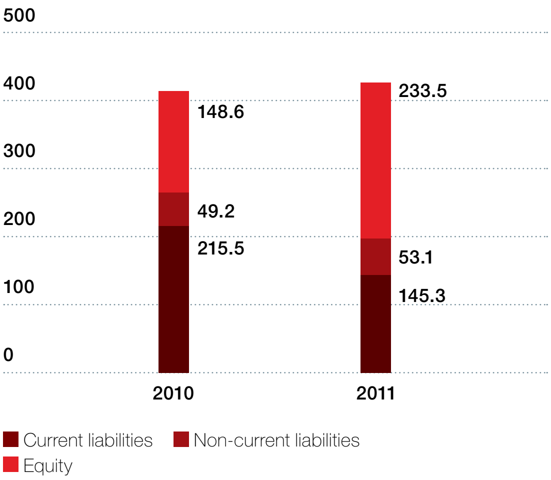
GENERAL STATEMENT ON THE ECONOMIC SITUATION

In the financial year 2011, KHD Group was not able to fully reach all targets set in the year before. As a result of challenging underlying economic conditions for cement producers around the world, our customers were reluctant to award new contracts. Furthermore, the wish to delay the execution of contracts that had already been awarded put downward pressure on our revenue. However, KHD Group still managed to achieve satisfactory re-sults in terms of gross profit and EBIT by adapting early to the changing conditions and thanks to a flexible cost structure. Indeed, the KHD Group's performance measured ac-cording to other key performance indicators, such as liquidity, total equity, and equity ratio as of December 31, 2011, was actually better than in the previous year. In particular, our work to intensify strategic partnerships during the financial year 2011 safeguards a good starting position from which we can grow in the future. In summary, it can be said that this past difficult financial year was used to improve the competitive position of KHD Group in the long term.

Balance sheet structure – Assets
in € million



Balance sheet structure – Liabilities
in € million



RISKS AND OPPORTUNITIES REPORT

RISK MANAGEMENT

As a globally operating cement plant equipment supplier and service company, KHD Group is subject to a number of different risks in the course of its business activities. By being prepared to take calculated commercial risks, KHD is able to exploit opportunities that arise to increase the Company's value over the long term.

KHD's Management Board has implemented a comprehensive, systematic, and effective risk management system, which is based on a formal risk policy. Risk management in KHD Group means taking a systematic approach towards identifying, recording, and assessing risks. Essential components of our risk management system include steps to mitigate risk, which means defining and implementing measures in response to risks which have been identified. Risk management is therefore a task performed on an ongoing basis across the Group and forms an integral part of decision-making and business processes throughout KHD Group.

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

The systematic recording and assessment of risks and opportunities is an essential component in controlling the Group; the corporate strategy forms the foundation for systematically identifying risks at an early stage. Since the corporate objectives and the corresponding success factors are set as part of the planning process, direct relationships exist between risk management, on the one hand, and strategic planning and medium-term planning on the other.

The risk management system in KHD Group is fully incorporated into our internal control system. Our risk management is not limited to the early risk recognition system set out in Section 91 (2) of the German Stock Corporation Act (AktG), which covers business viability risks, but encompasses all substantial risks for KHD Group (operational, strategic, financial, and compliance risks). Work to improve our risk management includes regularly evaluating and enhancing the relevant internal controls in order to ensure that the process functions properly and efficiently. Process improvements or amendments are identified and implemented on a continual basis.

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

KHD has appointed employees responsible for risk management at both the Group and CSC level in order to help ensure that risks are identified and assessed in the same way across the Group and to coordinate these activities. These risk managers are also in charge of monitoring and tracking how specific measures to mitigate risks are being implemented. The central risk management department provides the operating units with the standardized methods used across the Group, together with instruments to document these risks (risk identification, risk assessment, and risk response).

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

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

The particular requirements of the project business are accounted for via risk management measures integrated into the operative processes. As part of this, commercial or contract stipulations are reviewed by the experts in our specialist departments before signing the respective contracts in order to avoid taking on unexpected or unmanageable risk. Project-related risk management continues in the project execution phase, where project management considers risks relating to exceeding budgeted cost or time, technical difficulties, and financial aspects. If project risks are assessed as exceeding the materiality threshold of the operating unit, these risks are to be additionally entered into the affected CSC's risk register as a CSC risk.

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

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

Risk Management for Financial Instruments

In its position as a globally operating Group, KHD is exposed to various financial risks (currency, interest rate, default, credit, and liquidity risks) which may have a significant impact on the Group's net assets, financial position, and result of operations. The aim of financial risk management in KHD Group is to cover or reduce financial risks by making appropriate use of hedging instruments, including derivative financial instruments.

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

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

The risk of credit concentration with regard to receivables is generally diminished as receivables are spread out worldwide, reflecting the Group's customer structure. Credit risk is also mitigated through the payment terms the Group agrees with its customers, notably progress billings and advance payments, that avoid excessively high levels of outstanding receivables. Internal guidelines ensure that products are generally only sold to customers with appropriate credit ratings. The risk of counterparty default is managed through regular analyses of the trade receivables and the structure of receivables. At KHD Group, receivables from export contracts are to a large extent secured against default risks by confirmed and unconfirmed letters of credit, as well as through letters of comfort, guarantees, and cover notes, which also include export credit agencies (e.g. Hermes).

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

ACCOUNTING-RELATED INTERNAL CONTROL SYSTEM

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

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

The control activities to ensure proper and reliable accounting primarily comprise both automated control processes, such as system access controls based on an user authorization concept, or programmed plausibility checks for financial figures, and manual control processes such as deviation and trend analyses on the basis of defined key performance indicators and comparisons with budget figures.

The entire accounting-related ICS is documented both at KHD and in all significant subsidiaries by means of process descriptions (narratives). In this context, key controls are identified for each process and summarized in a risk control matrix (RCM). The responsible process owners monitor the operating effectiveness of key control activities on an ongoing basis, and ensure that appropriate documentation is prepared.

KHD's subsidiaries are responsible for recording accounting transactions. The ICS measures focusing on proper and reliable Group accounting practices ensure that business transactions are recorded completely and on a timely basis in compliance with legal and other regulatory requirements. Furthermore, care is taken to ensure that assets and liabilities are recognized, measured, and presented appropriately. Other core principles of the ICS in KHD Group are the dual control principle and the segregation of duties; in this way, the opportunity for fraudulent behavior is also reduced.

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

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

RISK AREAS

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

Risks from Underlying Economic Conditions

In its position as a globally active Group, KHD is affected by changes in the economic cycle. As a supplier of technical equipment for cement plants, the Group is particularly dependent on cyclical trends in the demand for cement. Moreover, there is also a risk of losing market share and of decreasing margins as a result of tough competition.

KHD Group operates as a plant engineering company in many countries and regions, meaning that risk is lessened to a certain extent due to geographic diversification. Risks are additionally mitigated by concentrating on expanding our service business (including spare parts business) and our activities to sell our roller presses for our customers in the mining industry as well as systematically developing our position in growth markets and in markets where we have had a low presence up to now. We counter the risk posed by the competition by analyzing our market environment and the situation of our competitors on an ongoing basis. Maintaining constant customer contact together with enhancing our key account management and the resulting proximity to the market provides us with important information about the needs of our customers. The information gathered here enables us to develop and offer suitable products as well as to strengthen our competitive position.

Country Risks

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

From as early as the tendering phase, individual projects are assessed taking such country risks into consideration. Risks of defaults on export business are assessed and if necessary limited by covenants provided by cover notes provided from export credit agencies (e.g. Hermes guarantees).

Procurement Risks

The reliable availability of products and services in an appropriate quality, quantity, and at competitive prices is a decisive factor for success. Disruptions in the procurement process therefore represent a significant risk to KHD Group.

In order to minimize this risk, purchasing follows a global strategy based on the systematic analysis of quality, delivery performance, and pricing structure of existing and potentially new suppliers. The CSCs' purchasing organizations are integrated into the process in order to utilize available knowledge about local markets when developing the purchasing strategy. This is supported by strategic procurement elements that are applied across the Group.

Innovation Risks

Excellence in innovation is a crucial factor of success for a technology company such as KHD Group. Besides customer requirements, it is important in this context to also take into account growing environmental protection requirements in the development of our products. Furthermore, our research and development activities focus particularly on standardizing the components that can be used for customer-specific solutions and on improving and reducing the costs of existing products.

KHD Group ensures that its research and development activities are as closely linked to the market as possible by maintaining constant communication with the sales department and by setting up cross-departmental teams. A development process with defined milestones and a given budget identifies potential deviations from targets as early as possible and triggers corresponding corrective measures.

Project Risks

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

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

Personnel Risks

KHD is distinguished by a corporate culture based on trust. At the forefront of this culture is the responsible and entrepreneurial way of thinking and acting demonstrated by our employees. The success of KHD Group is directly dependent on the dedication, motivation, and capabilities of its employees. In particular, risks exist if management positions cannot be filled promptly and with qualified candidates.

We mitigate personnel risks through early identification and promotion, especially of high-performing individuals. KHD aims to ensure that its managers and employees remain committed and loyal to the Group over the long term. We derive individual personal development measures on the basis of systematic competency assessment. In addition to this, a long-term succession plan is also being developed.

Legal Risks

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

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

Tax Risks

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

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

IT Risks

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

In order to safeguard uninterrupted and trouble-free operation, particular attention is paid to the availability of IT resources and IT systems. Furthermore, we are continually mindful of ensuring the integrity and confidentiality of key information (data protection). In addition, we continuously monitor the effectiveness and efficiency of the software solutions deployed within KHD Group with respect to our business processes. Measures to update and replace software solutions and hardware are determined as part of our IT strategy.

Summary of KHD Group's Risk Position

To the extent required, balance sheet provisions have been set-up in the 2011 financial year for the risks described in this report. The risks identified do not pose a threat to KHD Group as a going concern, either individually or in combination. From an organizational standpoint, the foundations have been laid to ensure that changes in the risk position are recognized in good time.

OPPORTUNITIES

Generally speaking, the risks indicated here also represent opportunities for the future growth of KHD Group. These opportunities arise from an improvement in the market and competitive position owing to the development of more cost-effective products or the further optimization of our procurement activities, for instance. By the same token, plans to expand our service business (including the spare parts business) as well as to systematically develop our position in growth markets and in markets where we have had a low presence up to now represent key opportunities. In the section below, we will examine the significant opportunities and potential for future development.

With the typical time delay, the global economic recovery should exert an impact on the markets for long-term capital goods. There is a growing demand for cement especially in emerging economies due to advancing urbanization and efforts to promote infrastructure development. Existing production capacities are being augmented and cement plants modernized and/or expanded. Thanks to its strong market position in emerging economies, KHD Group sees opportunities for additional growth, particularly in Russia. We also expect positive effects for our future growth from the establishment of a CSC in Beijing re-sponsible for the Asia-Pacific region as well as from the expansion of our market activities in Brazil and other South American countries.

Furthermore, we regard rising regulatory requirements to reduce cement plants' environmental impact, such as the Environmental Protection Agency (EPA) regulations in the USA or the focus on environmental aspects in China's current five-year plan, as opportunities. KHD Group offers its customers environmentally friendly solutions by accounting for the environmental impact of the cement production process as early as the tendering phase. We also constantly develop our products further with regard to environmental aspects; in this context we concentrate on achieving lower emission levels as well as the efficient use of resources, materials, and energy.

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

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

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

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

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

REPORT AND REMARKS ON DISCLOSURES PURSUANT TO SECTION 315 PARAGRAPH 4 OF THE GERMAN COMMERCIAL CODE (HGB)

COMPOSITION OF ISSUED CAPITAL

The Company's subscriced capital (share capital) amounted to € 49,703,573 as of December 31, 2011 and is divided into 49,703,573 no-par-value ordinary shares. All shares are ordinary bearer shares and grant the same rights. The rights and obligations arising from the shares are derived from statutory regulations. The Company held 229,136 treasury shares as of December 31, 2011.

RESTRICTIONS AFFECTING VOTING RIGHTS OR THE TRANSFER OF SHARES

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

DIRECT OR INDIRECT INTERESTS IN THE SHARE CAPITAL EXCEEDING 10% OF VOTING RIGHTS

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

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

SHARES WITH SPECIAL RIGHTS GRANTING CONTROL AUTHORIZATIONS

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

METHOD OF VOTING RIGHT CONTROL IF EMPLOYEES HOLD SHARES AND DO NOT DIRECTLY EXERCISE THEIR CONTROLLING RIGHTS

There are no shares owned by employees as defined by Section 315 Paragraph No. 5 of the German Commercial Code (HGB).

REGULATIONS GOVERNING THE APPOINTMENT AND RECALL FROM OFFICE OF MANAGEMENT BOARD MEMBERS, AS WELL AS REGULATIONS GOVERNING CHANGES TO THE ARTICLES OF ASSOCIATION

The Management Board consists of one or more persons whom the Supervisory Board appoints for a maximum of five years pursuant to Section 84 AktG. Reappointment or an extension of the term of office is permitted. The Supervisory Board may appoint one of the Management Board members to be the Chief Executive Officer. A court may appoint a Management Board member in exceptional cases pursuant to Section 85 AktG. The Supervisory Board may revoke a Management Board appointment or the appointment as Chief Executive Officer pursuant to Section 84 Paragraph 3 AktG for good cause.

The articles of association may be changed only by a resolution passed by the Annual General Meeting pursuant to Section 119 Paragraph 1 No. 5 and Section 179 AktG. Unless determined otherwise by mandatory statutory provisions, resolutions by the Annual General Meeting are passed with a simple majority of votes submitted and, if required, by a simple majority of the issued share capital represented, pursuant to Section 133 AktG and Section 18 Paragraph 2 of the articles of association. The Supervisory Board may pass resolutions to amend the articles of association which relate solely to their wording pursuant to Section 20 of the articles of association. Amendments to the articles of association take effect once they have been entered into the Commercial Register in accordance with Section 181 Paragraph 3 AktG.

MANAGEMENT BOARD AUTHORIZATIONS, NOTABLY WITH REGARDS TO THE POSSIBILITY OF ISSUING OR REPURCHASING SHARES

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

SIGNIFICANT AGREEMENTS SUBJECT TO A CHANGE OF CONTROL FOLLOWING A TAKEOVER BID

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

COMPENSATION AGREEMENTS THAT THE COMPANY HAS ENTERED INTO WITH MANAGEMENT BOARD MEMBERS OR EMPLOYEES IN THE EVENT OF A TAKEOVER BID

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

REPORT ON EVENTS AFTER THE REPORTING PERIOD

KHD and AVIC were able to report their first joint EPC project in the first quarter of 2011. Invecem Cement – Venezuela awarded the contract for a new production line with a capacity of 2,400 tons per day to be installed in the existing cement factory in San Sebastion, Venezuela. KHD will provide the key core equipment, engineering, and services for this project. The remaining equipment, construction work, and plant service will be provided by AVIC. Upon completion, the new line will be operated using clean natural gas.

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

OUTLOOK

In spite of the hardly satisfactory development of order intake and revenue in financial year 2011, KHD has created a stronger starting position for growth and added value in coming financial years. By expanding the network of CSCs as well as intensifying our strategic partnerships, we have significantly reinforced our international market presence. Key potential engines of growth are:

- participation in EPC contracts together with AVIC; we are currently involved in several promising tenders and have won an initial order in the first quarter of 2012 (see report on events after the reporting period);
- intensified market activity in Russia, India, South America, Africa, and other growth regions important for the global cement market with the aim of participating considerably in tenders for modernization and expansion projects as well as in projects for new plants (outside of the EPC tendering process);
- the expansion of service business activities in all regions;
- gaining a foothold in attractive and high-growth niches of the Chinese market, primarily due to stricter environmental requirements;
- the marketing of roller presses in the mining industry through the established cooperation with Weir Minerals.

We stand by our proven business model. However, we are setting it on broader foundations with our plans to expand service activities, EPC business, and the improved positioning in the minerals-processing industry, which should also make us less susceptible to economic volatility.

PROJECTED MARKET ENVIRONMENT

Forecasting underlying economic conditions is currently marked by considerable uncertainty. Whether the global economy returns to healthy growth or – triggered by an escalating sovereign debt crisis – slides into a renewed period of recession will become apparent in the coming months. The majority of economic researchers continue to expect sluggish growth in both industrialized and emerging economies. The IMF projects growth in China at a pace of 8.2%, while the gross domestic product of India and South America is forecast to increase by 7.0% and 3.6% respectively. Experts believe that the eurozone will experience a negative growth rate of -0.5%. In Turkey, growth is expected to slow to 0.4%.

In spite of the weaker data for the economy in general, the global cement market is anticipated to continue growing in 2012 and beyond, as it is less dependent on trends in western industrialized economies and benefiting more from growth, earning power development, and infrastructure investments in developing and emerging economies. Freedonia forecasts annual growth rates of 5.3% to cement consumption of 4.3 billion tons by 2015. The lower growth rate compared to the period between 2005 and 2010 is primarily due to expectations that the Chinese market will start to saturate. Exane BNP Paribas is of the opinion that the growth centers in 2013 will be located primarily in Asia, South America, Eastern Europe, and the Middle East. Growth in our traditionally key markets of India, Russia, and the Middle East is expected to develop at a pace of 7%, 4%, and 4% respectively.

The extent to which growth in cement consumption will drive investment among operators depends largely on capacity utilization. Exane BNP Paribas projects utilization ratios of less than 60% for North America, Russia, and several countries in Western and Eastern Europe in 2013. In India, the level will be no more than 70%, whereas utilization ratios in Brazil, Turkey, the Middle East, China, and other countries in Southeast Asia will be higher. For KHD, this means that new cement plant construction can only be expected in isolated cases. However, increasingly outdated cement factories, notably in Russia, present opportunities for modernization projects. Furthermore, there is a great need for services in many regions.

The pressure for consolidation in our competitive environment is expected to remain high. Margins are still under pressure, particularly in view of the fact that Chinese suppliers are now venturing deeper into the global market.

PROJECTED ECONOMIC TREND

Given its improved market presence, KHD aims to achieve a moderate rise in order intake in 2012. Our key strategic objectives include establishing a long-term position in the EPC business and boosting the share of service business to total order intake. However, the expected moderate rise in order intake is not forecast to have a major effect on revenue development in 2012. With regard to Group revenue, we anticipate that customers will continue to delay project excution. Moreover, the lower order backlog will translate into restrained revenue growth, as is to be expected.

KHD's EBIT margin for 2012 is forecast to fall short of the 7.5% achieved in 2011, which was boosted by successful execution of a large high-margin order, among other factors. It is more likely that the anticipated margin quality of orders in progress will result in a less favorable ratio of revenue to cost of sales. We intend to counter the projected pressure on margins caused by greater competition in our industry segment by exploiting cost advantages available through the Chinese procurement center and by streamlining processes and expanding service activities.

No major change is expected to KHD's financial position or net assets. Aside from the SAP project, which is due to go live in 2012, and ongoing work to expand the service business, no major investments are planned. Our comfortable liquidity situation and high equity ratio afford us the flexibility we need to overcome difficult market phases and to make the most of opportunities for internal and external growth.

Cologne, March 23, 2012

For the Management Board:

(s) Jouni Salo (s) Yizhen Zhu

Group Financial Statements

CONSOLIDATED FINANCIAL STATEMENTS

GROUP INCOME STATEMENT

for the Financial Year 2011

in € thousand	Note No.	2011	2010
Revenue	4	234,577	286,890
Cost of sales		(182,120)	(229,477)
Gross profit		**52,457**	**57,413**
Other operating income	20	4,304	3,463
Sales expenses	21	(13,893)	(11,886)
General and administrative expenses	22	(18,424)	(18,981)
Other expenses	23	(7,286)	(7,937)
Restructuring income		459	2,881
Earnings before interest and taxes (EBIT)		**17,617**	**24,953**
Finance income	24	6,305	3,364
Finance expenses	24	(3,240)	(2,296)
Net finance income	24	**3,065**	**1,068**
Profit before tax		**20,682**	**26,021**
Income tax expense	25	(7,177)	(10,221)
Group net profit for the year		**13,505**	**15,800**
Of which attributable to:			
Parent company shareholders		13,456	15,583
Non-controlling interests		49	217
		13,505	**15,800**

EARNINGS PER SHARE

		2011	2010
Basic (undiluted) and diluted earnings per share (in €)	26	0.28	0.47

GROUP STATEMENT OF COMPREHENSIVE INCOME

for the Financial Year 2011

in € thousand	2011	2010
Group net profit for the year	13,505	15,800
Currency translation differences	(2,773)	597
Group comprehensive income	**10,732**	**16,397**
Of which attributable to:		
Parent company shareholders	10,683	16,180
Non-controlling interests	49	217
	10,732	**16,397**

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

GROUP BALANCE SHEET

as of December 31, 2011

ASSETS

in € thousand	Note No.	Dec. 31, 2011	Dec. 31, 2010
Non-current assets			
Property, plant, and equipment	5	2,948	3,045
Goodwill	6	5,162	2,127
Other intangible assets	6	3,286	913
Deferred tax assets	8	3,930	3,191
Non-current financial assets	7	–	16
Total non-current assets		**15,326**	**9,292**
Current assets			
Inventories	9	7,882	8,267
Gross amount due from customers for contract work	10	21,181	21,159
Trade and other receivables	7	67,748	57,448
Payments made in advance		13,792	21,203
Other financial assets	11	888	1,857
Income tax assets		4,782	1,046
Cash and cash equivalents	12	300,323	293,060
Total current assets		**416,596**	**404,040**
Total assets		**431,922**	**413,332**

EQUITY AND LIABILITIES

in € thousand	Note	Dec. 31, 2011	Dec. 31, 2010
Equity			
Issued capital		49,704	33,142
Capital reserves		59,841	1,776
Treasury shares		(221)	(221)
Currency translation differences recognized in equity		(2,229)	544
Retained earnings		125,556	112,473
Share of equity attributable to shareholders of the parent company		232,651	147,714
Non-controlling interests		881	841
Total equity	13	**233,532**	**148,555**
Non-current liabilities			
Other liabilities	16	11,142	8,318
Pension benefit obligations	14	19,960	20,388
Deferred tax liabilities	8	5,245	9,681
Provisions	15	16,720	10,772
Total non-current liabilities		**53,067**	**49,159**
Current liabilities			
Trade and other payables	16	71,880	92,381
Commitments under construction contracts	17	42,359	63,048
Income tax liabilities		3,560	20,864
Provisions	15	27,524	39,325
Total current liabilities		**145,323**	**215,618**
Total equity and liabilities		**431,922**	**413,332**

GROUP STATEMENT OF CASH FLOWS

for the Financial Year 2011

in € thousand	2011	2010
Cash flow from operating activities		
Net profit for the year	13,505	15,800
Income tax expense recognized in the income statement	7,177	10,221
Net finance income recognized in the income statement	(3,065)	(1,068)
Earnings before interest and taxes (EBIT)	**17,617**	**24,953**
Amortisation and depreciation of non-current assets	1,675	1,245
Book gain on disposal of fixed assets	(9)	(17)
Increase (–)/decrease in trade receivables and financial assets	(10,107)	28,127
Increase (–)/decrease in inventories and gross amount due from customers for contract work	952	28,213
Increase (–)/decrease in payments made in advance and other financial assets	9,298	21,370
Increase(+)/decrease in trade and other payables and in commitments under construction contracts	(44,337)	(51,290)
Increase (+)/decrease in pension benefit obligations	(428)	(490)
Increase (+)/decrease in provisions and non-current liabilities	(3,727)	(7,393)
Other non-cash transactions	(3,892)	1,694
Dividends received	47	–
Income tax received	38	10,415
Income tax paid	(32,913)	(6,351)
Cash flow from operating activities	**(65,786)**	**50,476**
Cash flow from investing activities		
Interest received from intercompany loans	–	81
Cash outflow for intangible assets	(1,226)	(937)
Cash outflow for property, plant, and equipment	(1,476)	(1,433)
Cash inflow from the disposal of property, plant, and equipment	75	50
Cash outflow from addition of consolidated companies and other business units less cash received	(1,626)	20,881
Cash inflow from repayment of non-current receivables	–	47,676
Cash flow from investing activities	**(4,253)**	**66,318**

in € thousand	2011	2010
Cash flow from financing activities		
Cash inflow from issue of shares	74,627	–
Interest received	5,651	2,861
Payment for purchase of shares from non-controlling interests	(9)	(35)
Repayment of loans	–	(3,552)
Dividends paid to parent company shareholders	–	(49,370)
Change in restricted cash (collateral for bank guarantees)	1,087	(13,067)
Cash flow from financing activities	**81,356**	**(63,163)**
Change in unrestricted cash and cash equivalents	**11,317**	**53,631**
Opening balance of unrestricted cash and cash equivalents	279,332	225,183
Exchange rate effects	(2,968)	518
Closing balance of unrestricted cash and cash equivalents	**287,681**	**279,332**

in € thousand	Dec. 31, 2011	Dec. 31, 2010
Composition of unrestricted cash and cash equivalents		
Bank balances and cash	154,236	74,513
Short-term bank deposits and restricted cash	146,087	218,547
Total cash and cash equivalents	**300,323**	**293,060**
Restricted cash (collateral for bank guarantees)	(12,642)	(13,728)
Closing balance of unrestricted cash and cash equivalents	**287,681**	**279,332**

In the financial year 2011, the Group statement of cash flows reports an increase in unrestricted cash and cash equivalents of € 8.4 million over the previous year to € 287.7 million. The main reason for this increase is the cash inflow of € 74.6 million from the capital increase. This more than compensated for the cash outflows from operating activities totaling € 65.8 million. The cash outflows from operating activities include the payment of tax liabilities in the amount of € 32.9 million.

GROUP STATEMENT OF CHANGES IN EQUITY

for the Financial Year 2011

in € thousand	Issued capital	Capital reserves	Treasury shares
Dec. 31, 2009	**33,142**	**1,776**	**(221)**
Group net profit for the year	–	–	–
Currency translation differences	–	–	–
Group comprehensive income	**–**	**–**	**–**
Dividend payments	–	–	–
Change in equity due to acquisition of Group entities	–	–	–
Purchase of non-controlling interests	–	–	–
Dec. 31, 2010	**33,142**	**1,776**	**(221)**
Group net profit for the year	–	–	–
Currency translation differences	–	–	–
Group comprehensive income	**–**	**–**	**–**
Other changes	–	(396)	–
Capital increase	16,562	58,461	–
Purchase of non-controlling interests	–	–	–
Dec. 31, 2011	**49,704**	**59,841**	**(221)**

Currency translation differences recognized in equity	Retained earnings	Equity attributable to shareholders of the parent company	Non-controlling interests	Total
(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**
–	13,456	13,456	49	**13,505**
(2,773)	–	(2,773)		**(2,773)**
(2,773)	**13,456**	**10,683**	**49**	**10,732**
–	(382)	(778)	–	**(778)**
–	–	75,023	–	**75,023**
–	9	9	(9)	**–**
(2,229)	**125,556**	**232,651**	**881**	**233,532**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the Financial Year 2011

01 SUMMARY OF MAJOR ACCOUNTING AND MEASUREMENT PRINCIPLES

BASIS OF PREPARATION AND OTHER NOTES

The parent company of the Group is KHD Humboldt Wedag International AG with registered offices in Colonia-Allee 3, 51067 Cologne, Germany, entered in the Cologne Commercial Register, Department B, with the number 36688. The Group of KHD Humboldt Wedag International AG is hereinafter referred to as the “Group” or the “KHD Group.”

The shares of the Company are 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 line with the statutory obligations that are applicable to companies which are required to submit mandatory reports to the capital markets pursuant to Section 315a (1) of the German Commercial Code (HGB) in combination with Article 4 of the Regulation (EC) No. 1606/2002 of the European Parliament and Council of July 19, 2002 relating to the application of current international accounting standards in their current version (IAS-Regulation). These consolidated financial statements have been prepared in Euro. All amounts, including figures used for comparison from the previous year, are generally stated in thousands of Euro (€ thousand). All amounts have been rounded according to normal commercial practice. 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.

CONSOLIDATION

Subsidiaries are companies in which 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 unrealized profits or losses on intra-Group transactions are eliminated. The accounting and measurement principles applicable to subsidiaries pursuant to statutory law are adjusted in order to ensure consistency with the accounting and valuation principles of KHD. Non-controlling interests are presented and commented on 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 summarized in the corresponding items in the consolidated financial statements and are presented in the table below. The consolidation principles detailed above are otherwise applicable.

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

in € thousand	Dec. 31, 2011	Dec. 31, 2010
Assets		
Current assets	24	4,874
Cash and cash equivalents	5,061	4,431
Non-current assets	–	25
Total assets	**5,085**	**9,330**
Equity and liabilities		
Current liabilities	2	7,535
Non-current liabilities	–	158
Equity	5,083	1,637
Total equity and liabilities	**5,085**	**9,330**

in € thousand	Jan. 1 – Dec. 31 2011	Apr. 1 – Dec. 31, 2010
Income	8,002	15,627
Expenses	(4,486)	(14,508)

The Group's subsidiaries and joint ventures are listed under Note 2 in the Notes to the consolidated financial statements. By way of step acquisition the Group acquired an additional 50% of the shares in KHD OOO during the financial year and included the company as a subsidiary in the consolidated group. This results in significant deviations in a year-on-year comparison of the joint ventures.

CURRENCY TRANSLATION

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

The individual financial statements prepared by the foreign subsidiaries are translated into Euro in line with the functional currency concept. Equity is translated at historical rates, assets and liabilities at the rate in effect at the balance sheet date, and income and expenses at the average rates. The Group's functional currency is the Euro.

The applicable exchange rates are set out in the table below:

	Currency	Closing rate as of Dec. 31, 2011	Average rate Jan. 1 – Dec. 31, 2011
	1 Euro =		
Australia	AUD	1,2716	1,3413
India	INR	68,9828	65,5838
USA	USD	1,2938	1,3996
Russia	RUB	41,7428	41,0066

Exchange rates used in the preceding financial year:

	Currency	Closing rate as of Dec. 31, 2010	Average rate Jan. 1 – Dec. 31, 2010
	1 Euro =		
Australia	AUD	1,3121	1,4428
India	INR	59,6528	60,5881
USA	USD	1,3282	1,3266
Russia	RUB	40,5280	40,2606

INTANGIBLE ASSETS

Goodwill

In line with IFRS 1 exemptions, goodwill was included in the first IFRS consolidated financial statements at the carrying amounts which were determined according to the previously applicable accounting principles (Section 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 as a separate item under non-current assets. It is subject to impairment tests, which are being performed annually and/or following triggering events, and is measured at the lower of cost and recoverable amount (cost less impairment losses).

Licenses

Licenses are recognized at cost less scheduled amortization. Software licenses are amortized using the straight line method over a useful life of three years. Development costs that require capitalization were not incurred in the year under review.

PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment is measured at cost less scheduled, straight-line depreciation. In addition to the purchase price, acquisition costs also include costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. The useful life of operating and office equipment and of other plants is generally between three and ten years. Leasehold improvements are depreciated over the term of the lease. Gains and losses on the disposal of property, plant, and equipment are measured by reference to their carrying amount and are recognized in 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 capitalized if it is likely that the Group will derive future economic benefit in addition to the originally recorded performance standard of the existing item of property, plant, or equipment.

Under the leases concluded, the major risks and benefits from the leased asset remain with the lessor. As a result, all leases are classed as operating leases. Therefore, all payments for operating leases are expensed in the income statement using the accrual basis of accounting.

BORROWING COSTS

Borrowing costs are capitalized in KHD Group to the extent that they are attributable to the purchase or production of qualifying assets. Borrowing costs are otherwise expensed through the income statement under net finance income. As in the previous year, no borrowing costs were capitalized in 2011.

IMPAIRMENT TEST ON NON-CURRENT ASSETS

Non-current assets, including intangible assets with a 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.

FINANCIAL INVESTMENTS, OTHER FINANCIAL ASSETS, AND FINANCIAL LIABILITIES

Financial assets as defined by IAS 39 in KHD Group currently relate either to

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

and are classified accordingly. 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 a measurement category at the time of initial recognition. With the exception of derivatives held for trading, all arm's length purchases and sales of financial assets are recognized for at the settlement date, i.e. the date at which an asset is delivered to or by the Group. Derivatives are recognized at the trade date, i.e. the date at which 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 market rules or standards.

Financial Assets Measured at Fair Value through Profit or Loss

In KHD Group, the group of financial assets measured at fair value through profit or loss comprises financial assets held for trading. To date, KHD Group has not utilized 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 in an active market. This category includes trade and other receivables as well as other assets. They arise if KHD Group provides money, goods, or services directly to a debtor. They are classified as current assets, except for those that are not due within twelve months of the balance sheet date, or which are classified as non-current on the basis of their economic structure. The latter are posted as non-current assets. After initial recognition, loans and receivables are measured at amortized cost by applying the effective interest rate method less any impairment. Gains and losses are recognized in the net profit for the year if loans and receivables have been derecognized or impaired, as well as in the context of amortization.

Impairment of Financial Assets

Except for financial assets measured at fair value through profit or loss, financial assets are examined at each balance 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, or legal environment as well as in the market environment of an issuer, or a persisting decline in the fair value of a financial asset below the amortized cost).

If there is objective evidence that an asset accounted for at amortized 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 yet been incurred), discounted at the financial asset's original effective interest rate, i.e. the effective interest rate determined at initial recognition. The impairment loss is recognized through profit and loss.

If, in subsequent reporting periods, the amount of impairment loss decreases and this decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. However, the new carrying amount of the asset concerned must not exceed the amortized cost at the time of the reversal. The amount of the reversal is recognized through profit and loss.

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

Impairments of other financial assets are taken into account by directly writing down the respective carrying amount.

Cash and Cash Equivalents

Cash and cash equivalents include cash at hand 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. Restricted cash is stated separately. Cash on hand and bank balances are measured at amortized cost.

Financial Liabilities
Financial liabilities as defined by IAS 39 relate to financial liabilities that are measured at amortized cost.

Financial liabilities in KHD Group largely consist of:

- Financial liabilities (liabilities due to banks and affiliated companies) and
- Trade and other payables

Financial liabilities are classified as current if KHD Group is not entitled to settle the financial liability after more than twelve months following the balance date.

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

Derivative Financial Instruments and Hedges
The Group regularly utilizes derivative financial instruments to mitigate the foreign currency risk of recognized assets and liabilities or of planned transactions denominated in foreign currencies. All derivative contracts are exclusively foreign exchange forward contracts.

These are initially recognized 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 in exceptional cases no such prices are available, discounted cash flow analyses are applied, using corresponding yield curves for the term to maturity of the instruments concerned.

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

INVENTORIES
Inventories are carried at the lower of historical cost or net realizable value. The latter is composed of the estimated selling price in the ordinary course of business less the estimated cost of completion and costs necessary to make the sale.

CONSTRUCTION CONTRACTS
Revenue and profits from construction contracts are recognized according to the stage of completion in accordance with IAS 11. The stage of completion is calculated as the ratio of contract costs incurred as of the end of the financial year to the estimated total contract cost upon completion of the contract. Expected losses from construction contracts are fully recognized 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 amount due from customers for contract work or gross amount due to customers for contract work, depending on the amount of progress billings. They are measured at cost incurred plus a proportionate profit depending on the stage of completion. To the extent that contract revenue (contract costs and contract earnings) exceeds the progress billings, 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 recognized through write-downs or less order provisions. All identifiable risks are taken into account when determining such contract losses.

PENSION BENEFIT OBLIGATIONS AND RETIREMENT BENEFIT PLANS

The pension benefit obligations recognized in the balance sheet are based on the present value of the obligations from defined benefit plans as of the balance sheet date. The present value of the defined benefit obligations is determined annually by independent actuaries using 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 corporate bonds.

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

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

PROVISIONS

Provisions are recognized 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 expected outflow of resources embodying economic benefits for all products covered by warranty terms is estimated by the Group as of the balance sheet date. The amount of provision is estimated on the basis expenses incurred in previous months and current estimates of the warranty risk.

DEFERRED INCOME TAXES

Deferred taxes are recognized and measured in accordance with IAS 12. Deferred tax assets and deferred tax liabilities are shown as separate balance sheet items in order to account for the future tax effect of deductible temporary differences between the carrying amount of the assets and liabilities recognized in the balance sheet and the tax base of the respective assets and liabilities.

Deferred tax assets for tax loss carryforwards are only recognized if they are likely to be realized 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 realization.

RECOGNITION OF INCOME AND EXPENSES

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

Interest is recognized as expense or income on an accrual basis.

Income and expenses arising in connection with construction contracts for industrial plants are recognized by reference to the stage of completion of the contract activity at the balance sheet date using the percentage of completion (PoC) method. An expected loss on the construction contract is recognized as an expense immediately.

Cost of sales primarily includes costs of purchased materials and services, transportation costs, wages and salaries, overheads, commission, and customs duties as well as expected warranty expenses.

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 disclosed, as well as on contingent liabilities and contingent assets. These assumptions and estimates largely relate to the determination of uniform economic useful lives, the determination of the stage of completion for construction contracts, the assumptions used while determining the recoverability of goodwill, the measurement of provisions, and the extent to which tax loss carryforwards can be utilized. In isolated cases, actual values may deviate from the underlying assumptions and estimates. Effects from such changes are generally recognized in the income statement at the time when more recent knowledge becomes available.

APPLYING NEW OR REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the reporting period, the Group applied all mandatory standards published by the International Accounting Standards Board (IASB) and interpretations by the International Financial Reporting Interpretations Committee (IFRIC).

The following standards and interpretations were applied for the first time:

- Standard amendment within the framework of the annual IFRS improvement process (2010), minor changes to various IFRS (mostly applicable for financial years commencing on or after January 1, 2011)
- Amendment to IAS 24 “Related Party Disclosures” (applicable for financial years commencing on or after January 1, 2011)
- Amendment to IAS 32 “Classification of Subscription Rights” (applicable for financial years commencing on or after February 1, 2010)
- IFRIC 19 “Extinguishing Financial Liabilities with Equity Instruments” (applicable for financial years commencing on or after July 1, 2010)
- Amendment to IFRIC 14 “Prepayments within the Scope of Minimum Funding Requirements” (applicable for financial years commencing on or after January 1, 2011)

The application of these revised requirements has no significant impact on the Group’s net assets, financial position, and result of operations.

It was not yet mandatory to apply the following standards or changes to, and revisions of, standards and interpretations:

- Amendment to IFRS 7 “Additional Information for the Derecognition of Financial Assets” (applicable for financial years commencing on or after July 1, 2011)
- IFRS 9 “Financial Instruments: Classification and Measurement of Financial Assets” (applicable for financial years commencing on or after January 1, 2015) as well as Amendments to accounting for financial liabilities (applicable for financial years commencing on or after January 1, 2015)
- IFRS 10 “Consolidated Financial Statements” (applicable for financial years commencing on or after January 1, 2013).
- IFRS 11 “Joint Arrangements” (applicable for financial years commencing on or after January 1, 2013).
- IFRS 12 “Disclosure of Interests in Other Entities” (applicable for financial years commencing on or after January 1, 2013)
- IAS 27 “Consolidated and Separate Financial Statements” (applicable for financial years commencing on or after January 1, 2013)
- IAS 28 “Investments in Associates and Joint Ventures” (applicable for financial years commencing on or after January 1, 2013)
- IFRS 13 “Fair Value Measurement” (applicable for financial years commencing on or after January 1, 2013)
- Amendment to IAS 1 “Presentation of Other Comprehensive Income” (applicable for financial years commencing on or after July 1, 2012)

- Amendment to IAS 12 “Incomes Taxes”
  (applicable for financial years commencing on or after July 1, 2012)
- Amendment to IAS 19 “Employee Benefits”
  (applicable for financial years commencing on or after January 1, 2013)
- Amendment to IAS 32 “Financial Instruments: Presentation”
  (applicable for financial years commencing on or after January 1, 2014)
- Amendment to IFRS 7 “Financial Instruments: Disclosures”
  (applicable for financial years commencing on or after January 1, 2013)

KHD is currently assessing the extent to which applying the new standards and interpretations will affect the Group’s net assets, financial position, and result of operations.

02 SUBSIDIARIES AND JOINT VENTURES OF KHD HUMBOLDT WEDAG INTERNATIONAL AG AS OF DECEMBER 31, 2011

Name of company	Registered office	Shareholding in %		Currency	Subscribed capital
Subsidiaries					
KHD Humboldt Wedag GmbH	Cologne, Germany	100.00	D	€	15,339,300
Humboldt Wedag GmbH	Cologne, Germany	100.00	I	€	7,000,000
ZAB Zementanlagenbau GmbH Dessau	Dessau, Germany	100.00	I	€	2,000,000
Blake International Ltd.	Road Town, British Virgin Islands	100.00	I	USD	1,000
KHD Humboldt Wedag Industrial Services AG	Cologne, Germany	89.08	I	€	3,600,000
EKOF Flotation GmbH	Bochum, Germany	100.00	I	€	51,129
Humboldt Wedag Australia Pty. Ltd.	Breaside, Australia	100.00	I	AUD	200,002
Humboldt Wedag Inc.	Norcross, USA	100.00	I	USD	1,000
Humboldt Wedag India Private Ltd.	New Delhi, India	100.00	I	INR	19,200,000
KHD Humboldt Wedag Machinery Equipment (Beijing) Co. Ltd.	Beijing, China	100.00	I	USD	1,050,000
KHD Humboldt Engineering OOO	Moscow, Russia	100.00	I	RUB	3,350,000
Joint ventures					
KHD Engineering Holding GmbH	Vienna, Austria	50.00	I	€	180,000

D = directly owned
I = indirectly owned

As of December 31, 2011, the scope of consolidation included five domestic (December 31, 2010: five) and six foreign (December 31, 2010: five) subsidiaries in addition to KHD.

Two companies were included in the consolidated financial statements as joint ventures on a proportional basis until September 29, 2011. This includes the Russian-based company KHD OOO. As of September 30, 2011, KHD acquired 100% of the shares in KHD OOO, thereby including the company in the consolidated financial statements as a fully consolidated company.

Two subsidiaries were not included in the scope of consolidation since their impact on the Group's net assets, financial position, and result of operations is not significant.

03 BUSINESS COMBINATIONS

With effect from September 30, 2011, ZAB and KHD HW each acquired 50% of the shares of KHD Humboldt Engineering OOO, Moscow (KHD OOO). The shares were held up to that point by the Vienna-based company KHD Engineering. KHD has a 50% shareholding in KHD Engineering in its position as a partner in a joint venture. The consideration transferred amounts to cash of € 2.5 million.

Since September 30, 2011, KHD OOO has been included in the consolidated financial statements as a fully consolidated subsidiary and no longer as a proportionately consolidated joint venture.

KHD intends to further extend its business activities in Russia through the now wholly owned KHD OOO.

The equity interest held before control obtained was remeasured at fair value at acquisition date, which resulted in a gain of € 2.4 million. This gain is recorded in the item other operating income in the income statement.

At the acquisition date goodwill was recognized as the excess of the consideration transferred plus the acquisition date fair value of the previously held equity interest over the acquisition date fair values of the identifiable assets acquired and the liabilities assumed. The goodwill arising from the business combination amounts to € 3.0 million and largely reflects the positive effects anticipated from improved market activity in Russia.

The following assets and liabilities are included in the consolidated financial statements due to KHD OOO being fully consolidated as of September, 30, 2011 for the first time.

in € thousand	Sept. 30, 2011
Assets	
Current assets	2,843
Cash and cash equivalents	849
Non-current assets	694
Total assets	**4,386**
Equity and liabilities	
Current liabilities	3,147
Non-current liabilities	282
Equity	957
Total equity and liabilities	**4,386**

Receivalbles of € 833 thousands are included under the acquired current assets as well as payments made in advance of € 918 thousands. The fair values recognized correspond to the gross amounts of the contractual receivables and advance payments made.

The revenue and net profit for the period and for the year of KHD OOO are comprised as follows:

in € thousand	Oct. 1 – Dec. 31, 2011	Jan. 1 – Dec. 31, 2011
Revenue	5,228	16,516
Net profit for the period/year	(617)	2,215

04 SEGMENT REPORTING

External segment reporting is based on intra-Group 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 based in particular on balance sheet and income statement figures. The revenue figure analyzed is comprised of revenue under construction contracts and from service revenue. The main business activity of the Group is the development, production, and distribution of industrial plant equipment, in particular for cement plants. The measurement principles used for Group segment reporting are in line with the IFRS principles used for the consolidated financial statements. In its function as the chief operating decision maker, the Management Board assesses the profitability of the segment based on the operating result (profit before tax).

The following table provides an overview of the business for the financial years 2011 and 2010:

in € million	**2011**	**2010**
Order intake	225	269
Order backlog (Dec. 31)	294	304
Revenue	235	287
Cost of sales	182	229
Gross profit	53	58
Expenses/other income (net)	(35)	(33)
Earnings before interest and taxes (EBIT)	18	25
Net finance income	3	1
Profit before tax	21	26
Increase in unrestricted cash and cash equivalents	11	54
Total assets (Dec. 31)	**432**	**413**
Liquidity (Dec. 31)	300	293
Liabilities (Dec. 31)	198	265

Geographical allocation of project data

	Revenue		Non-current assets	
in € thousand	**2011**	**2010**	**2011**	**2010**
Germany	6,273	15,033	6,093	5,104
Russia	54,501	83,180	4,039	8
Rest of Europe	5,439	5,216	–	–
North America	9,910	2,064	73	94
South America	13,569	5,662	–	–
Near and Middle East	28,902	21,888	–	–
India	81,732	70,755	1,189	878
China	3,379	12,461	2	1
Rest of Asia	19,210	32,271	–	–
Africa	4,655	29,772	–	–
Other	7,007	8,588	–	–
	234,577	**286,890**	**11,396**	**6,085**

	Order intake		Order backlog	
in € thousand	**2011**	**2010**	**2011**	**2010**
Germany	9,334	6,115	6,072	3,012
Russia	19,158	36,107	37,014	72,357
Rest of Europe	5,101	2,622	2,301	2,641
North America	10,970	970	3,007	1,947
South America	20,650	15,778	18,039	10,959
Near and Middle East	27,813	26,792	28,309	29,398
India	24,555	134,354	76,024	133,201
China	8,091	5,081	9,783	5,070
Rest of Asia	2,357	23,489	13,206	30,059
Africa	10,533	7,817	12,828	6,950
Other	86,175	9,799	87,106	7,936
	224,737	**268,924**	**293,689**	**303,530**

The project data was allocated to the different geographical areas according to the place of performance or delivery of the products and services.

Order intake declined by € 44.2 million from € 268.9 million in the previous year to € 224.7 million as a result of negative market factors. Order backlog almost reached the previous year's level of € 303.5 million at € 293.7 million.

The item Other in order intake and order backlog mostly comprises of a contract with an undisclosed cement producer to construct two new cement production lines. Due to a confidentiality agreement with the customer we are not in a position to disclose further information.

Information about Key Customers

Of the Group revenue of € 235 million (previous year: € 287 million), around € 97 million (previous year: € 100 million) was attributable to the Group's largest customers. This breaks down as follows:

in € million	2011	2010
Customer 1	60	36
Customer 2	37	35
Customer 3	–	29

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

05 PROPERTY, PLANT, AND EQUIPMENT

in € thousand	Leasehold improvements	Property, plant and equipment	Total
Cost			
Dec. 31, 2009	**60**	**6,370**	**6,430**
Additions	258	1,177	1,435
Addtions due to changes to consolidation scope	147	877	1,024
Disposals	–	(107)	(107)
Foreign currency translation	–	(21)	(21)
Dec. 31, 2010	**465**	**8,296**	**8,761**
Additions	–	1,539	1,539
Addtions due to changes to consolidation scope	–	7	7
Disposals	(185)	(786)	(971)
Foreign currency translation	–	(82)	(82)
Dec. 31, 2011	**280**	**8,974**	**9,254**
Accumulated depreciation			
Dec. 31, 2009	**27**	**4,877**	**4,904**
Additions	36	863	899
Disposals	–	(87)	(87)
Dec. 31, 2010	**63**	**5,653**	**5,716**
Additions	35	917	952
Disposals	–	(362)	(362)
Dec. 31, 2011	**98**	**6,208**	**6,306**
Carrying amount			
Dec. 31, 2010	**402**	**2,643**	**3,045**
Dec. 31, 2011	**182**	**2,766**	**2,948**

The additions to property, plant, and equipment primarily relate to investment in technical equipment. Of this, € 649 thousand are attributable to HWIN, which invested in particular in expanding its workshop in order to refurbish rollers for roller presses.

06 GOODWILL AND OTHER INTANGIBLE ASSETS

in € thousand	Goodwill	Licenses and other intangible assets	Total
Cost			
Dec. 31, 2009	**2,127**	**2,257**	**4,384**
Additions	–	943	943
Disposals	–	(10)	(10)
Dec. 31, 2010	**2,127**	**3,190**	**5,317**
Additions due to change in consolidated group	3,035	1,342	4,377
Additions	–	1,754	1,754
Dec. 31, 2011	**5,162**	**6,286**	**11,448**
Accumulated amortisation			
Dec. 31, 2009	**–**	**1,941**	**1,941**
Additions	–	346	346
Disposals	–	(10)	(10)
Dec. 31, 2010	**–**	**2,277**	**2,277**
Additions	–	723	723
Dec. 31, 2011	**–**	**3,000**	**3,000**
Carrying amount			
Dec. 31, 2010	**2,127**	**913**	**3,040**
Dec. 31, 2011	**5,162**	**3,286**	**8,448**

The addition to goodwill is the result of the acquisition of all shares in KHD OOO, which was previously included as a joint venture consolidated on a proportional basis.

The additions to licenses and other intangible assets are largely investments in software as well as the hidden reserves measured during the acquisition of the remaining shares in KHD OOO. € 1,629 thousand is attributable to additions to software for an SAP project.

GOODWILL

The goodwill reported as of December 31, 2011 arises from acquisitions and was allocated to the corresponding cash-generating units. In the financial year 2011, the remaining 50% of shares in KHD OOO were acquired. The additional goodwill arising from this transaction in the amount of € 3,035 thousand was determined using the revaluation method.

Goodwill is subjected to an annual impairment test as part of the preparation of financial statements by comparing the carrying amount of the respective cash-generating unit (including goodwill) with its recoverable amount. Here, the recoverable amount is calculated as the value in use based on the discounted cash flow method.

The (pre-tax) cash flows accounted for are based on the management-approved medium-term planning, which extends over a period of four years. In order to calculate the value contribution arising from the perpetual return (value contribution after expiry of the detailed planning period), the long-term operating cash flows were calculated as the arithmetic average of the 2014 to 2015 planning years. A 1.0% growth rate was assumed for the perpetuity. This growth rate reflects the management's long-term expectations.

The capitalization rate was derived from market data taking into account the risk situation of the respective cash-generating unit and amounts to 11.02% before tax (previous year: 13.49%) and 12.79% for the newly acquired goodwill. Since the calculated value in use exceeds the cash-generating unit's carrying amount (including goodwill), there was no need to recognize an impairment loss pursuant to IAS 36.

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

07 RECEIVABLES AND FINANCIAL ASSETS

in € thousand	**Dec. 31, 2011**	**Dec. 31, 2010**
Current financial assets		
Trade receivables	62,019	48,289
Less valuation allowance for impairment of receivables	(6,876)	(2,567)
Trade receivables – net	55,143	45,722
Other financial assets	888	1,857
Financial receivables	6,880	8,726
Current financial assets	**62,911**	**56,305**
Other receivables	5,725	3,000
Current financial assets and other receivables	**68,636**	**59,305**
Non-current financial assets	**–**	**–**
Other non-current financial assets	–	16
Non-current financial assets	**–**	**16**
Carrying amounts of trade and other receivables		
Trade receivables – net	55,143	45,722
Other financial assets	888	1,857
Other receivables	12,605	11,726
Other non-current financial assets	–	16
Total of carrying amounts of trade and other receivables	**68,636**	**59,321**

Trade receivables rose by € 9,421 thousand from € 45,722 thousand to € 55,143 thousand. This includes a receivable from the completion of a large order in the amount of € 12,510 thousand, which only becomes due for payment after more than twelve months. Valuation allowances for doubtful trade receivables were set up primarily for receivables from customers located in North Africa, the Middle East, and India.

Other receivables in the amount of € 5,725 (previous year: € 3,000 thousand) arise from VAT reimbursement claims. A capital gains tax reimbursement claim in the amount of € 2,023 thousand is recognized under financial receivables.

For trade receivables in the amount of € 9,944 thousand (previous year: € 6,319 thousand), which were overdue on 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 recoverable.

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

in € thousand	Dec. 31, 2011	Dec. 31, 2010
60 to 90 days	4,926	1,537
91 to 120 days	877	833
Over 120 days	4,141	3,949
Total	**9,944**	**6,319**

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

Overdue receivables for which no valuation allowance was recognized increased year-on-year by € 3,625 thousand from € 6,319 thousand to € 9,944 thousand. This relates in particular to receivables which were overdue for a period of between 60 and 90 days.

Movement in valuation allowances on trade receivables

in € thousand	2011	2010
Valuation allowances as of Jan. 1	2,567	652
Addition	5,637	1,835
Addition due to first-time consolidation	–	958
Utilization	(508)	(171)
Currency translation differences	(159)	39
Reversal	(661)	(746)
Valuation allowances as of Dec. 31	**6,876**	**2,567**

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

08 DEFERRED TAX ASSETS AND LIABILITIES

The Group has recognized deferred taxes 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 tax rate applied here is 32.45% (previous year: 31.60%).

Deferred tax assets are recognized for tax loss carryforwards only to the extent that a future tax benefit is probable.

Total Group tax loss carryforwards amounted to € 53.9 million (previous year: € 51.2 million) for corporation income tax. Loss carryforwards for trade tax amount to € 61.8 million (previous year: € 61.8 million). Of these amounts, loss carryforwards in the amount of € 4.6 million (previous year: € 4.8 million) for corporation income tax and comparable foreign income taxes and € 4.0 million (previous year: € 4.6 million) for trade tax were considered when recognizing deferred tax assets. No deferred tax assets were recognized on tax loss carryforwards of € 49.3 million (previous year: € 46.4 million) for corporation tax and comparable foreign income taxes and € 57.8 million (previous year: € 57.2 million) for trade tax. Of the total amount of tax loss carryforwards (before external tax audit), unused tax loss carryforwards totaling € 6,046 thousand (previous year: € 3,298 thousand) for foreign income taxes will lapse between 2029 and 2031.

For temporary differences amounting to € 152.1 million (previous year: € 143.0 million) which are linked to shares in subsidiaries and which will not reverse in the foreseeable future no deferred tax assets or liabilities were recognized.

Deferred tax assets and liabilities arise from the following items:

in € thousand	Dec. 31, 2011	Dec. 31, 2010
Deferred tax assets		
Provisions	3,478	2,549
Tax loss carryforwards	1,481	1,724
Offset with deferred tax liabilities	(1,029)	(1,082)
	3,930	**3,191**
Deferred tax liabilities		
Construction contracts/PoC method	(6,274)	(10,763)
Offset with deferred tax liabilities	1,029	1,082
	(5,245)	**(9,681)**

09 INVENTORIES

in € thousand	Dec. 31, 2011	Dec. 31, 2010
Raw materials, consumables, and supplies	8,761	8,089
Work in progress	2,384	1,371
Write-downs to net realizable value	(3,263)	(1,193)
	7,882	**8,267**

In the financial year, inventories in the amount of € 3,545 thousand (previous year: € 12,036 thousand) were expensed as part of cost of sales. The write-downs on net realizable values in the period under review amounted to € 3,263 thousand (previous year: € 1,193 thousand). These write-downs exclusively relate to raw materials, consumables, and supplies, the carrying amount of which is € 3,564 thousand (previous year: € 5,865 thousand).

10 CONSTRUCTION CONTRACTS

in € thousand	Dec. 31, 2011	Dec. 31, 2010
Cost incurred to date for construction contracts	246,190	245,071
Proportionate profits under these contracts recognized to date	40,662	43,541
Total costs incurred and profits recognized	286,852	288,612
Less recognized contract losses	(1,021)	(1,833)
Less progress billings	(300,946)	(311,794)
Balance of construction contracts account	**(15,115)**	**(25,015)**
This amount is comprised as follows:		
Gross amount due from customers for contract work	21,181	21,159
Gross amount due to customers for contract work	(36,296)	(46,174)
	(15,115)	**(25,015)**
Gross amount due to customers for contract work	(36,296)	(46,174)
Advances received under construction contracts (before related work is performed)	(6,063)	(16,874)
Commitments under construction contracts	**(42,359)**	**(63,048)**

Of the revenue recognized in the financial year 2011 in the amount of € 234,577 thousand (previous year: € 286,890 thousand), € 219,856 thousand (previous year: € 262,317 thousand) is attributable to construction contracts for which revenue was recognized on the basis of percentage of completion.

11 OTHER FINANCIAL ASSETS

Only securities are recognized under other financial assets, and these were valued at € 888 thousand (previous year: € 1,857 thousand). The change is the result of a corresponding impairment of the shares held as a consequence of the deterioration of the mar-ket environment in the financial year 2011.

12 CASH AND CASH EQUIVALENTS

The Group reports cash and cash equivalents in the amount of € 300,323 thousand (previous year: € 293,060 thousand). Of this amount, € 12,642 thousand (previous year: € 13,728 thousand) is pledged as collateral for bank guarantees. This cash collateral mainly relates to collateral connected with the € 150 million bank guarantee credit facility which is available to all operating KHD Group companies.

in € thousand	Dec, 31, 2011	Dec, 31, 2010
Bank balances and cash on hand	154,236	74,513
Short-term bank deposits	133,445	204,819
Restricted cash (collateral for guarantees)	12,642	13,728
	300,323	**293,060**

13 EQUITY

The Company's share capital amounts to € 49,703,573.00 and is divided into 49,703,573 no-par-value bearer shares.

On the basis of a resolution passed by the Annual General Meeting on March 23, 2010 the Management Board had been authorized to increase the Company's share capital in the period between March 23, 2010 and March 22, 2015, with the approval of the Supervisory Board, on one or more occasions by up to a total of € 16,571,276.00 against cash through the issue of up to 16,571,276 new no-par-value bearer shares, each representing € 1.00 of the share capital ("authorized capital"). The shareholders shall be granted subscription rights. Furthermore, the Management Board is authorized to determine the details of capital increases and their execution with the approval of the Supervisory Board. The amendment to the articles of association was entered in the Commercial Register for the Company on March 25, 2010.

The capital increase decided on December 21, 2010 was successfully completed on February 16, 2011. The new no-par-value bearer shares, with a notional amount in the share capital of € 1.00 per share, were issued at a price of € 4.53 per share. A total of 6,620,306 shares were issued to existing shareholders. Of the unsubscribed shares, 9,940,715 were subscribed by Max Glory Industries Ltd. (MGI), meaning that MGI now holds a 20% stake in KHD. MGI is an indirect subsidiary of AVIC. When the transaction was completed, the KHD share capital had increased by € 16,561,021, from € 33,142,552 to € 49,703,573. The gross issue proceeds from the transaction amounted to around € 75 million. Of the proceeds from the capital increase, € 16,562 thousand went into the issued capital and € 58,461 into the capital reserves.

Expenses directly related to the capital increase in the amount of € 396 thousand were recognized as deductions from equity. The new shares were included into trading on the regulated market of the Frankfurt Stock Exchange on February 21, 2011.

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

The Company holds 229,136 treasury shares. This corresponds to 0.46% of the shares comprising the share capital. The shares have been acquired in order to manage the share price, and as a provision for settlement of fractional amounts as needed in the context of capital increases. They are carried at their acquisition cost of € 0,965 per share. The share's stock market price was € 5,00 as of December 31, 2011.

The non-controlling interests in the amount of 10.92% (previous year: 11.03%) relate solely to the minority shareholders of KIS.

14 PENSION BENEFIT OBLIGATIONS

The company pension scheme granted to employees in the Group relates exclusively to Germany. The Company pension scheme is granted under defined benefit 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 committed, 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.

In the financial year under review, interest expenses on pensions of € 1,065 thousand (previous year: € 1,133 thousand) were recognized under finance expenses.

As in the previous year, the Group applied the so-called corridor method pursuant to IAS 19 in the financial year 2011. 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:

in %	Dec. 31, 2011	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2008	Dec. 31, 2007
Discount rate	5.00	4.95	5.30	6.00	5.34
Pension trend	2.00	2.00	2.00	1.50	1.50
Employee turnover rate	–	–	–	–	–

in € thousand	2011	2010	2009	2008	2007
Defined benefit obligation	21,749	22,272	21,656	21,374	22,080
Experience adjustments	15	(245)	(197)	(81)	–

in € thousand	Dec. 31, 2011	Dec. 31, 2010
Defined benefit obligation (unfunded)	21,749	22,272
./. Unrecognized actuarial gains/losses	(1,789)	(1,884)
Amount carried in the balance sheet	**19,960**	**20,388**

in € thousand	Dec. 31, 2011	Dec. 31, 2010
Defined benefit obligation on Jan. 1	22,272	21,656
Addition to consolidation scope	–	461
Interest cost	1,065	1,133
Benefits actually paid (total)	(1,499)	(1,474)
Transfer	–	(2)
Gains due to experience adjustments	15	(245)
Actuarial gains/losses due to change in actuarial assumptions	(104)	743
Defined benefit obligation on Dec. 31	**21,749**	**22,272**

Future benefits

Prospective pension payments

in € thousand	
in 2012	1,569
in 2013	1,611
in 2014	1,628
in 2015	1,634
in 2016	1,629
2017 to 2021	7,977

15 PROVISIONS

in € thousand	Warranty	Tax and litigation risks	Termination benefits	Impending losses	Total
Provisions as of Jan. 1 2011	44,173	1,038	940	3,946	50,097
Addition due to consolidation scope	148	–	–	–	148
Formation	12,891	1,632	–	638	15,161
Release	(10,885)	(650)	(459)	(541)	(12,535)
Interest accrual	458	–	–	–	458
Currency translation effects	(955)	–	–	(169)	(1,124)
Utilization / reclassification	(4,969)	(2)	(481)	(2,509)	(7,961)
Provisions as of Dec. 31, 2011	**40.861**	**2.018**	**–**	**1.365**	**44.244**

in € thousand	Dec. 31, 2011	Dec. 31, 2010
Non-current (warranty)	16,720	10,772
Current	27,524	39,325
	44,244	**50,097**

The provisions for warranties cover all risks identifiable which relate to guarantee or warranty commitments. The provisions are measured on a contract-by-contract basis according to the best estimate. The amounts reported as non-current incorporate warranty commitments for a term of more than one year. The anticipated maturities range between one and four years.

The personnel measures for which provisions for termination benefits had been recognized were completed in full in the financial year under review. There is no further need for provisions for termination benefits.

The outstanding purchase commitments linked to cancelled contracts reported under impending losses were settled as far as possible in the year under review.

The provisions formed for tax and litigation risks primarily relate to risks in connection with VAT for previous years in India.

16 LIABILITIES

in € thousand	Dec. 31, 2011	Dec. 31, 2010
Current financial liabilities		
Trade payables	64,875	83,628
Other current liabilities	6,856	8,632
Current financial liabilities	**71,731**	**92,260**
Other liabilities		
Taxes and social security	149	121
Income tax liabilities	3,560	20,864
Other liabilities	**3,709**	**20,985**
Current liabilities	**75,440**	**113,245**
Other non-current liabilities	**11,142**	**8,318**

The other non-current liabilities include commitments due to warranty recognized in the amount of € 11,142 thousand (previous year: € 8,318 thousand).

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

In the previous year, income tax liabilities included an amount payable of € 20,864 thousand resulting from the completed tax audit for the companies in Germany for the years 2005 to 2007. As of December 31, 2011, € 3,560 thousand was recognized under this item for current income tax liabilities.

Of this, an amount of € 2,158 thousand relates to liabilities for capital gains tax resulting from the tax audit of the German KHD Group companies for the years 2005 to 2007 that was completed in the financial year 2010.

The carrying amounts disclosed as of the balance sheet date essentially correspond to their fair values.

17 COMMITMENTS UNDER CONSTRUCTION CONTRACTS

This item contains commitments under construction contracts which are presented in ac-cordance with IAS 11. These commitments represent the net liability of the amounts ex-plained in Note 10. Furthermore, this item includes advances paid by customers upon acceptance of the contract before the related work was performed by KHD Group, recognized in accordance with IAS 11.

18 PERSONNEL EXPENSES

in € thousand	**2011**	**2010**
Wages and salaries	36,200	34,385
Social security contributions and costs, including pension costs	5,200	5,040
	41,400	**39,425**

In the previous financial year, the personnel expenses associated with the initial consolidation of the foreign companies as of April 1, 2010 were recognized in the income statement for a nine months period. In the financial year 2011, these expenses extended over the entire financial year, resulting in higher personnel expenses. This also applies to personnel expenses as part of expanded holding functions.

	As of Mar. 31, 2011	**As of Jun. 30, 2011**	**As of Sept. 30, 2011**	**As of Dec. 31, 2011**
Salaried employees	701	691	702	704
Industrial employees	61	61	62	61
Total	**762**	**752**	**764**	**765**

As of December 31, 2011, the number of employees was 765 (previous year: 767). In the year under review, the average number of employees was 761, of whom 61 were industrial employees (previous year: 648 employees, of whom 43 industrial).

As a result of the addition of new companies in the previous financial year, there was an increase in the average number of employees for the year.

Personnel expenses include employer contributions to statutory pension insurance in Germany in the amount of € 1,813 thousand (previous year: € 2,153 thousand) and expenses for contractually defined contribution plans of € 404 thousand (previous year: € 857 thousand).

19 TOTAL REMUNERATION OF CURRENT AND FORMER MEMBERS OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

The total remuneration for members of the KHD Management Board amounted to € 1,278 thousand (previous year: € 1,338 thousand) in the financial year 2011. Of the total remunaration, € 720 thousands (previous year: € 971 thousands) is attributable to short-term employee benefits, € 276 thousands previous year: 367 thousands) to other long-term benefits, and € 282 thousands (previous year: € 0 thousands) to payments due after termination of the appointment as Management Board members. The total remuneration granted to members of the Supervisory Board for performing their duties amounted to € 291 thousand in the financial year 2011 (previous year: € 216 thousand). The compensation report contains further details about Management Board and Supervisory Board remuneration. The compensation report forms part of the Group management report and also describes the main points of the remuneration system.

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

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

20 OTHER OPERATING INCOME

in € thousand	**2011**	**2010**
Exchange gains	938	574
Income from cancelled contracts	92	1,272
Income from successive company acquisition	2,427	–
Other income	847	1,617
Total Other operating income	**4,304**	**3,463**

The income from step acquisition in the amount of € 2,427 thousand relates to the gain from remeasuring of the previously hold 50% stake n KHD OOO at fair value at acquisition date. The other operating income mainly comprises income from services provided recharged to third parties in the amount of € 656 thousand (previous year: € 1,174 thousand).

21 SALES EXPENSES

Sales expenses in the year under review consist primarily of costs for tendering amounting to € 7,747 thousand (previous year: € 5,425 thousand). Expenses for key account management and marketing activities are also included.

22 GENERAL AND ADMINISTRATIVE EXPENSES

The general and administrative expenses decreased by € 557 thousand from € 18,981 thousand to € 18,424 thousand. Aside from the costs of general administration, the general and administrative expenses include in particular costs for Management Board compensation, legal and consulting costs, costs of preparing and auditing financial statements, Supervisory Board remuneration and investor relations costs.

23 OTHER EXPENSES

in € thousand	2011	2010
Research and development	3,652	3,357
Costs charged by affiliated companies	–	353
Write-downs on intangible assets	361	–
Miscellaneous expenses	3,273	4,227
Total other expenses	**7,286**	**7,937**

In the previous year, miscellaneous expenses were reported for short-time working performed at HW in the amount of € 1,835 thousand. There were no expenses for short-time working performed in the financial year under review, which resulted in a significantly lower recognized amount in the miscellaneous expenses item. € 361 thousand was recognized for amortization on intangible assets in the financial year. Furthermore, write-downs on inventories contributed significantly to other expenses in the amount of € 685 thousand. Research and development costs increased year-on-year by € 295 thousand from € 3,357 thousand to € 3,652 thousand.

Miscellaneous expenses also contain expenses for consultancy services, fees, insurance premiums, exchange rate losses, and expenses relating to VAT.

24 NET FINANCE INCOME

Net finance income is composed as follows:

in € thousand	2011	2010
Interest income	5,651	2,861
Interest received from affiliated companies	–	81
Total interest income	**5,651**	**2,942**
Gains on securities	–	407
Dividend income	47	15
Income from foreign exchange forward contracts	607	–
Finance income	**6,305**	**3,364**
Other finance expenses	(90)	(240)
Interest related to pension benefit obligations, provisions, and other non-current liabilities	(1,767)	(1,861)
Losses on securities	(833)	–
Interest expenses	(550)	(195)
Finance expenses	**(3,240)**	**(2,296)**
Net finance income	**3,065**	**1,068**

Interest income primarily contains interest from promissory note loans, bank deposits, and fixed-term deposits. The rise in interest income by € 2,709 thousand from € 2,942 thousand to € 5,651 thousand relates mainly to fixed-term deposits. The interest income from fixed-term deposits amounted to € 4,828 thousand in the financial year (previous year: € 2,469 thousand). As in the previous year, interest income is attributable exclusively to financial assets measured at amortized cost.

Finance expenses include interest on pension benefit obligations in the amount of € 1,065 thousand (previous year: € 1,133 thousand). In the year under review, interest expenses of € 702 thousand (previous year: € 728 thousand) are attributable to interest on provisions and other non-current liabilities. Due to the deterioration in the market environment in the financial year under review, the fair value measurement of shares held resulted in a loss of € 833 thousand (previous year: gain of € 407 thousand). Interest expenses in the financial year under review comprise accrued interest associated with VAT for previous years.

25 INCOME TAX

The income tax expense of € 7,177 thousand incurred in the financial year 2011 (previous year: € 10,221 thousand) is composed as follows:

in € thousand	2011	2010
Current tax expense	(12,067)	(12,656)
Deferred tax income/expense	4,890	2,435
Tax expense for the year	**(7,177)**	**(10,221)**

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

in € thousand	2011	2010
Earnings before income tax	20,682	26,021
Average tax rate (in %)	32.45	31.60
Expected tax expense	(6,711)	(8,223)
Effects of tax-free income	647	69
Effects of non-tax-deductible expenses	(862)	(95)
Effects of unutilized tax losses not recognized as deferred tax assets and offset possibilities	456	(953)
Effects of originally unrecognized and unutilized tax losses and offset possibilities which are now reported as deferred tax assets and effects arising from changes to previous years' tax loss carryforwards	54	319
Effects of subsidiaries' divergent tax rates	(48)	275
Adjustments for previous years' taxes recognized in the current period	93	(1,588)
Other non-tax-effective additions and deductions	(806)	(25)
Tax expense for the year	**(7,177)**	**(10,221)**

The tax audit for the years 2005 to 2007 at the German companies of KHD Group was concluded in the previous financial year. As a result of this audit, the German companies of KHD Group incurred an additional tax expense of € 1,588 thousand in the previous year. Taxation rates that differ from the average Group tax rate primarily relate to the USA and Russia.

The effective Group taxation rate is 34.70% (previous year: 39.28%).

26 EARNINGS AND DIVIDEND PER SHARE

EARNINGS PER SHARE

Until February 16, 2011, the number of ordinary shares issued amounted to 32,913,416. As of February 17, 2011, the number of ordinary shares issued was raised to 49,704,437 as a result of the capital increase. The resulting weighted average number of ordinary shares outstanding is 47,358,307 (previous year: 32,913,416 ordinary shares).

	2011	2010
Group net profit for the year attributable to shareholders (in € thousand)	13,456	15,583
Weighted average number of shares outstanding	47,358,307	32,913,416
Basic and diluted earnings per share (in €)	0.28	0.47

DIVIDEND PER SHARE

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

The Management Board and the Supervisory Board of KHD will propose to the Annual General Meeting that the net retained profits at the level of the ultimate parent entity will be carried forward to new account.

27 TOTAL FEES CHARGED BY THE AUDITORS FOR THE FINANCIAL YEAR

The total fees invoiced by the auditors Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft as well as other members of the Deloitte & Touche network for the year under review are comprised as follows:

in € thousand	2011	2010
Financial statements audit services	540	643
– of which Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft	(459)	(571)
Other certification services	–	318
– of which Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft	–	(308)
Tax advisory services	7	42
– of which Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft	(7)	(27)
Other services	32	44
– of which Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft	(32)	(31)
	579	**1.047**

28 COMMITMENTS AND CONTINGENT LIABILITIES AND ASSETS

COMMITMENTS FOR OPERATING LEASES

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

in € thousand	Dec. 31, 2011	Dec. 31, 2010
Within one year	2,454	1,752
Between two and five years	6,978	1,661
After five years	1,433	487
Total lease and rental commitments	**10,865**	**3,900**

The expenses for leased and rented office space and office equipment recognized in the Group income statement amount to € 2,561 thousand in the year under review (previous year: € 2,741 thousand).

Contingent Liabilities

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

Group purchase commitments amount to € 89.5 million (previous year: € 74.2 million).

In the financial year 2011, HWIN received orders from Indian tax authorities concerning VAT claims for the fiscal year 2007/2008, which amount to approximately € 9,495 thousand including related interest. The Company filed objections against these orders within the prescribed period and applied for a stay of demand. An termporary stay of demand been granted on payment of a pre-deposit of € 181 thousand. There is uncertainty surrounding the actual amount of VAT debt for the fiscal year 2007/2008. The Company is currently working to collect the required evidence and forms. In order to cover the risk associated with the orders regarding VAT, a provision was set up as of December 31, 2011 amounting to a total of € 1,500 thousand (including interest).

CONTINGENT ASSETS

As part of the sale of HW's workshop in Cologne-Kalk, Germany, to an Indian buyer as of October 7, 2009, a contingent purchase consideration of a maximum of € 2,850 thousand was agreed beyond the purchase consideration paid. The contigent purchase consideration depends on the occurrence of specific utilization-related criteria. Based on current measurement this contigent component of the maximum possible purchase consideration, that will become due after four years after the transcation date, was not recognized in the Group balance sheet as of December 31, 2011.

29 ADDITIONAL NOTES ON FINANCIAL INSTRUMENTS

FINANCIAL RISK FACTORS

In its position as a globally operating Group, KHD is exposed to various financial risks (currency, interest rate, default, credit, and liquidity risks) which may have a significant impact on the Group's net assets, financial position, and result of operations.

CAPITAL MANAGEMENT

The primary objective of capital management at KHD Group is to ensure that the Company's ability to service debts is maintained in the future and that its financial standing is preserved.

Financial security is largely measured using the equity ratio. The components of this key performance indicator are equity and total assets as reported in the consolidated financial statements. The equity ratio is used as a KPI to communicate 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 up financial instruments qualified as equity in accordance with IFRS. The aim is 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. KHD was in compliance with these requirements in the year under review.

in € thousand	Dec. 31, 2011	Dec. 31, 2010
Equity	233,532	148,555
Total assets	431,922	413,332
Equity ratio (in %)	54.07	35.94

In particular, the capital increase performed during the financial year under review in the amount of € 74.6 million (after deduction of the costs for the capital increase) and the Group net profit for the year in the amount of € 13.5 million (previous year: € 15.8 million) raised the equity ratio from 35.94% in the previous year to 54.07% in the financial year under review.

MARKET RISK

Currency Risk

In the case of foreign exchange risks, a differentiation should be made between currency risks related to the execution of projects in different currency areas and risks arising from translation of individual Group companies' financial statements denominated in a foreign currency at various reporting dates. As part of the execution of projects, exchange rate risks are determined on the basis of budgeted cash flows and minimized by using derivative financial instruments. The derivative financial instruments utilized exclusively comprise foreign exchange forward contracts. The Group recognized assets and liabilities denominated in foreign currencies translated to a carrying amount of € 5,170 thousand (previous year: € 7,062 thousand). A 10% variance in exchange rates would change Group earnings by € 354 thousand (previous year: € 483 thousand).

The individual financial statements prepared by the foreign subsidiaries are translated into Euro in line with the functional currency principle. The Group's functional currency is the Euro. Assets and liabilities are translated at the balance sheet closing rate. Currency translation differences resulting from translating the assets and liabilities of foreign subsidiaries denominated in local currencies into the Group's functional currency may have an impact on Group equity. Due to annual net profits and equity denominated in foreign currencies an impact on Group equity may arise from: the US dollar (USD) in the amount of € 1,671 thousand (previous year: € 1,160 thousand), the Russian ruble (RUB) in the amount of € 540 thousand (previous year: € 1,089 thousand), the Indian rupee (INR) in the amount of € 18,234 thousand (previous year: € 21,875 thousand), and the Australian Dollar (AUD) in the amount of € 2,381 thousand (previous year: € 1,445 thousand). A 10% change in foreign currency exchange rates would change Group equity by € 2,283 thousand (previous year: € 2,557 thousand).

Price Risk

The Group reports securities in its balance sheet and is exposed to standard market price risk with respect to securities. In view of the fact that price and performance are set out in individual contracts, the Group is not exposed to commodity price risk.

CREDIT AND DEFAULT RISK

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 mitigated through the payment terms the Group agrees with its customers, notably progress billings and advance payments, that avoid excessively high levels of outstanding receivables. Internal guidelines ensure that products are generally sold to customers with appropriate credit ratings. The risk of counterparty default is managed through regular monitoring and reviews of the trade receivables and the structure of receivables. At KHD Group, receivables from export contracts are to a large extent secured against default risks by confirmed and unconfirmed letters of credit, as well as through letters of comfort, guarantees, and cover notes, which also include export credit agencies (e.g. Hermes).

Securities for receivables amounted to € 18,050 thousand in the financial year under review (previous year: € 4,736 thousand).

The default risk arising from financial assets relates to the risk of counterparty default and is therefore limited to the positive carrying amounts of the respective financial assets.

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

LIQUIDITY RISK

KHD Group has been pursuing a conservative, forward-looking policy of securing its liquidity for many years and has a very high level of cash and cash equivalents.

In order to avoid financial risks from the plant engineering business, construction contracts are executed through progress billings and customer payments made in advance, which led to a net cash inflow as of the balance sheet date. By means of financial and liquidity planning, cash and cash equivalents are available in such a way that KHD Group is at all times able to fully meet its payment obligations. The majority of current liabilities reported as of 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. As in the previous year, a guarantee facility in the amount of € 150 million is in place which allows individual KHD Group companies to provide bank guarantees on favorable terms for its customers worldwide.

The Group has provided bank guarantees in the amount of € 96.6 million (previous year: € 106.7 million) within the scope of its normal business activities.

INTEREST RATE RISK

The Group holds assets that are affected by changes in market interest rates over the course of time. In the event that market interest rates had risen or fallen by 50 basis points, Group earnings as of December 31, 2011 would have been € 1,027 thousand (previous year: € 1,004 thousand) higher or lower, respectively.

NET EARNINGS PER CATEGORY

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

2011	**Financial assets**		**Financial liabilities**		**Total**
in € thousand	**Fair value through profit or loss**	**Amortized cost**	**Fair value through profit or loss**	**Amortized cost**	
Expenses due to valuation allowances on financial assets	–	(6,277)	–	–	(6,277)
Interest income/expense	–	5,101	–	–	5,101
Other net earnings	(781)	1,292	–	–	511
Net earnings	**(781)**	**116**	**–**	**–**	**(665)**

2010	**Financial assets**		**Financial liabilities**		**Total**
in € thousand	**Fair value through profit or loss**	**Amortized cost**	**Fair value through profit or loss**	**Amortized cost**	
Expenses due to valuation allowances on financial assets	–	(1,835)	–	–	**(1,835)**
Interest income/expense	–	2,942	–	–	**2,942**
Other net earnings	182	959	–	–	**1,141**
Net earnings	**182**	**2,066**	**–**	**–**	**2,248**

Net earnings include in particular interest income and expense, income and expenses from translating monetary items denominated in foreign currency, market value changes of securities, and expenses for valuation allowances on financial assets.

LIST OF FINANCIAL ASSETS AND LIABILITIES BY CATEGORY

Dec. 31, 2011	Financial assets		
in € thousand	Fair value through profit or loss	Amortized cost	Not in IAS 39 application area
Non-current financial assets	–	–	–
Trade receivables	–	55,143	–
Other financial assets	888	–	–
Derivatives	28	–	–
Other receivables	–	6,852	5,725
Cash and cash equivalents	–	300,323	–
Total financial assets	**916**	**362,318**	**5,725**
Other liabilities	–	–	–
Trade payables	–	–	–
Total financial liabilities	**–**	**–**	**–**

Dec. 31, 2010	Financial assets		
in € thousand	Fair value through profit or loss	Amortized 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	**–**	**–**	**–**

Financial liabilities			
Amortized cost	Not in IAS 39 application area	Carrying amount	Fair value
–	–	–	–
–	–	55,143	–
–	–	888	888
–	–	28	28
–	–	12,577	–
–	–	300,323	–
–	**–**	**368,959**	**916**
6,856	11,142	17,998	–
64,875	–	64,875	–
71,731	**11,142**	**82,873**	**–**

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

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 quoted market prices.
- In the financial year, the fair value of derivatives was calculated using quoted market prices, as in the previous year.

Non-current financial assets accrue interest at common market conditions.

SECURITIES HELD FOR TRADING

Securities held for trading amounted to € 888 thousand (previous year: € 1,857 thousand). A 10% variance in the market price would change Group earnings by € 84 thousand (previous year: € 186 thousand).

RECEIVABLES

Receivables that are due for more than 60 days after the agreed payment date are treated as overdue receivables. Overdue Group receivables, including receivables for which valuation allowances were made, amounted to € 16,670 thousand (previous year: € 8,424 thousand). After deducting securities (letters of credit and Hermes coverage), the Group values the resulting risk at € 7,738 thousand (previous year: € 5,857 thousand). A 10% variance in the risk amount would affect earnings by € 529 thousand (previous year: € 401 thousand). The receivables for which valuation allowances have been made are generally more than 90 days overdue.

DERIVATIVES

The derivative financial instruments utilized exclusively comprise foreign exchange forward contracts. These are measured at fair value according to IAS 39.

Foreign exchange forward contracts are measured at quoted market prices on the basis of 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 € 28 thousand (previous year: € 411 thousand). A 10% change in the exchange rate hedged by the derivative would affect earnings by € 51 thousand (previous year: € 982 thousand). The total amount of underlying transactions allocated to foreign exchange forward contracts amounts to € 0.7 million (previous year: € 14 million).

30 LITIGATION

ACTION BROUGHT BY SHAREHOLDERS (“RETURN OF CONTRIBUTIONS”):

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

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

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

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

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

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

ACTION BROUGHT BY SHAREHOLDERS ("SUSPENSION AND NULLITY OF AN ANNUAL GENERAL MEETING RESOLUTION")

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

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

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

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

ARBITRATION PROCEDURES AGAINST DALMIA CEMENT VENTURES LIMITED (DALMIA)

On February 15, 2010, HW brought an arbitration claim against Dalmia for payment of compensation in the amount of € 4,291 thousand including interest, after Dalmia canceled several contacts with HW. The location of the arbitration court is Zurich.

On August 21, 2010, HWIN brought an arbitration claim against Dalmia at the arbitration court in New Delhi after Dalmia canceled several contracts with HWIN. The value of the claim amounts to INR 268.1 million in addition to the HWIN lawsuit filed against Dalmia for INR 90 million for repayment of the amount drawn by Dalmia by calling from a bank guarantee.

HW and HWIN reached a settlement with Dalmia on May 6, 2011 for both lawsuits by each concluding an agreement. Among other things the agreements include terms that nearly define parts of the scope of supply previously included in the cancelled contracts. Both of these arbitration proceedings have been put on hold since these agreements were reached. The arbitration proceedings are expected to be ended by means of a settlement in the first half of 2012.

MUSTAGHEEM AG AGAINST KHD HW

An arbitration court submission from Mustagheem AG was sent to KHD HW on December 13, 2010 demanding the payment of outstanding commissions totaling € 20,683 thousand.

KHD HW submitted that it has no contractual arrangement with Mustagheem and therefore the former is not the proper party with respect to the plaintiff’s claim in these proceedings. Mustagheem withdrew its arbitration lawsuit against KHD HW in a letter dated April 26, 2011.

MUSTAGHEEM AG AGAINST KHD HW

An arbitration court submission from Mustagheem AG was sent to HW through the Vienna Court of Arbitration on April 28, 2011. HW is requested herein to pay outstanding commissions in the amount of € 17,654 thousand.

In view of the fact that HW has no contractual arrangement with Mustagheem AG, HW is confident of prevailing in these proceedings due it not being the proper party with respect to the plaintiff’s claim.

CLAUDIUS PETERS TECHNOLOGIES AGAINST KHD HW

On November 9, 2011, KHD HW and Claudius Peters Projects GmbH, the legal successor of Claudius Peters Technologies GmbH, reached a settlement to end all legal proceedings in connection with patents and patent applications for clinker coolers.

To fulfill this settlement, KHD HW paid a fixed sum in the amount of € 1.5 million to Claudius Peters Projects GmbH.

As part of the settlement, KHD HW and Claudius Peters Projects GmbH (“CPP”) withdrew all related countersuits as well as any contradictions and objections.

On November 11, 2011, KHD HW and CCP concluded a licensing agreement in which CPP grants KHD HW the right to use the patented “moving floor” principle.

31 RELATED PARTY DISCLOSURES

During the first quarter of the past financial year KHD Group was included in MFC Industrial Ltd. Group's consolidation scope. In view of the fact that MFC Industrial Ltd. Group was separated into two distinct Groups in the financial year 2010, it was not classified as a related party in 2011.

As a result of KHD's capital increase completed on February 16, 2011, AVIC International Beijing Company Limited now holds 20% of KHD's share capital via its Hong Kong-based subsidiary Max Glory Industries Ltd.

BUSINESS COMBINATIONS

Please refer to the more extensive remarks on business combinations under Note 2 "Subsidiaries and Joint-Ventures of KHD Humboldt Wedag International AG as of December 31, 2011."

INCOME

Income from related companies amounted to € 5 thousand (previous year: € 466 thousand). The income of € 466 thousand reported in the previous year related exclusively to income from the companies of the MFC Industrial Ltd. Group and income from joint ventures.

in € thousand	2011	2010
Joint ventures	5	293
MFC Industrial Ltd. Group	–	173
AVIC	–	–
	5	**466**

EXPENSES

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

in € thousand	2011	2010
Joint ventures	–	219
MFC Industrial Ltd.	–	2,469
AVIC	678	–
	678	**2,688**

RECEIVABLES

In the year under review, there were receivables due from AVIC in the amount of € 50 thousand.

LIABILITIES

As of December 31, 2011, liabilities due to AVIC were reported in the amount of € 188 thousand.

There were no liabilities due to joint ventures as of December 31, 2011 (previous year: € 191 thousand).

32 CORPORATE GOVERNANCE

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

Furthermore, the Management Board and Supervisory Board of the public listed Group company KIS issued the statement required pursuant to Section 161 of the German Stock Corporation Act (AktG) on March 5, 2011 and also made it permanently available to shareholders on the Company's website (www.khdis.de).

33 EVENTS AFTER THE REPORTING PERIOD

KHD was able to report its first joint order with our strategic partner AVIC in the first quarter of 2012. Invecem Cement, Venezuela, awarded the AVIC-KHD team the contract for a project to set up a new production line with a capacity of 2,400 tons per day. The new line will be installed next to the existing cement plant in San Sebastian, Venezuela. KHD will provide the key core equipment, engineering, and services for this project. All other equipment, erection, and construction work, as well as plant services, will be provided by AVIC. Upon completion, the new line will be operated using clean natural gas.

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

34 RELEASE FOR PUBLICATION BY THE MANAGEMENT BOARD

These consolidated financial statements were released for publication by the Management Board resolution of March 23, 2012. Supervisory Board approval is due to be issued at the Supervisory Board meeting on March 27, 2012.

Cologne, Germany, March 23, 2012

The Management Board

(s) Jouni Salo (s) Yizhen Zhu

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 operations 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, Germany, March 23, 2012

The Management Board

(s) Jouni Salo　　　　(s) Yizhen Zhu

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 2011. 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 Management Board. 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 Management Board, 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, 23 March 2012

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

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

LIST OF ABBREVIATIONS

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

IMPRINT

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

FORWARD-LOOKING STATEMENTS AND FORECASTS

This report contains forward-looking statements. These statements are based on the current experiences, assumptions, and forecasts of the Board of Management, as well as on the information currently available. The forward-looking statements do not constitute a guarantee for the future developments and results detailed therein. Future developments and results depend heavily on a range of factors. They comprise various risks and uncertainties and are based on assumptions that may turn out to be inaccurate. These risk factors include in particular the factors detailed in the risk report on pages 49 to 56. We undertake no obligation to update the forward-looking statements made in this report.

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