FINANCIAL STATEMENTS 2013

KHD Humboldt Wedag International AG

Management Report and Annual Financial Statements as of December 31, 2013

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WKN 657800
ISiN DE00065780

List of Abbreviations

AVIC	AVIC International Beijing Company Limited, Beijing, China
AVIC Engineering	International Engineering Holdings Pte. Ltd., Singapore, Singapore,
Group Risks	Risks that affect the entire Group
HW	Humboldt Wedag GmbH, Cologne, Germany
HWAUS	Humboldt Wedag Australia Pty Ltd., Braeside, Australia
HW Do Brasil	Humboldt Wedag Do Brasil Servicos Technicos Ltda, Belo Horizonte, Brazil
HWIN	Humboldt Wedag India Private Ltd., New Delhi, India
HW Malaysia	Humboldt Wedag Malaysia Sdn. Bhd., Kuala Lumpur, Malaysia
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 HW	KHD Humboldt Wedag GmbH, Cologne, Germany
KHD OOO	KHD Humboldt Engineering OOO, Moscow, Russia
MFC Corporate Services	MFC Corporate Services AG, Herisau, Switzerland
ZAB	ZAB Zementanlagenbau GmbH Dessau, Dessau, Germany

Management Report and Annual Financial Statements of KHD Humboldt Wedag International AG for the Financial Year 2013

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1. Management Report of KHD Humboldt Wedag International AG for the Financial Year 2013

1.1 The Company

The Group of KHD Humboldt Wedag International AG (hereafter also referred to as "KHD," the "Company" or "we") based in Cologne, Germany, ranks as one of the world's top equipment suppliers and service companies for the cement industry. The scope of services encompasses process technology design, engineering, project management, the supply of technology and equipment, as well as supervising the erection and commissioning of cement plants and related equipment. Customer services such as supplying spare parts, optimization of cement plants, and training plant personnel round out KHD's service portfolio. Our focus here is primarily on knowledge-intensive areas, in particular the design and engineering of the core components of a cement plant (grinding, kiln line, system automation), process engineering, customer service, and training. The manufacturing of plant equipment is almost entirely outsourced to quality-certified, external manufacturers who work in accordance with KHD's specifications.

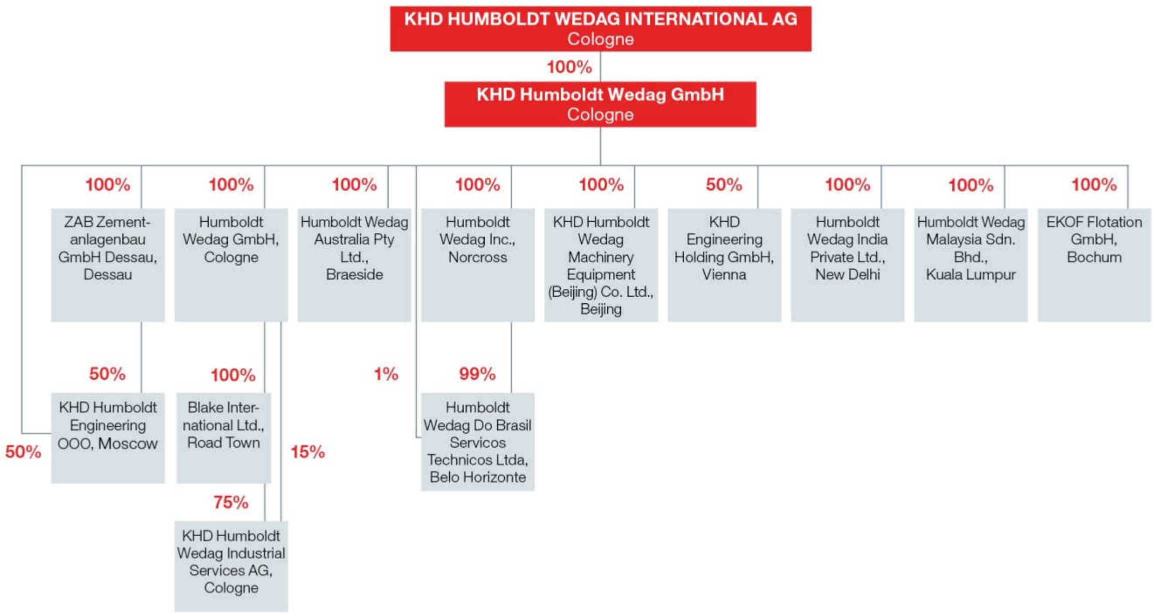
Group Structure and Shareholdings

In its capacity as the ultimate holding company of the Group, KHD holds a 100% investment in KHD Humboldt Wedag GmbH (KHD HW), Cologne, Germany, which functions as a strategic management holding company. KHD provides group management services based on the so-called Service and Cost Allocation Agreement as well as legal and consulting services to other Group companies. Within the Bond Arrangement Agreement KHD also provides a credit line with a syndicate of banks to the other operating companies.

The 14 KHD Group companies focus on the business segment of industrial plant engineering as well as related services.

The KHD Group's structure did not change in the 2013 financial year and as of December 31, 2013, comprises the following:

Corporate Structure



There has been a strategic partnership between KHD and Beijing-based AVIC Beijing since the end of 2010, underpinned by the capital interests of Max Glory Industries Limited (Max Glory) since 2011 and AVIC International Engineering Holdings Pte. Ltd. (AVIC Engineering) since 2014 in KHD. In particular, the strategic partnership extends to joint participation in project tenders, (including turnkey plants (engineering, procurement, construction, or EPC)) as well as collaboration on procurement. Due to the majority takeover of KHD by thegroup of bidders (including AVIC) in January 2014, collaboration will be further strengthened in the future.

Major Events During the Year Under Review

Takeover Offer

On October 11, 2013,

- AVIC International Engineering Holdings Pte. Ltd., Singapore,
- Europe Project Management Pte. Ltd., Singapore,
- Europe Technology Investment Pte. Ltd., Singapore,
- Europe Engineering Holdings Pte. Ltd., Singapore,

The “bidders” announced – pursuant to § 10 of the German Securities Acquisition and Takeover Act (WpÜG) – their decision to submit a joint voluntary public takeover offer to all of the shareholders of KHD Humboldt Wedag International AG, to acquire their ordinary bearer shares against payment of € 6.45 per share.

The bidders published the offer document regarding the voluntary public takeover offer for the acquisition of all shares in KHD on November 21, 2013. According to Section 5.5 of the offer document the bidders and Max Glory Industries Limited (Max Glory), Hong Kong, have concluded a voting agreement on October 11, 2013. This agreement includes provisions regarding the content of the offer document, various obligations of Max Glory, and provisions regarding exercising voting rights from KHD shares.

In particular, the parties to the Voting Agreement agreed to co-ordinate their behavior in relation to exercising voting rights in the general shareholders' meetings of KHD with regard to the following matters:

- appointment and dismissal of members of the Supervisory Board of KHD;
- entering into enterprise agreements (Unternehmensverträge) within the meaning of Section 291 et seq. of the German Stock Corporation Act (Aktiengesetz, "AktG");
- capital increases and resolutions on the issue of new securities within the meaning of Section 2 Para. 1 of the German Securities Trading Act (Wertpapierhandelsgesetz); and
- resolutions which are submitted to the general shareholders' meeting based on the so called "Holzmüller" Doctrine.

The fairness opinions of the KPMG AG Wirtschaftsprüfungsgesellschaft, München and Network Corporate Finance GmbH & Co. KG, Düsseldorf, which were presented to the Management Board and the Supervisory Board during the meeting of the Supervisory Board on November 28, 2013, concluded that the offer price is financially fair . In a joint statement on December 5, 2013, the Management Board and the Supervisory Board recommended that, in consideration of the overall circumstances and taking into account the fairness opinions, the shareholders accept the takeover offer.

Dividend and Distribution

In accordance with the resolution passed by the Annual General Meeting on June 24, 2013, a dividend amounting to € 0.09 per share (a total of € 4,452 thousand) was paid out to the Company's shareholders on June 26, 2013.

Following a resolution passed at the shareholders' meeting on December 13, 2013, KHD HW distributed profits in the amount of € 4,000 thousand to KHD. This was subject to deduction of capital gains tax totaling € 1,055 thousand, meaning that KHD received a payment of € 2,945 thousand. As of December 31, 2013, KHD presents a receivable due from the tax authorities in the amount of the reimbursable capital gains tax.

1.2 Business Development for Plant Engineering

1.2.1 Economic Environment

Economic expansion in the markets relevant to KHD was significantly less than expected, despite some positive indications from the USA and Europe. The International Monetary Fund (IMF) estimated global growth for 2013 as a whole at 3.0% (2012: 3.1%). For the developing and emerging economies, the IMF calculated growth of 4.7% (2012: 4.9%):

- Economic development in India continued to be restrained. The IMF estimates growth of 5.4% (previous year: 3.2%). The industry is suffering due to the sluggish pace of infrastructure development as well as regulatory obstacles. Companies and consumers are also struggling due to persistently high inflation.
- The IMF has significantly cut its initial growth forecast for Russia, which is now 1.5% (previous year: 3.4%). However, the construction industry continued benefiting from the infrastructure investments for the 2014 Winter Olympic Games and the 2018 FIFA World Cup as well as private housing construction.
- At 3.8% (forecast in October), the Turkish economy recovered and experienced stronger growth during 2013 (previous year: 2.2%), although the IMF doubts whether the upturn will last. In the period under review, the construction industry benefited from a government investment program backing the construction of earthquake-proof housing.
- The economic trend in Latin America has been curbed by inadequate infrastructure, lower raw materials prices and also, in some cases, by a tightening

of monetary policy. Economic activity in Brazil was particularly volatile. The IMF calculated growth of 2.6% (previous year: 3.0%) for the region.

- Economic growth also slowed in the emerging markets of Southeast Asia that are relevant for KHD. In Indonesia, Malaysia, and Thailand, lower raw materials prices and a more restrictive monetary policy led to lower growth rates.
- In China, the 7.7% rate of growth was approximately at the level of the previous year.

1.2.2 Industry Environment

The most important engine of growth in the cement industry remains the investment in infrastructure in developing and emerging economies. China is particularly important when it comes to the worldwide demand for cement, as it represents 59% of global cement consumption. However, previous investments in Chinese cement plants have been covered almost exclusively by Chinese technology. In addition to the price level of cement, willingness to invest in new cement plants worldwide is affected on the one hand by the capacity utilization of existing plants and, on the other, by the level of interest rates and the availability of capital.

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 following a promising start. According to estimates by Morgan Stanley Research, global cement consumption outside of China grew by only about 2.1% in 2013, while the market within China increased by 7.1% despite structural problems.

- In India, the world's second-largest cement market, the cement industry struggled as it did in the previous year with rising energy costs, high interest rates, and low capacity utilization. Growth in cement consumption is estimated at 3.6%.
- High growth rates in cement consumption were again recorded in Russia in 2013, thanks to large infrastructure projects. Cement manufacturers investing in modernizing their plants and to some extent in new capacities also benefited KHD.
- The cement market in Latin America grew at a slower rate than in the previous year at an estimated 2.1%. Investment in infrastructure linked to the major sporting events in Brazil (FIFA World Cup 2014 and the 2016 Olympic Games) is apparently lower than expected.

- The cement market grew at a somewhat stronger rate in Turkey in 2013, mainly driven by real estate projects. Turkish cement producers ordered several plants, including from KHD.

Following the US Federal Reserve's announcement that it will be scaling down its expansionary monetary policy, capital procurement for investment projects has become more difficult in many emerging economies. The interest rates on long-term government bonds (10-year term), which are considered a guide to the market interest rate, rose significantly in some key markets in 2013. India and Brazil, which rely heavily on foreign capital, have been particularly affected.

In the medium-to-long term, factors such as ongoing urbanization, demographic trends, and infrastructural needs in developing and emerging economies will drive construction activities and, by extension, boost cement consumption. Increasingly demanding environmental regulations and rising energy prices offer an opportunity for modernization projects. Half of the world's cement plants are between 25 and 50 years old and often no longer meet the growing requirements for emissions control and energy efficiency. Irrespective of short-term cyclical trends, the underlying market data continues to be positive.

The industry-specific environment and developments at cement producers meant that in 2013 KHD again found itself in a tough competitive environment throughout the world and under continued margin pressure.

1.3 Company's Position

Net Assets:

The Company's total assets increased in the financial year by € 16,949 thousand from € 120,650 thousand to € 137,599 thousand. As in the previous year, bank balances (€ 98,874 thousand) and shares in affiliated companies (€ 26,410 thousand) account for most of the Company's assets (in total approximately 91%).

The increase in receivables is mainly attributable to the increase of a loan by € 765 thousand, which KHD has extended to an affiliated company. In contrast, other assets have decreased by € 158 thousand, from € 3,714 thousand in the previous year to € 3,556 thousand. The other assets comprise tax receivables in the amount of € 1,055 thousand (previous year: € 2,717 thousand) due from the tax authorities in connection with KHD HW's distribution of profits at the end of the 2013 financial year. The VAT credit of € 2,350 thousand has increased significantly compared with the previous year (€ 883 thousand).

The increase in credit at banks of € 16,696 thousand to € 98,874 thousand (previous year: € 82,178 thousand) principally results from cash deposits of € 16,072 thousand provided by companies of the KHD Group as collateral for the part of a bank guarantee credit facility used. This corresponds to the underlying agreement made on conclusion of a bank guarantee credit facility in March 2012. As of December 31, 2013, the Company had a total of € 27,650 thousand (previous year: € 0 thousand) restricted cash.

The Company's equity remains virtually unchanged from the previous year at € 117,786 thousand (previous year: € 117,660 thousand). The dividend payment to the shareholders of € 4,452 thousand is made in the context of net profit for the 2013 financial year of € 4,326 thousand. With an increased balance sheet total, the equity ratio amounts to 85.5% (previous year: 97.6%).

The decrease in provisions is mainly the result of the reduction of the provision for personnel-related costs.

The increase in liabilities of € 17,327 thousand from € 1,322 thousand to € 18,648 thousand was caused principally by Group companies' payments for cash deposits for bank guarantees (€ 16,072 thousand).

Results of Operations:

In the financial year under review, the Company’s result from ordinary activities came to € 4,326 thousand (previous year: € 4,336 thousand). The change in the result from ordinary activities is due primarily to income from investments held by KHD HW in the amount of € 4,000 thousand (previous year: € 4,000 thousand).

The management predicted a slightly negative result before income from investments for the reporting year. In fact, a slightly positive result was generated in the reporting year before income from investments. One reason for this improvement in result was unplanned income from the provision of guarantees amounting to € 302 thousand; another was a fall in personnel expenses of € 196 thousand not originally planned in the 2013 budget.

Other operating income of € 6,135 thousand (previous year: € 7,826 thousand) largely relates to charges for services provided to operating KHD Group companies as part of the service and cost allocation agreement in the amount of € 2,811 thousand (previous year: € 2,635 thousand) and income from the bond agreement of € 3,092 thousand (previous year: € 2,838 thousand). The income from the bond agreement is partly offset by bank guarantee fees which are reported under interest and similar expenses. Other operating income also includes the release of other accruals in the amount of € 130 thousand (previous year: € 2,267 thousand).

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

Other operating expenses consist of legal and consulting costs, costs of preparing and auditing the annual financial statements, Supervisory Board compensation, Group charges, costs related to the Annual General Meeting, investor relations costs, and other administrative costs.

The higher interest income is mainly the result of the loan extended to an affiliated company. This development is negatively affect by the decline in market interest rates.

After considering income taxes of € 0 thousand (previous year: € -9 thousand, net profit for the year amounts to € 4,326 thousand (previous year: € 4,345 thousand). Taking into account the profit carried forward from the previous year of € 309 thousand, the net retained profit amounts to € 4,635 thousand.

Financial Position:

The Company's financing is secured due to the high level of liquidity available at the end of 2013, and also as a result of the high level of liquidity and dividend payment potential of the KHD Group companies.

Cash and cash equivalents as of the balance sheet date increased from € 82,178 thousand to € 98,874 thousand, in particular due to the payments by Group companies for bank guarantees of € 16,072 thousand. As a result of these payments the liquidity of the KHD significantly increased compared to the prior year forecast. Cash and cash equivalents include restricted cash in an amount of T € 27,650 as of 31 December 2013 (previous year: T € 0).

As of 31 December 2013 the equity ratio amounts 85.5% and is below the prior year ratio of 97.6%. However, it still remains at a high level.

Financial and Non-Financial Performance Indicators:

KHD is a management holding company with no operating business activities, which is therefore not directly controlled on the basis of financial or non-financial performance indicators. The relevant indicators to assess the course of business are the liquidity and result before income from investments.

The Company's subsidiaries and the KHD Group are controlled using financial and non-financial performance indicators. Financial performance indicators include:

- Order intake and order backlog;
- Group revenue;
- Group earnings before taxes and interest (EBIT) as well as the ratio to revenue (EBIT margin);
- Operating cash flow.

Non-financial performance indicators include employee development, customer satisfaction, impact of KHD’s products on the environment, speed of project execution, product quality and individual employee-related performance indicators.

Overall Assessment of the Course of Business and Economic Situation

The Management Board assesses the Company’s overall net assets, financial position, and result of operations in the previous financial year as satisfactory. The planned budgetary targets were for the most part achieved. The Company also expects operating business performance for the 2014 financial year at the level of the previous year.

1.4 Report on Events after the Reporting Period

According to the notification pursuant to Section 23, Paragraph 1, Sentence 1, Number 3 of the German Securities Acquisition and Takeover Act, the total number of KHD shares for which the takeover offer has been accepted until the end of the additional acceptance period (January 13, 2014, 24:00) plus the KHD shares held by Max Glory and the KHD shares, which the bidder AVIC International Engineering Holdings Pte. Ltd. acquired upon completion of the share purchase and transfer agreement described in Section 5.4 of the offer documents, amounts to 44,244,113 KHD shares. This corresponds to approximately 89.016% of the share capital and voting rights of KHD.

On December 10, 2013 the Management Board has accepted the voluntary public takeover offer and sold all 229,136 treasury shares. As the legal transfer of ownership to the bidders became effective as of January 7, 2014 the transaction was recorded in the 2014 financial year. The difference between the takeover consideration paid by the bidders (€ 1,478 thousand) and the amount at which the treasury shares were recognized (€ 221 thousand) will be recorded as part of capital reserves.

1.5 Compensation Report

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

Code (GCGC). It also contains information required by Section 285 Number 9a Sentences 5–8 of the German Commercial Code (HGB); this information is therefore not provided additionally in the notes to the consolidated financial statements, in line with Section 289 Paragraph 2 Number 5 Sentence 2.

Compensation System for Members of the Management Board

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.

Management Board compensation at KHD 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) components. 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, and other non-cash benefits. A pension allowance is also provided for Mr. Quellmalz. This amount is shown in the compensation table under “Other.”

The variable compensation (bonus) – capped for each Management Board member – generally depends on the business performance of the KHD Group and on the personal performance of individual Management Board members, determined on the basis of defined performance targets. 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.

In line with the Management Board employment contracts, the Supervisory Board clearly defines certain challenging targets for each member of the Management Board that are documented in the form of a target agreement made separately with each Management Board member.

Ralph Quellmalz was appointed CFO on April 30, 2013. The Management Board employment contract for Mr. Quellmalz is based on a newly designed compensation system. This compensation system regulates the bonus for target achievement based on specifically agreed targets. The variable compensation is paid partly as a base bonus and partly through conversion of virtual stocks (restricted stock units, or RSUs). There is also the possibility of a voluntary discretionary bonus depending on high performance. This links the short, medium, and long-term success of KHD with the performance of the Management Board member and orients the Management Board compensation structure towards sustainable corporate growth.

In December 2013, the appointment of Chief Executive Officer Jouni Olavi Salo was due for extension. To ensure a uniform compensation structure for the Management Board, a Management Board employment contract with a term of several years was negotiated with Mr. Salo, the compensation structure of which corresponded to the system newly introduced with Mr. Quellmalz in the 2013 financial year.

In October 2013, a group of bidders led by the Chinese AVIC Group published, in line with Section 10 of the German Securities Acquisition and Takeover Act (WpÜG), their intention to submit a takeover offer for the acquisition of all shares in KHD. As a result the appointment of Mr. Salo to the Management Board that was due to expire on December 10, 2013 was extended by only one year. The CEO thus remained independent and neutral, enabling him to lead KHD through the takeover process in a way that exclusively reflected the interests of the Company. Variable compensation owed according to the expiring Management Board employment contract for the 2013 financial year was reflected in a new Management Board employment contract with Mr. Salo that also has a term of one-year. The bonus for the 2013 financial year was granted as a non-recurring fixed bonus – conforming to the provisions agreed in Mr. Quellmalz employment contract for the 2013 financial year. To maintain a uniform compensation structure in the Management Board of KHD in the 2013 financial year, the Supervisory Board agreed with the Management Board member Yizhen Zhu that the variable compensation for the 2013 financial year owed according to the existing employment contract is also determined as a fixed bonus.

KHD's share price, and thus the assessment basis for the RSUs have altered substantially as a result of the takeover offer. Therefore, the Supervisory Board made amendments to the Management Board employment contracts adjusting the variable compensation for the 2014 financial year and to agreeing specific targets with each Management Board member. These target agreements are oriented towards sustainable growth of the Group, but due to the exceptional situation of the KHD Group following the takeover, the variable compensation is determined for the 2014 financial year using a one-year assessment period. KHD's future compensation system will continue to take the extraordinary development resulting from the takeover offer into consideration.

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 with good cause but the employment contract is not terminated with good cause, the contract of employment ends at the end of the contractually agreed notice in favor of KHD, if the Company terminates the Management Board employment contract with notice or if the contractually agreed period expires, if this is sooner. In Mr. Salo's case, this period of notice is three months, in Mr. Quellmalz six months, and in Mr. Zhu's twelve months.

For Mr. Salo, a severance payment of two years' fixed compensation is payable by the Company if his employment contract expires at the end of the contractual period or if it is terminated earlier by the Company without good cause justifying extraordinary termination without notice. If it is Mr. Salo's wish not to extend the appointment, he will receive severance of one year’s 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 extraordinary termination of the employment contract with good cause without 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. Conversely, according to the Management Board employment contract, the Company does not owe compensation payments to Mr. Salo for his compliance with the non-competition clause of two years. There are no severance payment arrangements in the employment contracts with Mr. Quellmalz and Mr. Zhu.

In the event of Mr. Salo’s Management Board appointment and the Management Board employment contract being extended several times, both will end when he has reached the upper age limit of 65 years at the latest, in line with the existing stipulations given by the Supervisory Board for the age limit for Management Board members. 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 € 481,101 as of December 31, 2013. 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 allocation amounted to € 55.368 in the 2013 financial year. This amount is shown in the compensation report under “Other.” The accrual for Mr. Salo amounted to € 151,124 as of December 31, 2013.

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	December 11, 2008	Dec. 10, 2014	April 1, 2010
Yizhen Zhu*	April 1, 2011	April 1, 2015	April 2, 2011
Ralph Quellmalz**	April 30, 2013	April 30, 2016	May 1, 2013

Name	Management Board member since	Management Board contract until	Contract of employment with KHD since
Jouni Olavi Salo	December 11, 2008	Dec. 10, 2014	April 1, 2010
Yizhen Zhu*	April 1, 2011	April 1, 2015	April 2, 2011
Ralph Quellmalz**	April 30, 2013	April 30, 2016	May 1, 2013

* Following the end of the 2013 financial year, Mr. Yizhen Zhu was appointed a member of the KHD Humboldt Wedag International AG Management Board for another year until April 1, 2015, by resolution of the Supervisory Board.

** The Management Board compensation for Mr. Quellmalz shown in the following relates to a period of eight months.

The total remuneration for members of the KHD Management Board amounted to € 1,149 thousand (previous year: € 1,091 thousand) in the 2013 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. The fixed bonuses of the Management Board members – which for the aforementioned reasons substantiated the variable compensation components before the end of the 2013 financial year – have been added to the non-performance-related components and are disclosed together with the fixed compensation in accordance with the provisions of Section 289 Paragraph 1 Number 5 of the German Commercial Code (HGB) in connection with Section 285 Number 9 HGB. In accordance with the aforementioned provisions, a performance-related remuneration is therefore not shown in the 2013 financial year. The agreed fixed bonuses for the 2013 financial year must be paid by the Company by June 2014 at the latest.

in €	Jouni Olavi Salo	Yizhen Zhu	Ralph Quellmalz
Fixed compensation	375,000	180,000	146,667
Fixed bonus	187,500	45,000	75,000
Non-cash benefits	53,718	23,919	2,842
Others	55,368	-	4,385
Total	**671,586**	**248,919**	**228,894**

In the 2012 financial year, the amounts were as follows:

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

The indicated variable compensation corresponds to the amount recorded as an expense in the 2012 financial year. 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). As was illustrated in the explanation of the compensation system in the previous year, the variable compensation of the Management Board members was due after final assessment of target achievement and approval of the financial statements for the 2012 financial year. In the financial year 2013, Mr. Salo received – after deduction of the advance payments paid in the previous years – a payout for the variable compensation amounting to € 565,425. The amount was calculated according to the final assessment of cumulative target achievement in the period from April 1, 2010, to December 31, 2012 Mr. Zhu received – after deduction of the advance payment in the previous year - a payment of € 43,117 in the 2013 financial year for the period from April 1, 2011, to December 31, 2012..

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 addition to the roles of Chairperson and Deputy Chairperson on the Supervisory Board, the role of Chairperson on the Audit Committee was also taken into account when distributing the Supervisory Board compensation.

The total compensation of each member of the Supervisory Board for the 2013 financial year is shown in the following table:

in €	**Fixed compensation**
Hubert Keusch (Chairman)[1]	**63,356**
Luc Antoine Baehni (Deputy Chairman)[2]	**52,164**
Eliza Suk Ching Yuen[3]	**64,246**
Michael Busch[4]	**42,534**
Seppo Kivimäki[5]	**42,534**
Helmut Meyer[6]	**52,164**
Total	**316,998**

[1] Chairman of the Supervisory Board since June 25, 2013,
Chairman of the Personnel and Nomination Committee since June 25, 2013;
Member of the Audit Committee.

[2] Deputy Chairman of the Supervisory Board,
Member of the Personnel Committee until June 25, 2013.
Member of the Personnel and Nomination Committee since June 25, 2013;

[3] Chairperson of the Supervisory Board until June 25, 2013,
Chairperson of the Personnel Committee until June 25, 2013,
Member of the Audit Committee,
Member of the Nomination Committee until June 25, 2013.

[4] Member of the Personnel Committee until January 24, 2013,
Chairman of the Nomination Committee until June 25, 2013.
Member of the Personnel and Nomination Committee since June 25, 2013;

[5] Member of the Nomination Committee until June 25, 2013.

[6] Chairperson of the Audit Committee,
Member of the Personnel Committee from January 27 to March 18, 2013.

KHD concluded a consultancy contract with NASENDA, Douglas, Isle of Man, a company whose shares are held by Seppo Kivimäki. In accordance with the contractual agreement, € 60,000 was recorded by KHD as an expense for consulting services in the 2013 financial year; € 45,000 of this amount was paid out as of December 31, 2013.

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

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

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

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

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

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

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

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

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

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

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

1.6 Risks and Opportunities Report

The following representation of the key risks and opportunities expressly relates to the entire KHD Group and not just KHD as the holding company.

Risk Management

As a globally operating cement plant equipment supplier and service company, the KHD Group is subject to a number of different risks in the course of its business activities. By being prepared to take calculated commercial risks, KHD is able to 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 is based on the COSO-ERM concept. In addition to the systematic approach towards identifying, recording, and assessing risks, the 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.

Identification and evaluation of opportunities is not carried out as a separate category of the risk management system. Nevertheless, risk management in the KHD Group also takes into account the best possible use of opportunities as positive deviation from targets due to successful implementation of the respective measures in addition to reducing impact and probability of negative events. With effective and efficient 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. Transactions and measures that could potentially damage business viability are avoided in principle. For the KHD Group, this means in particular that for projects liability for consequential damages is contractually excluded.

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 Paragraph 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 that affect the entire Group or that can only be managed at the Group level (Group risks), and risks that 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 also 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 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 operational 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. The Group Risk Manager concludes on the effectiveness of the risk management system based on a qualified self-assessment statement presented to the Supervisory Board and Management Board of KHD. The independent auditors also assess the effectiveness of the risk early warning and internal monitoring system in accordance with to Section 317 Paragraph 4 of the German Commercial Code (HGB) and reports on the result of their audit to the Management Board and Supervisory Board.

Risk Assessment

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 scale for measurement of the probability of occurrence is presented in the following table:

Class	Probability of Occurrence	Description
1	1 – 10%	Very low / very unlikely
2	11 – 25%	Low / unlikely
3	26 – 50%	Moderate
4	51 – 75%	High / likely
5	76 – 99%	Very high / very likely

The scaling of the probability of occurrence is consistent with the accounting methods applied, i.e. the probability of occurrence of Class 4 corresponds to the accounting terminology “more likely than not.”

The scale for measurement of potential amount of damage is presented in the following table:

Class	Impact	Description
1	Low	Insignificant negative impact
2	Moderate	Limited negative impact below the materiality threshold
3	Material	Significant negative impact that exceeds the materiality threshold
4	Very material	Negative impact that exceeds the level of twice the materiality threshold
5	Catastrophic	Negative impact potentially threatening to business viability

The summarized risk assessment arises on the basis of the following risk assessment:

Probability of Occurrence Impact	1	2	3	4	5
1	low	low	low	low	low
2	low	low	low	medium	medium
3	low	low	medium	medium	high
4	low	medium	medium	high	high
5	medium	medium	high	high	high

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.

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 of foreign exchange forward contracts. Since the derivative financial instruments used by KHD do not meet the strict requirements of hedge accounting, the economic hedge relationship is not reflected by using hedge accounting in the consolidated financial statements.

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. Furthermore, there is the risk that the conditions of the bank guarantee deteriorate due to the agreed financial covenants.

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, bank guarantee credit facilities were arranged with a consortium of banks as well as with other banks, which allow individual KHD Group companies to provide bank guarantees for its customers worldwide.

KHD continuously monitors the Group companies' economic development through active controlling of holdings. If there is unsatisfactory development or if there are significant deviations from budget and medium-term planning targets, local management introduces countermeasures in close cooperation with Group management. The participation carrying amounts of the Group companies are also tested annually for impairment.

Accounting-related Internal Control System

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

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 and its 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.

Summary of KHD Group’s Risk Position

To the extent required, balance sheet provisions have been established in the 2013 financial year for the risks described in this report. The risks identified do not pose a threat to KHD 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.

Risk Areas

The following section describes the key risk areas, the strategy for risk mitigation and the summarized risk assessment (“high,” “medium,” and “low”) taking into account the measures and controls for risk mitigation (net 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) as well as systematically developing our position in growth markets and in markets where we have had a low presence up until 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. The remaining risk is classified as “medium.”

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). The remaining risk is classified as “low.”

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. The remaining risk is classified as “medium.”

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. The remaining risk is classified as “medium.”

Equity Holding Risks

In its function as parent company of the KHD Group, KHD holds stakes in Group companies. The carrying amounts of the participations are subject to the risk of impairment if the economic conditions, and ultimately the profitability, of these Group companies change for the worse. This can lead to negative effects on KHD’s net assets and result of operations.

KHD continuously monitors the Group companies’ economic development through active controlling of holdings. If there is unsatisfactory development or if there are significant deviations from budget and medium-term planning targets, local management introduces countermeasures in close cooperation with Group management. The participation carrying amounts of the Group companies are also tested annually for impairment. The remaining risk is classified as “medium.”

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 the important components of cement plant equipment. 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. The remaining risk is classified as “medium.”

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. The remaining risk is classified as “medium.”

Financial Covenants

A consortium of banks has provided through the facility agreement a bonding line 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. As of December 31, 2013 failure to comply with the financial covenants led to a so-called default, which then required a review and re-negotiation of the contract.

KHD calculates and checks compliance with the financial covenants quarterly. Checking and ensuring compliance with the financial covenants and determining potential consequences due to default of financial covenants, respectively, is an integral part of the ongoing planning and risk management process. The remaining risk is classified as “medium.”

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, breach of contractual terms, 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 the 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. The remaining risk is classified as “medium.”

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. The remaining risk is classified as “medium.”

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. The remaining risk is classified as “low.”

Risks Arising from Changes to the Ownership Structure

The following risks have newly arisen as a result of the takeover offer by the group of bidders led by AVIC which was made public before December 31, 2013, and successfully concluded in January 2014:

The facility agreement includes a “Change of Control” clause which, in the case of acquisition of 50% (or more) of KHD’s share capital or acquisition of control of half (or more) of the voting rights in KHD’s Annual General Meeting, grants every member of the banking consortium the right to cancel its participation in the bank guarantee credit facility. If members of the banking consortium should exercise these cancellation rights, this could lead to a significant financing need for KHD. In the light of this, it must be taken into account that in the present market environment and after revised risk assessment of the banks it may not be possible to continue the facility agreement at the existing conditions. This could lead to higher commissions for bank guarantee to be paid by KHD.

Following the occurrence of the “Change of Control” clause, there has so far been no cancellation of the facility agreement. Before the occurrence of the “Change of Control” clause, KHD was already in ongoing communication with the members of the bank consortium and with other banks that would be able to provide the required bank guarantee facility if the facility agreement were canceled. Moreover, KHD has a high level of cash and cash equivalents that could be used as collateral.

Maintenance of a sufficient bank guarantee credit facility and the utilization of existing tax loss carry-forwards are also components of the ongoing planning and risk management process. The remaining risk is classified as “medium” overall.

Opportunities

Generally speaking, the risks indicated here represent opportunities for the future growth of the KHD Group if the appropriate measures are implemented successfully. These opportunities arise from an improvement in the market and competitive position owing to the development of more cost-effective products, the optimization of procurement activities or the optimization of our project execution for instance. By the same token, the expansion of our service business (including the 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 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 our 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 (EP A) 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 in 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 on the efficient use of resources, materials, and energy.

KHD entered into a strategic partnership with AVIC as early as December 2010. The successful conclusion of the takeover offer from the group of bidders headed by AVIC has also created a stable shareholder structure with the group of bidders holding a very significant majority. Our partnership with AVIC has facilitated and increased our access to the Chinese procurement market. The market position of our cooperation partner and shareholder makes it significantly easier to gain access to more cost-effective, high-quality production capacities in China. Another opportunity presented by KHD's strategic partnership is the future possibility of offering our customers turnkey cement plants, which should open up new business opportunities.

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 closer ties to AVIC mean better opportunities for acquisitions of, or cooperation with, manufacturing facilities in China. Over and above the cost advantages of manufacturing of existing products further opportunities result from adapting KHD products to local manufacturing materials and standards.

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

1.7 Disclosures pursuant to Section 289 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, 2013, 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, 2013.

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. According to Section 5.5 of the offer document the shareholders AVIC International Engineering Holdings Pte. Ltd., Europe Project Management Pte. Ltd., Europe Technology Investment Pte. Ltd., Europe Engineering Holdings Pte. Ltd., and Max Glory Industries Limited have concluded a voting agreement on October 11, 2013. There are no further restrictions affecting voting rights or the transfer of shares.

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., Hong Kong, acquired 9,940,715 newly issued shares (20.0% of the voting rights). As of the reporting date, the total number of voting rights was 12,114,410 (24.37% of the voting rights), as 2,173,695 voting rights (4.37%) are attributed to Max Glory Industries Ltd. in accordance with Section 22 Paragraph 2 of the German Securities Trading Act (WpHG). AVIC International Engineering Holdings Pte. Ltd., Singapore, Singapore, holds as of the reporting date 12,114,410 (24.37% of the voting rights), of which 9,940,715 voting rights (20.0%) are attributed to it in accordance with Section 22 Paragraph 2 WpHG. In accordance with Section 22 WpHG, 12,114,410 voting rights (24.37% of the voting rights) are attributed to the companies Goldimax Group Limited, Road Town, British Virgin Islands; Golden Prosperity Group Limited, Road Town, British Virgin Islands; Kaihang Industrial Limited, Road Town, British Virgin Islands; AVIC International Kairong

Limited, Hong Kong, Hong Kong; AVIC International Beijing Company Limited, Beijing, People's Republic of China; AVIC International Holdings Limited, Shenzhen, People's Republic of China; AVIC International Shenzhen Company Limited, Shenzhen, People's Republic of China; AVIC International Holding Corporation, Beijing, People's Republic of China; Aviation Industry Cooperation of China, Beijing, People's Republic of China and the People's Republic of China, Beijing, People's Republic of China.

In accordance with Section 22 WpHG 12,114,410 voting rights (24.37% of the voting rights) are also attributed to the companies Europe Project Management Pte. Ltd., Singapore, Singapore; Europe Engineering Holdings Pte. Ltd., Singapore, Singapore; Europe Technology Investment Pte. Ltd., Singapore, Singapore; Bright Horizon Global Limited, Road Town, British Virgin Islands; Westley Global Group Limited, Road Town, British Virgin Islands; Maystar Capital Limited, Road Town, British Virgin Islands and Mr. Yap Lian Seng, Singapore.

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 December 31, 2013.

Shares with special rights granting control authorizations

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

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

There are no shares owned by employees as defined by Section 289 Paragraph 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 offer

In March 2012, the existing bonding facility was replaced by a new bank guarantee credit facility 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 facility agreement (bonding line).

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

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

1.8 Corporate Governance

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 (reference is made to item 3.10 of the GCGC) provides further details concerning corporate governance. The declaration of compliance and the corporate governance report (including the declaration on corporate governance in accordance with Section 289a of the German Commercial Code (HGB)) are available on KHD’s website (www.khd.com).

1.9 Relations with Affiliated Companies

The KHD Management Board has prepared a report on relations with affiliated companies – a dependent company report – in accordance with Section 312 of the German Stock Corporation Act (AktG) for the reporting period from January 1, 2013, through December 31, 2013.

In the 2013 financial year, KHD had a (pre-effective) relationship of dependence as defined by Section 17 Paragraph 2 AktG in the period from December 27 through December 31, 2013, with AVIC International Engineering Holdings Pte. Ltd., Europe Project Management Pte. Ltd., Europe Technology Investment Pte. Ltd., Europe Engineering Holdings Pte. Ltd. and Max Glory Industries Limited, since there were voting trust agreements between the aforementioned companies in the relevant period. AVIC International Engineering Holdings Pte. Ltd. is controlled by the People's Republic of China via Goldimax Group Limited, Golden Prosperity Group Limited, Kaihang Industrial Limited, AVIC International Kairong Limited, AVIC International Beijing Co. Ltd., AVIC International Holdings Limited, AVIC International Holding Corporation, AVIC International Shenzhen Company Limited and Aviation Industry Corporation of China. The People's Republic of China also indirectly controls Max Glory Industries Limited, a wholly-owned subsidiary of Kaihang Industrial Limited. To that extent, the interest of Max Glory Industries Limited in KHD is allocable to the People's Republic of China. As a consequence, KHD is indirectly controlled by the People's Republic of China and the other aforementioned companies through the voting trust agreements described above. According to the bidders' press release of December 27, 2013, in line with Section 16 Paragraph 4 AktG a total of approximately 79.5% of shares in KHD are indirectly allocable to the People's Republic of China at this point in time.

In addition, KHD is also indirectly controlled through the aforementioned voting trust agreements by Bright Horizon Global Limited, Maystar Capital Limited, Westley Global Group Limited and Mr. Yap Lian Seng.

The KHD Management Board concluded the Company's dependent company report with the following closing statement:

> "No events requiring reporting occurred during the financial year."

1.10 Outlook

Outlook

According to current planning, the Company anticipates that net annual profit for the 2014 financial year will remain at the previous year's level, excluding the effect of income from investments. This forecast assumes that the operating subsidiaries request services from the bond arrangement agreements via KHD in the planned scope.

The Company's financing is secured due to the high level of liquidity of € 98 million as of the end of 2013, and also as a result of the high level of liquidity and dividend payment potential of the KHD Group companies. The two German subsidiaries HW and ZAB alone have liquidity totaling some € 94 million as of December 31, 2013. Both companies together reported a net loss for the year of € 5.5 million (previous year: net loss for the year of € 1.6 million). For the financial year 2014, the company expects liquidity on the same level compared to prior year.

Opportunities and Risks Relating to the Forecast for the 2014 Financial Year

Opportunities and risks for the Company's forecast in 2014 include changes in the market interest rate for short-term cash investments. The Company has a high level of cash and cash equivalents, which are mainly invested into short term deposits. A change of the interest rate for short-term deposits would therefore have a corresponding impact on the Company's result before the income from investments.

The future liquidity of the Company is dependent on the operating results of the subsidiaries of KHD and, thus, on the ability of these companies to generate distributable income. Liquidity of KHD may rise or fall in future periods depending on the economic success of these subsidiaries.

Cologne, Germany, March 11, 2014

The Management Board

(s) Jouni Salo (s) Ralph Quellmalz (s) Yizhen Zhu

2 Balance Sheet as of December 31, 2013

Assets

in € thousand	**Dec. 31, 2013**	**Dec. 31, 2012**
A. Fixed assets		
I. Property, plant and equipment		
Other plant, operating and office equipment	21	3
II. Long-term financial investments		
Shares in affiliated companies	26,410	26,410
	26,431	26,413
B. Current assets		
I. Receivables and other assets		
1. Receivables due from affiliated companies	8,234	7,347
2. Other assets	3,556	3,714
	11,790	11,061
II. Bank balances	98,874	82,178
	110,664	93,239
C. Prepayments and deferred expenses	504	998
	137,599	120,650

Equity and liabilities

in € thousand		Dec. 31, 2013	Dec. 31, 2012
A.	**Equity**		
I.	**Subscribed capital**	49,704	49,704
	less treasury shares	-229	-229
	Issued capital	49,475	49,475
II.	**Capital reserves**	60,236	60,236
III.	**Revenue reserves**		
1.	Legal reserve	1,538	1,538
2.	Other revenue reserves	1,776	1,776
		3,314	3,314
IV.	**Net retained profit**	4,635	4,761
		117,660	117,786
B.	**Provisions and accurals**		
	Other provisions and accruals	1,290	1,542
		1,290	1,542
C.	**Liabilities**		
1.	Trade payables	408	150
2.	Liabilities due to affiliated companies	18,207	1,147
3.	Other liabilities	34	25
	of which tax liabilities € 34. thousand (previous year: € 25.0 thousand)		
		18,649	1,322
		137,599	120,650

3 Income Statement 2013

in € thousand		2013	2012
1.	Other operating income of which from exchange gains € 7 thousand (previous year: € 0 thousand)	6,135	7,826
2.	Personnel expenses		
a)	Wages and salaries	1,419	1,394
b)	Social security expenses	32	36
		1,451	1,430
3.	Depreciation on other plant, operating and office equipment	7	1
4.	Other operating expenses of which from exchange losses € 64 thousand (previous year: € 62 thousand)	3,195	5,162
5.	Income from investments of which from affiliated companies € 4000 thousand (previous year: € 4000 thousand)	4,000	4,000
6.	Other interest and similar income of which from affiliated companies € 691 thousand (previous year: € 134 thousand)	947	795
7.	Interest and similar expenses of which to affiliated companies € 34 thousand (previous year: € 14 thousand)	2,103	1,692
8.	Result from ordinary activities	4,326	4,336
9.	Income taxes	0	-9
10.	Net profit for the year	4,326	4,345
11.	Profit carried forward from previous year	309	416
12.	Net retained profit	4,635	4,761

4 Notes to the Financial Statements 2013

4.1 General Remarks

Accounting

The annual financial statements of KHD Humboldt Wedag International AG (KHD), Cologne, Germany, for the financial year 2013 have been prepared in accordance with the German Commercial Code (HGB) as applicable for large corporations and those of the German Stock Corporation Act (AktG). These financial statements have been prepared in Euro. All amounts, including figures used for comparison, are generally stated in thousands of euros (€ thousand), unless otherwise indicated. All amounts have been rounded according to normal commercial practice. The nature of expense method has been applied to the income statement. KHD is a large corporation in the meaning of Sections 267 Paragraph 3 and 264d of the German Commercial Code (HGB).

4.2 Accounting and Valuation Principles

Fixed Assets

Property, plant, and equipment are reported at cost and, if depreciable, are depreciated over time. Movable items of property, plant, and equipment are depreciated according to the straight line method based on the average useful life (between three and ten years) of the respective items. Movable assets with a net cost of acquisition of no more than € 150 are written off completely in the year of acquisition and are notionally removed from the register in the year of acquisition. Movable assets with a net cost of acquisition of between € 150 and € 1,000 are entered as a collective item in the manner described in Section 6 Paragraph 2a of the German Income Tax Act (EStG) and depreciated over a period of five years.

Shares in affiliated companies are recognized at cost.

Current Assets

Receivables, other assets, and cash and cash equivalents are reported at the lower of nominal value or fair value.

Equity

Subscribed capital corresponds to the articles of association and the entry in the commercial register. Treasury shares have been recognized at their notional value of € 1.00 per share and offset separately against the subscribed capital. The difference between the notional value and the acquisition costs of the treasury shares was offset against the free reserves.

Other Provisions and Accruals

All identifiable risks and measurable uncertainties as of the balance sheet date were covered by setting up commercially appropriate provisions and accruals.

Liabilities

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

Currency Translation

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

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

Derivative Financial Instruments

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

4.3 Notes to the Balance Sheet and Income Statement

1. Fixed Assets

Please refer to the statement of movements in fixed assets between January 1 and December 31, 2013, which is attached as an appendix to the notes to the financial statements.

2. Receivables and Other Assets

Receivables due from affiliated companies mainly comprise loan receivables in the amount of € 7,491 thousand (previous year: € 6,726 thousand due from an affiliated company. The receivables due from companies of the KHD Group also relate to services invoiced as of 31 December 2013 based on the service and cost allocation agreement as well as the bond arrangement agreement in the amount of € 542 thousand (previous year: € 380 thousand).

Other assets include a tax receivable due from the tax authorities in the amount of € 1,055 thousand (previous year: 2,755). This relates to a reimbursement claim in connection with the profit distribution made by KHD Humboldt Wedag GmbH (KHD HW), Cologne, to KHD at the end of the financial year.

Other assets also include a VAT credit in the amount of € 2,350 thousand (previous year: € 883 thousand). Within the tax unity for VAT, € 2,235 thousand (previous year: € 888 thousand) are amounts payable to Humboldt Wedag GmbH (HW), Cologne, and ZAB Zementanlagenbau GmbH Dessau (ZAB), Dessau. Consequently, an identical amount is reported under liabilities due to affiliated companies.

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

3. Cash on Hand, Bank Balances

Credit at banks has increased by € 16,696 thousand to € 98,874 thousand mainly as a result of cash deposits by Group companies for the utilization of the bank guarantee credit facility. In addition to the cash and cash equivalents received from Group companies for cash deposit (€ 16,072 thousand), the Company deposited € 11,578 thousand directly for other Group companies as collateral, so that as of December 31, 2013, restricted cash for collateral of € 27,650 thousand (previous year: € 0 thousand) in connection with the existing bank guarantee credit facility was reported under credit at banks.

4. Equity

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

In the 2011 financial year, the articles of association were changed by the capital increase carried out in line with the resolution of the Annual General Meeting of March 23, 2010. The amendment to the articles of association was entered in the commercial registry of the Company on February 16, 2011.

Pursuant to Section 5 Paragraph 1 of the articles of association, the Management Board is authorized to increase the Company's share capital, with the approval of the Supervisory Board, on one or more occasions by up to a total of € 10,255 against cash through the issue of up to 10,255 new no-par-value bearer shares, each representing € 1.00 of the share capital ("authorized capital") until March 22, 2015. 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 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.

The Company holds 229,136 treasury shares. The shares were originally 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 notional value of € 1.00 per share and deducted from the subscribed capital. The share's stock market price was € 6.46 as of December 31, 2013. The carrying amount of treasury shares in the amount of € 229 thousand corresponds to 0.46% of the Company's share capital.

On December 10, 2013, the Management Board accepted a voluntary takeover offer from a bidder consortium comprising AVIC International Engineering Holdings Pte. Ltd., Europe Project Management Pte. Ltd., Europe Technology Investment Pte. Ltd. and Europe Engineering Holdings Pte. Ltd. and sold all of its own shares. The economic transfer of the treasury shares to the bidders took place on January 7, 2014.

Changes in Equity in 2013

€ thousand	Subscribed capital	Treasury shares	Capital reserves	Legal reserve	Other revenue reserves	Net retained profit	Total
Dec.31, 2012	49,704	-229	60,236	1,538	1,776	4,761	117,786
Payment of dividends	0	0	0	0	0	-4,452	-4,452
Net profit for the year 2013	0	0	0	0	0	4,326	4,326
Dec.31, 2013	49,704	-229	60,236	1,538	1,776	4,635	117,660

In accordance with the resolution passed by the Annual General Meeting of shareholders, a dividend in the amount of € 4,452 thousand (€ 0.09 per share) (previous year: € 5,937 thousand, € 0.12 per share) was distributed to the Company's shareholders on June 26, 2013. Net retained profit as of December 31, 2013, includes profit carried forward from the previous year of € 309 thousand (previous year: € 416 thousand).

5. Provisions and Accruals

	Dec. 31, 2013 € thousand	Dec. 31, 2012 € thousand	Change € thousand
Other provisions and accruals	1,290	1,542	-252
	1,290	1,542	-252

Other provisions include personnel-related costs (€ 521 thousand), costs for the preparation of annual financial statements (€ 140 thousand), and provisions for incoming invoices still outstanding (€ 568 thousand).

6. Liabilities

	Dec. 31, 2013 € thousand	Dec. 31, 2012 € thousand	Change € thousand
Trade payables	408	150	258
Liabilities due to affiliated companies	18,207	1,147	17,060
Other liabilities	34	25	9
(of which tax liabilities)	(34)	(25)	(9)
	18,649	1,322	17,327

As in the previous year, all liabilities recognized as of December 31, 2013, have a residual term of less than one year.

The increase in liabilities due to affiliated companies is mainly the result of payments by Group companies for cash deposits for bank guarantees of € 16,072 thousand.

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

7. Contingent Liabilities

KHD has provided € 159.7 million (previous year: € 136.6 million) to affiliated companies in the form of Group guarantees, letters of comfort, and securities.

As of December 31, 2013, € 80,325 thousand (previous year: € 99,389 thousand) of the total amount above relates to contingent liabilities resulting from guarantees the Company has provided to KHD Group companies under the existing bank guarantee credit facility. The Company also has guarantee credit facilities with other banks. Of these, an amount of € 12,328 thousand (previous year: € 11,990 thousand) had been utilized as of December 31, 2013.

Based on the budgets for the respective KHD Group companies, it is not expected that these guarantees will be drawn upon.

DEUTZ AG, Cologne, Germany, has provided a deed of release of € 252 thousand (previous year: € 287 thousand) to cover KHD's subsidiary liability due to Unterstützungsgesellschaft mbH of Maschinenfabrik Fahr AG. Arising from this matter, HypoVereinsbank AG, Munich, Germany, a company of the UniCredit Group, has provided a letter of comfort that secures the settlement by DEUTZ AG.

8. Other Financial Obligations

Other financial obligations amounting to € 1,109 thousand (previous year: € 23 thousand) relate to obligations arising from consulting contracts (€ 1,097 thousand) and leases (€ 12 thousand) with a remaining term of up to three years.

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

Hedged risks	Hedging instrument	Dec. 31, 2013 Hedged volume USD thousand	Positive fair value € thousand	Negative fair value € thousand
Exchange risk receivables	Foreign exchange forward contracts	10,000	186	-228

The derivative financial instruments only include foreign exchange forward contracts. They serve to hedge the currency risks arising from loans in the amount of USD 10,000 thousand (previous year: USD 8,500 thousand), which were granted to an affiliated company. As of December 31, 2013, these have been recognized in the amount of € 7,491 thousand (previous year: € 6,726 thousand) as receivables due from affiliated companies. The concluded foreign exchange forward contracts hedge the full nominal value of the underlying transactions (USD 10,000 thousand, previous year: USD 8,500 thousand). The foreign exchange forward contracts are combined with underlying transactions as single valuation units. As of December 31, 2013, negative changes in fair value of the underlying transactions amounting to € 228 thousand (previous year: € 278 thousand) are offset by positive changes in fair value of the foreign exchange forward contracts amounting to € 186 thousand (previous year: € 244 thousand). The fair value of the foreign exchange forward contracts as of December 31, 2013, are derived from bank confirmations.

An assessment of the effectiveness of single valuation units is carried out both at the beginning of the hedge relationships as well as on every following balance sheet date on which this hedge relationship continues to exist. The prospective effectiveness test was performed on the basis of a critical terms match method. As the nominal amount and term (maturity) of the underlying and hedge transactions correspond with each other, the changes in fair value are expected to offset each other in the future. The valuation for documentation of effectiveness is performed by means of the dollar-offset method. Recognition is based on the so-called “net hedge presentation method.” The difference of € 42 thousand between the positive and negative fair values (previous year: € 34 thousand) has been recognized through profit and loss by setting up an accrual.

10. Other Operating Income

Other operating income mainly comprises income from charges to affiliated companies pursuant to the service and cost allocation agreement in the amount of € 2,811 thousand (previous year: € 2,635 thousand) and the bond arrangement agreement of € 3,092 thousand (previous year: € 2,838 thousand) as well as income for other accounting periods due to releases of accruals amounting to € 130 thousand (previous year: € 2,267 thousand).

11. Personnel Expenses

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

12. Other Operating Expenses

Other operating expenses comprise the following:

	2013 € thousand	2012 € thousand	Change € thousand
Legal and consulting costs	990	567	423
Group cahrges	407	615	-208
Supervisory Board compensation	317	269	48
Audit fees / tax advisory costs	253	386	-133
Investor relations	157	211	-54
Write-off receivable from MFC Corporate Services	0	1,914	-1,914
Other	1,071	1,200	-129
	3,195	5,162	-1,967

The legal and consulting costs also include consulting costs incurred as part of the AVIC takeover.

13. Income from Investments

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

14. Litigation

Arbitration claim of a customer in South America against HWUS and KHD

On December 20, 2013, HWUS received an arbitration claim that a customer in South America has submitted to the International Chamber of Commerce (ICC). The arbitration claim aims to determine that the cancellation of the contract with HWUS by the customer is effective and that HWUS and KHD should be sentenced to jointly pay USD 9.4 million as a reduction of the contractually agreed price and USD 5.2 million as compensation for maintenance costs and reputation loss suffered. The arbitration claim also aims either to win indemnity as if the contract had not been concluded (negative interest) or to win indemnity as if the contract had been fulfilled as agreed (positive interest).

Considering that the contract between HWUS (vendor) and the customer includes clauses excluding compensation for consequential damages and setting a value for the upper limit of total liability for the vendor – these clauses being effective in the view of HWUS's and KHD's legal representatives in the arbitration proceedings – HWUS and KHD assume that they will prevail on the issue of indemnity.

In the meantime, the ICC has confirmed the appointment of the arbitrator proposed by HWUS and combined both arbitration claims into a single arbitration. The arbitration proceedings will continue over the coming months.

15. Other Information

Employees

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

Deferred taxes:

Section 274 paragraph 1 HGB stipulates an option to recognize deferred tax assets. The Company does not make use of this option. In case this option would be applied, a deferred tax asset needs to be recognized for the existing and future usable trade and corporate tax loss carryforwards as of December 31, 2013..

16. Shareholdings

Company		Capital share in %	Currency	Equity	Net result for the year
Subsidiaries					
KHD Humboldt Wedag GmbH, Cologne	direct	100.00	€ thousand	33,528	4,778
Humboldt Wedag GmbH, Cologne	indirect	100.00	€ thousand	58,436	-7,981
ZAB Zementanlagenbau GmbH Dessau, Dessau	indirect	100.00	€ thousand	32,791	2,467
EKOF Flotation GmbH, Bochum	indirect	100.00	€ thousand	395	-225
Blake International Ltd., Road Town, British Virgin Islands	indirect	100.00	€ thousand	3,241	0
KHD Humboldt Wedag Industrial Services AG, Cologne	indirect	89.98	€ thousand	8,300	349
Paper Space GmbH, Cologne	indirect	89.98	€ thousand	63	0
Humboldt Wedag Australia Pty Ltd., Braeside, Australia	indirect	100.00	€ thousand	87	-137
Humboldt Wedag Inc., Norcross, USA	indirect	100.00	€ thousand	2,221	-1,820
Humboldt Wedag India Private Ltd., New Delhi, India	indirect	100.00	€ thousand	16,875	2,406
KHD Humboldt Wedag Machinery Equipment (Beijing) Co. Ltd., Beijing, China	indirect	100.00	€ thousand	550	131
KHD Humboldt Engineering OOO, Moskow, Russia	indirect	100.00	€ thousand	785	-764
Humboldt Wedag Malaysia Sdn.Bhd., Kuala Lumpur, Malaysia	indirect	100.00	€ thousand	36	53
Humboldt Wedag Do Brasil Servicos Technicos Ltda, Belo Horizonte, Brasilia	indirect	100.00	€ thousand	-80	-281
KHD Engineering Holding GmbH, Vienna, Austria	indirect	50.00	€ thousand	202	-7

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

Spot exchange rate as of December 31, 2013
1 euro corresponds to:

AUD	1,5396
INR	85,2246
USD	1,3767
RUB	45,2582
CNY	8,3314
MYR	4,5204
BRL	3,2519

4.4 Members of the Supervisory Board and Management Board

Supervisory Board

Hubert Keusch

<u>Chairman of the Supervisory Board (since June 25, 2013)</u>

Managing Director of ContiLink Services Limited

Luc Antoine Baehni

<u>Deputy Chairman of the Supervisory Board</u>

CEO of CGN-Compagnie Générale de Navigation sur le Lac Léman SA

Membership of supervisory boards and other governing bodies:

- Fondation de Prévoyance PROFELIA, Member of the Foundation Board
- Versicherungsverband Schweizerischer Schifffahrtsunternehmen Genossenschaft, Member of the Board of Directors

Eliza Suk Ching Yuen

Chairperson of the Supervisory Board (until June 25, 2013)

Director of HLM CPA Limited

Michael Busch

Independent Management Consultant

Membership of supervisory boards and other governing bodies:

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

Seppo Kivimäki

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

Helmut Meyer

Independent Management Consultant

Management Board

Jouni Salo, Engineer (Chairman of the board)
CEO of KHD
CFO of KHD (until April 30, 2013)

Ralph Quellmalz, Economics Graduate
CFO of KHD (since April 30, 2013)

Yizhen Zhu, Engineer
COO Asia Pacific of KHD

4.5 Total Remuneration of Current and Former Members of the Management Board and of Members of the Supervisory Board

Total remuneration for members of the KHD management Board expensed by KHD Group companies was € 1,149 thousand in the 2013 financial year (previous year: € 1,091 thousand). The total remuneration granted to members of the Supervisory Board for performing their duties amounted to € 317 thousand in the 2013 financial year (previous year: € 269 thousand). The compensation report contains further details about Management Board and Supervisory Board remuneration. The compensation report forms part of the management report and also describes the main points of the compensation system.

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

In 2013, members of the Supervisory Board received no advances (previous year: € 166 thousand) on their remuneration that is payable at the end of the financial year pursuant to the articles of association.

4.6 Parent Company and Consolidated Financial Statements

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

4.7 Reported Shareholdings

According to the written notifications in line with Section 21 WpHG (German Securities Trading Act) received by the Management Board, there are the following investments as defined by Section 160 Paragraph 1 Number 8 AktG (German Stock Corporation Act) in KHD Humboldt Wedag International AG, Colonia-Allee 3, 51067 Cologne, Germany:

The People's Republic of China, Beijing, China, notified us that its voting rights had exceeded the thresholds of 50% and 75% and its voting rights on January 7, 2014, amount to 76.47% (equivalent to 38,004,767 voting rights). The voting rights of the following companies are allocable to the People's Republic of China:

- Aviation Industry Corporation of China, Beijing [1], People's Republic of China,
- AVIC International Holding Corporation, Beijing[1], People's Republic of China,
- AVIC International Shenzhen Company Limited [1], Shenzhen, People's Republic of China,
- AVIC International Holdings Limited, Shenzhen [1], People's Republic of China,
- AVIC International Beijing Co. Limited, Beijing [1], People's Republic of China,
- AVIC International Kairong Limited [1], Hong Kong, Hong Kong,
- Kaihang Industrial Limited [1], Road Town, British Virgin Islands,
- Golden Prosperity Group Limited [2], Road Town, British Virgin Islands,
- Goldimax Group Limited [2], Road Town, British Virgin Islands,
- AVIC International Engineering Holdings Pte. Ltd. [2], Singapore, Singapore,
- Max Glory Industries Limited [1], Hong Kong, Hong Kong,

and

- Europe Project Management Pte. Ltd. [2], Singapore, Singapore,
- Europe Engineering Holdings Pte. Ltd. [2], Singapore, Singapore,
- Europe Technology Investment Pte. Ltd. [2], Singapore, Singapore.

[1] As of February 22, 2011 we were notified, that the voting rights had exceeded the thresholds of 3%, 5%, 10% and 15% and the threshold of 20% (equivalent to 9,940,715 voting rights) had been reached.
As of December 30, 2013 we were notified, that the voting rights had exceeded the threshold of 20% and totally amount to 24.37% (equivalent to 12,114,410 voting rights).

As of January 3, 2013 we were notified, that the voting rights had exceeded the thresholds of 25% and 30% and totally amount to 34.29% (equivalent to 17,041,982 voting rights).

2 As of October 11, 2013 we were notified, that the voting rights had exceeded the thresholds of 3%, 5%, 10% and 15% and the threshold of 20% (equivalent to 9,940,715 voting rights) had been reached.
As of December 30, 2013 we were notified, that the voting rights had exceeded the threshold of 20% and totally amount to 24.37% (equivalent to 12,114,410 voting rights).
As of January 3, 2013 we were notified, that the voting rights had exceeded the thresholds of 25% and 30% and totally amount to 34.29% (equivalent to 17,041,982 voting rights).

Mr. Yap Lian Seng[3], Singapore, Singapore, notified us that his voting rights had exceeded the thresholds of 3%, 5%, 10%, 15%, 20%, 25%, 30%, 50% and 75% and his voting rights on January 7, 2014, amount to 76.47% (equivalent to 38,004,767 voting rights). The voting rights of the following companies are allocable to Mr. Yap Lian Seng:

– Bright Horizon Global Limited[3], Road Town, British Virgin Islands,
– Westley Global Group Limited[3], Road Town, British Virgin Islands,
– Maystar Capital Limited[3], Road Town, British Virgin Islands,
– Europe Project Management Pte. Ltd. [3], Singapore, Singapore,
– Europe Engineering Holdings Pte. Ltd. [3], Singapore, Singapore,
– Europe Technology Investment Pte. Ltd. [3], Singapore, Singapore,

and

– AVIC International Engineering Holdings Pte. Ltd. [3], Singapore, Singapore,
– Max Glory Industries Limited[4], Hong Kong, Hong Kong.

3 As of October 11, 2013 we were notified, that the voting rights had exceeded the thresholds of 3%, 5%, 10% and 15% and the threshold of 20% (equivalent to 9,940,715 voting rights) had been reached.
As of December 30, 2013 we were notified, that the voting rights had exceeded the threshold of 20% and totally amount to 24.37% (equivalent to 12,114,410 voting rights).

As of January 3, 2013 we were notified, that the voting rights had exceeded the thresholds of 25% and 30% and totally amount to 34.29% (equivalent to 17,041,982 voting rights).

[4] As of February 22, 2011 we were notified, that the voting rights had exceeded the thresholds of 3%, 5%, 10% and 15% and the threshold of 20% (equivalent to 9,940,715 voting rights) had been reached.
As of December 30, 2013 we were notified, that the voting rights had exceeded the threshold of 20% and totally amount to 24.37% (equivalent to 12,114,410 voting rights).
As of January 3, 2013 we were notified, that the voting rights had exceeded the thresholds of 25% and 30% and totally amount to 34.29% (equivalent to 17,041,982 voting rights).

Mr. Peter Kellogg notified us that his voting rights share had exceeded the 3% and 5% thresholds of voting rights, and that as of June 16, 2010, 5.70% of the voting rights (equivalent to 1,888,314 voting rights) were attributable to him via IAT Reinsurance Company Ltd., Hamilton, Bermuda.*

Desmarais Family Residuary Trust, Montreal, Canada, notified us that its voting rights had fallen below the threshold of 3% and that its voting rights amounted to 0.0% as of January 7, 2014 (equivalent to 0 voting rights). The voting rights of the following companies are allocable to Desmarais Family Residuary Trust:

- Nordex Inc., Montreal, Canada,
- Gelco Enterprises Ltd., Montreal, Canada,
- Power Corporation of Canada, Montreal, Canada,
- 171263 Canada Inc., Montreal, Canada,
- Power Financial Corporation, Montreal, Canada,
- Great-West Lifeco Inc., Winnipeg, Canada,
- The Great-West Life Assurance Company, Winnipeg, Canada,
- Canada Life Financial Corporation, Toronto, Canada,
- The Canada Life Assurance Company, Toronto, Canada,
- Canada Life Capital Corporation Inc., Toronto, Canada,
- Canada Life International Holdings Limited, Hamilton, Bermuda,
- Canada Life Irish Holding Company Limited, Dublin, Ireland,
- Canada Life Europe Investment Limited Dublin, Ireland.

Setanta Asset Management Limited, Dublin, Ireland, notified us that its voting rights had fallen below the threshold of 3% and that its voting rights amounted to 0.0% as of January 7, 2014 (equivalent to 0 voting rights). The voting rights of the following companies are allocable to Setanta Asset Management Limited:

– Canada Life Assurance Europe Limited, Dublin, Ireland.

Morgan Stanley, Wilmington, Delaware, USA, notified us that its voting rights had fallen below the thresholds of 5% and 3% and that its voting rights amounted to 0.31% as of January 7, 2014 (equivalent to 153,234 voting rights). The voting rights of the following companies are allocable to Morgan Stanley:

– Morgan Stanley Capital Management LLC, Wilmington, Delaware, USA,
– Morgan Stanley & Co. LLC, Wilmington, Delaware, USA,
– Morgan Stanley Domestic Holdings Inc., Wilmington, Delaware, USA.

STERLING STRATEGIC VALUE LIMITED, Tortola, British Virgin Islands, notified us that its voting rights had fallen below the thresholds of 15%, 10%, 5%, and 3% and that its voting rights amounted to 0.0% as of January 7, 2014 (equivalent to 0 voting rights). STERLING STRATEGIC VALUE LIMITED notified us on behalf of the following companies and persons that:

- As of January 7, 2014, the voting rights of GRITLOT LIMITED, Douglas, Isle of Man, had fallen below the thresholds of 15%, 10%, 5%, and 3% and amounted on that day to 0.0% (equivalent to 0 voting rights).
- As of January 7, 2014, the voting rights of Mr. Tito Tettamanti, Catagnola, Switzerland, had fallen below the thresholds of 15%, 10%, 5%, and 3% and amounted on that day to 0.0% (equivalent to 0 voting rights).
- As of January 7, 2014, the voting rights of Mr. Massimo Pedrazzini, Massagno, Switzerland, had fallen below the thresholds of 15%, 10%, 5%, and 3% and amounted on that day to 0.0% (equivalent to 0 voting rights).
- As of January 7, 2014, the voting rights of MP ADVISORS SA, Lugano, Switzerland, had fallen below the thresholds of 15%, 10%, 5%, and 3% and amounted on that day to 0.0% (equivalent to 0 voting rights).
- As of January 7, 2014, the voting rights of Ms. Giulia Nobili, Monaco, Principality of Monaco, had fallen below the thresholds of 15%, 10%, 5%, and 3% and amounted on that day to 0.0% (equivalent to 0 voting rights).

- As of January 7, 2014, the voting rights of Mr. Patrick O’Sullivan Greene, Ireland, had fallen below the thresholds of 15%, 10%, 5%, and 3% and amounted on that day to 0.0% (equivalent to 0 voting rights).
- As of January 7, 2014, the voting rights of Mr. Anthony Bunker, Düsseldorf, Germany, had fallen below the thresholds of 15%, 10%, 5%, and 3% and amounted on that day to 0.0% (equivalent to 0 voting rights).

Monolith N.V., Amsterdam, Netherlands, notified us that on January 7, 2014, its voting rights had fallen below the thresholds of 15%, 10%, 5%, and 3% and that its voting rights amounted to 0.9% as of January 7, 2014 (equivalent to 449,640 voting rights).

RWC European Focus Master Inc., Camana Bay, Cayman Islands, notified us that its voting rights had fallen below the thresholds of 15%, 10%, 5%, and 3% and that its voting rights amounted to 0.0% as of January 7, 2014 (equivalent to 0 voting rights). The voting rights of the following companies are allocable to RWC European Focus Master Inc.:

– RWC Asset Management LLP, London, Great Britain,
– RWC Partners Ltd., London, Great Britain.

4.8 Auditor’s Fee

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

4.9 Corporate Governance

The Management Board and Supervisory Board of KHD issued the statement required pursuant to Section 161 of the German Stock Corporation Act (AktG) on February 28, 2014 – as well as statements from previous years – and also made it permanently publicly available to shareholders on the Company's website (www.khd.com).

4.10 Appropriation of Net Retained Profit

The Management Board and the Supervisory Board will propose to the Annual General Meeting held on May 27, 2014, to carry forward the HGB net income of KHD Humboldt Wedag International AG in the amount of € 4.6 Mio. to the new account.

Cologne, Germany, March 11, 2014

The Management Board

(s) Jouni Salo (s) Ralph Quellmalz (s) Yizhen Zhu

5. Appendix to the Notes

Movements in Fixed Assets in the Financial Year 2013

	Gross carrying amounts				**Accumulated amortization, depreciation, and write-downs**				**Net book value**	
	Balance as Jan. 1, 2013 € thousand	Additions € thousand	Disposals € thousand	Balance as Dec. 31, 2013 € thousand	Balance as Jan. 1, 2013 € thousand	Additions € thousand	Disposals € thousand	Balance as Dec. 31, 2013 € thousand	Balance as Dec. 31, 2013 € thousand	Dec. 31, 2012 € thousand
I. Property, plant, and equipment										
Other plants, opertaing and office equipment	4	25	0	29	1	7	0	8	21	3
II. Financial investments										
Shares in affiliated companies	26,410	0	0	26,410	0	0	0	0	26,410	26,410
	26,414	25	0	26,439	1	7	0	8	26,431	26,413

6 Responsibility Statement

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

Cologne, Germany, March 11, 2014

The Management Board

(s) Jouni Salo | (s) Ralph Quellmalz | (s) Yizhen Zhu

7 [Independent] Auditors' Report

We have audited the annual financial statements - comprising the balance sheet, the income statement and the notes to the financial statements - together with the bookkeeping system, and the management report of KHD Humboldt Wedag International AG, Cologne/Germany, for the business year from 1 January to 31 December 2013. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Company's Management Board. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and on the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with § 317 HGB ("German Commercial Code") and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer. Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with German principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the Management Board, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

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

Düsseldorf/Germany, 13 March 2014

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

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

8 Report of the Supervisory Board

Dear Shareholders,

In the 2013 financial year, 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 the KHD Group.

Cooperation between the Management Board and the Supervisory Board has 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 the KHD Group.

Personnel Changes in the Supervisory Board

Ms. Eliza Suk Ching Yuen resigned as Chairperson of the Supervisory Board on June 25, 2013. Mr. Hubert Keusch was elected new Chairperson of the Supervisory Board by resolution of the Supervisory Board of June 25, 2013.

Meetings and Resolutions of the Supervisory Board

In the 2013 financial year, the Supervisory Board held a total of eleven meetings that took place in person, in which all matters that were of fundamental importance for the KHD Group were comprehensively discussed. In addition, five meetings were held by telephone conference. In one urgent case, a resolution was passed by circulation procedure.

At the meeting convened to approve the financial statements on March 18, 2013, 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 ended December 31, 2012. 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 January, March, April, June (2 meetings), August (2 meetings), September, November (2 meetings), covered reports on business development, deviations of the actual business development from the budget and forecasts, the 2014 budget and the medium-term planning 2015-17, 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 and resolutions related to the recruitment of a Chief Financial Officer as well as organizational issues of the Supervisory Board. A strong focus in the 2013 financial year was on the discussion about the status of strategy implementation and the strategic development of the Group, competitiveness and development prospects, organizational changes, and further operational issues. On October 11, 2013, a consortium group of bidders headed by AVIC published the decision to submit a voluntary public takeover offer. Until the publication of the Management Board’s and Supervisory Board’s joint statement on the bidders’ voluntary public takeover offer, the focus of the Supervisory Board’s work was on topics in connection with the takeover offer.

The meetings that were held by telephone conference in February, October (2 meetings), and December (2 meetings) dealt with discussions of the interim figures of the consolidated financial statements and the resolution on the extension to the appointment of the Chief Executive Officer, and in particular covered discussions and resolutions on topics in connection with the takeover offer as well as the resolution on the submission of a joint statement from the Management Board and Supervisory Board on the bidders’ voluntary public takeover offer.

Committees and Associated Meetings

The Supervisory Board had formed a Personnel Committee, an Audit Committee, and a Nomination Committee. In its meeting on June 25, 2013, the Supervisory Board merged the Personnel Committee with the Nomination Committee.

The Personnel Committee held six meetings in the year under review. The Committee's essential tasks in the year under review were the recruitment of a new Chief Financial Officer, coordinating the preparation of changes to management employment contracts and the management compensation system and preparing Supervisory Board resolutions on Management Board matters. An independent external expert was commissioned for specialist assistance on the issue of Management Board compensation.

The Audit Committee held six meetings in the 2013 financial year. The Audit Committee focused on monitoring the accounting process and, in presence of the auditors and the Management Board, on the annual financial statements and the consolidated financial statements for 2012 financial year. Furthermore, it reviewed in the 2013 financial year the 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 also dealt with issues of corporate governance including the preparation of the declaration of compliance with the German Corporate Governance Code. The Audit Committee 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 the 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 2013/14 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 2014. 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, 2013, 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, 2013, 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 June 24, 2013. 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 Paragraph 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 13, 2014, and in the Supervisory Board meeting convened to approve the financial statements on March 18, 2014. 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 2013 financial year and of the consolidated financial statements including the Group management report for the 2013 financial year, as well as of the Management Board's proposal on the appropriation of net retained profit for the 2013 financial year, 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, 2013, 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.

Management Board's report on relations with affiliated companies (Dependency Report) was audited by the independent auditor and the following unqualified opinion was issued:

"Based on the results of our statutory audit and evaluation we confirm that the actual information included in the report is correct."

The Management Board presented the Dependency Report to the Supervisory Board. The Supervisory Board also reviewed the Dependency Report. After considering the final results of its own review the Supervisory Board has no objections to raise against the Management Board's final declaration in the Dependency Report and against the result of the audit by the independent auditors.

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.

Cologne, Germany, March 18, 2014

(s) Hubert Keusch
(Chairman of the Supervisory Board)

9 Declaration of compliance by the Management Board and Supervisory Board

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

The Management Board and the Supervisory Board of KHD Humboldt Wedag International AG hereby declare that since the last declaration of compliance on February 28, 2013 the recommendations of the German Corporate Governance Code (the "Code") as amended on May 13, 2013 have been complied with and will be complied with in future with the following exceptions:

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

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

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

In the 2013 financial year the Company did comply with the other recommendations of Code item 4.2.3, except for the recommendation of item 4.2.3 para. 4 as mentioned above. In particular, the compensation structure for all members of the Management Board comprises of fixed and variable compensation elements corresponding to the employment contracts valid in the 2013 financial year. In accordance with the accounting rules of the German Commercial Code ("HGB") the bonus component in the 2013 financial year is presented as a fixed compensation element because the variable compensation elements were substantiated by determining a fixed bonus prior to the end of the 2013 financial year.

Two of the three management employment contracts do not include an explicit regulation on severance. The other contract limits the severance payment at the normal end of the term of the employment contract and in case of premature termination by the Company without serious cause entitling the Company to terminate the contract without notice, to two years' fixed compensation. In case of premature termination of a management employment contract without serious cause more than two years prior to the normal end of the term of the employment contract the employment contracts do not limit the payments to the value of two years' compensation. In this case compensation for the remaining term of the employment contract, but no additional severance, has to be paid. The management employment contracts do not provide for such a limitation as the Supervisory Board had deemed this as not advisable. Amicable rescission of a management employment contract having a remaining term of more than two years is hindered significantly in case of a severance cap as in such cases acceptance of the limitation would be disadvantageous to the Management Board member compared with adherence to the employment contract and claiming the ongoing compensation.

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

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

Cologne, February 28, 2014

For the Management Board		For the Supervisory Board
(s) Jouni Salo	(s) Ralph Quellmalz	(s) Hubert Keusch
(s) Yizhen Zhu		