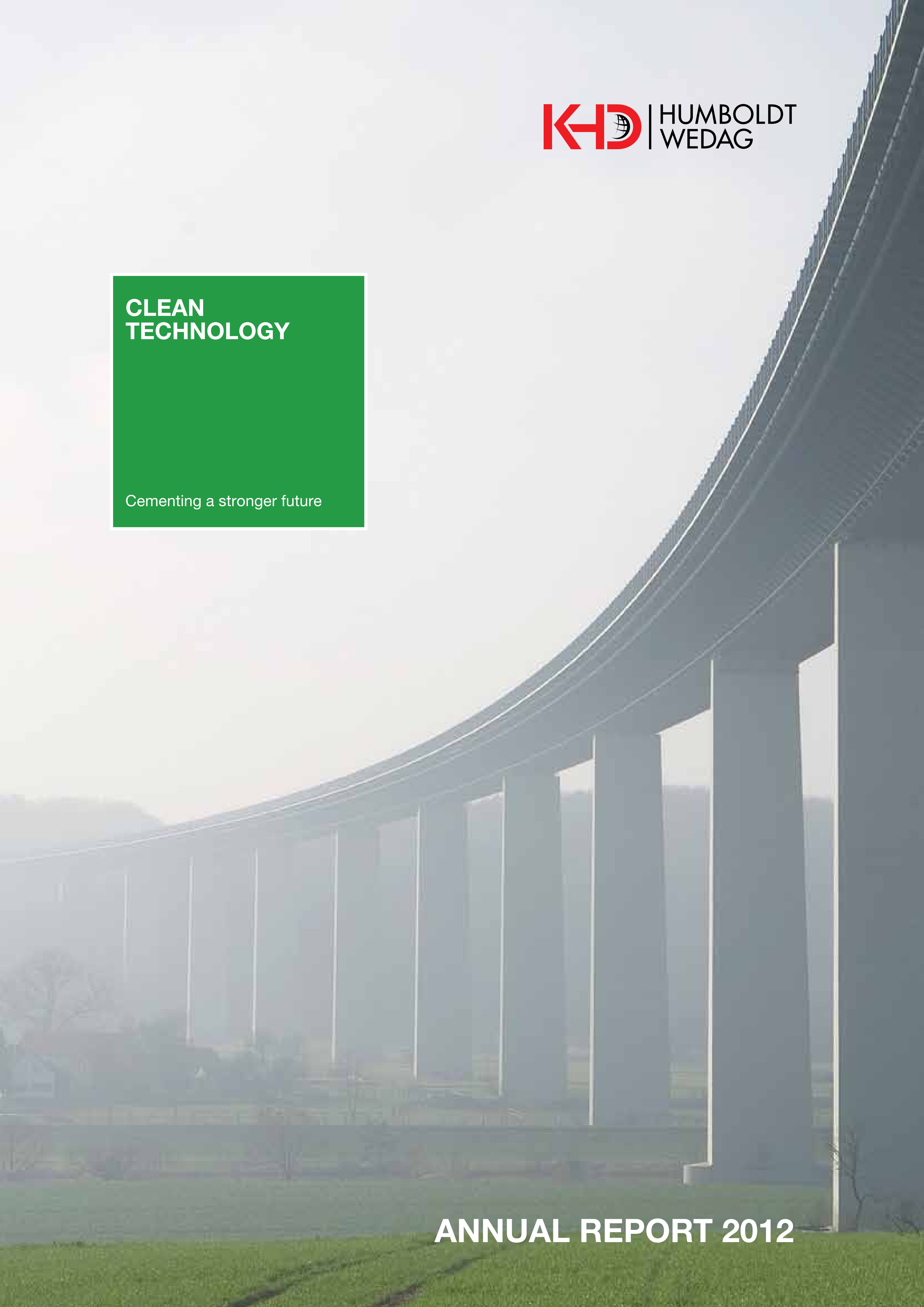
KHD HUMBOLDT WEDAG

CLEAN TECHNOLOGY

Cementing a stronger future



ANNUAL REPORT 2012

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Key Figures

in € million	2012	2011	Variance in %
Order Intake	410.9	224.7	82.9
Revenue	213.5	234.6	−9.0
Gross Profit	43.8	52.5	−16.6
Gross profit margin (in %)	20.5	22.4	−8.5
EBIT	6.4	17.6	−63.6
EBIT margin (in %)	3.0	7.5	−60.0
EBT	8.8	20.7	−57.5
Group net profit for the year	7.0	13.5	−48.1
EPS in €	0.14	0.28	−50.0
Cash Flow from operating activities	−11.3	−65.8	82.8
Cash Flow from investing activities	−2.9	−4.3	32.6
Cash Flow from financing activities	9.7	81.4	−88.1

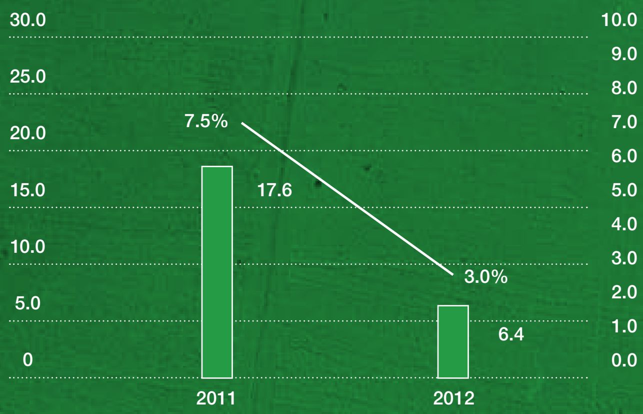
in € million	Dec. 31, 2012	Dec. 31, 2011	Variance in %
Equity	233.6	233.5	0.0
Equity ratio (in %)	53.6	54.1	−0.9
Cash and cash equivalents	282.6	300.3	−5.9
Order Backlog	491.0	293.7	67.2
Employees	783	765	2.4

Facts & Figures

With an increase in order intake of more than 80% in 2012, KHD is well positioned for the coming years.

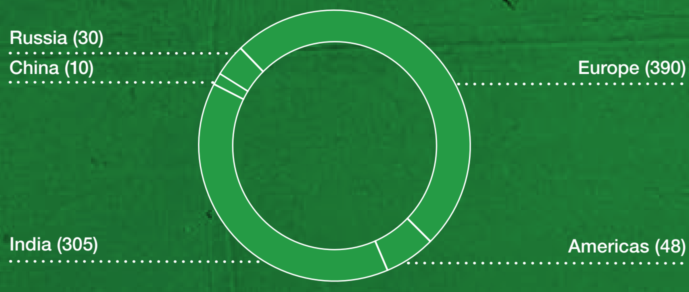
€ 411 million
order intake (+83%)

€ 491 million
order backlog (+67%)



EBIT und EBIT-margin (%)

783
Employees worldwide



Employees by region (End of year 2012)

An Expert on Efficient Processes

KHD Humboldt Wedag is one of the world's leading experts on efficient and environmentally friendly cement plant technology.

Together with our strong partners, we stand for premium technology, energy efficiency, low emissions as well as a high level of availability and quality. Our clean technology solutions help cement plant operators fulfill tomorrow's environmental standards today and reduce operating cost at the same time.

We have been a pioneer for new developments for over 155 years – with many industry firsts, like the world's first preheater tower, the first inline calciner, the introduction of the two-pier rotary kiln as well as by playing a major role in the development of energy-efficient grinding processes using roller presses. We have had a defining influence on the cement industry. Today we continue to find solutions to better serve our customers, with a special focus on using alternative fuels, lowering emissions and better overall plant efficiency. We will continue to utilize our innovative strength to grow and create value for our customers, employees, and shareholders alike.

FOREWORD OF THE MANAGEMENT BOARD

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

KHD was successful in winning new orders under very difficult market conditions in 2012! Revenues and EBIT came in within our last guidance corridor. During 2012 we continued to execute our customer-focused strategy and improve our competitiveness. This is starting to pay off. Although 2012 had one of the lowest levels of new cement plant projects in recent years, KHD was able to almost double its order intake. We went into 2013 with the highest order backlog in three years and are well-aligned to target the limited growth opportunities in 2013. We are also in a good position to take advantage of the larger growth story in the coming years, where global cement consumption (including China) is expected to grow by almost 20% in the next five years.

In 2012 we proved that our concept of “Combining the best of East and West” – the combination of KHD’s technological expertise with our partner AVIC’s expertise for construction and erection – has been well accepted in the market. Together we won and are executing projects in Malaysia, Venezuela and Turkey. KHD also won major orders in Russia, India and Italy. Although we can be very pleased with our performance in winning business, the market perspectives are still subdued. Cement manufacturers continued to remain hesitant, particularly in the first half of the year, which also played a role in delays in project execution. This combined with the below-average order intake in the previous years had an effect on revenue (€ 213.5 million) and EBIT margin (3.0%). The service business also showed only modest development, which is in part due to the very low level of capacity utilization in our core markets. Going forward we will continue to expand the KHD service offering in order to better support our customers and further reduce the cyclical effects of the project business.

Technical leadership is a cornerstone of KHD’s strategy. In order to boost our innovative strength we have not reduced our R&D budget in 2012, despite lower revenues. The prolonged decision making for awarding new contracts has also required us to maintain high expenditures for our global tendering activities. We are thus reinforcing our market position and our future competitiveness as a premium technology provider. In 2012, we participated in several industry exhibitions in Beijing, Kuala Lumpur, Moscow, and Cape Town, in some cases together with AVIC. Moreover, we organized two highly successful customer events of our own in New Delhi and Istanbul, which featured over one hundred guests from the cement industry. Customers like our local face-to-face approach through our customer service centers.

As already mentioned, we are a world leader in cement technology, especially in the areas of efficient and environmentally friendly solutions. Our clean technology components are not only required in industrialized nations but are now also increasingly in demand in emerging markets such as India and China, which are now actively combating air pollution through stricter emission limits. The use of alternative fuels is a particularly important issue for the future and therefore is a focal point in our current research and development

“Environmentally friendly technologies will play an even greater role in the future – and not only in industrialized nations.”

YIZHEN ZHU, COO ASIA PACIFIC

"In 2012, KHD and AVIC demonstrated the competitiveness of their offers. Three joint orders are an excellent start."

JOUNI SALO, CEO

projects. Alternative fuel usage is not only important from a waste management perspective, but also for reducing costs in light of ever increasing prices for fossil fuels.

Our solid liquidity and equity base gives us a great amount of flexibility in navigating through an ever more complex and competitive landscape. As the major cement producers continue to undertake efforts to improve their cost position, we need to be in a position to offer cost-effective high-quality solutions. Through the cooperation with our Chinese partner AVIC we also have better access to the low-cost Chinese procurement market, which we will continue to leverage.

Going forward in 2013 we will focus our efforts on opportunities and regions where we are strong and the growth potential is the highest. We will also continue to improve our technological leadership and combine this with cost leadership. In the area of services you can also expect an improved development.

We would like to thank our customers, business partners, shareholders, Supervisory Board and our highly motivated employees for the extraordinary commitment they have shown throughout the past financial year. We look forward to working with you to make 2013 a successful business year for all of us!

Best regards,

Jouni Salo

Yizhen "Mario" Zhu

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 Customer Service Center for the Asia Pacific region. He holds both an MBA as well as an enginee-ring degree and has longstanding experience working abroad.

REPORT OF THE SUPERVISORY BOARD

Dear Shareholders,

In the financial year 2012, the Supervisory Board of KHD Humboldt Wedag International AG comprehensively performed supervisory and advisory functions as required by law, the articles of association, and the rules of procedure. It monitored and advised the Management Board on a continual basis and consulted with the Management Board in the course of numerous meetings, as well as through discussions outside of these meetings. The Supervisory Board was informed by the Management Board regularly, in due time, and comprehensively, both in writing and verbally, about the intended business policy, fundamental issues concerning financial, investment, and personnel planning, the course of business and the profitability of the Group and of the material Group companies. The Management Board also reported on the strategic alignment of the Group and the status of strategy implementation.

The Supervisory Board was involved in all decisions of fundamental importance to KHD Group.

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

PERSONNEL CHANGES IN THE SUPERVISORY BOARD

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

Mr. Geidt stepped down in his function as Supervisory Board Chairman on October 4, 2012; the term of his Supervisory Board mandate ended at the end of the ordinary Annual General Meeting of shareholders on October 5, 2012. On the basis of a Supervisory Board resolution of October 4, 2012, Ms. Yuen was elected Chairperson and Mr. Luc Antoine Baehni Deputy Chairman of the Supervisory Board.

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

MEETINGS AND RESOLUTIONS OF THE SUPERVISORY BOARD

In the financial year 2012, the Supervisory Board held a total of five meetings that took place in person, in which all matters that are of fundamental importance for KHD Group were comprehensively discussed. In addition, eight meetings were held by telephone conference. In urgent cases, circular resolutions were also passed by telephone or in writing. No member of the Supervisory Board attended fewer than half of the meetings.

At the meeting convened to approve the financial statements on March 27, 2012, the Supervisory Board dealt comprehensively, among other things, with the annual financial statements and the consolidated financial statements of KHD Humboldt Wedag International AG for the financial year ending December 31, 2011. The Supervisory Board approved these as well as the proposal for the appropriation of net retained profit.

The agendas of the Supervisory Board meetings that took place in person in March, May, August, October, and December covered reports on business development, deviations of the actual business development from the budget and forecasts, the budget 2013 and the mid-term planning 2014–16, discussions about interim reports prior to publication, discussions about proposed resolutions for the Annual General Meeting of shareholders, the internal control system, the risk management system, the internal audit system, discussions related to Corporate Governance, resolutions concerning the compensation of the Management Board, discussions related to the recruitment of a Chief Financial Officer as well as organizational issues of the Supervisory Board. Furthermore, the Management Board informed the Supervisory Board about the status of strategy implementation and the strategic development of the Group, competitiveness and development perspectives, organizational changes, and operational issues.

The meetings that were held by telephone conference in February (two meetings), May, June, July, August, October, and November (two meetings) dealt in particular with the mid-term planning 2013–15, discussions about interim reports and the half-year financial report prior to publication, decisions related to the preparation of the 2012 Annual General Meeting of shareholders, operational issues, as well as discussions on transactions subject to Supervisory Board consent.

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

COMMITTEES AND ASSOCIATED MEETINGS

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

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

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

The Audit Committee held three meetings in the financial year 2012. Tasks required pursuant to Section 107 (3) of the German Stock Corporation Act (AktG) were performed by the full Supervisory Board in the period from June 1 to October 22, 2012. The Audit Committee (the full Supervisory Board, respectively) focused on monitoring the accounting process and reviewed interim reports and the half-year report prior to their publication on the basis of the reporting submitted by the Management Board. In addition, the Audit Committee dealt with the proposal on the appointment of the auditor by the Annual General Meeting of shareholders, the issuing of the audit mandate, determining the focal points of the audit, as well as with the agreement on fees with the auditors. Furthermore, the Audit Committee monitored the independence, qualification, rotation, and efficiency of the auditors as well as the services provided by the auditors in addition to the audits of financial statements. The Audit Committee (the Supervisory Board, respectively) dealt with the internal control system on the basis of reports from the Management Board, the Head of Risk

Management, and the Head of Internal Audit, and was informed about the effectiveness and further development of the Group-wide risk management system. Significant opportunities and risks, including the risk situation, risk identification, and risk monitoring as well as the compliance structure and compliance issues within KHD Group have been discussed. The Head of Internal Audit reported on the tasks, responsibilities, and auditing activities of the Internal Audit department and submitted the audit plan for 2012/13 to the Audit Committee. The Audit Committee has deemed the internal control system, the risk management, and the internal audit system to be effective.

CORPORATE GOVERNANCE AND DECLARATION OF COMPLIANCE

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

The Supervisory Board, in particular the Personnel Committee, monitors the ongoing development of corporate governance standards on a continual basis, as well as the implementation of the recommendations of the German Corporate Governance Code at KHD Humboldt Wedag International AG. The Management Board and Supervisory Board issued an updated Declaration of Compliance pursuant to Section 161 of the German Stock Corporation Act (AktG) in February 2013. This has since been published and made permanently available to shareholders on the Company's website at www.khd.com. Further information on corporate governance can be found in the Corporate Governance Report that is also available on the website.

ANNUAL FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

The Management Board prepared in due time the annual financial statements of KHD Humboldt Wedag International AG including the management report as of December 31, 2012 in accordance with principles set out in the German Commercial Code (HGB), and the consolidated financial statements including the Group management report as of December 31, 2012 in accordance with IFRS as adopted by the European Union. The annual financial statements including the management report and the consolidated financial statements including the Group management report were audited by Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft, Düsseldorf, who were appointed by the Annual General Meeting of shareholders on October 5, 2012. The auditors have issued an unqualified audit opinion on both sets of financial statements. Furthermore, the auditors confirmed that the early risk recognition system complies with the legal requirements set out in Section 91 (2) of the German Stock Corporation Act (AktG); no risks that might affect the viability of the Company as a going concern were identified. The auditors did not report any significant weakness in the internal control system.

The documents relating to the financial statements and the audit reports were issued to all members of the Supervisory Board in due time. They were subject to extensive deliberations by the Audit Committee on March 14, 2013 and in the Supervisory Board meeting convened to approve the financial statements on March 18, 2013. Both the auditors and the Management Board participated in the respective Audit Committee meeting and in the Supervisory Board meeting that dealt with the approval of the financial statements. The auditors presented the focal points of their audit as well as the audit results and they were available to provide further information and to answer questions. The Audit Committee also reported on the result of its examination to the Supervisory Board.

The Supervisory Board conducted its own examination of the annual financial statements including the management report for the financial year 2012 and of the consolidated financial statements including the Group management report for the financial year 2012, as well as of the Management Board's proposal on the appropriation of net retained profit for the financial year 2012, taking into account the auditors' reports.

The Supervisory Board examined all relevant documents together with the audit reports and discussed them in detail. After considering the final results of the Supervisory Board's review of the documents submitted by the Management Board and the auditors, the Supervisory Board has no objections to raise and concurs with the result of the audit carried out by Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft. The Supervisory Board approves the annual financial statements and the consolidated financial statements as of December 31, 2012 as prepared by the Management Board. The annual financial statements of KHD Humboldt Wedag International AG are therefore adopted. The Supervisory Board consents to the appropriation of net retained profit proposed by the Management Board.

EXPRESSION OF THANKS

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

Cologne, Germany, March 18, 2013

Yuen Suk Ching.

Eliza Suk Ching Yuen
(Chairperson of the Supervisory Board)

MEMBERS OF THE SUPERVISORY BOARD

Members	Mandates
Eliza Suk Ching Yuen Chairperson of the Supervisory Board (since October 4, 2012) Deputy Chairperson of the Supervisory Board (from June 1 until October 4, 2012) Director of HLM CPA Limited	
Luc Antoine Baehni Deputy Chairman of the Supervisory Board (since October 4, 2012) CEO of CGN-Compagnie Générale de Navigation sur le Lac Léman SA	– Fondation de Prévoyance PROFELIA, Member of the Foundation Board – Versicherungsverband Schweizerischer Schifffahrtsunternehmen Genossenschaft, Member of the Board of Directors
Hubert Keusch Managing Director of ContiLink Services Limited	
Michael Busch (since October 5, 2012) Management Board Member of WashTec AG	– WashTec AG, Chairman of the Supervisory Board From August 1, 2012 to February 28, 2013 Mr. Busch was appointed to the Management Board of WashTec AG pursuant to Section 105 (2) of the German Stock Corporation Act (AktG). His membership in the Supervisory Board of WashTec AG was inactive during this period.
Seppo Kivimaki (since October 5, 2012) Director Business Development of MainExc International OY and Director Business Development of MainExc Marine OY	
Helmut Meyer (since October 5, 2012) Independent Management Consultant	
Heinz Otto Geidt (until October 5, 2012) Chairman of the Supervisory Board (from June 1 until October 4, 2012) Head of Investment Management of the Software AG Foundation	– Software AG, Member of the Supervisory Board – Bingenheimer Saatgut AG, Chairman of the Supervisory Board – Birken AG, Chairman of the Supervisory Board
Gerhard Beinhauer (until May 31, 2012) Chairman of the Supervisory Board Managing Director of BBI Beteiligungs- und Handelsgesellschaft mbH	– Web-Arts AG, Member of the Supervisory Board – Gold Cache Inc., non-executive Member of the Board

Members	Mandates
Silke S. Stenger (until May 31, 2012) Deputy Chairperson of the Supervisory Board Management Consultant	

SUPERVISORY BOARD COMMITTEES

In the meeting on October 22, 2012 the newly composed Supervisory Board formed a Personnel Committee, an Audit Committee and a Nomination Committee.

Personnel Committee
Eliza Suk Ching Yuen (Chairperson)
Luc Antoine Baehni
Helmut Meyer (since January 27, 2013)
Michael Busch (until January 24, 2013)

Audit Committee
Helmut Meyer (Chairman)
Eliza Suk Ching Yuen
Hubert Keusch

Nomination Committee
Michael Busch (Chairman)
Eliza Suk Ching Yuen
Seppo Kivimaki

In the financial year 2011 the Supervisory Board had formed a Compensation and Strategy Committee, a Nomination and Corporate Governance Committee, and an Audit Committee. After Mr. Beinhauer and Ms. Stenger had resigned from the Supervisory Board with effect from May 31, 2012 the work in the committees was discontinued. The tasks which the by-laws delegated to the committees were performed by the full Supervisory Board since June 1, 2012.

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

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

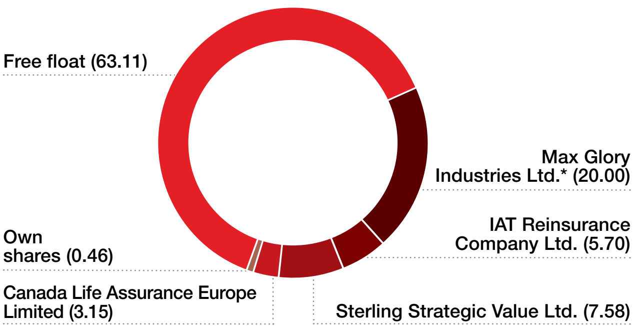
Nomination and Corporate Governance Committee
Heinz Otto Geidt (Chairman)
Gerhard Beinhauer
Silke S. Stenger

THE KHD SHARE

KHD is listed on the Regulated Market (General Standard) of the Frankfurt Stock Exchange. The Company had its initial listing in the spring of 2010. In the year under review, the KHD share reached its high for the year on March 16, at € 6.57. The lowest price of the year was recorded on November 19 with € 4.10. KHD ended the year 2012 with a share price of € 4.69 on December 31. Market capitalization at year-end 2012 amounted to approximately € 233 million, with monthly trading volumes ranging between 0.4 million and 1.8 million shares in the course of the year. On March 15, 2013, the price for KHD shares was € 4.72.

Share
in €

Shareholder structure
share in %



* Max Glory Industries is a 100% subsidiary of AVIC International Beijing Company Limited.

63.11% of KHD shares are free float. Max Glory Industries Ltd., an indirect subsidiary of the Chinese company AVIC, owns 20.00%. Sterling Strategic Value Ltd. has a 7.58% stake, IAT Reinsurance Company Ltd. 5.70% and Canada Life Assurance Europe Limited 3.15%. This reflects the status as per December 31, 2012.

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, 2012	€ 49,703,573
Number of shares as of Dec. 31, 2012	49,703,573
Type of shares	Ordinary bearer shares, with a notional amount in the share capital of € 1.00 per share.
Designated Sponsor	Lang & Schwarz
End of the financial year	December 31, 2012
Share price high for the year	€ 6.57
Share price low for the year	€ 4.10
Closing price on Dec. 31, 2012	€ 4.69

INVESTOR RELATIONS

By listing on the Regulated Market, KHD is committed to the corresponding transparency standards. As a result, the Company published interim reports for the first and third quarters of the financial year 2012, in addition to the half-year financial report.

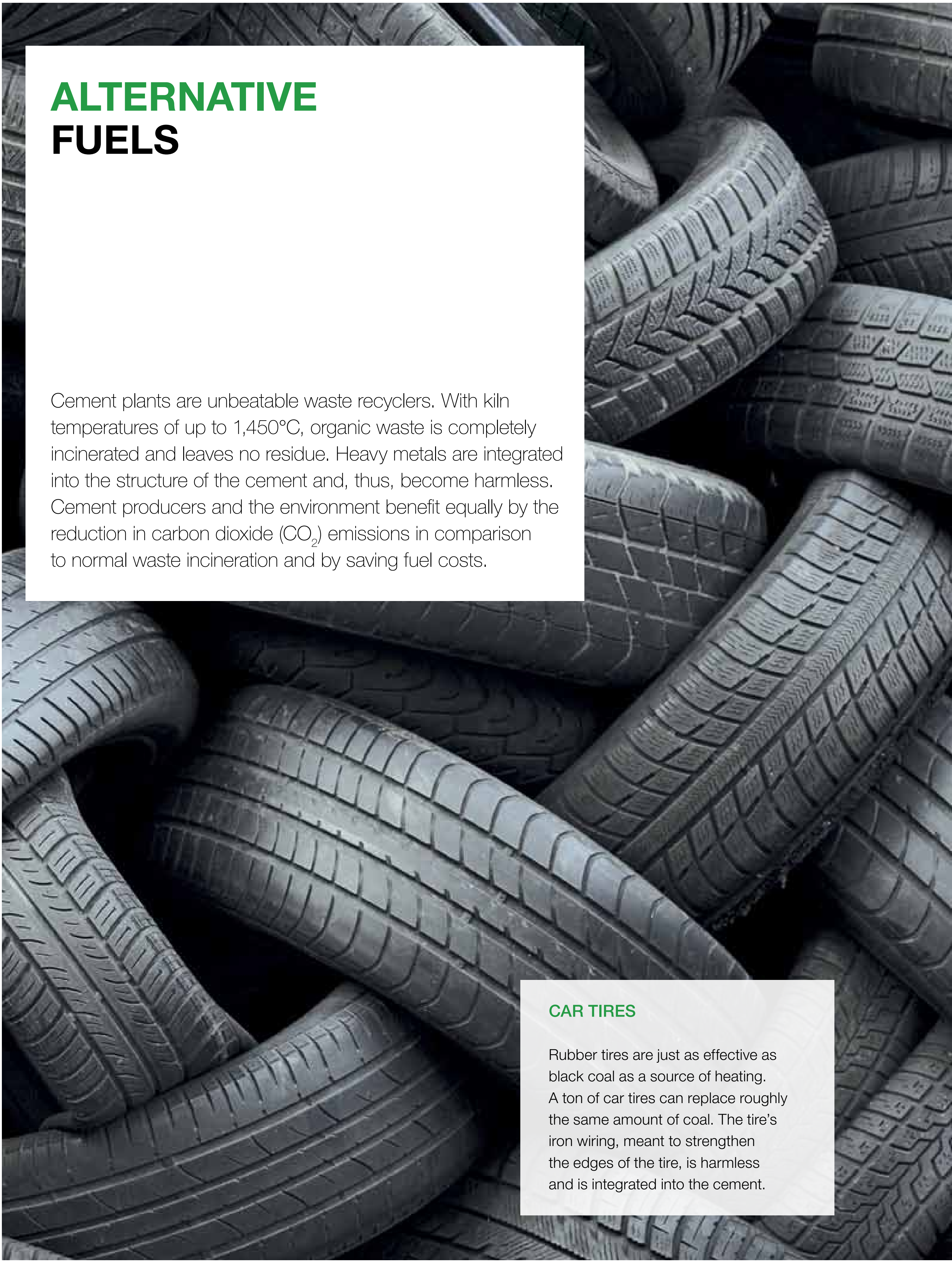
KHD is also dedicated to a more explicit investor relations policy. The Management Board and Supervisory Board are committed to upholding the standards of good corporate governance and treat this as a priority issue. Our investors are the focus of this objective so that every investor should be afforded the same access to information that affects the Company's interests and could therefore influence the share price.

As part of the implementation of 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, also in the new financial year 2013. The publication of interim reports, half-year and annual financial reports will continue to be accompanied by telephone conferences with webcasts.

Financial Calendar 2013

Annual report 2012	March 27
Interim report for the first quarter 2013	May 15
Annual General Meeting	May 29
Half-year financial report 2013	August 14
Interim report for the third quarter 2013	November 14

Clean Technology



ALTERNATIVE FUELS

Cement plants are unbeatable waste recyclers. With kiln temperatures of up to 1,450°C, organic waste is completely incinerated and leaves no residue. Heavy metals are integrated into the structure of the cement and, thus, become harmless. Cement producers and the environment benefit equally by the reduction in carbon dioxide (CO_2) emissions in comparison to normal waste incineration and by saving fuel costs.

CAR TIRES

Rubber tires are just as effective as black coal as a source of heating. A ton of car tires can replace roughly the same amount of coal. The tire's iron wiring, meant to strengthen the edges of the tire, is harmless and is integrated into the cement.

GRAIN HUSKS

Unused grain husks (particularly rice husks in Asia) are normally burned as waste after harvesting. Their use as fuel in cement production not only protects the environment, but also offers farmers a small source of additional income. Husk ash can also be used as an additive in finished cement.

HOUSEHOLD WASTE

In Germany, recycled plastic waste is usually burned in cement plants. Non-recycled waste is used in countries with less structured garbage separation systems; however, this is more difficult, due to its variable composition and requires therefore more preparation.

WOOD WASTE

Sawdust, old furniture, and wooden crates are also frequently used as fuel in cement plants. Wood ash is particularly suitable as an additive for finished cement, due to its high calcium content.

THE PREHEATER TOWER – A KHD INVENTION – REVOLUTIONIZED CEMENT PRODUCTION IN THE 1950s AND SIGNIFICANTLY REDUCED CO_2 EMISSIONS.

FROM GRAY TO GREEN

Back in the 1960s, cement plants were considered to be huge sources of pollution. Thanks to sophisticated filter systems and increased efficiency in the combustion processes, modern plants now emit much lower levels of dust and fumes. KHD played a key role in the development of environmentally friendly technologies over the past few decades, and is now one of the world market leaders in this area. In light of the ever stricter emission controls, rising fuel and electricity prices this is certainly a competitive advantage.

In November, KHD was awarded a comprehensive modernization project in an exceptionally environmentally sensitive region. The modernized plant will be required to comply with particularly strict emissions and noise limits, and the plant operator will need to meet the new stricter environmental regulations through the use of modern technology. Our customer plans to rectify this with the help of modern KHD components. “We were the only company that was able to fulfill all of the requirements – including a high level of availability and low investment costs,” said CEO Jouni Salo.

Fulfilling these requirements starts with the grinding technology, which represents approximately 65% of the energy consumption of a cement plant and accounts for around 8% of its carbon dioxide (CO_2) emissions. KHD will supply its proven COMFLEX® system, which uses KHD roller presses for grinding. The COMFLEX® system will enable energy savings of more than 50% compared to the ball mill technology our customer currently uses.

The plant’s pyro processing line will also increase its efficiency with a new cyclone preheater, rotary kiln, and clinker cooler. The preheater invented by KHD, revolutionized global cement production in the 1950s. Instead of being fed directly into the kiln, the ground raw materials pass through the preheater tower and the calciner system in several stages. Most of the chemical conversion of the raw material into clinker (pre-stage before becoming cement) takes place here, at relatively low temperatures. This significantly reduces the rotary kiln’s thermal load and requires a significantly smaller amount of fuel. Ideally, these components are powered by the waste heat produced by the kiln and the clinker cooler. In addition, the waste heat from the clinker cooler can be used to produce water vapor, enabling further reductions in the plant’s energy consumption and CO_2 emissions.

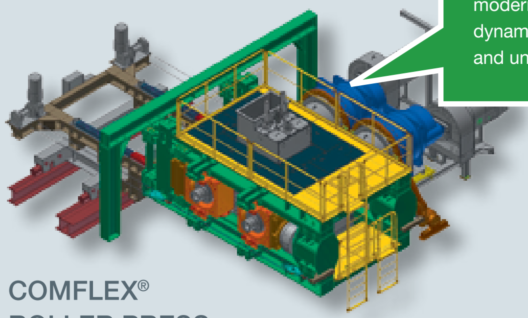
UP TO 95% LOWER EMISSIONS

However, around 60% of the total CO_2 emissions are released during the chemical reaction involved in the deacidification of limestone, rather than during combustion of the energy sources. In order to decrease the CO_2 impact of the end product, manufacturers now add suitable additives to the finished cement. For example in some plants, burned clinker only accounts for about 80% of the cement produced. Depending on the type of cement, fly ash from the coal-burning process, steel slag, industrial gypsum, and other additives are used.

CO_2 emissions are not the only challenge for cement plants. In addition to CO_2, nitrogen oxide (NOx), sulfur oxide (SO_2), and mercury (Hg) are produced during the combustion process. The standard version of KHD’s PYROCLON® calciner system easily complies with the European Union’s lower limits for nitrogen oxide, but not with the particularly strict limits in the plant’s environmentally sensitive region. KHD will provide further assistance with a selective catalytic reduction system (SCR) that breaks down environmentally polluting nitrogen oxides into nitrogen and water. Sulfur emissions will be reduced by means of another technology, which is a new development for cement plants. “While the catalysts entail

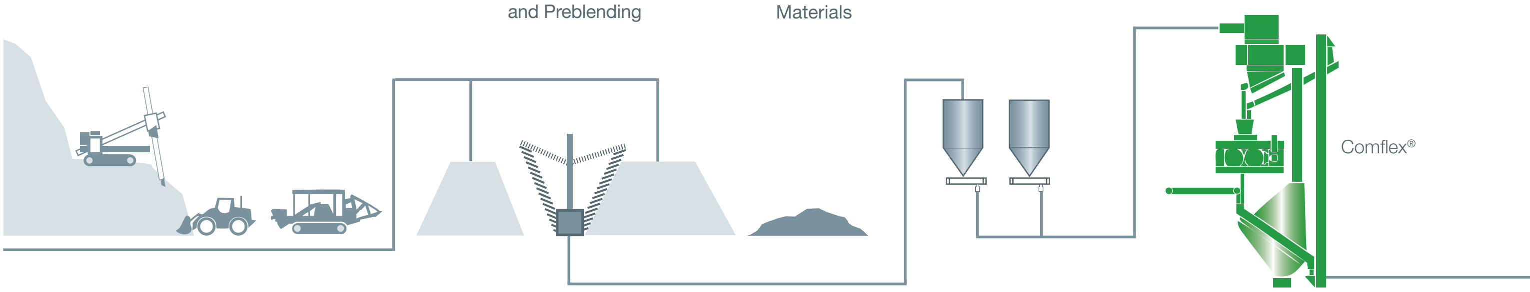
EMISSIONS-REDUCING PROCESSES

It takes almost an hour for the raw materials to pass through the preheater, the calciner system, the rotary kiln, and the clinker cooler. As well as carbon dioxide, this process produces nitrogen oxide, sulfur dioxide, and mercury. These emissions can be reduced by making technical changes to the components, for instance by adding catalysts.



The COMFLEX® system combines modern roller presses with static and dynamic separators that sort ground and unground raw materials.

COMFLEX®
ROLLER PRESS



KEY KHD COMPONENTS IN THE CEMENT MANUFACTURING PROCESS

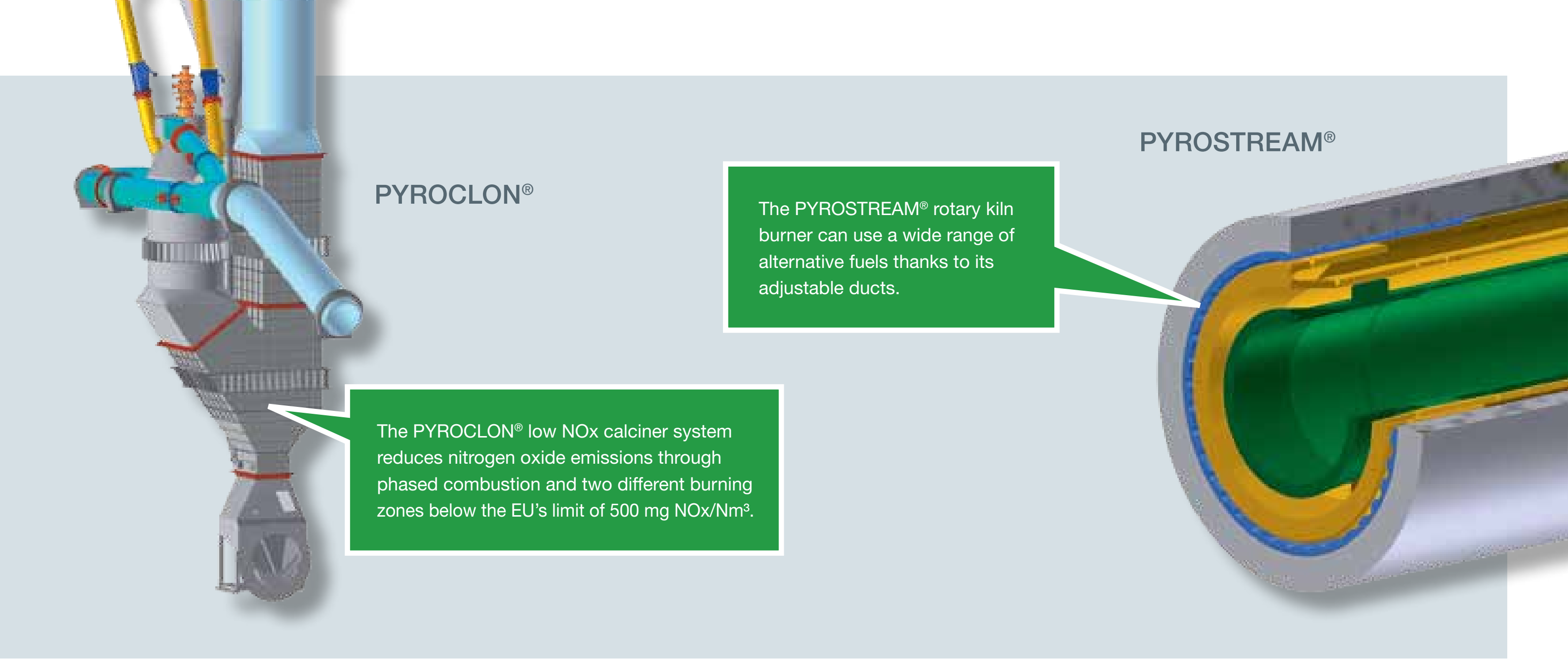
increased investment, operating, and servicing costs, emissions can be reduced by up to 95% in the ideal scenario," says Dr. Heiko Schürmann, who is in charge of environmental measures at KHD.

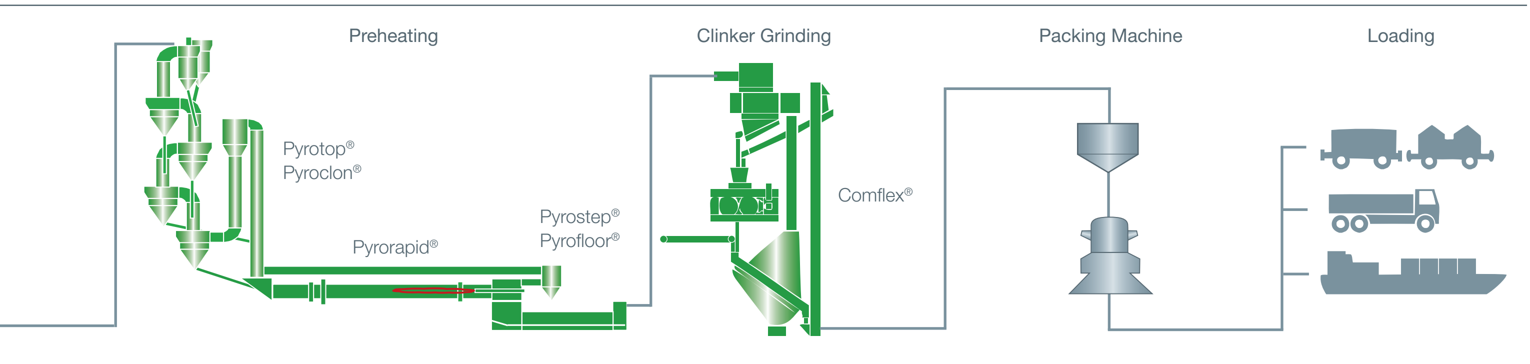
STRICTER ENVIRONMENTAL STANDARDS – ALSO IN EMERGING COUNTRIES

When complete, the modernized plant will become the most efficient and environmentally friendly plant in the region – possibly even worldwide. Following its major overhaul, the plant will not only achieve a 75% reduction in the emission of dust and fumes, it will also consume significantly lower levels of raw materials and energy. Overall production costs could fall by as much as 23%.

For the industry as a whole, there is still a long way to go. The production of cement still accounts for around 5% of the world's CO_2 emissions, despite huge improvements. The average plant in Western Europe emits over half a ton of CO_2 for each ton of cement produced. With an operating period of 330 days per year and a production volume of 3,000 tons of clinker per day, this represents almost half a million tons of CO_2. This is significantly higher than the future output of our customer's modernized plant.

While cement consumption is stagnating or declining in most industrialized nations, it is dramatically increasing in many emerging markets. China alone consumes around 59% of global cement output. The cement industry is recording double-digit growth rates in some markets in Africa, South America, and Southeast Asia. However, governments in these regions are also seeking to enact stricter environmental legislation. By 2016, the Chinese government intends to impose the same nitrogen oxide limit in new plants as is currently imposed in environmentally sensitive regions. In India, the world's second-largest cement market after China, attempts at regulation





are, currently, less ambitious, but nonetheless producers are seeking to operate their plants more efficiently, especially in light of high and rising energy prices.

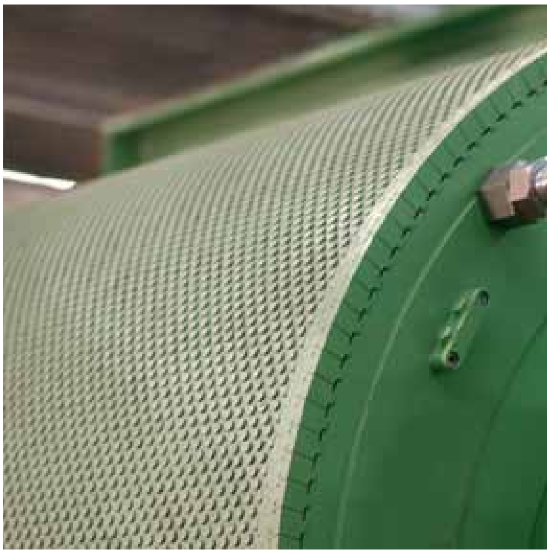
Alternative fuels increasingly play a role in the energy mix. Instead of brown and black coal, about 60% of fuel energy for cement plants in Germany is already generated from industrial waste, packaging waste, car tires, sludge, meat and bone meal, and similar residual materials. There are no doubts about the ecological benefits of this kind of recycling: The high temperatures required for manufacturing cement require the full use of the energy contained in these substitute materials, without creating ash and slag, which would themselves require recycling. Nor does the waste require intensive treatment, as is the case in generating electricity. Waste recycling can also offer financial benefits for cement producers: Not only do they save money through lower fuel costs, but, in some cases, can also collect additional disposal fees.

INNOVATIVE ALTERNATIVE FUELS SOLUTIONS ARE IN DEMAND

However, recycling a wide range of waste materials does pose tougher challenges in terms of the combustion process. "The characteristics of the material used – such as energy content, moisture content, shape, and density – are so varied that there is no patented solution for their use in a cement plant," Schürmann says. To achieve the greatest possible flexibility in relation to the wide range of alternative fuels, KHD offers the option of equipping its calciner system with a combustion chamber, where these alternative fuels can be safely and completely burned off. The proportioning of these fuels and the supply of oxygen can be continuously adjusted during the combustion process, thus maintaining similar conditions despite the various materials.

With its solutions for alternative fuels, KHD is a pioneer and market leader in the industry. This was acknowledged last year

KHD'S ENVIRONMENTAL TECHNOLOGY: THE PYROSTREAM® BURNER, THE PYROCLON® LOW NOX CALCINER SYSTEM WITH COMBUSTION CHAMBER AND KHD'S ROLLER PRESSES REPRESENT A HIGH LEVEL OF EFFICIENCY WITH LOW ENERGY REQUIREMENTS.



at the 6th Global CemFuels Conference in Aachen, Germany when KHD was awarded the prize for "Most innovative technology for alternative fuels use". The award was given based on votes cast by cement industry experts from 22 countries.

"The use of alternative fuels will likely undergo a significant increase worldwide over the next few years," estimates Schürmann. Accordingly, research and development activities continue to focus on further improvements to the combustion process, as well as on the development of supply and storage systems for alternative fuels. In light of the technical standard that has already been achieved, this can only go in small steps. However, the overall effect of these steps amounts to significant environmental impacts, such as innovative new materials and improved process management.

A CLEAN PROCESS – IN EVERY RESPECT

Through innovations such as KHD's preheater tower, Low-NOx calciner system, and COMFLEX® grinding system, KHD is a leader when it comes to environmentally friendly technologies in the cement industry. KHD's environmental manager, Dr. Heiko Schürmann, has coordinated "green" research projects since 2011.

Dr. Schürmann, why does KHD need an environmental manager? After all, environmentally friendly technologies have always been a part of research and development.

That is true, environmentally friendly technology plays a role in almost all of our research projects. Our primary aim is always to lower energy costs and to comply with emission standards. My task is to bring pyro and mechanical process engineering together and to develop an integrated concept for our clean technology components. We intend to strengthen our position as a technology supplier and expert in this field.

Could you provide some examples of current research projects at KHD?

At the moment, we are focusing on the handling of alternative fuels. We have already identified the optimal combustion process for these fuels. The goal now is to improve their storage and transportation to the combustion site. With such a wide range of materials, including anything from car tires and agricultural residues, to sorted household waste, this presents a special challenge. Moreover, waste is not separated and treated the same in every country. In general, optimization of a cement plant is highly project specific and depends on the raw materials used, the fuels, the type of cement produced, the plant layout, and many other factors. There is no, single, patented solution for everyone.

Several research projects are currently seeking to develop environmentally friendly alternatives to conventional cement. Is cement on the way out?

Not at all. Cement will remain just as important in the decades to come. The trouble with new construction materials is that their long-term durability is unknown. It remains to be seen whether a bridge built with them will still be standing in 50 or 100 years. New construction materials are generally brought onto the market in very small steps, making it a lengthy process.

"Every energy savings is a gain for the producer."

DR. HEIKO SCHÜRMANN, ENVIRONMENTAL MANAGER

SUSTAINABLE PROGRESS

35 years ago cement plants emitted around a ton of CO_2 for each ton of cement produced. Thanks to today's environmentally friendly technologies, this figure is reduced to less than half of the old levels. The following is an overview of the key reductions achieved over the last few decades:

1952

KHD INTRODUCED THE WORLD'S FIRST PREHEATER TOWER, EFFECTIVELY REDUCING THE KILN'S HEAT REQUIREMENTS BY ALMOST 50%.

< 500 MG

OF NITROGEN OXIDE PER STANDARD CUBIC METER IS EMITTED BY A MODERN PLANT FITTED WITH A LOW-NOX CALCINER SYSTEM … IN THE 1960S, PLANTS EMITTED AROUND 1,000 MG.

> 50%

ELECTRICAL ENERGY SAVINGS ARE ENABLED BY A ROLLER PRESS COMPARED TO A BALL MILL.

20 MG

OF DUST PER CUBIC METER ARE EMITTED BY A MODERN CEMENT PLANT … FIFTY YEARS AGO, THE AVERAGE AMOUNT WAS 3,000 MG.

2/3

OF THE ENERGY REQUIRED FOR CEMENT PLANT KILNS IN GERMANY IS GENERATED BY ALTERNATIVE FUELS.

25-35 KWH

OF ELECTRICAL ENERGY CAN BE PRODUCED BY TON OF CLINKER BY MEANS OF WASTE HEAT FROM A CEMENT PLANT.

Group Management Report

GROUP MANAGEMENT REPORT

AT A GLANCE

In the 2012 financial year, KHD Humboldt Wedag International AG, headquartered in Cologne, Germany ("KHD" or the "Group"), significantly expanded its market position and acquired a series of major new orders worldwide – including in Malaysia, Russia, India, Turkey, and Italy. In comparison with the previous year, the Group's order intake has thus increased by 82.9% to € 410.9 million, while the order backlog of € 491.0 million is at its highest level in three years. The collaboration with our Chinese partner and shareholder AVIC has played an important role in this success. In 2012, this partnership yielded three joint orders.

The uncertainty triggered by the debt crises in Europe and the USA cast its shadow over almost all markets throughout the year with only a few positive exceptions. Overall, execution of projects remained sluggish in the year under review. This is reflected in a further decline in revenue, to € 213.5 million (previous year: € 234.6 million), and lower EBIT margin now amounting to 3.0% (previous year: 7.5%). Nonetheless, the expenses for research and development and for sales activities remained on the same level as in the previous year and we have further strengthened the Group's competitiveness. Moreover, with a solid liquidity and equity base, KHD is well positioned to invest in growth over the next few years.

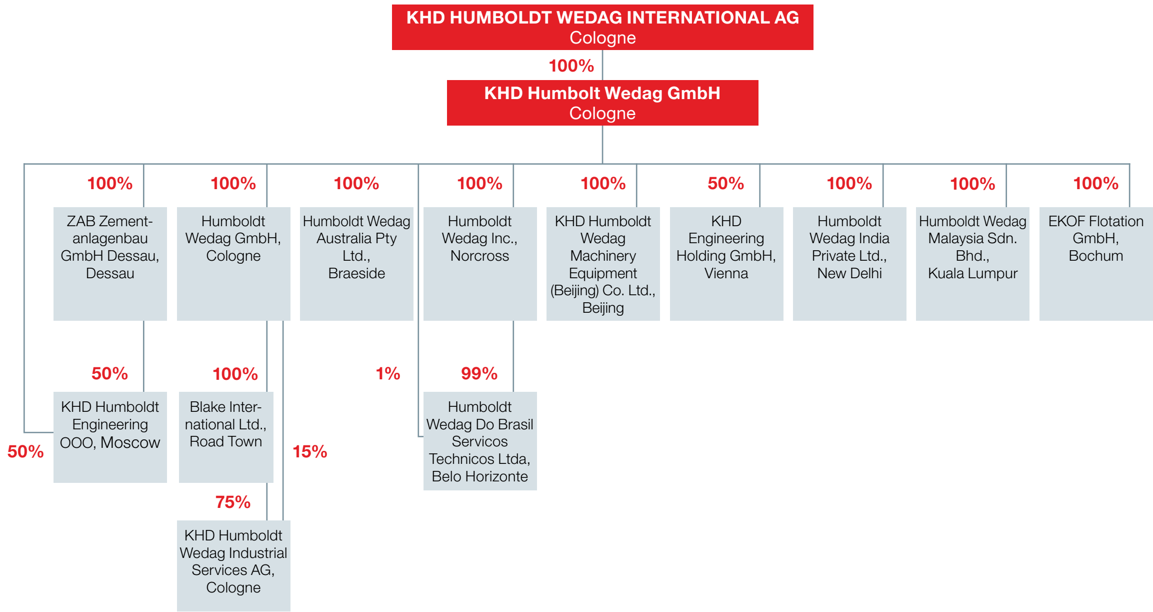
STRUCTURE AND BUSINESS MODEL

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

GROUP STRUCTURE AND SHAREHOLDINGS

In its capacity as the ultimate holding company of the Group, KHD holds a 100% investment in KHD Humboldt Wedag GmbH, Cologne, Germany (KHD HW), which functions as a strategic management holding company. The 14 KHD Group companies focus on the business segment of industrial plant engineering as well as related services.

Corporate Structure



STRATEGIC PARTNERSHIPS

The strategic partnership agreed in December 2010 with Beijing-based **AVIC International Beijing Company Limited** (AVIC) presents a wide range of strategic opportunities. The partnership involves:

- Joint participation in project tenders, in particular for turnkey plants (engineering, procurement, construction, or “EPC”) with a focus on the cement markets outside China, with AVIC as the general contractor (covering the construction or “C” part) and KHD supplying the core technology (covering the engineering and procurement or “EP” part for key equipment). The partnership has been well-received in the market and was awarded its first joint projects in 2012.
- Procurement cooperation, notably through the procurement center opened in Beijing, China, in 2011.
- Opportunity for mutual investments.

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

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, clinker and clinker substitute 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 number 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, delivery of spare and wear parts as well as a wide range of after-sales services.

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 Group's success. Through our dedicated account management, we ensure that all of our customers are served in accordance with their individual needs. We ensure direct customer care through our regional Customer Service Centers (CSC).

The advantage of our structure lies in the global coordination by the Group Support Center in Cologne combined with the proximity of the regional CSCs to the various customers and the knowledge of local market environment. In order to tap into 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, due to the very technical nature of the business.

The Group Support Center in Cologne is home to KHD's strategic global functions and serves the regional Customer Service Centers as the coordinator for know-how and processes for all areas of business. The markets in Europe, Middle East and North Africa are all directly served from Cologne. The CSC Europe, Middle East and Africa was closed in 2012.

KHD's four Customer Service Centers are as follows:

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 Asia. The focus here is on the growing cement markets in Indonesia and Malaysia, among others. Currently project execution work in CSC APA is covered by the Group Support Center in Cologne, Germany.

CSC Russia

With a company in Dessau, Germany, and a subsidiary 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. Projects are executed in cooperation with the Group Support Center and CSC Russia personnel; however the CSC has plans to become a full-scale project execution center.

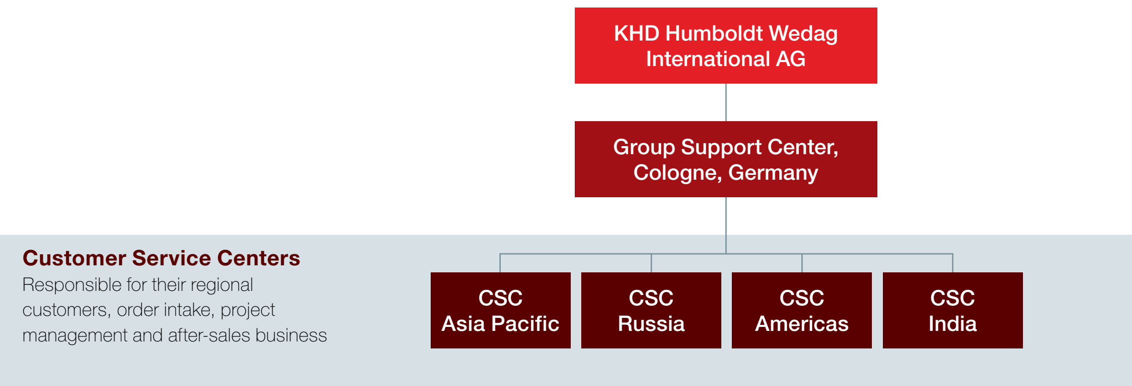
CSC Americas

The CSC Americas is responsible for the entire North and South American continent and is located in Norcross (near Atlanta), in the USA, with a subsidiary in Brazil. The CSC Americas is capable to execute projects with only limited support from the Group Support Center in Cologne.

CSC India

The CSC in New Delhi is responsible for the important Indian market as well as the neighboring countries of Nepal, Bhutan, and Sri Lanka. As of December 2012 it is also in charge of the Sub Saharan African markets. With over 150 engineers the CSC India executes its own projects and is increasingly supporting the other KHD locations. Marketing for the entire Group is also managed from India and implemented by employees at each location.

Customer Service Centers (CSC)



Individual KHD customer events were a focal point of KHD's marketing in 2012, where KHD products and services were presented. At CONNECT 2012 in New Delhi, India, we discussed "cement technology today and in the future" with over 80 guests directly from the cement industry, focusing on plant services. The issues under discussion included environmentally friendly technologies and sustainability, alternative fuels, pyro processing technology, and automation. The program also included a practical demonstration on how to prepare roller press rollers for surface refurbishment at KHD's workshop near New Delhi.

Environmentally friendly technologies were also discussed at another major customer event with 165 customers and partners from Europe, the Middle East and Africa who were invited to Istanbul, Turkey, in April under the motto *"let's plan the future"*. In our SIMULEX® test center, which was installed especially for this event, guests had the chance to learn about our training program.

Also, KHD attended and exhibited its products and technology at international trade shows and conventions in the 2012 financial year. We participated in the following events for the cement industry:

- the 13th Cementtech, held in Beijing, China, in April 2012 (together with AVIC);
- the 23rd AFCM Technical Symposium Malaysia 2012 (together with AVIC);
- the PETROCEM 2012 conference in Moscow, Russia

and for the minerals industry (together with Weir Minerals)

- the 8th International Comminution Symposium (Comminution '12) in Cape Town, South Africa, in April.

EMPLOYEES

As of December 31, 2012, the KHD Group employed 783 people. This represents an only minimal change compared with the previous year (765). As per the end of 2012, approximately 50% of employees in the Group were employed in Germany and 39% in India. This is largely unchanged since the previous year.

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 for the benefit of the Company. Their common goal is to ensure sustainable value, while taking the interests of the shareholders, employees, and other stakeholders into account.

The Management Board of KHD currently consists of two members: CEO Jouni Salo and Yizhen Zhu. As Chief Operating Officer Asia Pacific (COO APA), Yizhen Zhu is responsible for expanding our operations in the Asia Pacific region and for coordinating the global EPC business (turnkey plants). The EPC business is conducted jointly with our cooperation partner AVIC, which in principal assumes the role of general contractor. The Chief Executive Officer, Jouni Salo, is also currently in charge of the finance department.

The Company is managed and controlled in accordance with the standards set out in the German Corporate Governance Code (GCGC). 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 corporate governance report (see item 3.10 of the GCGC) provides further details concerning corporate governance. The declaration of compliance and the corporate governance report (including declaration on corporate governance in accordance with Section 289a of the German Commercial Code (HGB)) are available on KHD’s website (www.khd.com).

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:

- to create customer-oriented growth through consistent account management and the expansion of service and sales activities;
- to extend our technological leadership by means of intensive research and development activities, modular standard plants and products, and investment in key technologies;
- to expand our market position in underdeveloped markets and to secure long-term competitiveness through strategic partnerships;
- to promote a shared culture of excellence and commitment (operational excellence) across the entire Group.

In the 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. This helps us to react faster to different market situations. Moreover, we will continue to focus our attention 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 account management. In collaboration with AVIC, the Customer Service Center Asia Pacific (CSC APA), which opened in China in the previous year, will help to establish KHD’s market position in China, especially for environmental upgrade projects. The CSC APA also supports customers in other Asian growth markets. Our CSC APA won its first major project with AVIC in March 2012, in Malaysia.

The four Customer Service Centers (CSC) are supported by local sales offices and sales agents. New sales offices in South Africa and Brazil as well as a branch established in Turkey in the previous year provide targeted support for activities in important growth markets. Global and local account managers have access to a comprehensive range of up-to-date information covering products and processes as well as marketing materials. 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 order to better serve our customers after the commissioning phase, we are continuing to develop and implement our service portfolio, based on our customer’s wide spectrum of requirements.

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 new manufacturing and refurbishing line for roller press rollers in our workshop near New 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 that this new service will strengthen our customer relationship in general, as well as the service and spare parts business. 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.

We also pursue customer-oriented growth at the process level through our customer relationship management system (CRM), which has enabled us to streamline the evaluation and prioritization of all customer activities, especially during the critical tendering phase. With this and other measures, quick and competent sales decisions are easier to make. We have achieved further benefits, particularly in the areas of project management and order execution, by switching our processes over to SAP. We received a gold medal at the 2012 SAP Quality Awards for the successful implementation of our SAP project.

EXPANDING OUR TECHNOLOGICAL POSITION

In the 2012 financial year, KHD spent an increased proportion of revenue (1.7%) on research and development (previous year: 1.6%).

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

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 traditional ball mills or vertical roller 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 level of availability.

In 2012 we completed the development of our latest clinker cooler, focusing on increased efficiency as well as easier operation and maintenance with improved KHD automation (PLC logic).

Research and development efforts focus on the major trends in the cement industry. As one of the world's leading providers of environmentally friendly technology, KHD particularly focuses on solutions involving the use of alternative fuels and on continuous improvement of grinding and burning processes. We thus help our customers to comply with ever stricter emissions limits and to cut costs.

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 with more cost efficiency
Energy-efficient plants needed for lowering operating costs	– Increased use of KHD roller presses and COMFLEX® for grinding applications – Increased use of waste heat – Improved kiln fuel efficiency and use of alternative fuels – Replacement or retrofitting of old plants – Improved maintenance management – Improved productivity through better automation and process control
Use of alternative fuels – driven by cost and legislation	– Further development of KHD's already leading technologies for the use of alternative fuels
More requirements for emission controls	– Increased use of COMFLEX® technology to grind clinker as well as replacements like fly ash, slag, etc. – Development and use of KHD low emission technologies – Designing efficient and environmentally friendly plants to lower production cost and meet environmental requirements

Standardization played and will continue to play a major role in our technology development beyond 2012. 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.

Products that were in KHD's R&D focus in the 2012 financial year:

Product	R&D Focus in 2012
Preheater	– Product family extension, including three large sizes up to 12,000 tpd capacity
Kiln	– Working on new girth gear designs – Feasibility studies for new drive system – Cost reduction exercises with regard to the entire kiln
Burners	– Continuous testing of additional alternative fuels
Clinker Cooler	– Finalized development with focus on increased efficiency, easier operation, and maintenance as well as improved automation (PLC logic)
Automation	– Implemented internal flow sheet tool to optimize project items – Continuous development on various automation products
Environment	– Launched two very focused projects that will expand KHD's product range
Base Plants	– Continued work on creating basic plant layouts for certain markets
Roller Press	– Performance improvement of whole product family – Series upgrades – Working on new COMFLEX® layouts

We use the online innovation management system developed in the previous year to collect, analyze and manage new ideas from KHD employees, regardless of their position or location. More than half of these ideas were already included in the R&D projects for 2012.

KHD registered a total of 23 patents (including six registered designs) in the year under review. At the end of the year, KHD owned the rights to 915 items of intellectual property, of which 403 were for patents, 497 for registered trademarks and 15 for registered designs.

STRATEGIC PARTNERSHIPS

The cooperation agreement with AVIC, which was underlined by AVIC taking a 20% stake in KHD, significantly improved the strategic positioning of KHD and led to the first mutual projects in 2012. With their combined portfolio, the two partners are able to cover almost 80% of the total value of a new cement plant, whereby AVIC as the general contractor is primarily responsible for construction and erection 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 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 win new orders in attractive niches of the Chinese market. The emphasis here is on implementing energy-efficient and environmentally friendly technologies, which are being spearheaded by the Chinese government.

In 2012, the cooperation with AVIC yielded projects in Malaysia, Venezuela, and Turkey. Working together in executing projects for turnkey cement plants has its own set of special requirements. KHD does not only insure the quality, cost-efficiency, and adherence to the projected time schedule for its own scope, but also considers the interrelation of its own supply with partner AVIC's project scope. The goal is to offer the customer the most efficient total solution for EPC projects.

Weir Minerals operates as KHD's exclusive global sales partner for roller presses in the minerals 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 minerals industry as well as economies of scale throughout our entire value chain.

GROUP-WIDE CULTURE OF EXCELLENCE AND COMMITMENT (OPERATIONAL EXCELLENCE)

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 support 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 Customer Service Centers (CSCs). The Group-wide standardization of processes using SAP and the CRM (Customer Relationship Management) system also helps to simplify cooperation in teams spread across several locations. Of equal importance was the 2012 re-confirmation of the ISO certification achieved in 2010 for all KHD sites.

Cost structure improvement is a key aspect in achieving sustainable competiveness. For example through our joint procurement center in Beijing, we benefit from the cost advantages offered by the Chinese supply market and ensure competitive prices for equipment and services.

The management structure represents the market-oriented focus and lays the foundations for strengthening the Group-wide culture of excellence. The performance-based remuneration of key employees is linked closely to financial targets as well as customer and service related performance targets.

VALUE-ORIENTED MANAGEMENT

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

KHD's key financial indicators for target achievement are calculated monthly. They include:

- Order intake, order backlog, and revenue, broken down by 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, speed of order execution, and individual employee-related figures.

BUSINESS ENVIRONMENT

ECONOMIC ENVIRONMENT

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

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

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

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

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

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

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

Growth of real GNP in selected regions

in %	2011	2012e[1]	2013e[1]
China	9.3	7.8	8.2
India	7.9	4.5	5.9
Russia	4.3	3.6	3.7
Turkey	8.5	3.0	3.5
Brazil	2.7	1.0	3.5
Emerging Markets and Developing Economies	6.3	5.1	5.5
World	**3.9**	**3.2**	**3.5**

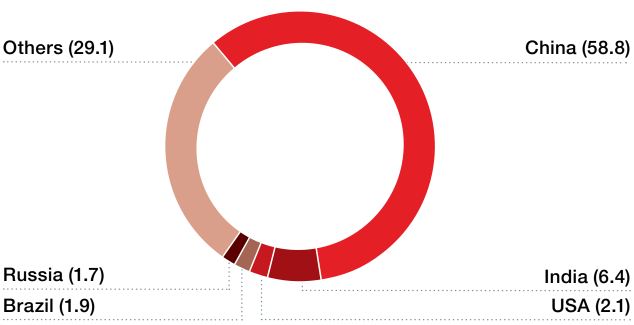
Source: IWF
[1] estimated

INDUSTRY ENVIRONMENT

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

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

Global cement consumption: over 3.5 bn tons
in %

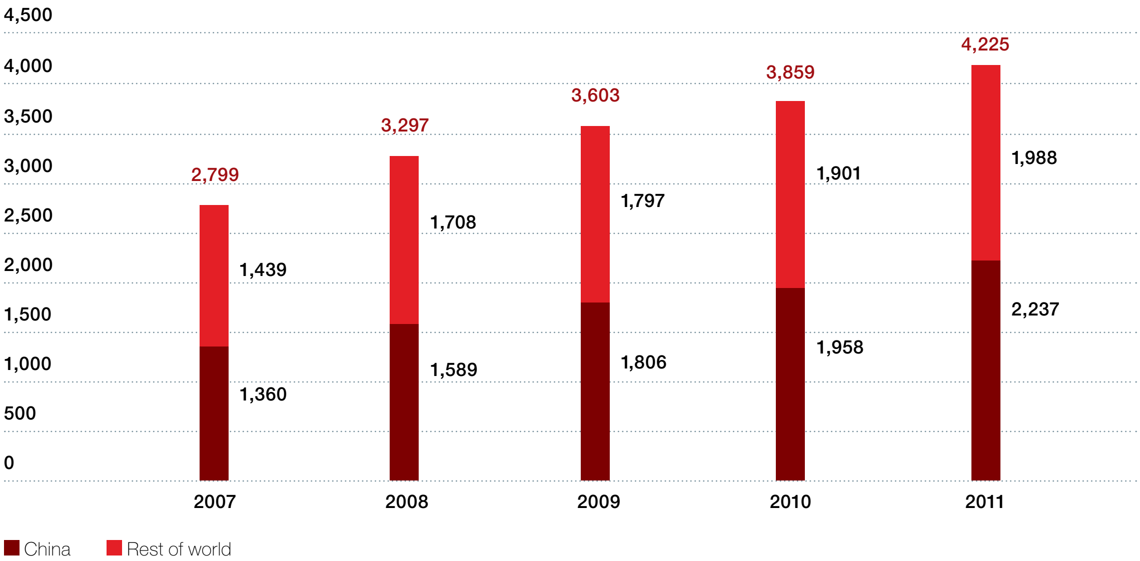


In India – the world's second largest cement market – cement consumption increased, mainly due to the delayed onset of the 2012 monsoon season. However, the weak economy and administrative problems caused further delays for planned, large-scale government investments in roads, ports, and airports. The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

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

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

Global cement production capacity
in Mio. tons



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

Globally speaking, capacity utilization in the 2,500 or so cement plants around the world varied heavily from region to region, with the highest utilization rates in China and the lowest in Western Europe. Half of the world's cement plants are between 25 and 50 years old and often no longer meet increasingly stricter environmental requirements. With the right regulatory framework, there is potential for modernization and new plant construction, making use of energy-efficient and low-emission technologies. Investment decisions are increasingly taking environmental and efficiency aspects into account. The most important engine of growth in the cement industry remains the investment in infrastructure in developing and emerging economies. Irrespective of short-term cyclical trends, the underlying market data continues to be positive.

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

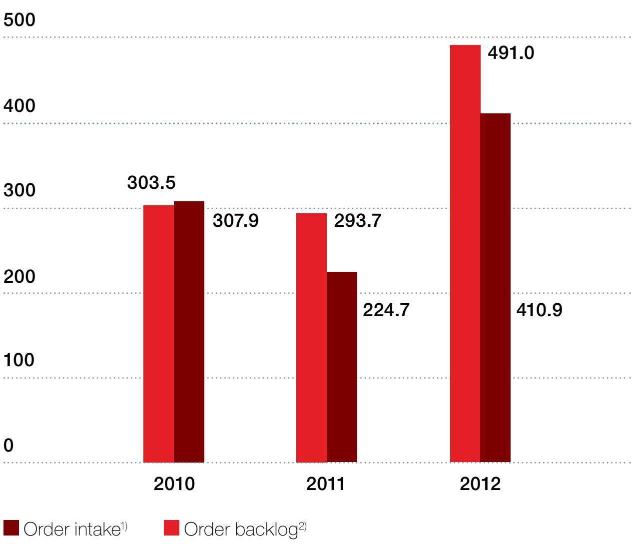
BUSINESS DEVELOPMENT

The slowdown of economic growth in major cement markets once again had a negative impact on KHD's business activities in 2012. However, the clear increase in order intake by 82.9% to € 410.9 million indicates that cement producers now have a more positive assessment of the medium-term outlook for the cement markets. Due to our positive order intake, our order backlog went up by 67%. At the end of the year, order backlog was at € 491.0 million (previous year: € 293.7 million). With three new contracts in 2012, the partnership with AVIC proved to be an attractive solution for customers. With current order volume and revenue, KHD continues to be counted among the top suppliers in the global market.

The order situation in 2012 developed particularly favorably in the Asian markets, with major contracts from Malaysia and India. Order intake from Russia fell short of expectations but still marked a significant improvement on the unsatisfactory level in the previous year. KHD also won significant orders in Italy and Turkey.

- In March, KHD received a € 100 million order from Straits Cement related to the construction of a fully integrated cement production facility in Malaysia, with a daily production capacity of 5,000 tons. KHD's scope comprises of a five stage preheater with a Low-NOx calciner system, PYRORAPID® rotary kiln with PYROJET® burner, PYROFLOOR® cooler, and energy-efficient COMFLEX® system for grinding limestone and clinker. As KHD's partner, AVIC will supply and construct the entire steel structure as well as provide various electrical and mechanical packages, which represents approximately 60% of the above order value.
- In Venezuela, the AVIC-KHD partnership was awarded its first mutual project. Invecem Cement has chosen AVIC as the general contractor for a new line with a capacity of 2,400 tons per day at the San Sebastian cement plant. As AVIC's subcontractor, KHD will supply process technology expertise, key equipment components, as well as engineering and supervision services.
- In April, KHD won an over € 80 million order from the leading Russian cement producer EUROCEMENT for a new cement plant. The plant is expected to achieve an annual production capacity of 1.3 million tons. KHD's scope of supply includes engineering services and cement production equipment, ranging from raw material crushing up to cement packaging facilities. KHD will also equip the new production line with automation and control systems.
- In November, Italcementi commissioned KHD with the modernization of a plant in the ecologically sensitive Lake Garda region. KHD's environmentally friendly technologies will comply with the strict emissions and noise regulations at the site. KHD will deliver its energy-efficient COMFLEX® system for grinding limestone and clinker, a PYRORAPID® rotary kiln, a PYROFLOOR® cooler and a Low-NOx calciner system, as well as other environmental equipment. Upon project completion the plant will be one of the most efficient and eco-friendly cement plants in Europe.
- In December, KHD won another new contract in Turkey as a subcontractor to AVIC. AVIC and KHD will supply a 5,000 tons per day cement plant to SÖNMEZ Cimento. KHD's scope of supply includes engineering services and cement production equipment, training for the on-site team, and supervision of erection and commissioning.
- Also in December, Holcim Jamul placed an order with KHD related to a new 9,000 tons per day cement plant in India. The order value of € 69 million includes KHD's energy-efficient COMFLEX® grinding technology as well as core equipment for pyro processing. The project was one of the very few capacity projects awarded in India in 2012.

Order intake and order backlog
in € million



[1)] 2010 pro-forma
[2)] at end of year

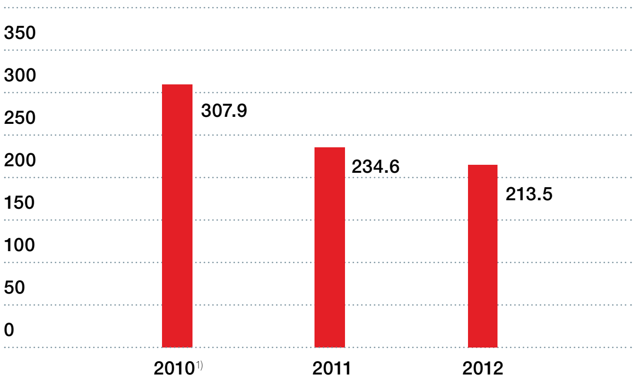
Coal & minerals projects accounted for an order intake of € 18.2 million, considerably less than in the previous year (€ 31.3 million). The market for iron ore suffered mainly from weakened demand from China. Order intake was primarily related to end customers in Australia and South America.

The spare parts and service business made up 11.7% of our order intake. The customer service centers in America and in the Asia Pacific region registered improving figures. Service business at the Group's largest service location in India was supported by the new roller manufacturing and surface refurbishment workshop for our large installed base of roller presses.

RESULTS FROM OPERATIONS

The 9.0% decline in Group revenue to € 213.5 million (previous year: € 234.6 million) reflects continued delayed project execution in some regions as well as the unsatisfactory order intake in the previous years. Projects in India accounted for the largest share of revenue, followed by Turkey and Russia. Projects acquired in the year under review only marginally affected revenue in 2012.

Group revenue
in € million



[1)] 2010 pro-forma

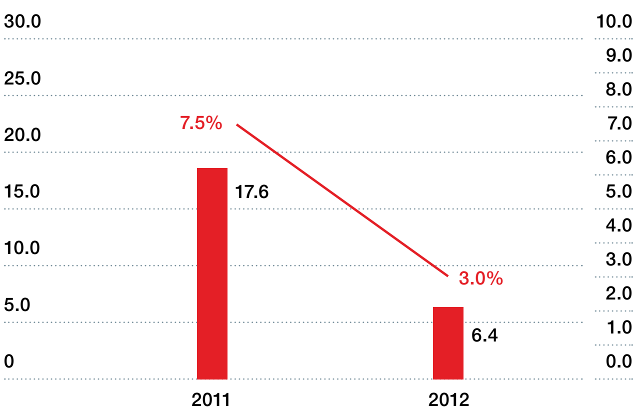
Gross profit also decreased by 16.6%, with gross profit coming in at € 43.8 million (previous year: € 52.5 million). Despite continuing challenges in project execution, profit margin remained high at 20.5% (previous year: 22.4%).

Other operating income amounted to € 1.7 million. This mainly comprises income from services provided to third parties and foreign exchange gains. The previous year's figure of € 4.3 million also included a gain of € 2.4 million from re-measuring shares due to successive company acquisition.

At € 13.6 million, sales expenses were close to the previous year's level (€ 13.9 million). This included factors such as the continuing development of regional sales locations – started in the previous year – as well as the ongoing and highly active participation in project tenders.

General and administrative expenses amounted to € 18.5 million in the 2012 financial year and were thus at the same level as in the previous year. 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 KHD's stock exchange listing.

EBIT und EBIT margin (in %)
in € million



Other operating expenses went down to € 7.0 million (previous year: € 7.3 million). These include research and development costs totaling € 3.6 million (previous year: € 3.7 million); this means that 1.7% of revenue was funneled into research and development (previous year: 1.6%). Also included in operating expenses are expenses due to changes in exchange rates, depreciation on intangible assets as well as consulting costs.

After taking expenses into account, earnings before interest and taxes (EBIT) came to € 6.4 million (previous year: € 17.6 million). EBIT margin was in line with guidance provided in July reaching 3.0% (previous year: 7.5%).

Net finance income recorded a year-on-year decrease from € 3.1 million to € 2.4 million. This was mainly attributable to reduced interest income, due to lower interest rates. As in 2011, the largest single item under finance expenses, which totaled € 2.4 million (previous year: € 3.2 million), was the interest expense related to pension benefit obligations, provisions, and other non-current liabilities.

At € 8.8 million earnings before tax (EBT) was lower than in the 2011 financial year (€ 20.7 million). After accounting for income tax expenses of € 1.8 million (previous year: € 7.2 million) the Group yielded a net profit of € 7.0 million for the year (previous year: € 13.5 million). Basic and diluted earnings per share amounted to € 0.14 (previous year: € 0.28).

Appropriation of Profits

At the Annual General Meeting of shareholders to be held on May 29, 2013, the Management Board and Supervisory Board will propose that out of KHD Humboldt Wedag International AG's net retained profit in the amount of € 4.8 million – calculated pursuant to the German Commercial Code (HGB) – an amount of € 3.0 million (corresponding to € 0.06 per share) should be paid out as a dividend to the shareholders and the remaining amount of € 1.8 million should be carried forward.

FINANCIAL POSITION AND NET ASSETS

FUNDAMENTALS OF FINANCING STRATEGY

KHD's strategy is based on a comfortable liquidity position at the Group level as well as on a strong, equity-based financing strategy. This is also the basis for the planning of our internal and external growth over the next few years, which includes investing in new 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 the KHD Group have access to a bank guarantee credit facility of € 130 million, provided by a consortium of banks, for various hedging instruments such as guarantees, letters of credit, or letters of comfort.

LIQUIDITY

KHD's unrestricted cash and cash equivalents came to € 282.2 million at the end of 2012, representing a slight decrease over the amount reported as of December 31, 2011 (€ 287.7 million). The amount corresponds to cash and cash equivalents recognized in the balance sheet of € 282.6 million (previous year: € 300.3 million) less liquid funds of € 0.4 million (previous year: € 12.6 million) pledged as collateral for guarantees and therefore not freely available. The renegotiation of the bank guarantee credit facility in March 2012 has significantly reduced the volume of restricted cash.

Cash flow from operating activities was negative (€ -11.3 million) but nonetheless represented a significant improvement over the previous year (€ -65.8 million). Cash flow was positively influenced by higher order intake and the corresponding advance payments in the year under review. However, there was a cash outflow for major projects that are in an advanced stage of completion in the 2012 business year. In the last stage of project execution or during the warranty period cash outflows for payments as well as for down payments to suppliers are often higher than cash inflows from progress payments received from customers. A positive effect on operating cash flow resulted from the fact that only € 8.2 million (previous year: € 32.9 million) was paid for income tax expenses.

Cash outflow from investing activities in the amount of € -2.9 million (previous year: € -4.3 million) is mainly attributable to investments related to the development of our IT systems.

In particular, cash flow from financing activities in the amount of € 9.7 million reflects the almost total repayment of restricted cash in connection with the new bank guarantee credit facility. The dividend distribution to our shareholders amounted to € 5.9 million. The high figure of cash flow from financing activities for the previous year of € 81.4 million was chiefly affected by an inflow of funds from a capital increase.

TOTAL ASSETS

Total assets in the amount of € 435.7 million primarily comprised of current assets, notably cash and cash equivalents, as in the previous year. Cash and cash equivalents made up 64.9% of total assets (previous year: 69.5%).

Non-current assets increased from € 15.3 million to € 17.5 million. In spite of this increase, the continued low volume of non-current assets reflects KHD's business model: Manufacturing has been almost completely outsourced to external manufacturers.

Within current assets, € 26.6 million (previous year: € 21.2 million) relate to gross amounts due from customers for contract work. As per the end of 2012, costs incurred plus proportionate profits recognized exceeded progress billings for several projects. The increase on the previous year in advance payments to suppliers is mainly linked to a large-scale project in Malaysia. Receivables from income taxes largely relate to refund claims for capital gains tax on profit distributions paid by subsidiaries.

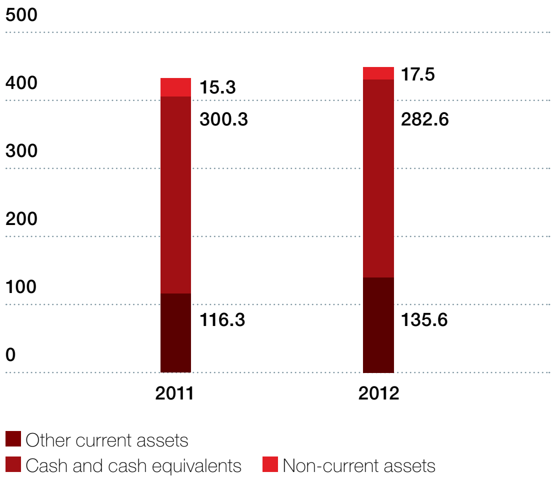
FINANCING

Equity remains almost unchanged at € 233.6 million (previous year: € 233.5 million) and therefore represents an equity ratio of 53.6% (previous year: 54.1%). Major changes within equity resulted from paying a dividend of €-5.9 million and from Group comprehensive income for the 2012 financial year of € 6.0 million.

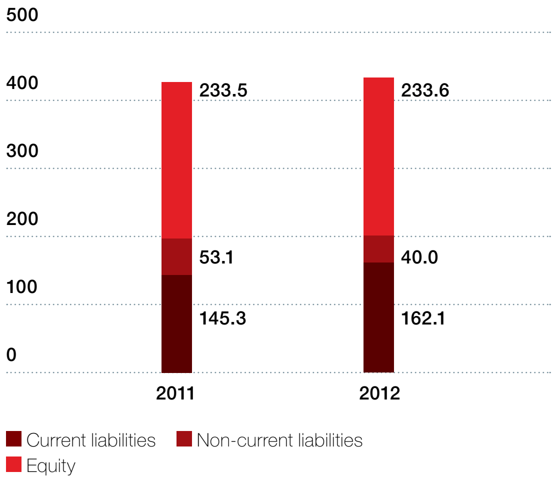
The 24.7% decrease in non-current liabilities to € 40.0 million (previous year: € 53.1 million) mainly resulted from the reduction of non-current provisions, which had been set-up in previous years to meet guarantee and warranty obligations from projects in the warranty phase.

The increase in current liabilities to € 162.1 million (previous year: € 145.3 million) was in particular due to the increase in commitments under construction contracts. As per end of 2012 progress billings for several projects, especially for the major projects acquired in 2012, exceeded costs incurred plus proportionate profits recognized.

Balance sheet structure – Assets
in € million



Balance sheet structure – Liabilities
in € million



GENERAL STATEMENT ON THE ECONOMIC SITUATION

In the 2012 financial year, the KHD Group could not reach all targets set in the previous year. However, the KHD Group established a strong starting position for the coming years by winning significant new projects. Our improved competitive position – also as a result of our collaboration with AVIC – is paying off. Despite the gradually improving prospects on the global cement markets, the execution of several projects in the period under review was delayed, due to the situation in the global financial markets which had an adverse impact on our customers' project financing. Because of continuing challenges, the results achieved in gross profit, gross profit margin and EBIT were not fully satisfactory. As of December 31, 2012, liquidity, equity as well as our equity ratio remain strong and virtually unchanged and represent a stable foundation for the coming financial years.

COMPENSATION REPORT

The compensation report presents the principles, structure, and amount of both Management Board and Supervisory Board remuneration in the KHD Group. The compensation report incorporates the recommendations made by the German Corporate Governance Code (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 2012

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

The Supervisory Board has extensively studied the legal requirements laid down by the German Act on the Appropriateness of Management Board Compensation (VorstAG) and the recommendations made by the GCGC. KHD already implemented the requirements of this new law in the 2010 financial year, with the exception of the points enumerated in the Declaration of Compliance. Total compensation of individual Management Board members is set by the Supervisory Board. The compensation system for the Management

Board has been decided by the Supervisory Board and, together with the level of the compensation, is subject to regular evaluation. The remuneration system set out below has been in force since April 1, 2010.

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

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

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

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

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

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

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

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

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

Commitments to Management Board Members in the Event of Termination of their Appointment
In the event that the appointment to the Management Board is revoked but the employment contract is not terminated with good cause, the contract of employment ends at the end of the appointment term contractually agreed. In case of revocation of appointment with good cause the notice period is three months for Mr. Salo and twelve months for Mr. Zhu.

Mr. Salo is entitled to a financial settlement payable by the Company based on the level of the fixed compensation which he would have received in a 24-month period (€ 750,000) following an early termination without good cause, minus the compensation actually paid out in the time between the early termination and the contractually agreed end of the contract of employment. By the same token, if the contract of employment expires, Mr. Salo is entitled to receive a sum in the amount of two years' fixed compensation. A severance payment claim does not exist if the appointment of the Management Board member is revoked with good cause that entitles the Company to terminate the employment contract with good cause within notice, or where the Management Board member submits his notice.

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

In the event of Mr. Salo's contract for employment being extended several times, it will end when he has reached the upper age limit of 65 years at the latest. The present value of termination payment that has been granted to Mr. Salo in the event of regular termination as a result of the upper age limit being reached amounted to € 446,864 as of December 31, 2012. As the termination payment would require payment at the latest on obtainment of the upper age limit, KHD has established a corresponding accrual by way of installment. The accrual for Mr. Salo amounted to € 95,757 as of December 31, 2012.

TOTAL COMPENSATION PAID TO MANAGEMENT BOARD MEMBERS

Overview of key data concerning the Management Board:

Name	Management Board member since	Management Board contract until	Contract of employment with KHD since
Jouni Olavi Salo	Dec. 11, 2008	Dec. 10, 2013	April 1, 2010
Yizhen Zhu	April 1, 2011	March 31, 2014	April 2, 2011

The total remuneration for members of the KHD Management Board amounted to € 1,091 thousand (previous year: € 1,278 thousand) in the 2012 financial year. The total compensation for each member of the Management Board is detailed in the following table, broken down according to the person and their fixed and variable remuneration components:

in €	Jouni Olavi Salo	Yizhen Zhu
Fixed compensation	375,000	160,000
Variable compensation	–	–
– for the 2012 financial year	281,906	54,367
– for the assessment period 2010–2012	119,456	–
Non-cash benefits	51,005	12,851
Other	36,028	–
Total	**863,395**	**227,218**

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

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

As has been illustrated in the explanation of the compensation system, the variable compensation of the individual Management Board members is only due once the financial statements for the 2012 financial year have been approved. In the financial year 2012, Mr. Salo received an advance payment of € 120,284 according to a provisional assessment of cumulative target achievement in the period from April 1, 2010, to December 31, 2011, on the basis of quantitative factors. Mr. Zhu received an advance payment of € 45,000 in the 2012 financial year for the period from April 1, 2011, to December 31, 2011.

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

COMPENSATION PAID TO SUPERVISORY BOARD MEMBERS

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

In the 2012 financial year, the roles of Chairperson and Deputy Chairperson in the Supervisory Board, as well as membership in committees, were factors taken into account when distributing the Supervisory Board compensation, in addition to length of service on the Supervisory Board.

The total compensation of each member of the Supervisory Board for the 2012 financial year, together with the advance payments made during the financial year, are listed in the following table together with the recipients:

in €	Fixed compensation	Advance payment
Eliza Suk Ching Yuen (Chairperson)[1]	51,340	16,231
Luc Antoine Baehni (Deputy Chairperson)[2]	40,453	29,197
Hubert Keusch[3]	40,453	16,266
Michael Busch[4]	10,888	–
Seppo Kivimaki[5]	10,888	–
Helmut Meyer[6]	10,888	–
Heinz Otto Geidt[7]	46,100	46,100
Gerhard Beinhauer[8]	29,973	29,973
Silke S. Stenger[9]	28,326	28,326
Summe	**269,309**	**166,093**

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

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

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

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

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

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

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

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

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

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

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

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

RISK AND OPPORTUNITIES REPORT

RISK MANAGEMENT

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

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

The KHD Group's risk management takes into consideration both how to best utilize opportunities as well as how to minimize the impact and the probability of encountering negative events. With effective and reliable risk management, KHD is able to identify and capitalize on business opportunities to the benefit of its shareholders, customers, and employees.

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

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

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

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

All material risks are recorded in risk registers. They document assessments of the probability of a risk occurring and the extent of potential damage that would be caused by each risk, as well as record the risk response measures planned or in place, in a clear and compact format. The potential impact is classified for each operating business unit on the basis of the local materiality calculated. In order to highlight the risk potential and to raise risk awareness, an assessment of the probability of a risk occurring and its potential impact must be given in the risk register, both with (net risks) and without (gross risks) considering the measures and controls for risk mitigation. Moreover, business viability risks must be identified and correspondingly recorded in the risk register for both the Group and the operating business units. The risk registers are updated quarterly, thereby providing decision-makers with an overview of the entire risk situation.

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

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

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

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

Risk Management for Financial Instruments

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

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

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

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

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

ACCOUNTING-RELATED INTERNAL CONTROL SYSTEM

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

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

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

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

KHD's subsidiaries are responsible for recording accounting transactions. The ICS measures focusing on proper and reliable 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 the KHD Group are the dual control principle and the segregation of duties; in this way, the possibility of fraudulent behavior is also reduced.

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

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

RISK AREAS

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

Risks from Underlying Economic Conditions

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

The KHD Group operates as a plant engineering company in many countries and regions, meaning that 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) as well as systematically developing our position in growth markets and in markets where we have had a low presence up to now. We counter the risk posed by the competition by analyzing our market environment and the situation of our competitors on an ongoing basis. Maintaining constant customer contact together with enhancing our account management and the resulting proximity to the market provides us with important information about the needs of our customers. The information gathered here enables us to develop and offer suitable products as well as to strengthen our competitive position.

Country Risks

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

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

Procurement Risks

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

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

Innovation Risks

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

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

Project Risks

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

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

Personnel Risks

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

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

Financial Covenants

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

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

Legal Risks

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

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

Tax Risks

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

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

IT Risks

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

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

Summary of KHD Group's Risk Position

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

OPPORTUNITIES

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

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

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

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

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

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

DISCLOSURES PURSUANT TO SECTION 315 PARAGRAPH 4 OF THE GERMAN COMMERCIAL CODE (HGB)

COMPOSITION OF SUBSCRIBED CAPITAL

The Company's subscribed capital (share capital) amounted to € 49,703,573 as of December 31, 2012, and is divided into 49,703,573 no-par-value ordinary shares. All shares are ordinary bearer shares and grant the same rights. The rights and obligations arising from the shares are derived from statutory regulations. The Company held 229,136 treasury shares as of December 31, 2012.

RESTRICTIONS AFFECTING VOTING RIGHTS OR THE TRANSFER OF SHARES

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

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

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

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

SHARES WITH SPECIAL RIGHTS GRANTING CONTROL AUTHORIZATIONS

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

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

There are no shares owned by employees as defined by Section 315 Paragraph 4 No. 5 of the German Commercial Code (HGB).

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

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

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

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

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

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

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

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

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

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

REPORT ON EVENTS AFTER THE REPORTING PERIOD

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

OUTLOOK

KHD kicked off 2013 with a significantly improved starting position thanks to its high order backlog. Due to tough competition in previous years however, the margin quality of some projects in our order backlog is not fully satisfactory. Our stronger international market presence and our growth-oriented strategy have considerably improved our prospects for acquiring new projects and will likely continue to have a positive effect in the future. Major potential growth drivers are:

- focused market activity in Russia, India, Latin America, Africa, and other growth regions important for the global cement market with the aim of winning in promising tenders for modernization and expansion projects as well as in tenders for new plants;
- the expansion of service business activities in all regions;
- the strategic partnership with AVIC;
- gaining a foothold in attractive and high-growth niches of the Chinese market, primarily due to stricter environmental requirements.

PROJECTED MARKET ENVIRONMENT

The majority of economic researchers continue to expect improving growth in both industrialized and emerging economies. The IMF projects growth in China at a pace of 8.2%, while India's gross domestic product is forecast to increase by 5.9% following a disappointing year in 2012. Increasing overall growth rates are also expected for Latin America, especially in light of improved development in Brazil. Experts believe that the Eurozone's growth rate will improve only slightly and remain negative at -0.2%.

The global cement market should achieve only moderate growth in 2013 and stronger growth in the mid-term. This will depend on the speed of the recovery in the developing and emerging economies. Both higher growth rates and infrastructure investments affect cement consumption. Infrastructure and real estate investments are expected to experience a continued decline in Europe. Exane BNP Paribas predicts cement consumption growth of 5% for China and Russia, 6% for Brazil, and 8% for India. Africa and Southeast Asia also remain growth regions, with similarly positive prospects.

The extent to which growth in cement consumption will drive investment among producers depends largely on capacity utilization. Exane BNP Paribas projects utilization ratios of less than 60% in 2013 for most European countries, several countries in Africa and Latin America. Russia's ratio will be between 60 – 70%, while India and Brazil should improve to 70 – 80%. China's utilization ratio will stay high in between 80 – 100%. This also represents improved opportunities for capacity expansions and modernization projects.

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

PROJECTED ECONOMIC TREND

Going into 2013 the main risks are the general uncertainty and sensitivity of the market. This can lead to further delays in project awards and execution or even to cancellations. In addition to continuing pressure on profitability due to fierce competition, technical and commercial risks related to project execution require our attention.

KHD utilizes its resources to target business opportunities in its traditionally strong markets and expects solid order intake for 2013. This would lead to a further increase of order backlog. We shall also focus our efforts on boosting our service business in the coming year.

The high order backlog should have a significantly positive effect on revenue in 2013. In 2013 more projects that were won under fierce competition and heavy margin pressure will be contributing to revenues and we therefore expect a reduction in gross profit margin. In addition to this no additional gross profit will be achieved for a contract portion of approximately € 60 million, which will be channeled through our strategic partner AVIC.

The increase in revenue as well as cost-improving measures should yield a slight improvement in EBIT margin for the current year. We aim to counter continued margin pressure caused by ever tougher competition in our industry by exploiting cost advantages available through the Chinese procurement center and by streamlining processes, practicing strict cost discipline, and expanding service activities.

In spite of persistent considerable uncertainty in KHD's relevant markets, revenue as well as EBIT should improve further in the 2014 financial year. This is due to our solid order backlog and additional cost optimization measures.

Due to the increased level of business, cash inflows from progress payments and further improvements in working capital management, we expect cash flow from operating activities to be positive.

No major change is expected in KHD's financial position or net assets. Our comfortable liquidity situation and high equity ratio afford us the flexibility we need to successfully overcome difficult market phases, to continuously develop our portfolio of products and services, and to make the most of opportunities for internal and external growth.

Cologne, Germany, March 18, 2013

The Management Board

(s) Jouni Salo (s) Yizhen Zhu

Group Financial Statements

CONSOLIDATED FINANCIAL STATEMENTS

GROUP INCOME STATEMENT

for the Financial Year 2012

in € thousand	Note	2012	2011
Revenue	4	213,546	234,577
Cost of sales		(169,723)	(182,120)
Gross profit		**43,823**	**52,457**
Other operating income	20	1,697	4,304
Sales expenses	21	(13,637)	(13,893)
General and administrative expenses	22	(18,500)	(18,424)
Other expenses	23	(6,954)	(7,286)
Restructuring income		–	459
Profit before interest and taxes (EBIT)		**6,429**	**17,617**
Finance income	24	4,778	6,305
Finance expenses	24	(2,414)	(3,240)
Net finance income	24	**2,364**	**3,065**
Profit before tax (EBT)		**8,793**	**20,682**
Income tax expense	25	(1,765)	(7,177)
Group net profit for the year		**7,028**	**13,505**
Of which attributable to:			
Parent company shareholders		6,923	13,456
Non-controlling interests		105	49
		7,028	**13,505**

EARNINGS PER SHARE

		2012	2011
Basic (undiluted) and diluted earnings per share (in €)	26	0.14	0.28

GROUP STATEMENT OF COMPREHENSIVE INCOME

for the Financial Year 2012

in € thousand	**2012**	**2011**
Group net profit for the year	7,028	13,505
Currency translation differences	(981)	(2,773)
Group comprehensive income	**6,047**	**10,732**
Of which attributable to:		
Parent company shareholders	5,942	10,683
Non-controlling interests	105	49
	6,047	**10,732**

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

GROUP BALANCE SHEET

as of December 31, 2012

ASSETS

in € thousand	Note	Dec. 31, 2012	Dec. 31, 2011
Non-current assets			
Property, plant and equipment	5	2,997	2,948
Goodwill	6	5,162	5,162
Other intangible assets	6	3,614	3,286
Deferred tax assets	8	5,691	3,930
Total non-current assets		**17,464**	**15,326**
Current assets			
Inventories	9	4,963	7,882
Gross amount due from customers for contract work	10	26,563	21,181
Trade and other receivables	7	65,000	67,748
Payments made in advance		28,845	13,792
Other financial assets	11	1,428	888
Income tax assets		8,788	4,782
Cash and cash equivalents	12	282,635	300,323
Total current assets		**418,222**	**416,596**
Total assets		**435,686**	**431,922**

EQUITY AND LIABILITIES

in € thousand	Note	Dec. 31, 2012	Dec. 31, 2011
Equity			
Subscribed capital		49,704	49,704
Capital reserves		59,841	59,841
Treasury shares		(221)	(221)
Currency translation differences recognized in equity		(3,210)	(2,229)
Retained earnings		126,553	125,556
Share of equity attributable to shareholders of the parent company		232,667	232,651
Non-controlling interests		944	881
Total equity	13	**233,611**	**233,532**
Non-current liabilities			
Other liabilities	16	7,901	11,142
Pension benefit obligations	14	19,505	19,960
Deferred tax liabilities	8	4,992	5,245
Provisions	15	7,571	16,720
Total non-current liabilities		**39,969**	**53,067**
Current liabilities			
Trade and other payables	16	70,516	71,880
Commitments under construction contracts	17	65,965	42,359
Income tax liabilities		1,073	3,560
Provisions	15	24,552	27,524
Total current liabilities		**162,106**	**145,323**
Total equity and liabilities		**435,686**	**431,922**

GROUP STATEMENT OF CASH FLOWS

for the Financial Year 2012

in € thousand	2012	2011
Cash flow from operating activities		
Group net profit for the year	7,028	13,505
Income tax expense recognized in the income statement	1,765	7,177
Net finance income recognized in the income statement	(2,364)	(3,065)
Earnings before interest and taxes (EBIT)	**6,429**	**17,617**
Amortization and depreciation of non-current assets	2,519	1,675
Book gain on disposal of fixed assets	(51)	(9)
Increase (–)/decrease in trade receivables and financial assets	574	(10,107)
Increase (–)/decrease in inventories and gross amount due from customers for contract work	(2,463)	952
Increase (–)/decrease in payments made in advance and other financial assets	(15,593)	9,298
Increase (+)/decrease in trade and other payables and in commitments under construction contracts	22,242	(44,337)
Increase (+)/decrease in pension benefit obligations	(455)	(428)
Increase (+)/decrease in provisions and non-current liabilities	(15,362)	(3,727)
Other non-cash-transactions	(1,003)	(3,892)
Dividends received	47	47
Income tax received	10	38
Income tax paid	(8,207)	(32,913)
Cash flow from operating activities	**(11,313)**	**(65,786)**
Cash flow from investing activities		
Cash outflow for intangible assets	(1,815)	(1,226)
Cash outflow for property, plant, and equipment	(1,175)	(1,476)
Cash inflow from the disposal of property, plant, and equipment	109	75
Cash outflow from addition of consolidated companies and other business units less cash received	–	(1,626)
Cash flow from investing activities	**(2,881)**	**(4,253)**

in € thousand	2012	2011
Cash flow from financing activities		
Cash inflow from issue of shares	–	74,627
Interest received	3,522	5,651
Payment for purchase of shares from non-controlling interests	(42)	(9)
Dividends paid to parent company shareholders	(5,937)	–
Change in restricted cash (collateral for bank guarantees)	12,189	1,087
Cash flow from financing activities	**9,732**	**81,356**
Change in unrestricted cash and cash equivalents	**(4,462)**	**11,317**
Opening balance of unrestricted cash and cash equivalents	287,681	279,332
Exchange rate effects	(1,037)	(2,968)
Closing balance of unrestricted cash and cash equivalents	**282,182**	**287,681**

in € thousand	Dec. 31, 2012	Dec. 31, 2011
Composition of unrestricted cash and cash equivalents		
Bank balances and cash	125,719	154,236
Short-term bank deposits and restricted cash	156,916	146,087
Total cash and cash equivalents	**282,635**	**300,323**
Restricted cash (collateral for bank guarantees)	(453)	(12,642)
Closing balance of unrestricted cash and cash equivalents	**282,182**	**287,681**

In the financial year under review, the Group statement of cash flows reports a decrease in unrestricted cash and cash equivalents of € 5,499 thousand over the previous year (€ 287,681 thousand) to € 282,182 thousand. Cash and cash equivalents decreased year-on-year by € 17,688 thousand, from € 300,323 thousand to € 282,635 thousand. This is primarily attributable to cash outflows from operating activities totaling € 11,313 thousand (previous year: € 65,786 thousand) and to dividend payments of € 5,937 thousand (previous year: € 0 thousand). On the other hand, the return of restricted cash serving as collateral for bank guarantees amounting to € 12,189 thousand (previous year: € 1,087 thousand) led to an increase in unrestricted cash and cash equivalents.

GROUP STATEMENT OF CHANGES IN EQUITY

for the Financial Year 2012

in € thousand	Subscribed capital	Capital reserves	Treasury shares
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)**
Group net profit for the year	–	–	–
Currency translation differences	–	–	–
Group comprehensive income	**–**	**–**	**–**
Other changes	–	–	–
Payment of dividends	–	–	–
Purchase of non-controlling interests	–	–	–
Dec. 31, 2012	**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
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**
–	6,923	6,923	105	**7,028**
(981)	–	(981)	–	**(981)**
(981)	**6,923**	**5,942**	**105**	**6,047**
–	11	11	–	**11**
–	(5.937)	(5.937)	–	**(5.937)**
–	–	–	(42)	**(42)**
(3,210)	**126,553**	**232,667**	**944**	**233,611**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the Financial Year 2012

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, 2012	Dec. 31, 2011
Assets		
Current assets	3	24
Cash and cash equivalents	109	5,061
Total assets	**112**	**5,085**
Equity and liabilities		
Current liabilities	7	2
Equity	105	5,083
Total equity and liabilities	**112**	**5,085**

in € thousand	Jan. 1 – Dec. 31, 2012	Jan. 1 – Dec. 31, 2011
Income	35	8,002
Expenses	(17)	(4,486)

The Group's subsidiaries and joint ventures are listed under Note 2 in the notes to the consolidated financial statements.

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. Expenses and income of foreign subsidiaries included in the consolidated group for the first time are translated using the average rate since the time of initial consolidation of these subsidiaries.

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

	Currency	Closing rate as of Dec. 31, 2012	Average rate Jan. 1 – Dec. 31, 2012
	1 Euro =		
Australia	AUD	1.2712	1.2445
India	INR	72.2231	69.0521
USA	USD	1.3183	1.2918
Malaysia*	MYR	4.0333	3.9609
Brasilia	BRL	2.6953	2.5288
Russia	RUB	40.1982	40.0461

* Average rate Apr. 1 to Dec. 31, 2012

Exchange rates used in the preceding financial year:

	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

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 and other Intangible Assets

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 the 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 the 2012 financial year.

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 the 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 except for those 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 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 the KHD Group, the group of financial assets measured at fair value through profit or loss comprises financial assets held for trading. To date, the 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 the 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 presented 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 when loans and receivables are derecognized or impaired, and through the amortization process.

Impairment of Financial Assets
Except for financial assets measured at fair value through profit or loss, financial assets are examined at each balance sheet date for objective indications of impairment (such as considerable financial difficulties of a debtor, a high probability of insolvency proceedings against a debtor, the disappearance 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 a financial 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 computed 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 trough 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 the 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 the KHD Group is not entitled to settle the financial liability after more than twelve months following the balance sheet 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 and 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 commitments under construction contracts, 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 incurred plus recognized contract profits) 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 commitments under construction contracts. Expected contract losses are recognized trough valuation allowance or loss order provisions. All identifiable risks are taken into account when determining such expected 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 discount rates based on market yields of 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 benefit 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 carry-forwards 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 a 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 determination of contract costs, the assumptions used while determining the recoverability of goodwill, the measurement of provisions, and the extent to which tax loss carry-forwards 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. The carrying amounts of the affected items can be found in the statements made in the notes to the consolidated financial statements.

APPLYING NEW OR REVISED "INTERNATIONAL FINANCIAL REPORTING STANDARDS"

In the reporting period, the Group applied all International Accounting Standards Board (IASB) standards and International Financial Reporting Interpretations Committee (IFRIC) interpretations required to be applied, provided that the standards and interpretations have already been adopted by the European Union (EU).

For the first time, the Group applied the following standards and interpretations:

- Amendments to IFRS 7: Enhanced disclosures about transfers of financial assets (applicable to annual periods beginning on or after July 1, 2011)

The application of the amended provision has no effect on the disclosures in the Group's notes to the consolidated financial statements.

The following standards or amendments and reviews of standards and interpretations were not required to be applied yet:

- IFRS 9 Financial Instruments: Classification and Measurement of Financial Assets (effective for annual periods beginning on or after January 1, 2015);
- Amendments to IFRS 9 and IFRS 7: Mandatory Effective Date and Transition Disclosures (effective for annual periods beginning on or after January 1, 2015);
- IFRS 10: Consolidated Financial Statements (effective for annual periods beginning on or after January 1, 2014 with early application permitted);
- IFRS 11: Joint Arrangements (effective for annual periods beginning on or after January 1, 2014 with early application permitted);
- IFRS 12: Disclosures of Interests in Other Entities (effective for annual periods beginning on or after 1 January 2014 with early application permitted);
- IAS 27 Separate Financial Statements (effective for annual periods beginning on or after January 1, 2014 with early application permitted);
- IAS 28 Investments in Associates and Joint Ventures (effective for annual periods beginning on or after January 1, 2014 with earlier application permitted);
- Amendments to IFRS 10, IFRS 12 and IAS 27 (2011): Investment Entities (effective for annual periods beginning on or after January 1, 2014);
- IFRS 13: Fair Value Measurement (effective for annual periods beginning on or after January 1, 2013);
- Amendment to IAS 1: Presentation of Items of Other Comprehensive Income (effective for annual periods beginning on or after July 1, 2012);
- Amendment to IAS 12: Income Taxes – Recovery of Underlying Assets (effective for annual periods beginning on or after January 1, 2013);
- Amendment to IAS 19: Employee Benefits (effective for annual periods beginning on or after January 1, 2013);
- Amendment to IAS 32: Financial Instruments – Presentation – Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after January 1, 2014);
- Amendment to IFRS 7: Financial Instruments – Disclosures – Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after January 1, 2013);
- Annual Improvements (May 2012) (effective for annual periods beginning on or after first January 1, 2013);

- Amendments to IFRS 10, IFRS 11 and IFRS 12: Transition guidance
  (effective for annual periods beginning on or after January 1, 2013);
- Amendment to IFRS1 - Severe Hyperinflation
  (effective for annual periods beginning on or after January 1, 2013);
- Amendment to IFRS 1 - Removal of Fixed Dates for First-time Adopters of IFRS
  (effective for annual periods beginning on or after January 1, 2013);
- Amendment to IFRS 1 - Government Loans
  (effective for annual periods beginning on or after January 1, 2013);
- IFRIC 20: Stripping Costs in the Production Phase of a Surface Mine
  (effective for annual periods beginning on or after January 1, 2013).

Among other things, the amendment to IAS 19 has done away with the corridor method for the recognition of actuarial gains and losses. The new standard stipulates that all actuarial gains and losses must be directly recognized in other comprehensive income in the year in which they occur. The amendment to IAS 19 shall apply retroactively. Starting at the mandatory application date, KHD's consolidated equity as of December 31, 2012 will be affected by the described amendments to IAS 19 in the amount of € 6.398 thousand.

KHD is currently assessing the extent to which applying the additional new standards and interpretations will affect the Group's net assets, financial position, and result of operations. Additional effects are not expected.

02 SUBSIDIARIES AND JOINT VENTURES OF KHD HUMBOLDT WEDAG INTERNATIONAL AG AS OF DECEMBER 31, 2012

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	89.57	I	€	3,600,000
EKOF Flotation GmbH	Bochum, Germany	100.00	I	€	51,129
Humboldt Wedag Australia Pty Ltd.	Braeside, 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
Humboldt Wedag Malaysia Sdn. Bhd.	Kuala Lumpur, Malaysia	100.00	I	MYR	500,000
Humboldt Wedag Do Brasil Servicos Technicos Ltda.	Belo Horizonte, Brazil	100.00	I	BRL	200,000
Joint Ventures					
KHD Engineering Holding GmbH	Vienna, Austria	50.00	I	€	180,000

D = directly owned
I = indirectly owned

As of December 31, 2012, the scope of consolidation included five domestic (December 31, 2011: five) and eight foreign (December 31, 2011: six) subsidiaries in addition to KHD.

One company was included in the consolidated financial statements as a joint venture on a proportional basis. One subsidiary was not included in the scope of consolidation since its impact on the Group's net assets, financial position, and result of operations is not significant.

03 CHANGES TO THE SCOPE OF CONSOLIDATION

In the first half of 2012, KHD HW acquired CRYSTAL SERIES SDN. BHD. (Crystal Series), based in Kuala Lumpur, Malaysia. Crystal Series did not have business operations or assets. Crystal Series was renamed Humboldt Wedag Malaysia Sdn. Bhd. (HW Malaysia), based in Kuala Lumpur. After payment of the authorized capital as well as carrying out a capital increase the subscribed capital as at the balance sheet date amounts to MYR 500,000. In the second half of 2012, HWUS founded Humboldt Wedag Do Brasil Servicos Technicos Ltda. (HW Do Brasil), based in Belo Horizonte, Brazil. The Brazilian company's subscribed capital amounts to BRL 200,000. Through the two companies newly added to the scope of consolidation the Group intends to further expand its activities in Malaysia and Brazil.

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 2012 and 2011 financial years:

in € million	**2012**	**2011**
Order intake	411	225
Order backlog (Dec. 31)	491	294
Revenue	214	235
Cost of sales	170	182
Gross profit	44	53
Expenses/other income (net)	(37)	(35)
Earnings before interest and taxes (EBIT)	7	18
Net finance income	2	3
Profit before tax	9	21
Changes in unrestricted cash and cash equivalents	(4)	11
Total assets (Dec. 31)	**436**	**432**
Liquidity (Dec. 31)	283	300
Liabilities (Dec. 31)	202	198

Geographical allocation of project data

	Revenue		Non-current assets	
in € thousand	**2012**	**2011**	**2012**	**2011**
Germany	7,506	6,273	7,457	6,093
Russia	31,116	54,501	3,058	4,039
Rest of Europe	5,630	5,439	–	–
North America	12,618	9,910	86	73
South America	19,940	13,569	1	–
Middle East	21,870	28,902	–	–
India	46,439	81,732	909	1,189
China	9,968	3,379	36	2
Rest of Asia	35,238	19,210	3	–
Africa	15,245	4,655	–	–
Other	7,976	7,007	–	–
	213,546	**234,577**	**11,773**	**11,396**

	Order intake		Order backlog	
in € thousand	**2012**	**2011**	**2012**	**2011**
Germany	3,253	9,334	1,818	6,072
Russia	80,463	19,158	86,361	37,014
Rest of Europe	40,036	5,101	36,709	2,301
North America	25,933	10,970	16,323	3,007
South America	7,743	20,650	5,842	18,039
Middle East	13,521	27,813	19,960	28,309
India	90,504	24,555	120,089	76,024
China	6,401	8,091	6,216	9,783
Rest of Asia	126,268	2,357	104,236	13,206
Africa	14,343	10,533	11,925	12,828
Other	2,421	86,175	81,555	87,106
	410,886	**224,737**	**491,034**	**293,689**

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

The order backlog amounted to € 491.0 million as of December 31, 2012, surpassing the figure for the previous year (€ 293.7 million) by 67.2%. The order intake rose significantly compared to the previous year, with an increase of € 186.2 million from € 224.7 million to € 410.9 million. This includes an order with a volume of about € 100.0 million, approximately 60% of which has been passed on to the strategic partner AVIC.

The item ‘Other’ in order intake and order backlog mostly comprises of the contracts 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 € 214 million (previous year: € 235 million), around € 27 million was attributable to a single customer, with which the Group generated at least 10% of its revenue. In the previous financial year, the Group generated at least 10% of its revenue with two individual customers accounting for revenue of € 60 million and € 37 million, respectively.

05 PROPERTY, PLANT, AND EQUIPMENT

in € thousand	Leasehold improvements	Property, plant, and equipment	Total
Cost			
Dec. 31, 2010	**465**	**8,296**	**8,761**
Additions	–	1,539	1,539
Addtions due to changes in consolidated group	–	7	7
Disposals	(185)	(786)	(971)
Foreign currency translation	–	(82)	(82)
Dec. 31, 2011	**280**	**8,974**	**9,254**
Additions	214	961	1,175
Disposals	–	(1,280)	(1,280)
Foreign currency translation	(2)	(34)	(36)
Dec. 31, 2012	**492**	**8,621**	**9,113**
Accumulated depreciation			
Dec. 31, 2010	**63**	**5,653**	**5,716**
Additions	35	917	952
Disposals	–	(362)	(362)
Dec. 31, 2011	**98**	**6,208**	**6,306**
Additions	45	987	1,032
Disposals	–	(1,222)	(1,222)
Dec. 31, 2012	**143**	**5,973**	**6,116**
Carrying amount			
Dec. 31, 2011	**182**	**2,766**	**2,948**
Dec. 31, 2012	**349**	**2,648**	**2,997**

The additions to property, plant, and equipment primarily relate to investments in IT hardware as well as HW's technical center at its Cologne location.

06 GOODWILL AND OTHER INTANGIBLE ASSETS

in € thousand	Goodwill	Licenses and other intangible assets	Total
Cost			
Dec. 31, 2010	**2,127**	**3,190**	**5,317**
Additions due to changes in consolidated group	3,035	1,342	4,377
Additions	–	1,754	1,754
Dec. 31, 2011	**5,162**	**6,286**	**11,448**
Additions	–	1,815	1,815
Disposals	–	(2)	(2)
Dec. 31, 2012	**5,162**	**8,099**	**13,261**
Accumulated amortisation			
Dec. 31, 2010	**–**	**2,277**	**2,277**
Additions	–	723	723
Dec. 31, 2011	**–**	**3,000**	**3,000**
Additions	–	1,487	1,487
Disposals	–	(2)	(2)
Dec. 31, 2012	**–**	**4,485**	**4,485**
Carrying amount			
Dec. 31, 2011	**5,162**	**3,286**	**8,448**
Dec. 31, 2012	**5,162**	**3,614**	**8,776**

The additions to licenses and other intangible assets are largely investments in software. This includes € 1,010 thousand for an SAP project.

GOODWILL

The goodwill reported as of December 31, 2012, arises from acquisitions and was allocated to the corresponding cash generating units.

Goodwill is subjected to at least one 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 2015 to 2016 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 12.47% before tax (previous year: 11.02%) and 13.84% (previous year: 12.79%), while taking various increases in country risks into consideration. 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 – in case of a 10% reduction in the estimated cash flows – would not have resulted in an impairment loss. A 20% increase of the capitalization rate would lead to an impairment loss of € 432 thousand (previous year: € 0 thousand).

07 RECEIVABLES AND FINANCIAL ASSETS

in € thousand	Dec. 31, 2012	Dec. 31, 2011
Current financial assets		
Trade receivables	66,460	62,019
Less valuation allowances for impairment of receivables	(7,043)	(6,876)
Trade receivables – net	59,417	55,143
Intercompany receivables	–	–
Other financial assets	1,428	888
Financial receivables	2,966	6,880
Current financial assets	**63,811**	**62,911**
Other receivables	2,617	5,725
Current financial assets and other receivables	**66,428**	**68,636**
Fair value of trade and other receivables		
Trade receivables – net	59,417	55,143
Other financial assets	1,428	888
Other receivables	5,583	12,605
Total fair value of trade and other receivables	**66,428**	**68,636**

Trade receivables saw an increase of € 4,441 thousand, from € 62,019 thousand to € 66,460 thousand due to a high volume of invoices raised in the last months. Valuation allowances primarily relate to receivables from customers located in North Africa, the Middle East, and India.

Other receivables in the amount of € 2,617 (previous year: € 5,725 thousand) arise from reimbursement claims for value added tax (VAT).

For trade receivables in the amount of € 6,565 thousand (previous year: € 9,944 thousand), which were overdue more than 61 days, 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, 2012	Dec. 31, 2011
61 to 90 days	285	4,926
91 to 180 days	1,880	1,017
181 to 365 days	2,025	1,469
Over 365 days	2,375	2,532
Total	**6,565**	**9,944**

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

Movement in valuation allowances on trade receivables

in € thousand	2012	2011
Valuation allowances as of Jan. 1	6,876	2,567
Addition	2,297	5,637
Utilization	(510)	(508)
Currency translation differences	(141)	(159)
Reversal	(1,479)	(661)
Valuation allowances as of Dec. 31	**7,043**	**6,876**

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 the KHD Group. As in the previous year, the tax rate applied here is 32.45%.

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

Total Group tax loss carry-forwards amounted to € 57.5 million (previous year: € 53.9 million) for corporate income tax. Loss carry-forwards for trade tax amount to € 66.7 million (previous year: € 61.8 million). Of these amounts, loss carry-forwards in the amount of € 11.9 million (previous year: € 4.6 million) for corporate income tax and € 7.1 million (previous year: € 4.0 million) for trade tax were considered when recognizing deferred tax assets. No deferred tax assets were recognized on tax loss carry-forwards of € 45.6 million (previous year: € 49.3 million) for corporate income tax and € 59.6 million (previous year: € 57.8 million) for trade tax. Of the total amount of tax loss carry-forwards (before external tax audit), unused tax loss carry-forwards totaling € 5,360 thousand (previous year: € 6,046 thousand) for foreign income taxes will lapse between 2029 and 2031.

For temporary differences amounting to € 146.5 million (previous year: € 152.1 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, 2012	Dec. 31, 2011
Deferred tax assets		
Provisions	4,693	3,478
Tax loss carry-forwards	4,250	1,481
Offset with deferred tax liabilities	(3,252)	(1,029)
	5,691	**3,930**
Deferred tax liabilities		
Construction contracts/PoC method	(8,244)	(6,274)
Offset with deferred tax liabilities	3,252	1,029
	(4,992)	**(5,245)**

09 INVENTORIES

in € thousand	Dec. 31, 2012	Dec. 31, 2011
Raw materials, consumables, and supplies	6,545	8,761
Work in progress	391	2,384
Write-downs to net realizable value	(1,973)	(3,263)
	4,963	**7,882**

In the financial year, inventories in the amount of € 5,092 thousand (previous year: € 3,545 thousand) were expensed as part of cost of sales. Write-downs to net realizable value amounted to € 1,973 thousand (previous year: € 3,263 thousand) as of December 31, 2012. These write-downs relate to raw materials, consumables, and supplies, the carrying amount of which is € 3,833 thousand (previous year: € 3,564 thousand).

10 CONSTRUCTION CONTRACTS

in € thousand	Dec. 31, 2012	Dec. 31, 2011
Cost incurred to date for construction contracts	246,311	246,190
Proportionate profits under these contracts recognized to date	40,405	40,662
Total costs incurred and profits recognized	286,716	286,852
Less recognized contract losses	(967)	(1,021)
Less progress billings	(317,465)	(300,946)
Balance of construction contracts account	**(31,716)**	**(15,115)**
This amount is comprised as follows:		
Gross amount due from customers for contract work	26,563	21,181
Gross amount due to customers for contract work	(58,279)	(36,296)
	(31,716)	**(15,115)**
Gross amount due to customers for contract work	(58,279)	(36,296)
Advances received under construction contracts (before related work is performed)	(7,686)	(6,063)
Commitments under construction contracts	**(65,965)**	**(42,359)**

Of the revenue recognized in the 2012 financial year in the amount of € 213,546 thousand (previous year: € 234,577 thousand), € 199,708 thousand (previous year: € 219,856 thousand) is attributable to construction contracts for which revenue was recognized on the basis of stage of completion.

11 OTHER FINANCIAL ASSETS

Only securities are recognized under other financial assets, and these were valued at € 1,428 thousand (previous year: € 888 thousand). This change is the result of a corresponding increase in value of the shares held, due to the improvement in the stock market price in the 2012 financial year.

12 CASH AND CASH EQUIVALENTS

The Group reports cash and cash equivalents in the amount of € 282,635 thousand (previous year: € 300,323 thousand). Of this amount, € 453 thousand (previous year: € 12,642 thousand) is pledged as collateral. In the previous financial year, this cash collateral mainly related to collateral elated to the € 150 million bank guarantee credit facility that was available to all operating KHD Group companies. Through the replacement of the old bank guarantee credit facility with the new bank guarantee credit facility agreed on March 31, 2012, cash collateral was reduced in an amount of € 12,189 thousand as part of the new conditions.

in € thousand	Dec, 31, 2012	Dec, 31, 2011
Bank balances and cash on hand	125,719	154,236
Short-term bank deposits	156,463	133,445
Restricted cash (collateral for guarantees)	453	12,642
	282,635	**300,323**

13 EQUITY

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

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

The Company as in the previous year 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 any reconciliation of residual amounts that may be required in the context of capital increases. They are recognized in the balance sheet at their acquisition cost of € 0.965 per share. The share's stock market price was € 4.69 as of December 31, 2012.

The non-controlling interests in the amount of 10.43% (previous year: 10.92%) relate solely to the minority shareholders of KIS.

14 PENSION BENEFIT OBLIGATIONS

The pension scheme granted to employees in the Group relates exclusively to German KHD companies. The 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 € 1,049 thousand (previous year: € 1,065 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 2012 financial year. 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, 2012	Dec. 31, 2011	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2008
Discount rate	3.00	5.00	4.95	5.30	6.00
Pension trend	2.00	2.00	2.00	2.00	1.50
Employee turnover rate	–	–	–	–	–

in € thousand	2012	2011	2010	2009	2008
Defined benefit obligation	25,903	21,749	22,272	21,656	21,374
Experience adjustments	14	15	(245)	(197)	(81)

in € thousand	Dec. 31, 2012	Dec. 31, 2011
Defined benefit obligation (unfunded)	25,903	21,749
./. Unrecognized actuarial losses	(6,398)	(1,789)
Amount carried in the balance sheet	**19,505**	**19,960**

in € thousand	Dec. 31, 2012	Dec. 31, 2011
Defined benefit obligation on Jan. 1	21,749	22,272
Interest cost	1,049	1,065
Benefits actually paid (total)	(1,517)	(1,499)
Gains due to experience adjustments	14	15
Actuarial (gains)/losses due to change in actuarial assumptions	4,608	(104)
Defined benefit obligation on Dec. 31	**25,903**	**21,749**

Future benefits

Prospective pension payments

in € thousand	
in 2013	1,550
in 2014	1,591
in 2015	1,571
in 2016	1,541
in 2017	1,501
2018 to 2022	6,980

15 PROVISIONS

in € thousand	Warranty	Tax and litigation risks	Provisions for loss orders	Total
Provisions as of Jan. 1, 2012	40,861	2,018	1,365	44,244
Additions	8,706	37	–	8,743
Release	(13,201)	(367)	–	(13,568)
Interest accrual	781	–	–	781
Currency translation effects	(446)	(65)	(47)	(558)
Utilization / reclassification	(7,044)	(288)	(187)	(7,519)
Provisions as of Dec. 31, 2012	**29,657**	**1,335**	**1,131**	**32,123**

in € thousand	Dec. 31, 2012	Dec. 31, 2011
Non-current (warranty)	7,571	16,720
Current	24,552	27,524
	32,123	**44,244**

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 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, 2012	Dec. 31, 2011
Current financial liabilities		
Trade payables	62,588	64,875
Other current liabilities	7,805	6,856
Current financial liabilities	**70,393**	**71,731**
Other liabilities		
Tax and social security	123	149
Income tax liabilities	1,073	3,560
Other liabilities	**1,196**	**3,709**
Current liabilities	**71,589**	**75,440**
Other non-current liabilities	**7,901**	**11,142**

Other non-current liabilities include commitments due to warranty recognized in the amount of € 7,901 thousand (previous year: € 11,142 thousand).

Trade payables recognized as of the balance sheet date are subject to the usual retentions of title.

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 accordance with IAS 11. These commitments represent the net liability of the amounts explained in Note 10. Furthermore, this item includes advances paid by customers upon acceptance of the contract before the related work was performed by the KHD Group, recognized in accordance with IAS 11.

18 PERSONNEL EXPENSES

in € thousand	2012	2011
Wages and salaries	38,198	36,200
Social security contributions and costs, including pension costs	5,827	5,200
	44,025	**41,400**

Personnel expenses increased year-on-year by € 2,625 thousand from € 41,400 thousand to € 44,025 thousand.

	As of Mar. 31, 2012	As of Jun. 30, 2012	As of Sept. 30, 2012	As of Dec. 31, 2012
Salaried employees	710	707	705	718
Industrial employees	66	63	65	65
Total	**776**	**770**	**770**	**783**

As of December 31, 2012, the number of employees was 783 (previous year: 765). In the year under review, the average number of employees was 774, of whom 65 were industrial employees (previous year: 761 employees, of whom 61 industrial).

Personnel expenses include employer contributions to statutory pension insurance in Germany in the amount of € 2,061 thousand (previous year: € 1,813 thousand) and expenses for contractually defined contribution plans of € 378 thousand (previous year: € 404 thousand).

19 TOTAL REMUNERATION OF CURRENT AND FORMER MEMBERS OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD (KEY MANAGEMENT PERSONNEL IN ACCORDANCE WITH IAS 24)

The total remuneration for key management personnel amounted to € 1,360 thousand in the 2012 financial year (previous year: € 1,569 thousand). The total remuneration for members of the KHD Management Board amounted to € 1,091 thousand (previous year: € 1,278 thousand) in the 2012 financial year.

Of the total remuneration, € 599 thousand (previous year: € 720 thousand) is attributable to current benefits, € 492 thousand (previous year: € 276 thousand) to other long-term incentives, and € 0 thousand (previous year: € 282 thousand) to payments due after termination of the appointment as Management Board member.

The total remuneration granted to members of the Supervisory Board for performing their duties amounted to € 269 thousand in the 2012 financial year (previous year: € 291 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 aspects 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 2012, members of the Supervisory Board received € 166 thousand as an advance (previous year: € 203 thousand) on remuneration that is payable after the end of the financial year pursuant to the articles of association.

20 OTHER OPERATING INCOME

in € thousand	2012	2011
Exchange gains	431	938
Income from cancelled contracts	–	92
Income from successive company acquisition	–	2,427
Other income	1,266	847
	1,697	**4,304**

In the previous financial year, other operating income included income from a step acquisition (€ 2,427 thousand), due to revaluation of shares at fair value as of the acquisition date. Other income mainly comprises income from services provided to third parties in the amount of € 807 thousand (previous year: € 656 thousand).

21 SALES EXPENSES

Sales expenses amounting to € 13,637 thousand are at the level realized in the previous year (€ 13,893 thousand). They included costs for tendering amounting to € 6,606 thousand in the financial year (previous year: € 7,747 thousand). The item also includes expenses for account management and marketing activities.

22 GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses have only slightly increased, by 0.4%, compared to the previous year. Total expenses in the financial year amounted to € 18,500 thousand, compared to € 18,424 thousand in the previous financial year. Aside from the costs of general administration, 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	2012	2011
Research and development	3,625	3,652
Exchange rate losses	1,047	316
Amortization of intagible assets	757	361
Miscellaneous expenses	1,525	2,957
	6,954	**7,286**

Other expenses decreased year-on-year by € 332 thousand, from € 7,286 thousand to € 6,954 thousand. Research and development costs amounting to € 3,625 thousand (previous year: € 3,652 thousand) accounted for a significant portion of other expenses. Amortization of intangible assets has increased by € 396 thousand to € 757 thousand (previous year: € 361 thousand).

Other expenses also contain expenses for consultancy services, fees, and insurance premiums.

24 NET FINANCE INCOME

Net finance income is composed as follows:

in € thousand	2012	2011
Interest income	3,522	5,651
Total interest income	**3,522**	**5,651**
Gains on securities	723	–
Dividend income	47	47
Interest related to non current assets	440	
Income from foreign exchange forward contracts	46	607
Finance income	**4,778**	**6,305**
Other finance expenses	(200)	(90)
Interest related to pension benefit obligations, provisions, and other non-current liabilities	(2,214)	(1,767)
Losses on securities	–	(833)
Interest expenses	–	(550)
Finance expenses	**(2,414)**	**(3,240)**
Net finance income	**2,364**	**3,065**

Interest income primarily contains interest from bank deposits and fixed term deposits. The decrease of € 2,129 thousand in interest income, from € 5,651 thousand to € 3,522 thousand, primarily relates to fixed term deposits and in particular reflects a decreased market interest rate compared to the previous year. The interest income from fixed term deposits amounted to € 3,099 thousand in the financial year (previous year: € 4,828 thousand). As in the previous year, interest income is attributable exclusively to financial assets measured at amortized cost. Due to the improvement in the market environment in the financial year under review, the fair value measurement of shares held has resulted in a gain of € 723 thousand (previous year: loss of € 833 thousand).

Finance expenses include interest on pension benefit obligations in the amount of € 1,049 thousand (previous year: € 1,065 thousand). In the financial year under review, interest expenses of € 1,165 thousand (previous year: € 702 thousand) are attributable to interest on provisions and other non-current liabilities. Other finance expenses in the financial year under review comprise interest related to tax payments for previous years.

25 INCOME TAX

The income tax expense of € 1,765 thousand incurred in the 2012 financial year (previous year: € 7,177 thousand) is composed as follows:

in € thousand	2012	2011
Current tax expense	(3,779)	(12,067)
Deferred tax income	2,014	4,890
Tax expense for the year	**(1,765)**	**(7,177)**

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

in € thousand	2012	2011
Earnings before income tax	8,793	20,682
Average tax rate (in %)	32.45	32.45
Expected tax expense	(2,853)	(6,711)
Effects of tax-free income	–	647
Effects of non-tax-deductible expenses	(188)	(862)
Effects of unutilized not as deferred tax assets recognized tax losses and offset possibilities	145	456
Effects of originally unrecognized unutilized tax losses and offset possibilities, which are now recognized as deferred tax assets and effects arising from changes to previous years‘ tax loss carry-forwards	2,327	54
Effects of subsidiaries’ divergent tax rates	(14)	(48)
Adjustments for previous years’ taxes recognized in the current period	(1,094)	93
Other non-tax-effective additions and deductions	(88)	(806)
Tax expense for the year	**(1,765)**	**(7,177)**

Tax rates that differ from the average Group tax rate primarily relate to the USA and Russia.

The effective Group taxation rate is 20.07% (previous year: 34.70%).

26 EARNINGS AND DIVIDEND PER SHARE

EARNINGS PER SHARE

Since February 17, 2011, the number of ordinary shares issued amounts to 49,474,437 as a result of the capital increase.

	2012	2011
Group net profit attributable to shareholders (in € thousand)	6,923	13,456
Weighted average number of shares outstanding	49,474,437	47,358,307
Basic (undiluted) and diluted earnings per share (in €)	0.14	0.28

DIVIDEND PER SHARE

According the articles of association, KHD's Annual General Meeting of shareholders passes a resolution concerning the appropriation of net retained profit.

27 TOTAL FEES CHARGED BY THE AUDITORS FOR THE FINANCIAL YEAR

The total fees charged 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	**2012**	**2011**
Financial statements audit services	486	540
– of which Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft	(391)	(459)
Tax advisory services	8	7
– of which Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft	(8)	(7)
Other services	38	32
– of which Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft	(38)	(32)
	532	**579**
– of which Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft	(437)	(498)

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, 2012**	**Dec. 31, 2011**
Within one year	2,050	2,454
Between two and five years	4,789	6,978
After five years	981	1,433
Total lease and rental commitments	**7,820**	**10,865**

Expenses for leased and rented office space and office equipment recognized in the Group income statement amount to € 2,635 thousand in the year under review (previous year: € 2,561 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.

KHD Group's total purchase commitments amount to € 34.7 million (previous year: € 89.5 million).

CONTINGENT ASSETS

As part of the sale of HW's workshop in Cologne-Kalk, Germany, to an Indian buyer as at October 7, 2009, a contingent purchase consideration of a maximum of € 2,850 thousand was agreed beyond the purchase consideration paid. The contingent purchase consideration depends on the occurrence of specific utilization-related criteria. Based on current measurement this contingent component of the maximum possible purchase consideration – that will become due after four years after the transaction date – was not recognized in the Group balance sheet as of December 31, 2012.

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 the KHD Group is to ensure that the Group'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, 2012	Dec. 31, 2011
Equity	233,611	233,532
Total assets	435,686	431,922
Equity ratio (in %)	53.62	54.07

At 53.6%, the equity ratio is on par with the level of the previous year (54.1%).

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 € 16,854 thousand (previous year: € 5,170 thousand). A 10% variance in exchange rates would change Group earnings by € 1,138 thousand (previous year: € 354 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 € 4,652 thousand (previous year: € 1,671 thousand), the Russian ruble (RUB) in the amount of € 1,203 thousand (previous year: € 540 thousand), the Indian rupee (INR) in the amount of € 17,090 thousand (previous year: € 18,234 thousand), and other currencies in the amount of € 495 thousand (previous year: € 2,381 thousand). A 10% change in foreign currency exchange rates would change Group equity by € 2,344 thousand (previous year: € 2,283 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 supply and price 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 the KHD Group, receivables from export contracts are to a large extent secured against default risks by confirmed and unconfirmed letters of credit, as well as through letters of comfort, guarantees, and cover notes, which also include export credit agencies (e.g. Hermes).

Securities for receivables amounted to € 26,286 thousand in the financial year under review (previous year: € 18,050 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 valuation allowances made for outstanding receivables that have become doubtful.

LIQUIDITY RISK

The 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 the 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. A bank guarantee facility in the amount of € 130 million (previous year: € 150 million), which allows individual KHD Group companies to provide bank guarantees on favorable terms for their customers worldwide, is in place with a consortium of banks.

Within this guarantee facility the Group has provided bank guarantees within the scope of its normal business activities in the amount of € 99.4 million (previous year: € 96.6 million). In addition, the Group has provided bank guarantees within the scope of its normal business activities in the amount of € 12.8 million (previous year: € 8.9 million).

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, 2012 would have been € 955 thousand (previous year: € 1,027 thousand) higher or lower, respectively.

NET EARNINGS PER CATEGORY

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

2012	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	–	(2,297)	–	–	(2,297)
Interest income/expense	–	3,522	–	–	3,522
Other net earnings	825	914	–	–	1,739
Net earnings	**825**	**2,139**	**–**	**–**	**2,964**

2011	Financial assets		Financial liabilities		Total
in T€	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)**

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, 2012		Financial assets	
in € thousand	Fair value through profit or loss	Amortized cost	Not in IAS 39 application area
Trade receivables	–	59,417	–
Other financial assets	1,428	–	–
Derivatives	376	–	–
Other receivables	–	2,590	2,617
Cash and cash equivalents	–	282,635	–
Total financial assets	**1,804**	**344,642**	**2,617**
Other liabilities	–	–	–
Trade payables	–	–	–
Total financial liabilities	**–**	**–**	**–**

Dec. 31, 2011		Financial assets	
in T€	Fair value through profit or loss	Amortized cost	Not in IAS 39 application area
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	**–**	**–**	**–**

Financial liabilities			
Amortized cost	Not in IAS 39 application area	Carrying amount	Fair value
–	–	59,417	–
–	–	1,428	1,428
–	–	376	376
–	–	5,207	–
–	–	282,635	–
–	**–**	**349,063**	**1,804**
7,805	7,901	15,706	–
62,588	–	62,588	–
70,393	**7,901**	**78,294**	**–**

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**	**–**

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 € 1,428 thousand (previous year: € 888 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 € 13,787 thousand (previous year: € 16,670 thousand). After deducting securities (letters of credit and Hermes coverage), the Group values the resulting risk at € 13,231 thousand (previous year: € 7,738 thousand). A 10% variance in the risk amount would affect earnings by € 894 thousand (previous year: € 529 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 € 293 thousand (previous year: € 28 thousand). A 10% change in the exchange rate hedged by the derivative would affect earnings by € 982 thousand (previous year: € 51 thousand). The total amount of underlying transactions allocated to foreign exchange forward contracts amounts to € 14.5 million (previous year: € 0.7 million).

30 LITIGATION

ACTION BROUGHT BY SHAREHOLDERS ("RETURN OF CONTRIBUTIONS"):

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

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

One of the complaints had been withdrawn.

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

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. This claim sought the reimbursement of costs related to contract cancellation, after Dalmia canceled several contacts with HW but failed to pay the stipulated cancellation costs.

For the same reason, HWIN brought an arbitration claim against Dalmia at the arbitration court in New Delhi on August 21, 2010. The value of this claim amounted to INR 268.1 million. In addition, HWIN filed a lawsuit amounting to INR 90 million against Dalmia for repayment of an amount drawn by Dalmia from a bank guarantee.

HW, HWIN, and Dalmia concluded an agreement on May 6, 2011, to settle the pending disputes. Among other things, the agreement reached by the parties included terms that redefined the scope of supply previously included in each of the canceled contracts.

In the 2012 financial year, the parties then reached a settlement ending all of the legal disputes pending between them. HW and HWIN subsequently withdrew their respective arbitration claims on July 3, 2012.

The International Court of Arbitration (ICC) has refunded arbitration fees to HW and HWIN in the amounts of USD 110,000 and USD 130,500, respectively.

MUSTAGHEEM AG AGAINST HW

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

With its decision on March 15, 2012, the Court of Arbitration comprehensively rejected the lawsuit brought by Mustagheem AG, and ordered Mustagheem AG to bear HW's costs, amounting to approximately € 120 thousand. Mustagheem AG has reimbursed these costs to HW.

31 RELATED PARTY DISCLOSURES

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

The cooperation agreement with AVIC, which was already underlined in the previous year by AVIC taking a 20% stake in KHD, significantly improved the strategic positioning of KHD and led to the first joint contracts in 2012.

In 2012, the cooperation with AVIC yielded joint projects Malaysia, Venezuela and in Turkey, among other places. Through our joint procurement center in Beijing, we exploit the cost advantages offered by the Chinese supply market and ensure competitive prices for equipment and services.

In March, KHD received a € 100 million order from Straits Cement (external customer) to construct a fully integrated cement production facility in Malaysia, with a daily production capacity of 5,000 tons. As KHD's partner, AVIC will supply and construct the entire steel structure as well as provide various electrical and mechanical packages, which represents approximately 60% of the above order value. This 60% will be channeled through AVIC. KHD will not realize any additional gross profit on this pass-through business.

In Venezuela, the AVIC-KHD partnership was awarded its first turnkey (EPC) contract. Invecem Cement has chosen AVIC as the general contractor for a new line with a capacity of 2,400 tons per day at the San Sebastian cement plant. As AVIC's subcontractor, KHD will supply process expertise, key equipment components, as well as engineering and supervision services. With a volume of approximately € 19 million, this project is reflected in KHD's order intake.

In December 2012, KHD obtained an order with a volume of approximately € 7 million in Turkey as a subcontractor of AVIC. The order with AVIC involves the construction of a 5,000-ton cement plant for SÖNMEZ Cimento. KHD's scope of supply includes engineering services and cement production equipment, training for the on-site team, and supervision of construction and commissioning.

In the course of an order for the supply and installation of two roller presses in Malaysia AVIC was commissioned as a subcontractor for € 1.5 million.

INCOME

Income from related companies amounted to € 5,618 thousand (previous year: € 5 thousand). Income in the current year exclusively refers to income generated together with our cooperation partner AVIC and relates to the order in Venezuela described above.

in € thousand	2012	2011
Joint Ventures	–	5
AVIC	5,618	–
	5,618	**5**

EXPENSES

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

in € thousand	2012	2011
AVIC	3,428	678
	3,428	**678**

The AVIC expenses relate to contract costs arising from the aforementioned contracts.

CURRENT ASSETS

In the financial year under review, there were current assets due from AVIC in the amount of € 19,178 thousand (previous year: € 50 thousand). These result exclusively from advance payments and relate to the order in Malaysia described above.

LIABILITIES

As of December 31, 2012, liabilities due to AVIC were reported in the amount of € 1,281 thousand (previous year: € 188 thousand). The liabilities relate to the aforementioned contracts.

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 February 28, 2013 and also made it permanently publicly 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 24, 2012 and also made it permanently publicly available to shareholders on the Company's website (www.khdis.de).

33 EVENTS AFTER THE REPORTING PERIOD

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

34 RELEASE FOR PUBLICATION BY THE MANAGEMENT BOARD

These consolidated financial statements were released for publication by the Management Board resolution of March 18, 2013. Supervisory Board approval is due to be issued at the Supervisory Board meeting on March 18, 2013.

Cologne, Germany, March 18, 2013

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 18, 2013

The Management Board

(s) Jouni Salo

(s) Yizhen Zhu

INDEPENDENT AUDITORS' REPORT

We have audited the consolidated financial statements prepared by KHD Humboldt Wedag International AG, Cologne/Germany, – comprising the income statement as well as the statement of other comprehensive income, the balance sheet, the cash flow statement, the statement of changes in equity and the notes to the financial statements – and the discussion and analysis by the management of the parent company for the business year from 1 January to 31 December 2012. 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, 18 March 2013

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
Blake	Blake International Ltd., Road Town, Tortola, British Virgin Islands
CSC	Customer Service Center
CSC risks	Risks affecting the operating units
EKOF	EKOF Flotation GmbH, Bochum, Germany
Group Risks	Risks that affect the entire Group
HW	Humboldt Wedag GmbH, Cologne, Germany
HWAUS	Humboldt Wedag Australia Pty. Ltd., Braeside, Australia
HWIN	Humboldt Wedag India Private Ltd., New Delhi, India
HWUS	Humboldt Wedag Inc., Norcross (Georgia), USA
KHD	KHD Humboldt Wedag International AG, Cologne, Germany
KHD Beijing	KHD Humboldt Wedag Machinery Equipment (Beijing) Co. Ltd., Beijing, China
KHD Engineering	KHD Engineering Holding GmbH, Vienna, Austria
KHD HW	KHD Humboldt Wedag GmbH, Cologne, Germany
KHD OOO	KHD Humboldt Engineering OOO, Moscow, Russia
KIS	KHD Humboldt Wedag Industrial Services AG, Cologne, Germany
MGI	Max Glory Industries Ltd., Hong Kong, China
Weir Minerals	Weir Minerals Europe Limited, a subsidiary of Weir Group PLC, Glasgow, Great Britain
ZAB	ZAB Zementanlagenbau GmbH Dessau, Dessau, Germany
HW Malaysia	Humboldt Wedag Malaysia Sdn. Bhd., Kuala Lumpur, Malaysia
HW Do Brasil	Humboldt Wedag Do Brasil Servicos Technicos Ltda., Belo Horizonte, Brazil