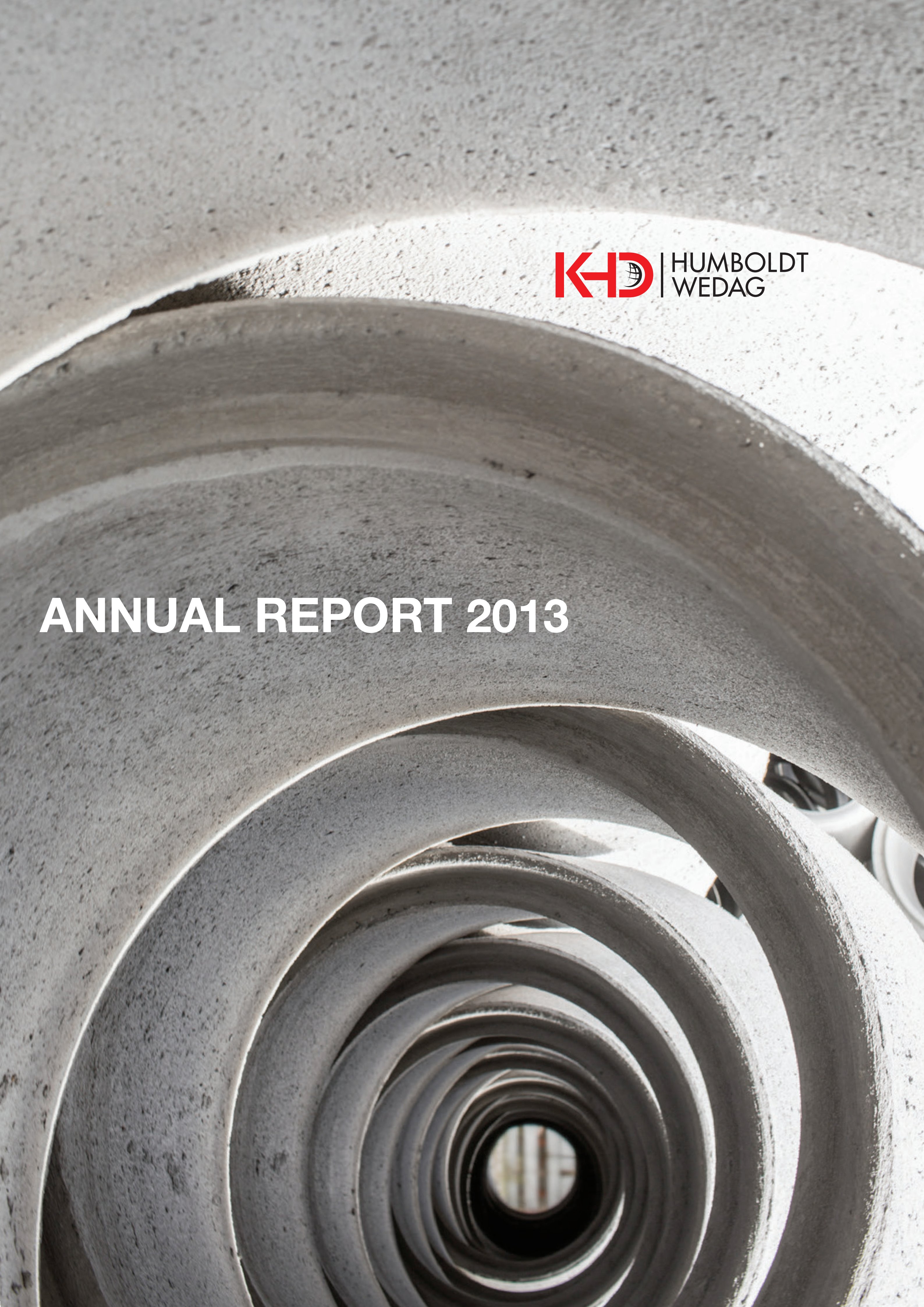
KHD HUMBOLDT WEDAG

ANNUAL REPORT 2013



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Please note that differences may occur for amounts and ratios rounded as all amounts have been rounded according to normal commercial practice.

Added Value for our Customers

The KHD Group is one of the world's leading experts on efficient and environmentally friendly cement plant technology. In addition to the engineering and supply of the technical equipment for cement plants we are growing as a competent service provider for cement producers.

Our continuously improved technology guarantees a high level of availability and efficiency as well as lower energy consumption and emissions. KHD's plant technology helps cement producers meet tomorrow's environmental standards today, whilst reducing operating costs at the same time.

More than 750 employees ensure that our customers across the globe receive the best products and excellent service. With high quality spare parts and plant services, our employes also help to achieve optimum production conditions over the entire life cycle of a cement plant.

Together with AVIC as a strong partner, we are expanding our knowledge-intensive business model and creating added value for our customers in all major cement markets. The takeover creates the foundation for KHD's intensive collaboration with its strategic partner AVIC. Together, we will explore new markets and leverage our unique partnership to strengthen KHD's global competitiveness.

Key Figures

in € million	2013	2012	Variance in %
Order Intake	172.4	410.9	−58.0
Revenue	249.6	213.5	16.9
Gross Profit	29.4	43.8	−32.9
Gross Profit margin (in %)	11.8	20.5	−42.5
EBIT	1.2	6.4	−81.3
EBIT margin (in %)	0.5	3.0	−84.0
EBT	2.4	8.8	−72.7
Group net profit for the year	0.7	7.0	−90.0
EPS in €	0.01	0.14	−92.9
Cash flow from operating activities	−47.1	−11.3	−316.8
Cash flow from investing activities	−1.0	−2.9	65.5
Cash flow from financing activities	−29.7	9.7	−406.2

in € million	Dec. 31, 2013	Dec. 31, 2012	Variance in %
Equity	222.5	229.3*	−3.0
Equity ratio (in %)	53.2	52.6*	1.1
Cash and cash equivalents	228.2	282.6	−19.2
Order Backlog	413.8	491.0	−15.7
Employees	757	783	−3.3

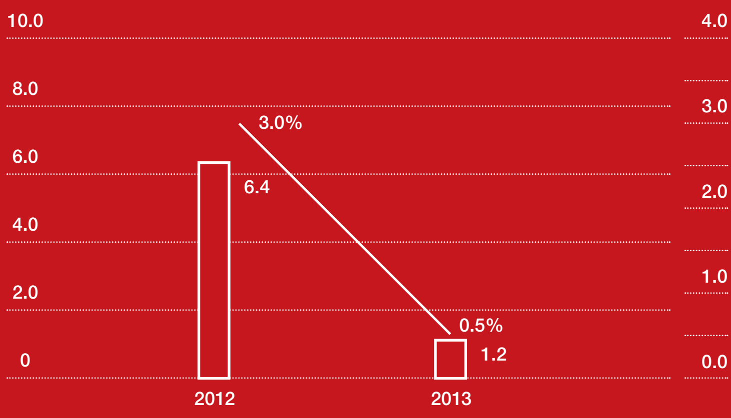
* Amounts adjusted due to change in accounting policy for pension benefit obligation

Facts & Figures

Overall, business development was unsatisfactory in 2013. Nevertheless, KHD is well positioned for its future development.

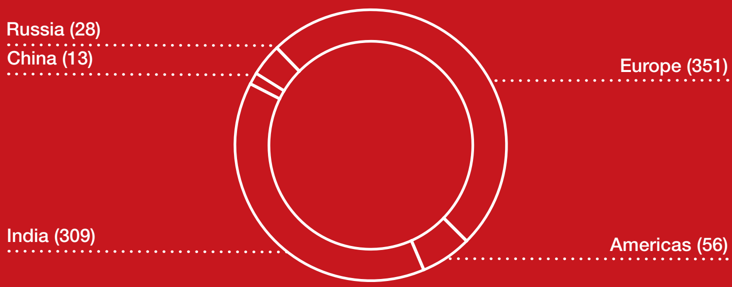
€ 172 million
order intake (–58%)

€ 414 million
order backlog (–15.7%)



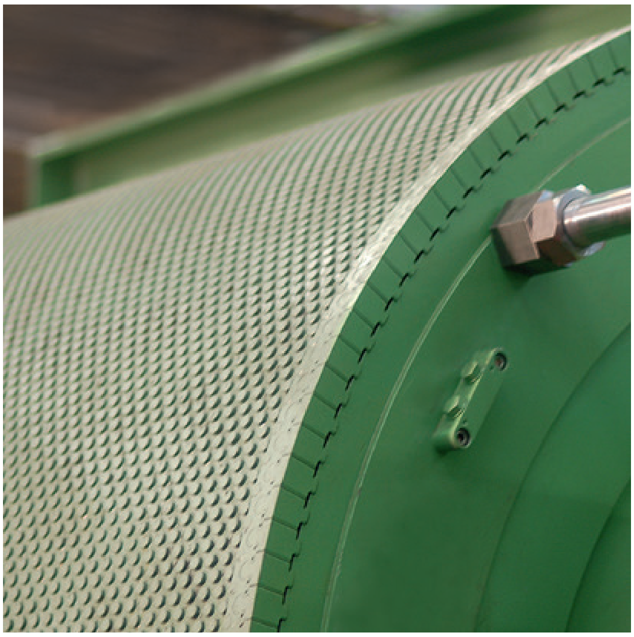
EBIT and EBIT margin (%)

757
Employees worldwide



Employees by region (End of year 2013)

Highlights 2013



STRATEGIC PARTNERSHIP

KHD and AVIC will further intensify their collaboration on opening up new markets following the successful takeover of KHD by a group of bidders led by AVIC. The aim is to offer to the cement producers innovative technology solutions together with efficient and cost effective cement plant construction. The strategic partnership allows KHD – AVIC to offer unique solutions to the customers worldwide by combining our individual strengths.

EXPANSION OF SERVICE BUSINESS

The 2013 financial year was characterized by the expansion of the "Parts & Services" business unit. From January 2014 onward, this area will be managed as a segment independent from the project business. In addition to the spare parts business, the segment covers a wide spectrum of services such as erection and commissioning supervision, technical inspections, consulting, auditing, and training. KHD Group's customers are served in all regions directly on site by a service team that has been strengthened with additional personnel.

… Ralph Quellmalz appointed CFO on April 30, 2013 … Further savings achieved in administrative and sales expenses … Emphasis on research and development

NEW PROJECTS

After starting the year with few new orders, the KHD Group was able to win several important orders in the last quarter. The Holcim Group placed orders with the KHD Group for the construction of a new production line in Russia and for the modernization of a cement plant in the USA. The Russian project is expected to run until the end of 2016. In Turkey, the KHD Group consolidated its market position with orders for a production line and for a COMFLEX® grinding system. All projects encompass engineering and additional services.

ENVIRONMENTALLY FRIENDLY TECHNOLOGIES

For decades, the KHD Group has been a front-runner in the development of environmentally friendly technologies for the cement industry. In view of rising energy prices and stricter emissions regulations, the KHD Group also focused in 2013 on the use of alternative fuels, on continually improving the grinding and combustion process, and reducing emissions. The benefits for the customer are obvious: production processes that generate less pollution along with significant cost advantages.

in environmental technologies … Takeover by consortium group of bidders led by AVIC strengthens strategic partnership …

Foreword of the Management Board

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

The takeover led by AVIC opens a new chapter in KHD Group history. This lays the foundation for much closer collaboration, which actually started already in 2011, between KHD and our strategic partner AVIC. We will work together to open new markets and strengthen our competitiveness on a global level.

Fierce competition in our industry continued throughout the reporting year, which was characterized by a low level of new orders as well as by continued price pressure. Investment restraint among cement producers, rather than any decline in KHD's market position, meant that KHD was awarded significantly fewer orders during the 2013 financial year than in the previous year. Thanks to our technological expertise we were able to win a large order in Russia worth € 77 million in the fourth quarter of 2013. In the US we were successful in winning an environmentally driven project to modernize a production line with a major global cement producer. Despite the difficult market situation, we were also able to strengthen our already strong market position in Turkey with two new orders.

In order to reduce our dependence on the cyclical project business, we put a great amount of effort into expanding our service offering during 2013. Starting in 2014 onwards KHD's aftermarket business will be developed in a separate Parts & Services business unit. With plant optimization, high-quality spare parts, technical inspections, consulting services, auditing services and training, we intend to offer our customers significant added value after plant commissioning and generate additional business fit for KHD.

Our high order backlog enabled us to achieve our revenue target for the 2013 financial year. The income situation in the 2013 financial year was, however, negatively affected by the execution of projects with weaker margins won in previous years in a highly competitive environment. Due to challenges in project execution and unexpected profit deterioration in updated cost estimates of a few major projects, KHD did not achieve its margin target. However, the cost savings in administrative and sales expenses achieved by our strict cost management are encouraging. Despite an unsatisfactory overall result, KHD remained profitable and closed a difficult financial year with an EBIT of € 1.2 million and an EBIT margin of 0.5%.

For a premium brand like KHD, technical leadership remains extremely important. Environmental protection is playing an increasingly important role in our current research and development. As one of the world's leading providers of environmentally friendly technologies for the cement industry, KHD focuses on solutions for the utilization of alternative fuels and on continuous improvement of the grinding and burning processes by increasing the efficiency of individual plant components and reducing emissions.

»Together with AVIC, we want to strengthen the competitive position of the KHD Group on the global markets and grow according to our values.«

»Our expanded service offering creates added value for customers – especially after plant commissioning.«

For the 2014 financial year, we anticipate that the appetite among cement producers to invest in larger projects will grow and thus the difficult market conditions will ease up moderately. 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. Our collaboration with AVIC improves our chances of winning new projects in these growth regions.

With our solid liquidity and equity base, we are well positioned for future success in a complex and competitive environment. Fluctuations in order intake and continued margin pressure are being met with continuous improvement in our cost position, increased efficiency in project execution and strategic investments for future growth. We also anticipate lasting positive effects from the expansion of the Parts & Services business.

We know that success in further developing the KHD Group, along with our new majority shareholders is only possible with the full support of our customers and other stakeholders. However, KHD's main asset are our highly motivated employees that ensure continuous development of the company year on year. We would like to thank you all for your confidence and your commitment in the past financial year and look forward to working with you in 2014 to help KHD CEMENT A STRONGER FUTURE!

Best regards,

Jouni Salo   Ralph Quellmalz   Yizhen „Mario“ Zhu

JOUNI SALO, CEO

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

RALPH QUELLMALZ, CFO

Ralph Quellmalz was born in Germany on September 21, 1969. After graduating from the University of Cologne with a degree in economics, he worked for one of the big four auditing firms. Carrying out audits of large international companies during this period provided him with a wide range of experience, with a strong focus on the construction business. Ralph Quellmalz joined KHD in 2006. Before his appointment as CFO, Mr. Quellmalz worked several years as Global Head of Finance of the KHD Group, as a member of the Management Board of KHD Humboldt Wedag Industrial Services AG and as Managing Director of Humboldt Wedag GmbH.

YIZHEN ZHU, COO ASIA PACIFIC

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

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 the presence of the auditors and the Management-Board, on the annual financial statements and the consolidated financial statements for the 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

Hubert Keusch
(Chairman of the Supervisory Board)

MEMBERS OF THE SUPERVISORY BOARD

Members	Mandates
Hubert Keusch Chairman of the Supervisory Board (since June 25, 2013) Managing Director of ContiLink Services Limited	
Luc Antoine Baehni Deputy Chairman of the Supervisory Board CEO of CGN-Compagnie Générale de Navigation sur le Lac Léman SA	– Fondation de Prévoyance PROFELIA, Member of the Foundation Board – Versicherungsverband Schweizerischer Schifffahrtsunternehmen Genossenschaft, Member of the Board of Directors
Eliza Suk Ching Yuen Chairperson of the Supervisory Board (until June 25, 2013) Director of HLM CPA Limited	
Michael Busch Independent Management Consultant	– 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	

SUPERVISORY BOARD COMMITTEES

Personnel Committee (until June 25, 2013)
Eliza Suk Ching Yuen (Chairperson)
Luc Antoine Baehni
Helmut Meyer (from January 27, 2013, through March 18, 2013)
Michael Busch (until January 24, 2013)

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

Nomination Committee (until June 25, 2013)
Michael Busch (Chairman)
Eliza Suk Ching Yuen
Seppo Kivimäki

In its meeting on June 25, 2013, the Supervisory Board merged the Personnel Committee with the Nomination Committee.

Personnel and Nomination Committee (since June 25, 2013)
Hubert Keusch (Chairman)
Luc Antoine Baehni
Michael Busch

GROUP MANAGEMENT REPORT

GROUP MANAGEMENT REPORT

FUNDAMENTAL PRINCIPLES OF THE KHD GROUP

BUSINESS MODEL

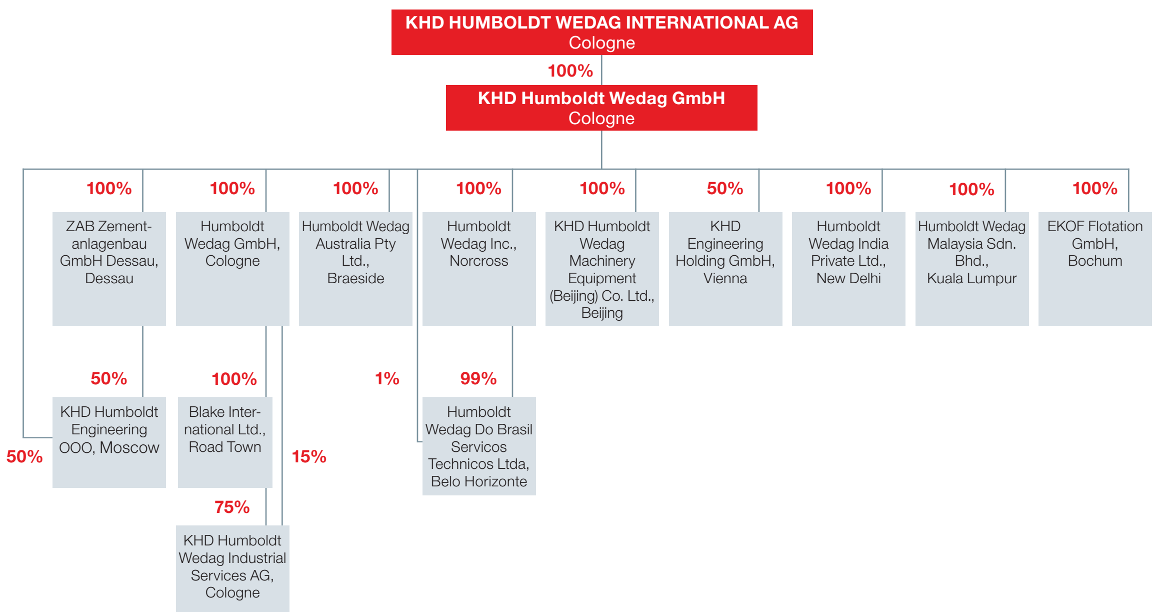
Organizational Structure and Locations

With its subsidiaries in Europe, the Americas, Asia, and Australia, KHD Humboldt Wedag International AG (hereafter also referred to as "KHD Group" or "Group") 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 Group's service portfolio. The Group focuses mainly on knowledge-intensive areas. The manufacturing of plant equipment is almost entirely outsourced to quality-certified, external manufacturers who work in accordance with KHD Group's specifications.

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

There has been a strategic partnership between KHD Group and Beijing-based AVIC Beijing since the end of 2010, underpinned by the capital interests of AVIC International Engineering Holdings Pte. Ltd. (AVIC Engineering), Singapore, Singapore, and Max Glory Industries Limited (Max Glory), Hong Kong, Hong Kong, in KHD. The 20% capital interest of Max Glory exists since February 2011. 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 the group of bidders led by AVIC, strategic collaboration will be further strengthened in the future.

Corporate Structure

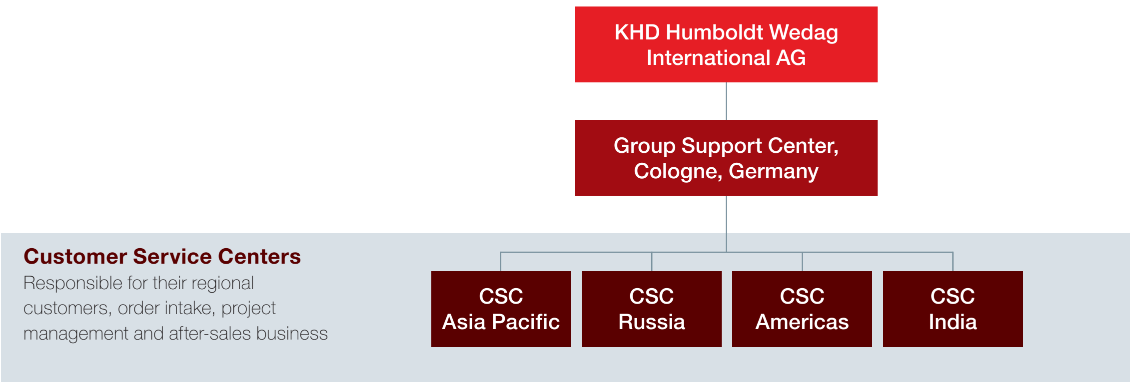


KHD Group's customer base is primarily made up of cement producers from around the world. Maintaining close contact with this target group is one of the keys to the success of the Group's business activities. Through our targeted account management, we ensure that our customers are served in accordance with their individual needs. We ensure direct customer care through our Customer Service Centers (CSCs) in the respective sales territories.

The advantage of our structure lies in the global coordination of the Group Support Center in Cologne combined with the proximity of the regional Customer Service Centers to the respective customers and their knowledge of the local market environment. In order to tap into markets in which the Group is not represented by its own sales force, the KHD Group employs sales agents.

Within the KHD Group, the Group Support Center in Cologne, Germany, assumes the central strategic functions and serves as contact for all specialist and organizational matters. The markets in Europe, the Middle East and North Africa are managed directly from Cologne. The remaining regions – Asia Pacific (APA), Russia/CIS, the Americas, and India/Sub-Saharan Africa – are each managed by a Customer Service Center (CSC).

Customer Service Centers (CSC)



The **CSC Asia Pacific** in Beijing is in charge of coordinating the cooperation with AVIC and of accelerating market development in China and Southeast Asia. The focus here is on cement markets in Indonesia and Malaysia, among others. Orders from CSC Asia Pacific are currently processed by the Group Support Center in Cologne.

With a company in Dessau, Germany, and a subsidiary in Moscow, the **CSC Russia** covers the 15 states of the former Soviet Union plus Mongolia. In addition to new plants, the focus is on taking advantage of the huge potential for modernization and expansion projects. The orders are processed through collaboration between personnel at the Group Support Center and CSC Russia. However, the Customer Service Center has plans to become a full-scale project execution center.

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

The **CSC India** in New Delhi is responsible for the important Indian market, the neighboring countries of Nepal, Bhutan, and Sri Lanka, as well as the management of markets in Sub-Saharan Africa. With over 150 engineers, the CSC India not only executes its own projects, but it also increasingly supports the other Customer Service Centers. Marketing for the entire Group is managed from India and implemented by employees at each location. The CSC India has its own workshop for manufacturing some key components and for roller refurbishment.

Range of Products and Services

Capex (Project Business)

The scope in the Capex business unit (project business) encompasses the process technology, design, engineering, project management, and the supply of technology and equipment (grinding, pyro process, system automation). Supervising of the erection and commissioning of cement plants and related equipment is related to the project business, but is organizationally allocated to the Parts & Services business unit.

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

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

Parts & Services

KHD Group's services include on the one hand the supply of spare and wear parts and supervision of the erection and commissioning of cement plants and related equipment, while on the other hand, the KHD Group offers various plant services such as roller refurbishment, technical inspections and audits, as well as consulting and assistance services. Consulting on energy efficiency, emissions reduction, and alternative fuels for plant modernizations is also part of the scope of the Parts & Services business unit.

The KHD Group also organizes training for cement plant personnel. For this purpose, the KHD Group uses its own program SIMULEX®, with which all processes in a cement plant can be simulated and controlled by the training course participants.

Management and Supervision

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

The Management Board of KHD has three members: Jouni Salo (CEO), Ralph Quellmalz (CFO), and Yizhen Zhu (COO Asia Pacific). The rules of procedure implemented for the Management Board by the Supervisory Board govern the fundamental principles of the Management Board's work. The assignment of functional responsibilities for individual Management Board members is laid out in the schedule of responsibilities.

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).

OBJECTIVES AND STRATEGY

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

The cornerstones of the Group strategy are:

- to create customer-oriented growth through consistent account management and the expansion of service activities under the umbrella of the new segment Parts & Services;
- to extend our technological leadership by means of intensive research and development activities, modular standard plants and products, and investment in key technologies;
- to expand our market position in markets on which we previously placed less focus and to secure long-term competitiveness through strategic partnerships and by strengthening resources and capacities in low-cost regions;
- to promote a shared culture of excellence and commitment (operational excellence) across the entire Group.

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

Customer-oriented Growth

Against a backdrop of market consolidation among cement producers, the KHD Group has shifted its customer care towards global account management. Newly established sales offices and subsidiaries in Brazil and Turkey provide targeted support for activities in key growth markets. Global and local account managers have access to a comprehensive range of up-to-date information covering products and processes as well as marketing materials. Building on experience gained in on-site project management, they are now responsible for developing and expanding the service business in their respective markets as well as generating new project business.

In response to our customers' requirements, we are gradually expanding the portfolio of services we offer in the Parts & Services segment. This will enable us to ensure the most comprehensive service possible for our customers, in particular after a cement plant has been commissioned. In intensifying our service activities, we hold true to our technological core competencies and concentrate on regions with a sufficient number of installed plant components. Additionally, the KHD Group will place greater emphasis on technical audits, which provide an early indication of the needs of individual customers for high-quality services and spare parts, thereby helping us to serve them better.

We also pursue customer-oriented growth at the process level through our customer relationship management system (CRM), which has enabled us to streamline the evaluation and prioritization of all customer activities, especially during the critical tendering phase.

Expansion of our Technological Leadership / Research and Development

Technological leadership continues to be important for the KHD Group as a premium brand. The world's first suspension preheater and the first two-pier rotary kiln are KHD Group developments. The KHD Group was also instrumental in developing high-pressure grinding and was among the first to successfully commission a roller press.

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

Research and development efforts focus on the major trends in the cement industry. Environmental protection is playing an increasingly important role. As one of the world's leading providers of environmentally friendly technologies for the cement industry, the KHD Group continually focuses on solutions involving the use of alternative fuels and on continuous improvement of grinding and burning processes (increasing the efficiency of individual plant components and reducing emissions). We thus help our customers to comply with ever stricter requirements and to cut costs. As part of our standardization efforts, we continue to aim to be able to offer customized plants to our customers through the use of modular products and designs. This saves time and money for everyone involved. The KHD Group is also working on automation solutions for the service business.

The KHD Group spent € 3.2 million on research and development in 2013 (previous year: € 3.6 million). This corresponds to 1.3% (previous year: 1.7%) of revenue, a high value in industry comparisons maintained by the KHD Group. A total of 24 patents incl. one registered design (previous year: 23 patents incl. six registered designs) were applied for in the reporting year. At the end of the year, the KHD Group owned the rights to a total of 996 (previous year: 915) items of intellectual property, of which 461 (previous year: 403) were patents, 518 (previous year: 497) were brands and 17 (previous year: 15) were registered designs.

The important directions for research and development are oriented along the long-term industry trends, shown in the following table.

Industry Trend	KHD Technology Focus Area
Consolidation of global cement producers	– Standardization of products and processes to be able to serve our customers better, faster and with more cost efficiency
Energy-efficient plants needed for lowering operating costs	– Increased use of KHD roller presses and COMFLEX® grinding applications – Increased use of waste heat – Improved kiln fuel efficiency and use of alternative fuels – Replacement or retrofitting of old plants – Improved maintenance management – Improved productivity through better automation and process control
Use of alternative fuels – driven by cost and legislation	– Further development of KHD's already leading technologies for the use of alternative fuels
More requirements for emission controls	– Increased use of COMFLEX® technology to grind clinker as well as substitutes like fly ash, slag, etc. – Development and use of KHD low-emission technology

Products and areas at the center of research and development at the KHD Group in the 2013 financial year:

Product/area	R&D Focus in 2013
Kiln	– Work on the new design for gears – Feasibility studies in connection with new kiln drives – Cost reduction measures for rollers
Burners	– Testing of other alternative fuels
Clinker coolers	– Development completion with a focus on improved efficiency, simpler operation, and maintenance as well as optimized automation (PLC logic)
Automation	– Introduction of an internal flow sheet tool for optimization – Further development of various automation products
Environment	– New projects in the area of alternative fuels and emissions reduction
Base plant	– Continued work on the standardization of plant layout for certain markets
Roller presses	– Improvement in performance/weight ratio by approximately 15% – Studies with new surfaces (reduced wear)

We use our online innovation management system to collect, analyze and manage new ideas from KHD Group employees, regardless of their position or location.

Strategic Partnership

The collaboration with AVIC facilitates the combination of KHD Group's premium technology with AVIC's efficient and cost-effective construction expertise. With their combined portfolio, the two partners are able to cover almost 80% of the total value when building a new cement plant, whereby AVIC should act as the general contractor, being primarily responsible for construction and erection while the KHD Group should mainly be responsible for the engineering and supply of the core equipment for cement plants. The focus of EPC activities is on cement markets outside of China.

Combining their services KHD Group and AVIC look forward to becoming one of the market leaders in global cement plant construction industry. Furthermore, the partnership presents the KHD Group with the opportunity to win orders for equipment in attractive niches of the Chinese market. The emphasis here is on implementing energy-efficient and environmentally friendly technologies, which are being spearheaded by the Chinese government.

Working together in executing projects for turnkey cement plants has its own set of special requirements. The KHD Group does not only ensure the quality, cost- efficiency, and adherence to the project time schedule for its own scope, but also takes into account the interrelation of its own supply with the scope of the strategic partner AVIC at all times. The aim is to offer the customer, together with AVIC, the most efficient solution for an EPC project.

Improvement in the cost structure is a central issue for achieving sustainable competitiveness. Through the AVIC procurement center in Beijing, we increasingly exploit the cost advantages offered by the Chinese supply market and ensure competitive prices for equipment and services.

Collaboration is set to intensify following the successful takeover of KHD by the group of bidders led by AVIC. It will also mean even better use of cost savings and improvement potential for joint projects.

Group-wide Culture of Excellence and Commitment (Operational Excellence)

In order to remain competitive, we are continuously working on optimizing our processes and making our cost structure flexible. Our cost optimization program enabled us to achieve significant reductions in sales and administrative expenses in the year under review.

Different demands are being placed on KHD Group's employees as a consequence of intensified international cooperation and a greater emphasis on customer and service orientation. We support them with targeted measures to foster both team and managerial development, including management training seminars, workshops, and conferences as well as the regular exchange of information and ideas between experts at the individual Customer Service Centers (CSC). The Group-wide standardization of processes using SAP and the CRM (Customer Relationship Management) system also helps to simplify cooperation in teams spread across several locations.

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

MANAGEMENT AND CONTROL SYSTEM

The strategy of the KHD Group also manifests itself in the way the Group is managed and controlled. By using a uniform system of key financial targets across the Group, we ensure a common understanding of how to measure success.

The primary financial performance indicators the KHD Group uses to determine target achievement are calculated monthly on the basis of key figures. They 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.

ECONOMIC REPORT

MACROECONOMIC AND SECTOR-RELATED CONDITIONS

Economic Environment

Economic expansion in the markets relevant to the KHD Group 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% (previous year: 3.1%). For the developing and emerging economies, the IMF calculated growth of 4.7% (previous year: 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 the KHD Group. 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.

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 Group'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 the KHD Group.
- 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 the KHD Group.

Following the US Federal Reserve's announcement that it will be scaling down its expansionary monetary policy, financing of 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 the KHD Group again found itself in a tough competitive environment throughout the world and under continued margin pressure.

Financial Market Environment

Because of KHD Group's global presence, its business performance is subject to currency effects. Particularly relevant is the development of the Indian rupee and the US dollar as well as, to a lesser degree, the development of the Russian ruble.

In particular, the Indian rupee suffered devaluation during the reporting year. By comparison with the euro, it lost 13.7% over the course of the year; the average exchange rate was 78.53 rupees to the euro (previous year: 69.05 rupees to the euro). The average rate of the Russian ruble changed to 42.59 rubles to the euro (previous year: 40.05 rubles to the euro). In the year under review, the euro was worth on average 1.33 US dollars (previous year: 1.29 US dollars to the euro). Overall, exchange rate fluctuations in the year under review due to the translation of local financial statements in Euro had a negative effect on KHD Group's business.

IMPORTANT EVENTS OF THE FINANCIAL YEAR

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 Paragraph 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 KPMG AG Wirtschaftsprüfungsgesellschaft, Munich, 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.

License Agreement

KHD signed a license agreement with Weir Minerals in April 2013. Weir Minerals had previously acted as an agent for the KHD Group for the marketing of High Pressure Grinding Rolls (HPGRs) in the minerals sector, operating on a commission only basis. This agreement has been replaced by a perpetual license agreement, giving Weir Minerals direct control over the design, manufacturing, and distribution of HPGR equipment in minerals processing applications using KHD Group’s technology, in return for royalty payments on equipment sales. The KHD Group can therefore continue to have a stake in the promising growth market for HPGR applications in the mining industry and, at the same time, focus more on its core business. The technology for roller presses for the cement markets remains the intellectual property of the KHD Group and is an important cornerstone for our future development.

Service Business Expansion

In order to expand the business with spare parts and services for cement plants, the KHD Group has strengthened personnel in this business area during the year under review and invested in new service products. In addition, this business area is managed as a separate segment since the beginning of the 2014 financial year.

Relevant Orders

Despite the overall unsatisfactory order intake, several important orders were won in the second half of 2013:

- In December, "Volskcement" OJSC Russia (Holcim Group) placed an order with the KHD Group to construct a production line in the cement factory in Volsk. With a value of over € 77 million, the order includes engineering and the delivery of equipment. The project is scheduled to run until the end of 2016.
- In November, the KHD Group received an order for the modernization of a production line from Holcim in Hagerstown, USA, relating to emissions reduction, efficiency increases, and the use of alternative fuels. The order encompasses engineering and services as well as delivery of equipment, including a five-stage preheater with a Low-NOx calciner, a PYROFLOOR® cooler, and a PYROJET® burner. Commissioning of the new system is planned for 2016.
- In October, the Turkish BATI ANADOLU GROUP ordered a COMFLEX® grinding system for a cement plant in western Turkey. In addition to supplying the components, the KHD Group will carry out the engineering and provide advisory services during erection and commissioning. The commissioning is planned for the end of 2014.
- In September, the Turkish LIMAK Bati Group ordered a new production line with a capacity of 3,500 tons per day for the TRAKYA cement plant near Pinarhisar. The order encompasses engineering, equipment supply, supervision of erection and commissioning, and the training of personnel. The production line is to be commissioned in fall of 2014.

OVERALL ASSESSMENT OF THE RESULTS OF OPERATIONS AND ECONOMIC POSITION

Overall, business development in 2013 was not satisfactory. Several important budgetary targets were not achieved during the 2013 financial year. The uncertainty surrounding the future development of cement consumption continued to result in further delays in the awarding of orders by our customers. The execution of orders with weak margins and difficulties in project execution, including the cancellation of an order in Brazil, also negatively affected our result. Significant cost savings in administrative and sales expenses mitigated the negative effects only partially. The comfortable liquidity situation and the high equity ratio mean that KHD Group's financial and net assets position remains stable.

The KHD Group is well positioned in current tenders in the 2014 financial year. The successful takeover by the group of bidders led by AVIC increases our mid-to long-term chances of winning new projects in growth regions, and of establishing ourselves in the Chinese market.

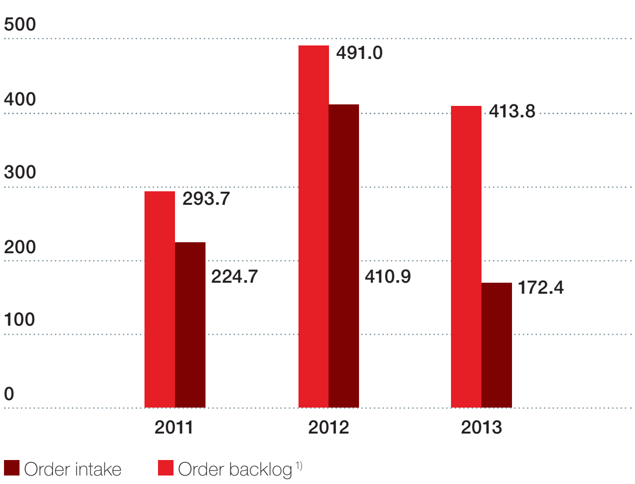
By strengthening the service business, which will be operated in its own segment from the 2014 financial year onward, the KHD Group believes it is able to gain additional revenue and profit potential outside of the cyclical project business.

BUSINESS AND EARNINGS POSITION

Order intake and order backlog

Order intake stood at € 172.4 million in the 2013 financial year, compared with € 410.9 million in the previous year. This clear decrease in relation to the previous year's level – which was affected by several major contracts – is attributable to investment restraint in the cement industry. This was exacerbated by the negative effect of € 15.7 million arising from changes in exchange rates. At over € 40 million, the spare parts and service business accounted for a comparably high portion of the order intake during the year as a whole. As of December 31, 2013, the total order backlog was € 413.8 million (previous year: € 491.0 million). It should be noted, however, that the order backlog includes a significant contract of approximately € 75 million that is likely to be canceled by the customer. As a consequence of the general development in the market, order intake and order backlog are significantly below last year's outlook.

Order intake and order backlog
in € million

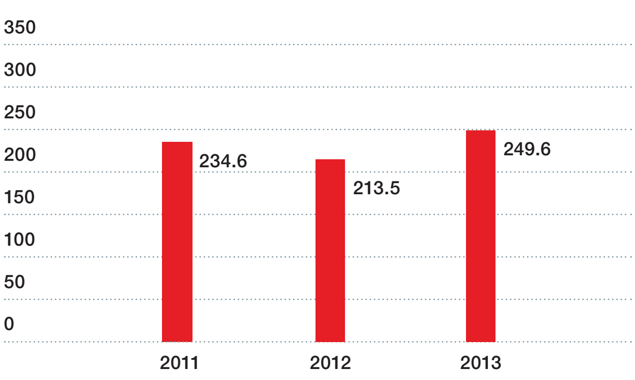


[1] at end of year

Revenue

In the 2013 financial year, the KHD Group generated revenue of € 249.6 million. The increase of 16.9% on the previous year (€ 213.5 million) mainly resulted from the high order backlog at the beginning of the financial year. A large share of the revenue comes from the projects won in Malaysia, Italy, and Venezuela in the previous year and from stable business in spare parts and services, which contributed a total of approximately € 38 million (previous year: € 40 million) to revenue. The new orders in the project business gained in the reporting year had only a marginal effect on revenue in the 2013 financial year. The significant increase in revenue confirmed the previous year's outlook.

Group revenue
in € million



Earnings

Gross profit fell by a third to € 29.4 million (previous year: € 43.8 million). The gross profit margin declined from 20.5% to 11.8%. This was caused in particular by the execution of projects in the order backlog with weak margins gained in a highly competitive environment characterized by strong margin pressure in previous years. The further execution of two projects in Malaysia also had a negative effect on the margin. A significant part of one of these projects relates to structural steel and general erection works and cannot be executed by the KHD Group itself. This part of the order was passed on to strategic partner AVIC, whereby the KHD Group will not receive additional gross profit for this part. In addition, some difficulties in project execution, including the cancellation of a project from CSC Americas, had a negative effect on gross profit margin. On the other hand, gross profit margin was positively affected by income related to the license agreement with Weir Minerals and the release of provisions due to successful management of residual risks after completion of delivery.

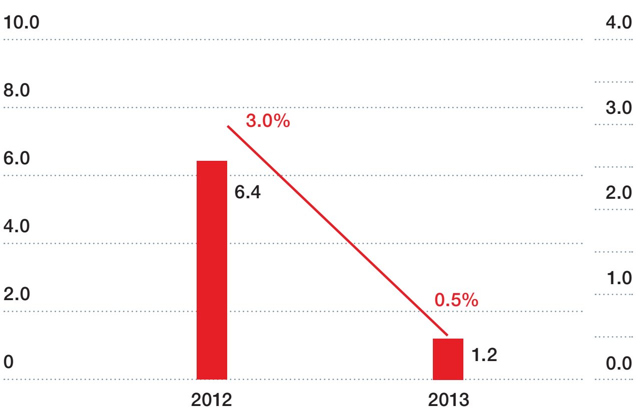
Other operating income amounting to € 3.5 million (previous year: € 1.7 million) include income of € 2.1 million relating to contingent purchase consideration agreed in 2009 as part of the sale of the workshop in Cologne.

Sales and tendering activities are focused on strategically important projects in KHD Group's core markets that offer a satisfactory margin quality. Sales expenses thus decreased by 29.4% to € 9.6 million (previous year: € 13.6 million).

The general and administrative expenses and other expenses are indicative of the success of the strict cost management system during the reporting year. At € 16.0 million, the general and administrative expenses, which include the costs of general administration as well as in particular legal and consulting costs, costs for preparing and auditing financial statements, Management Board remuneration, Supervisory Board remuneration, and costs related to KHD's stock exchange listing, were 13.5% down on the previous year's figure of € 18.5 million. Other expenses declined by 14.3% to € 6.0 million (previous year: € 7.0 million). These expenses include research and development costs of € 3.2 million (previous year: € 3.6). Other expenses also comprise expenses from changes in exchange rates, write-downs in intangible assets and expenses for consulting services.

After deduction of the expenses, earnings before interest and taxes (EBIT) came to € 1.2 million (previous year: € 6.4 million). The EBIT margin was 0.5% (previous year: 3.0%). Originally, an improvement in EBIT and a slight improvement in the EBIT margin were expected. However, in particular as a consequence of the deteriorated gross profit margin, EBIT and EBIT margin remained significantly below last year's outlook.

EBIT and EBIT margin (in %)
in € million



Finance income consists mainly of interest income from the investment of cash and cash equivalents. At € 1.2 million, net finance income failed to match the previous year's level of € 2.4 million – as was expected – due to the historically low interest-rate level as well as the reduced liquidity. As in 2012, the largest single item under finance expenses, which totaled € 1.4 million (previous year: € 2.4 million), was the interest expense related to pension benefit obligations, provisions, and other non-current liabilities.

Earnings before tax (EBT) fell significantly short of the previous year's level (€ 8.8 million) at € 2.4 million. For deferred taxes, it was already taken into account that after the takeover tax loss carry-forwards can only be used to a limited extent, meaning the tax ratio was very high at 70.8% (previous year: 20.5%). After income tax expenses of € 1.7 million (previous year: € 1.8 million), the KHD Group achieved a Group net profit of € 0.7 million (previous year: € 7.0 million). Basic and diluted earnings per share amount to € 0.01 (previous year: € 0.14).

Appropriation of Net Retained Profit

The Management Board and the Supervisory Board will propose to the Annual General Meeting to be held on May 27, 2014 that the net retained profit of KHD Humboldt Wedag International AG amounting to € 4.6 million (reported pursuant to German Commercial Code (HGB)) should be carried forward to new account.

FINANCIAL POSITION AND NET ASSETS

Fundamentals of Financing Strategy

KHD Group's strategy is based on a solid liquidity position at Group level and a robust equity-based financing strategy. At the same time, this is also the basis for the planning of our internal and external growth over the next few years, which includes investing in new technologies and expanding the business model.

KHD Humboldt Wedag International AG controls the Group's financial management and provides sufficient cash to Group companies, if required, so that payment obligations can be met in full at all times. Internal financing is the fundamental principle followed within the Group. Correspondingly, Group companies are in the first instance themselves responsible for accumulating liquidity surpluses to cover their financing requirements. Project business means that the KHD Group has to cope with a very cyclical market environment that is characterized by individual high-volume orders and varying financing structures. In order to have sufficient cash and cash equivalents to meet Group companies' operating financing requirements available at all times, a high liquidity position is necessary. Financial security is controlled via the operating cash flow and is largely measured using the equity ratio in addition to existing liquidity.

All operating companies in the KHD Group have access to a bank guarantee credit facilities, provided by a consortium of banks as well as by other banks, for various hedging instruments such as guarantees, letters of credit, or letters of comfort. As of December 31, 2013, € 93.5 million of the bank guarantee credit facilities were utilized. Following the occurrence of the "Change of Control" clause that had been contractually agreed for a bank guarantee credit facility provided by a consortium of banks, there has been no cancellation of this bank guarantee credit facility so far. 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 make a guarantee facility line available on short notice if the facility agreement were canceled.

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

Liquidity

Total cash and cash equivalents fell by € 54.4 million to € 228.2 million in 2013. This decrease was mainly attributable to the cash flow from operating activities in the amount of € –47.1 million (previous year: € –11.3 million). This resulted from the lower volume of advance payments, due to the moderate volume of new business, as well as a high portion of projects close to completion; in this phase, payments to suppliers normally exceed incoming payments from customers. The cash flow from operating activities was also affected by overall deteriorated payment conditions and the increase in trade receivables on the reporting date. Overall, cash flow from operating activities was significantly below the outlook given in the previous year.

Further details of the operating cash flow are presented in the following table:

in € thousand	Jan. 1 – Dec. 31, 2013
Cash flow from construction contracts in progress (including progress billings)	(37,741)
Cash flow from current liabilities / invoices from subcontractors	15,179
Cash flow from changes in receivables	(19,802)
Cash flow from utilization of provision and long term liabilities	(7,701)
Cash inflow from result (EBITDA)	3,372
Cash flow from tax payments made / received	1,310
Other cash inflows and outflows	(1,760)
Cash flow from operating activities	**(47,143)**

Cash flow from financing activities in the amount of € –29.7 million (previous year: € 9.7 million) mainly reflected the deposit of cash with a volume of € 27.7 million (previous year: repayment of € 12.2 million) as collateral within the scope of the existing bank guarantee credit facility. Excluding this effect – which had no impact on total cash and cash equivalents – the cash flow from financing activities amounted to € –2.0 million (previous year: cash inflow of € 2.5 million). Cash flow from financing activities also includes cash outflows from the payment of the dividend totaling € 4.5 million (previous year: € 5.9 million).

Cash flow from investing activities (€ –1.0 million, previous year: € –2.9 million) did not have a significant impact on the development of cash and cash equivalents.

Total Assets

Total assets in the amount of € 418.1 million primarily comprised current assets, notably cash and cash equivalents, as in the previous year. Cash and cash equivalents made up 54.6% of assets (previous year: 64.9%).

Within one year non-current assets fell from € 17.5 million to € 15.4 million. This was primarily the result of the reduction in deferred tax assets and intangible assets. The low volume of non-current assets reflects KHD Group's business model, in which production is almost completely outsourced to external manufacturers.

In addition to cash and cash equivalents, current assets include gross amounts due from customers for contract work of € 59.1 million (previous year: € 26.6 million). As of the end of 2013, costs incurred for these projects plus proportionate profits recognized exceeded progress billings. The significant increase of trade and other receivables by € 19.8 million to € 84.8 million (previous year: € 65.0 million) resulted from a high invoicing volume close to year-end. Payments made in advance declined to € 19.5 million (previous year: € 28.8 million). Receivables from income taxes largely include refund claims for capital gains tax on the profit distribution paid by subsidiaries.

Financing

Equity fell slightly to € 222.5 million (previous year: € 229.3 million) resulting in an equity ratio of 53.2% (previous year: 52.6%). Significant changes within equity arose from the dividend payment (€ –4.5 million) and from currency translation differences (€ –3.4 million).

The 20.3% decrease in non-current liabilities to € 35.3 million (previous year: € 44.3 million) mainly resulted from the reduction of non-current provisions. These had been set aside to meet guarantee and warranty obligations from projects in the warranty phase.

Also on the liabilities side of the balance sheet, the reduced level of advance payments received from new business and the overall deteriorated payment conditions of projects are reflected in the decrease in commitments under construction contracts from € 66.0 million to € 51.2 million. By contrast, trade payables (especially contract costs) and other liabilities saw an increase of € 14.4 million to € 84.9 million due to a high volume of incoming invoices close to year-end. In overall terms, current liabilities fell only slightly to € 160.3 million, compared to € 162.1 million at the end of 2012.

Net working capital – the difference between current assets (less cash and cash equivalents) and current liabilities – increased as a consequence of the aforementioned effects in the previous year from € –26.5 million to € 14.3 million.

NON-FINANCIAL PERFORMANCE INDICATORS

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

Target achievement in relation to non-financial performance indicators is recorded with the help of various instruments, e.g. via the annual employee appraisal, via the CRM system for recording customer satisfaction, or via the systematic capture of emissions values and energy consumption of individual products. Value-oriented management in the KHD Group means that, for example, customer satisfaction or the minimization of our products' impact on the environment are more important than short-term profit maximization.

Employees

Personnel Development

As of the end of 2013, the KHD Group employed 757 people across the Group. By comparison with the previous year (783), the number decreased slightly despite new hires, in particular in the Parts & Services segment. As of the end of 2013, approximately 46% of employees in the Group were working in Germany and 41% in India. This has hardly changed since the previous year.

At € 43.5 million, personnel expenses were 1.1% below the previous year's value – despite wage and salary increases – due to the lower yearly average of employees.

Development of Team and Leadership Skills

Our employees undergo a variety of internal and external training programs. This is intended to ensure that the knowledge, skills, and working practices are adapted to the continuously changing conditions and also to customers' growing expectations. For example, external qualifications include the accreditation of project managers by the Project Management Institute or the participation of employees of the Parts & Services segment in a Service Manager Certification Course. Managers' training also focuses on leadership and communication.

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

COMPOSITION OF SUBSCRIBED CAPITAL

The Company's subscribed capital (share capital) amounted to € 49,703,573 as of December 31, 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 Max Glory's 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 315 Paragraph 4 No. 5 of the German Commercial Code (HGB).

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

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

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

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

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

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

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

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 314 Number 6a 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 315 Paragraph 2 Number 4 Sentence 2 HGB.

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 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 the KHD Group 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 the 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 first 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 regulation 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 agreeing on 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	December 10, 2014	April 1, 2010
Yizhen Zhu[1]	April 1, 2011	April 1, 2015	April 2, 2011
Ralph Quellmalz[2]	April 30, 2013	April 30, 2016	May 1, 2013

[1] 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.
[2] 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 315 Paragraph 2 Number 4 of the German Commercial Code (HGB) in connection with Section 314 Paragraph 1 Number 6 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
Other	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	281,906	54,367
– for the assessment period 2010 – 2012	119,456	–
Non-cash benefits	51,005	12,851
Other	36,028	–
Total	**863,395**	**227,218**

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 only 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] Chairman of the Audit Committee,
Member of the Personnel Committee from January 27 to March 18, 2013.
Mitglied des Personalausschusses vom 27. Januar bis zum 18. März 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 (Chairman)[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 Kivimäki[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.

REPORT ON EVENTS AFTER THE REPORTING PERIOD

According to the notification pursuant to Section 23, Paragraph 1, Sentence 1, No. 3 of the German Securities Acquisition and Takeover Act (Wertpapiererwerbs- und Übernahmegesetz, “WpÜG”) 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.

RISK AND OPPORTUNITIES REPORT

RISK MANAGEMENT

As a globally operating cement plant equipment supplier and service company, the KHD Group is subject to a number of different risks in the course of its business activities. By being prepared to take calculated commercial risks, the KHD Group 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, the KHD Group 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.

The KHD Group 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 the KHD Group 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 also 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 to Section 317 Paragraph 4 of the German Commercial Code (HGB) and report 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 Occurence	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 business viability

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

Probability of Occurrence	1	2	3	4	5
Impact					
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.

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

ACCOUNTING-RELATED INTERNAL CONTROL SYSTEM

Along with the risk management system, 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 Group'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. In summary, it may be concluded that the risks identified do not pose a threat to the KHD Group as a going concern, either individually or in combination. From an organizational standpoint, the foundations have been laid to ensure that changes in the risk position are recognized in good time.

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. The risk areas principally cover the segment Capex as well as the Parts & Services segment, although the procurement, innovation, and project risks are of much higher significance for the Capex business unit.

Risks from Underlying Economic Conditions

In its position as a globally active group, the KHD Group 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 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 the 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 the 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.”

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

The KHD Group 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. The KHD Group 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 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 lead to a so-called default, which 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 operations, 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 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 the KHD Group. 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 the KHD Group.

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, the KHD Group has a high level of cash and cash equivalents that could be used as collateral.

There are significant tax loss carry-forwards for corporate income tax and trade tax at some of the German companies of the KHD Group as of the end of the 2013 financial year. There are also significant tax loss carry-forwards relating to Humboldt Wedag Inc., USA. Following the takeover by the bidders, the risk arises that full utilization of the tax loss carry-forwards not utilized or deducted may no longer be possible.

In its 2013 consolidated financial statements, the KHD Group has already taken account of effects relating to a possible limitation on the utilization of tax loss carry-forwards. Deferred tax assets on tax loss carry-forwards have only been recognized as far as the tax loss deduction is still also possible in the case of detrimental investment acquisition.

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 (EPA) regulations in the USA or the focus on environmental aspects in China's current five-year plan, as opportunities. The KHD Group offers its customers environmentally friendly solutions by accounting for the environmental impact of the cement production process as early as 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.

The KHD Group 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 Group's strategic partnership is the future possibility of offering our customers turnkey cement plants, which should open up new business opportunities.

The KHD Group 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 Group 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.

OUTLOOK

PROJECTED MARKET ENVIRONMENT

After a slight upswing in the second half of 2013, the International Monetary Fund expects more global economic growth for 2014 with a worldwide growth rate of 3.7%. The industrial nations' contribution to the upswing is expected to increase, as the USA in particular seems to benefit from strong domestic demand and agreement over the budget dispute. The eurozone should be able to climb out of its recession in 2014, but is likely to show only slow growth.

The emerging economies should benefit from the stabilization of the industrialized nations and show somewhat stronger growth than in the previous year (IMF forecast: 5.1%). The recovery will, however, be curbed in some states by structural problems and political uncertainty. The IMF has adjusted its growth forecasts for India and Russia in January to 5.4% and 2.0%, respectively. The US Federal Reserve's tapering is also generating capital outflows and increased volatility on the financial markets in some emerging economies. Markets important to the KHD Group such as Turkey, Russia, India and Brazil are also affected.

Overall, a slight improvement in the cement markets on the past year is expected. However, the growth in global cement consumption in the medium term is likely to continue to be delayed. In its Global Cement Outlook, Morgan Stanley expects only 3.5% growth in cement consumption (without China) in 2014. This is an increase over the previous year (2.1%), but still does not reach the level of growth rates seen before the crisis. Morgan Stanley expects significantly higher growth rates in 2014 only in India (5.2%), North America (6.4%) and Sub-Saharan Africa (6.8%). The prices for cement are likely to decrease or stagnate in most markets in 2014 as there are still high levels of excess capacity. Caution among cement manufacturers regarding capacity expansion and modernization investments is likely to continue, but we do expect higher tendering activity for new projects in 2014.

Many cement producers have announced the continuation or intensification of programs for cost optimization and investment costs savings. As a result, the pressure to consolidate in our competitive environment is likely to remain. Project margins will remain under pressure, particularly in view of the fact that Chinese equipment suppliers for cement plants are now venturing deeper into the global market.

PROJECTED ECONOMIC TREND

Despite the unsatisfactory course of business in 2013 the KHD Group is well positioned in current tenders thanks to its international market presence and commitment to its growth-oriented strategy. The successful takeover by a group of bidders led by AVIC has improved our prospects of winning new projects in the medium and long term. Major potential growth drivers are:

- focused market activity in Russia, India, Latin America, Africa, and other growth regions important for the global cement market with the aim of winning promising tenders for the KHD Group for modernization and expansion projects as well as projects for new plants;
- the expansion of Parts & Services business activities in all regions;
- the strategic partnership with AVIC, which – following the takeover – is to be intensified and coordinated globally along the entire value chain;
- gaining a foothold in attractive and high-growth niches of the Chinese market, primarily due to stricter environmental requirements.

Controlling, monitoring and reporting have been carried out within the KHD Group in two separate segments Capex (project business) and Parts & Services since January 1, 2014. The business plans generated in the previous year already take this separation into account. The statements in the outlook are thus also based on the newly introduced segment structure. However, the outlook can be compared with the actual figures for the 2013 financial year only for the aggregated values.

For the 2014 financial year and beyond, the most salient risks arise from general uncertainty, the sensitivity of the cement markets and restraint among cement producers when it comes to larger investments. This may lead to further delays in project awards and project execution and may even result in the cancellation of projects. In addition to continued pressure on margins due to tough competition, technical and economic risks from project execution demand our attention.

The KHD Group utilizes its resources to target business opportunities arising in its traditionally strong markets. We are expecting a significantly higher order intake for the 2014 financial year than in the previous year. The order intake should be approximately at the same level as the revenue forecast for the 2014 financial year. As a consequence, the order backlog – without consideration of the likely cancellation of one large order – should remain stable. If the order is canceled, as is likely, it will lead to a reduction in the order backlog of approximately € 75 million.

Because we are focusing our activities in the new Parts & Services business unit (segment), the expansion of our market position in this area is an important goal. However, only approx. 15% of the order intake projected for the 2014 financial year is attributable to this segment, according to our forecast.

Based on the existing order backlog, revenue in the 2014 financial year should be at approximately the same level as that of the previous year. Our plan is for the Parts & Services segment to contribute about 15% of overall revenue.

Since revenue in the 2014 financial year will also be generated through projects gained in a highly competitive environment with strong margin pressure, we once again expect that the gross profit margin in the Capex segment will not be satisfying.

Despite forecasting revenue at approximately the same level as the previous year and despite the successful cost-optimization measures taken in the previous year, our planning shows only a slightly positive EBIT margin in the current year. While an EBIT in the range of € 4 – 6 million is the target for the Parts & Services segment, the EBIT for the Capex segment will be negative. We are responding to the continued margin pressure caused by ever tougher competition by exploiting cost advantages available through the Chinese procurement center that was set up in collaboration with AVIC, by means of improvements introduced into project execution, and by practicing strict cost discipline. In conjunction with focusing on projects with better margins early in the tendering phase and expansion of our service business, these measures are intended to guarantee improvement of our future profitability.

Following the cash outflows from previous years, we are expecting a slightly positive value for cash flow from operating activities for the 2014 financial year due to increasing order intake, planned cash inflows from progress billing, and improvements in working capital management.

Overall, the KHD Group expects that business development for the 2014 financial year will not be satisfactory due to continued difficult market conditions. However, we forecast that KHD Group's financial and net assets position will remain stable and will probably not change significantly in the 2014 financial year in comparison to the previous year. Our comfortable liquidity situation and high equity ratio afford us the flexibility we need to successfully master difficult market phases, to continuously develop our portfolio of products and services, and to make the most of opportunities for internal and external growth.

OPPORTUNITIES AND RISKS RELATING TO THE OUTLOOK FOR THE 2014 FINANCIAL YEAR

While the risk management system in principle is oriented towards the medium and long term, special consideration is given in the budget preparation process to the opportunities and risks that can have an effect within the outlook period. Due to the special characteristics of long-term plant engineering, risks and opportunities can also lead to significant deviations from planned figures in the short-term outlook.

Significant risks and opportunities regarding the forecast values exist for order intake, particularly in the Capex segment. The awarding of individual large contracts to the KHD Group can significantly affect the order intake in the 2014 financial year. Despite close collaboration with customers during the tendering process, customers' investment decision and the awarding of individual projects to the KHD Group can only be forecast with substantial uncertainty, possibly leading to either a significantly higher or significantly lower order intake. The likely cancellation of a large project by a customer must also be taken into consideration. However, there are no risks for the revenue and EBIT outlook arising from the likely project cancellation mentioned above, since the 2014 budget does not include any revenue from this project and as the probable effect on profit was already taken into account in the 2013 financial year.

The revenue outlook is mainly based on the order backlog in the Capex segment and on the planning of the relatively stable business in the Parts & Services segment. The risks and opportunities relating to the planned revenue figures are nevertheless significant, since delays or accelerations in project execution as well as delays in planned order intake can affect these figures.

The forecast EBIT might be materially affected by changes in the sales volume as well as by project risks. These arise from unexpected technical problems, supply bottlenecks or quality problems at suppliers of important components, delays in project execution, and unforeseeable developments during the erection and commissioning phase on site. There are also warranty risks after the commissioning of a plant. On the other hand, there is the opportunity of a significant improvement in the planned EBIT as a result of improved project execution.

Cologne, Germany, March 11, 2014

The Management Board

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

Group Financial Statements

GROUP FINANCIAL STATEMENTS

Group Financial Statements

GROUP INCOME STATEMENT

for the Financial Year 2013

in € thousand	Note	2013	2012
Revenue	4	249,624	213,546
Cost of sales		(220,249)	(169,723)
Gross profit		**29,375**	**43,823**
Other operating income	20	3,456	1,697
Sales expenses	21	(9,647)	(13,637)
General and administrative expenses	22	(16,045)	(18,500)
Other expenses	23	(5,961)	(6,954)
Profit before interest and taxes (EBIT)		**1,178**	**6,429**
Finance income	24	2,692	4,778
Finance expenses	24	(1,445)	(2,414)
Net finance income		**1,247**	**2,364**
Profit before tax (EBT)		**2,425**	**8,793**
Income tax expense	25	(1,689)	(1,765)
Group net profit for the year		**736**	**7,028**
Of which are attributable to:			
Parent company shareholders		733	6,923
Non-controlling interests		3	105
		736	**7,028**

EARNINGS PER SHARE

		2013	2012
Basic (undiluted) and diluted earnings per share (in €)	26	0.01	0.14

GROUP STATEMENT OF COMPREHENSIVE INCOME

for the Financial Year 2013

in € thousand	2013	2012
Group net profit for the year	**736**	**7,028**
Items that will be reclassified subsequently to profit or loss when specific conditions are met		
Currency translation differences	(3,369)	(981)
Items that will not be reclassified subsequently to profit or loss		
Actuarial gains and losses related to defined benefit obligations	299	(3,113)*
Other comprehensive income	**(3,070)**	**(4,094)**
Group comprehensive income	**(2,334)**	**2,934**
Of which attributable to:		
Parent company shareholders	(2,337)	2,829
Non-controlling interests	3	105
	(2,334)	**2,934**

* Amounts adjusted due to change in accounting policy for pension benefit obligations

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

GROUP BALANCE SHEET

as of December 31, 2013

ASSETS

in € thousand	Note	Dec. 31, 2013	Dec. 31, 2012	Jan. 1, 2012
Non-current assets				
Property, plant and equipment	5	2,576	2,997	2,948
Goodwill	6	5,162	5,162	5,162
Other intangible assets	6	2,680	3,614	3,286
Deferred tax assets	8	4,908	5,691	3,930
Total non-current assets		**15,326**	**17,464**	**15,326**
Current assets				
Inventories	9	5,318	4,963	7,882
Gross amount due from customers for contract work	10	59,050	26,563	21,181
Trade and other receivables	7	84,802	65,000	67,748
Payments made in advance		19,480	28,845	13,792
Other financial assets	11	1,253	1,428	888
Income tax assets		4,687	8,788	4,782
Cash and cash equivalents	12	228,169	282,635	300,323
Total current assets		**402,759**	**418,222**	**416,596**
Total assets		**418,085**	**435,686**	**431,922**

EQUITY AND LIABILITIES

in € thousand	Note	Dec. 31, 2013	Dec. 31, 2012	Jan. 1, 2012
Equity				
Subscribed capital		49,704	49,704	49,704
Capital reserves		59,841	59,841	59,841
Treasury shares		(221)	(221)	(221)
Currency translation differences recognized in equity		(6,579)	(3,210)	(2,220)
Retained earnings		118,797	122,232*	124,348*
Shares of equity attributable to shareholders of the parent company		221,542	228,346*	231,443*
Non-controlling interests		908	944	881
Total equity	13	**222,450**	**229,290***	**232,524***
Non-current liabilities				
Other liabilities	16	6,183	7,901	11,142
Pension benefit obligations	14	24,690	25,903*	21,749*
Deferred tax liabilities	8	2,079	2,915*	4,664*
Provisions	15	2,358	7,571	16,720
Total non-current liabilities		**35,310**	**44,290***	**54,275***
Current liabilities				
Trade and other payables	16	84,916	70,516	71,880
Commitments under construction contracts	17	51,210	65,965	42,359
Income tax liabilities		417	1,073	3,560
Provisions	15	23,782	24,552	27,524
Total current liabilities		**160,325**	**162,106**	**145,323**
Total equity and liabilities		**418,085**	**435,686**	**431,922**

* Amounts adjusted due to change in accounting policy for pension benefit obligations

GROUP STATEMENT OF CASH FLOWS

for the Financial Year 2013

in € thousand	2013	2012
Cash flow from operating activities		
Group net profit for the year	736	7,028
Income tax expense recognized in the income statement	1,689	1,765
Net finance income recognized in the income statement	(1,247)	(2,364)
Earnings before interest and taxes (EBIT)	**1,178**	**6,429**
Amortization and depreciation of non-current assets	2,194	2,519
Book gain on disposal of fixed assets	(5)	(51)
Increase(-)/decrease in trade receivables and financial assets	(19,802)	574
Increase(-)/decrease in inventories and gross amount due from customers for contract work	(32,842)	(2,463)
Increase(-)/decrease in payments made in advance and other financial assets	9,540	(15,593)
Increase(+)/decrease in trade and other payables and in commitments under construction contracts	(355)	22,242
Increase(+)/decrease in pension benefit obligations	(1,213)	(455)
Increase(+)/decrease in provisions and non-current liabilities	(7,701)	(15,362)
Other non-cash-transactions	499	(1,003)
Dividends received	54	47
Income tax received	3,396	10
Income tax paid	(2,086)	(8,207)
Cash flow from operating activities	**(47,143)**	**(11,313)**
Cash flow from investing activities		
Cash outflow for intangible assets	(294)	(1,815)
Cash outflow for property, plant and equipment	(744)	(1,175)
Cash inflow from the disposal of property, plant and equipment	80	109
Cash flow from investing activities	**(958)**	**(2,881)**

in € thousand	2013	2012
Cash flows from financing activities		
Interest received	2,476	3,522
Payment for purchase of shares from non-controlling interests	(39)	(42)
Dividends paid to parent company shareholders	(4,453)	(5,937)
Change in restricted cash (collateral for bank guarantees)	(27,650)	12,189
Cash flow from financing activities	**(29,666)**	**9,732**
Change in unrestricted cash and cash equivalents	**(77,767)**	**(4,462)**
Opening balance of unrestricted cash and cash equivalents	282,182	287,681
Exchange rate effects	(4,349)	(1,037)
Closing balance of unrestricted cash and cash equivalents	**200,066**	**282,182**

in € thousand	Dec. 31, 2013	Dec. 31, 2012
Composition of unrestricted cash and cash equivalents		
Bank balances and cash	77,222	125,719
Short-term bank deposits and restricted cash	150,947	156,916
Total cash and cash equivalents	**228,169**	**282,635**
Restricted cash (collateral for bank guarantees)	(28,103)	(453)
Closing balance of unrestricted cash and cash equivalents	**200,066**	**282,182**

Cash and cash equivalents decreased in the financial year by € 54,466 thousand to € 228,169 thousand (previous year: € 282,635 thousand). This is primarily attributable to cash outflows from operating activities totaling € 47,143 thousand (previous year: € 11,313 thousand) and to dividend payments of € 4,453 thousand (previous year: € 5,937 thousand). Cash flow from financing activities primarily reflects the deposit of € 28,103 thousand (previous year: € 453 thousand) in cash as collateral for bank guarantees. At the end of the financial year, unrestricted cash and cash equivalents amounted to € 200,066 thousand (previous year: € 282,182 thousand).

GROUP STATEMENT OF CHANGES IN EQUITY

for the Financial Year 2013

in € thousand	Subscribed capital	Capital reserves	Treasury shares
Dec. 31, 2011	49,704	59,841	(221)
Changes and corrections*	–	–	–
Adjusted Equity Jan. 1, 2012	49,704	59,841	(221)
Group net profit for the year	–	–	–
Other comprehensive result*	–	–	–
Currency translation differences	–	–	–
Group comprehensive income	**–**	**–**	**–**
Other changes	–	–	–
Payment of dividends	–	–	–
Purchase of non-controlling interests	–	–	–
Dec. 31, 2012	49,704	59,841	(221)
Group net profit for the year	–	–	–
Other comprehensive result	–	–	–
Currency translation differences	–	–	–
Group comprehensive income	**–**	**–**	**–**
Other changes	–	–	–
Payment of dividends	–	–	–
Purchase of non-controlling interests	–	–	–
Dec. 31, 2013	49,704	59,841	(221)

* Amounts adjusted due to change in accounting policy for pension benefit obligations

Currency translation differences recognized in equity	Retained earnings	Equity attributable to shareholders of the parent company	Non-controlling interests	Total
(2,229)	**125,556**	**232,651**	**881**	**233,532**
–	(1,208)	(1,208)		**(1,208)**
(2,229)	**124,348**	**231,443**	**881**	**232,324**
–	6,923	6,923	105	**7,028**
–	(3,113)	(3,113)	–	**(3,113)**
(981)	–	(981)	–	**(981)**
(981)	**3,810**	**2,829**	**105**	**2,934**
–	11	11	–	**11**
–	(5,937)	(5,937)	–	**(5,937)**
–	–	–	(42)	**(42)**
(3,210)	**122,232**	**228,346**	**944**	**229,290**
–	733	733	3	**736**
–	299	299	–	**299**
(3,369)	–	(3,369)	–	**(3,369)**
(3,369)	**1,032**	**(2,337)**	**3**	**(2,334)**
–	(14)	(14)	–	**(14)**
–	(4,453)	(4,453)	–	**(4,453)**
–	–	–	(39)	**(39)**
(6,579)	**118,797**	**221,542**	**908**	**222,450**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the Financial Year 2013

01 SUMMARY OF MAJOR ACCOUNTING AND MEASUREMENT PRINCIPLES

BASIS OF PREPARATION AND OTHER NOTES

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

The shares of the Company are traded on the Regulated Market (General Standard) of the Frankfurt Stock Exchange.

KHD’s consolidated financial statements have been prepared according to uniform accounting and measurement principles. The consolidated financial statements have been prepared in accordance with prevailing International Financial Reporting Standards (IFRS) and their related interpretations as applicable in the EU, and are in line with the statutory obligations that are applicable to companies which are required to submit mandatory reports to the capital markets pursuant to Section 315a Paragraph 1 of the German Commercial Code (HGB) together with Article 4 of the Regulation (EC) No. 1606/2002 of the European Parliament and Council of July 19, 2002, relating to the application of current international accounting standards in their current version (IAS-Regulation). These consolidated financial statements have been prepared in Euro. All amounts, including figures used for comparison from the previous year, are generally stated in thousands of Euro (€ thousand). All amounts have been rounded according to normal commercial practice. The Group income statement has been prepared using the nature of expense method. The financial year of KHD and of its subsidiaries and joint ventures included in the consolidated financial statements corresponds to the calendar year.

CONSOLIDATION

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

The Group’s subsidiaries are listed under Note 02 in the notes to the consolidated financial statements.

CURRENCY TRANSLATION

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

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

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

	currency	Closing rate as of Dec. 31, 2013	Average rate Jan. 1 to Dec. 31, 2013
	1 Euro =		
Australia	AUD	1.5396	1.3938
India	INR	85.2246	78.5281
USA	USD	1.3767	1.3299
Malaysia	MYR	4.5204	4.2174
Brazil	BRL	3.2519	2.9000
Russia	RUB	45.2582	42.5931

Exchange rates used in the preceding financial year:

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

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

INTANGIBLE ASSETS

Goodwill

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

For all acquisitions subsequent to this date, goodwill corresponds to the positive difference between the acquisition costs for a business combination and the acquired remeasured assets, liabilities, and contingent liabilities which remains after performing a purchase price allocation, in particular the identification of intangible assets. Goodwill is presented as a separate item under non-current assets. It is subject to impairment tests, which are being performed annually and/or following triggering events, and is measured at the lower of cost and recoverable amount (cost less impairment losses).

Licenses and other intangible assets

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

PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment is measured at cost less scheduled, straight-line depreciation. In addition to the purchase price, acquisition costs also include costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. The useful life of operating and office equipment and of other plants is generally between three and ten years. Leasehold improvements are depreciated over the term of the lease. Gains and losses on the disposal of property, plant, and equipment are measured by reference to their carrying amount and are recognized in the income statement.

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

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

BORROWING COSTS

Borrowing costs are capitalized in the KHD Group to the extent that they are attributable to the purchase or production of qualifying assets. Borrowing costs are otherwise expensed through the income statement under net finance income. As in the previous year, no borrowing costs were capitalized in the 2013 financial year.

IMPAIRMENT TEST ON NON-CURRENT ASSETS

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

FINANCIAL INVESTMENTS, OTHER FINANCIAL ASSETS, AND FINANCIAL LIABILITIES

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

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

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

Financial assets are designated to a measurement category at the time of initial recognition. With the exception of derivatives held for trading, all arm's length purchases and sales of financial assets are recognized at the settlement date, i.e. the date at which an asset is delivered to or by the Group. Derivatives are recognized at the trade date, i.e. the date at which the Group entered into the commitment to purchase or sell an asset. Arm's length acquisitions or disposals are acquisitions or disposals of financial assets that require delivery of an asset within a period defined by market rules or standards.

Financial Assets Measured at Fair Value through Profit or Loss
In the KHD Group, the group of financial assets measured at fair value through profit or loss comprises financial assets held for trading. To date, the KHD Group has not utilized the option to designate financial assets as financial assets measured at fair value through profit or loss at the date of initial recognition.

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

Loans and Receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments and which are not quoted in an active market. This category includes trade and other receivables as well as other assets. They arise if the KHD Group provides money, goods, or services directly to a debtor. They are classified as current assets, except for those that are not due within twelve months of the balance sheet date, or which are classified as non-current on the basis of their economic structure. The latter are presented as non-current assets. After initial recognition, loans and receivables are measured at amortized cost by applying the effective interest rate method less any impairment. Gains and losses are recognized in the net profit for the year when loans and receivables are derecognized or impaired, and through the amortization process.

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

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

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

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

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

Cash and Cash Equivalents
Cash and cash equivalents include cash at hand as well as bank balances immediately available, call deposits at banks, and money market investments, excluding overdraft facilities with an original term to maturity of up to three months that are accounted for at nominal value. Restricted cash is stated separately. Cash on hand and bank balances are measured at amortized cost.

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

Financial liabilities in the KHD Group largely consist of

- Financial liabilities
- Trade and other payables.

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

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

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGES

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

These are initially recognized at fair value at the date the contract is concluded and measured at fair value in subsequent periods. The fair value of derivatives is calculated on the basis of quoted market prices or on the basis of discounted cash flow analyses, using corresponding yield curves for the term to maturity of the instruments concerned.

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

INVENTORIES

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

CONSTRUCTION CONTRACTS

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

PENSION BENEFIT OBLIGATIONS AND RETIREMENT BENEFIT PLANS

The pension benefit obligations recognized in the balance sheet are based on the present value of the obligations from defined benefit plans as of the balance sheet date. The present value of the defined benefit obligations is determined annually by independent actuaries using the projected unit credit method. Revaluations, consisting of actuarial gains and losses, are directly recognized in other comprehensive income and thus directly included in the balance sheet. The revaluations recognized in other comprehensive income are part of retained earnings and will not be reclassified to profit or loss.

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

In addition, there is a defined contribution plan for all employees of the Group companies in Germany within the scope of the German statutory pension scheme, with an employer contribution rate of currently 9.45% (previous year: 9.8%).

PROVISIONS

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

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

DEFERRED INCOME TAXES

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

Deferred tax assets for tax loss carry-forwards are only recognized if they are likely to be realized in the near future. Deferred tax assets and liabilities are measured at the amount of the expected tax expense or benefit of subsequent financial years, taking into account the tax rates applicable at the time of realization.

RECOGNITION OF INCOME AND EXPENSES

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

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

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

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

ESTIMATES AND ASSUMPTIONS

The assumptions made and estimates used in preparing the consolidated financial statements have an influence on the recognition and the measurement of the assets, liabilities, income and expenses disclosed, as well as on contingent liabilities and contingent assets. These assumptions and estimates largely relate to the determination of uniform economic useful lives, the determination of the stage of completion for construction contracts, the determination of contract costs, the assumptions used while determining the recoverability of goodwill, the measurement of provisions, and the extent to which tax loss carry-forwards can be utilized. In isolated cases, actual values may deviate from the underlying assumptions and estimates. Effects from such changes are generally recognized in the income statement at the time when more recent knowledge becomes available. The carrying amounts of the affected items can be found in the statements made in the notes to the consolidated financial statements.

APPLYING NEW OR REVISED “INTERNATIONAL FINANCIAL REPORTING STANDARDS”

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

The application of the following standards and interpretations was mandatory for the first time:

- Amendment to IAS 1: Presentation of Items of Other Comprehensive Income (effective for annual periods beginning on or after July 1, 2012)
- Amendment to IAS 12: Income Taxes – Realization of Underlying Assets (effective for annual periods beginning on or after January 1, 2013)
- Amendment to IAS 19: Employee Benefits (effective for annual periods beginning on or after January 1, 2013)
- IFRS 13: Fair Value Measurement (effective for annual periods beginning on or after January 1, 2013)
- Amendment to IFRS 7: Financial Instruments: Disclosures – Offsetting of Financial Assets and Financial Liabilities (effective for annual periods beginning on or after January 1, 2013)
- Improvements to IFRS (May 2012) (effective for annual periods beginning on or after January 1, 2013)
- Amendment to IFRS 1: Severe Hyperinflation (effective for annual periods beginning on or after January 1, 2013)
- Amendment to IFRS 1: Removal of Fixed Dates for First-time Adopters of IFRS (effective for annual periods beginning on or after January 1, 2013)
- Amendment to IFRS 1: Government Loans (effective for annual periods beginning on or after January 1, 2013)
- IFRIC 20: Stripping Costs in the Production Phase of a Surface Mine (effective for annual periods beginning on or after January 1, 2013)

The application of IAS 1 resulted in changes to the presentation of the Group's statement of comprehensive income. Items that will be reclassified subsequently to profit or loss when specific conditions are met must be separated from those items that will not be reclassified subsequently to profit or loss. The Group has retrospectively applied the changes and adjusted the items of other comprehensive income accordingly.

IFRS 13 sets standard guidelines for the measurement at fair value and the associated disclosures. The scope of application of IFRS 13 is extensive and encompasses both financial and non-financial items. IFRS 13 is always applied when another IFRS requires or permits measurement at fair value, or when disclosures about fair value measurement are required. For KHD the application of IFRS 13 results in additional disclosures in the notes to the consolidated financial statements.

IFRS 13 must be prospectively applied from January 1, 2013. The transitional provisions also state that the disclosure obligations need not apply to comparative information prepared for periods before the first application of this standard. Accordingly, the Group has made no disclosures newly required by IFRS 13 for the 2012 comparative figures.

The application of IAS 19R (2011) had the following effects on the Group's consolidated financial statements:

The KHD Group recognized the pension benefit obligations during the financial year for the first time at their entire present value on the reporting date. In previous years, the Group applied the so-called corridor method under IAS 19. According to this method, actuarial gains or losses from the valuation of pension benefit obligations were not recognized if they were due only to changes in actuarial parameters and the actuarial gain or loss varied within a corridor of 10% above or below the present value of the defined benefit obligation at the end of the previous reporting period. Excess amounts were recognized over the expected average remaining working lives of the employees participating in the respective pension plan.

Among other things, the amendment to IAS 19R has eliminated the corridor method for the recognition of actuarial gains and losses. All actuarial gains and losses must now be recognized immediately in other comprehensive income in the year they occur and must be presented in retained earnings – after accounting for tax effects. The effects arising from the new accounting method have been recognized retrospectively in accordance with IAS 8.22.

As of December 31, 2012, the actuarial gains and losses amounted to € 6,398 thousand. The previous application of the corridor method resulted in a measurement of the pension benefit obligations at € 19,505 thousand. The retrospective application of IAS 19R has resulted in a measurement of the pension benefit obligations at € 25,903 thousand as of December 31, 2012. The application of IAS 19R did not have an impact on earnings per share.

The effects arising from the new accounting policy for pension benefit obligations are shown in the following table:

GROUP BALANCE SHEET

in € thousand	Jan. 1, 2012	adjustments Jan. 1, 2012	Jan. 1, 2012 (adjusted)
Retained earnings	125,556	(1,208)	124,348
Share of equity attributable to shareholders of the parent company	232,651	(1,208)	231,443
Total equity	**233,532**	**(1,208)**	**232,324**
Pension benefit obligations	19,960	1,789	21,749
Deferred tax liabilities	5,245	(581)	4,664
Total non-current liabilities	**53,067**	**1,208**	**54,275**

in € thousand	Dec. 31, 2012	adjustments Dec. 31, 2012	Dec. 31, 2012 (adjusted)
Retained earnings	126,553	(4,321)	122,232
Share of equity attributable to shareholders of the parent company	232,667	(4,321)	228,346
Total equity	**233,611**	**(4,321)**	**229,290**
Pension benefit obligations	19,505	6,398	25,903
Deferred tax liabilities	4,992	(2,077)	2,915
Total non-current liabilities	**39,969**	**4,321**	**44,290**

GROUP STATEMENT OF COMPREHENSIVE INCOME

in € thousand	Jan. 1– Dec. 31, 2012	adjustments Jan. 1– Dec. 31, 2012	Jan. 1– Dec. 31, 2012 (adjusted)
Actuarial gains and losses related to defined benefit obligations	–	(3,113)	(3,113)
Group comprehensive income	**6,047**	**(3,113)**	**2,934**
Of which attributable to parent company shareholders	5,942	(3,113)	2,829

Other changes to accounting standards did not have any impact on the consolidated financial statements.

KHD voluntarily decided to early adopt the amendments to IAS 36 Recoverable Amount Disclosures for Non-Financial Assets. No material effects arise as a result of the early application.

The following standards or amendments and reviews of standards and interpretations were not required to be applied yet and were also not voluntarily applied early.

- IFRS 9 “Financial Instruments: Classification and Measurement of Financial Assets” (the previous date of first-time application for financial years beginning on or after January 1, 2015, has been canceled. There is as yet no new first-time application date.)
- Changes to IFRS 9 and IFRS 7: “Mandatory Date of First Time Application and Transition Disclosures” (the previous date of first-time application for financial years beginning on or after January 1, 2015, has been canceled. There is as yet no new first-time application date.)
- IFRS 10 “Consolidated Financial Statements” (effective for annual periods beginning on or after January 1, 2014)
- IFRS 11 “Joint Arrangements” (effective for annual periods beginning on or after January 1, 2014)
- IFRS 12 “Disclosure of Interests in Other Entities” (effective for annual periods beginning on or after January 1, 2014)
- IAS 27 “Separate Financial Statements” (effective for annual periods beginning on or after January 1, 2014)
- IAS 28 “Investments in Associates and Joint Ventures” (effective for annual periods beginning on or after January 1, 2014)
- Amendments to IFRS 10, IFRS 12, and IAS 27 (2011): “Investment Entities” (effective for annual periods beginning on or after January 1, 2014)
- Amendment to IAS 32 “Financial Instruments: Presentation – Offsetting of Financial Assets and Financial Liabilities” (effective for annual periods beginning on or after January 1, 2014)
- Amendments to IFRS 10, IFRS 11, and IFRS 12: Transitional Guidance (effective for annual periods beginning on or after January 1, 2014)
- Amendment to IAS 39 “Novation of Derivatives and Continuation of Hedge Accounting” (effective for annual periods beginning on or after January 1, 2014)
- Improvements to IFRS 2010-2012 (December 2013) (effective for annual periods beginning on or after July 1, 2014)
- Improvements to IFRS 2011-2013 (December 2013) (effective for annual periods beginning on or after July 1, 2014)
- Amendment to IAS 19 “Employee Contributions” (effective for annual periods beginning on or after July 1, 2014)
- IFRIC 21 “Levies” (effective for annual periods beginning on or after January 1, 2014)
- IFRS 14 “Regulatory Deferral Accounts” (effective for annual periods beginning on or after January 1, 2016)

With regard to the consolidation package (IFRS 10, IFRS 11 and IFRS 12) that must be applied from January 1, 2014, an initial appraisal of the possible effects has already been carried out by the Management Board. The Management Board came to the conclusion that IFRS 10 that must be applied in the future will have no effects on the definition of the group of consolidated companies. Since there are also no significant joint ventures, no effects are expected from the application of IFRS 11 either. However, additional disclosure obligations will result from IFRS 12.

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

02 SUBSIDIARIES OF KHD HUMBOLDT WEDAG INTERNATIONAL AG AS OF DECEMBER 31, 2013

Name of company	Registered office	Shareholding in %		Currency	Subscribed capital
Subsidiaries					
KHD Humboldt Wedag GmbH	Cologne, Germany	100.00	D	€	15,339,300
Humboldt Wedag GmbH	Cologne, Germany	100.00	I	€	7,000,000
ZAB Zementanlagenbau GmbH Dessau	Dessau, Germany	100.00	I	€	2,000,000
Blake International Ltd.	Road Town, British Virgin Islands	100.00	I	USD	1,000
KHD Humboldt Wedag Industrial Services AG	Cologne, Germany	89.98	I	€	3,600,000
EKOF Flotation GmbH	Bochum, Germany	100.00	I	€	51,129
Humboldt Wedag Australia Pty Ltd.	Braeside, Australia	100.00	I	AUD	200,002
Humboldt Wedag Inc.	Norcross/Georgia, USA	100.00	I	USD	1,000
Humboldt Wedag India Private Ltd.	New Delhi, India	100.00	I	INR	19,200,000
KHD Humboldt Wedag Machinery Equipment (Beijing) Co. Ltd.	Beijing, China	100.00	I	USD	1,050,000
KHD Humboldt Engineering OOO	Moscow, Russia	100.00	I	RUB	3,350,000
Humboldt Wedag Malaysia Sdn. Bhd.	Kuala Lumpur, Malaysia	100.00	I	MYR	500,000
Humboldt Wedag Do Brasil Servicos Technicos Ltda.	Belo Horizonte, Brazil	100.00	I	BRL	200,000

D = directly owned
I = indirectly owned

As of December 31, 2013, the scope of consolidation included five domestic (December 31, 2012: five) and eight foreign (December 31, 2012: eight) subsidiaries in addition to KHD.

One subsidiary and one joint venture (previous year: one subsidiary) are not included in the scope of consolidation since their influence on the Group's net assets, financial position, and result of operations is not significant.

03 CHANGES TO THE SCOPE OF CONSOLIDATION

The joint venture included in the consolidated financial statements in the previous financial year by way of proportionate consolidation was not included in the reporting year for reasons of materiality. The proportionate assets and liabilities, and proportionate income and expenses of the joint venture that are attributable to the Group, were included in the corresponding items in the consolidated financial statements in the previous year. The consolidation principles detailed above were otherwise applied. The proportionate assets and liabilities, and income and expenses of the joint venture in the previous year were as follows:

in € thousand	Dec. 31, 2012
ASSETS	
Current assets	3
Cash and cash equivalents	109
Total assets	**112**
EQUITY AND LIABILITIES	
Current liabilities	7
Equity	105
Total equity and liabilities	**112**

in € thousand	Jan. 1, – Dec. 31, 2012
Income	35
Expenses	(17)

04 SEGMENT REPORTING

External segment reporting is based on intra-Group management control as well as internal financial reporting depending on the nature of the products and services offered. The Group has only a single reportable segment because it almost exclusively operates in the industrial plant engineering business. The activities related to the holding function are not a separate part of internal financial reporting and are neither reviewed separately with regard to performance nor with regard to allocation of resources. Management control is based in particular on key balance sheet and income statement figures. The revenue figure analyzed is comprised of revenue under construction contracts and from service revenue. The main business activity of the Group is the development, production, and distribution of industrial plant equipment, in particular for cement plants. The measurement principles used for Group segment reporting are in line with the IFRS principles used for the consolidated financial statements. In its function as the chief operating decision maker, the Management Board assesses the profitability of the segment based on the operating result (earnings before interest and taxes – EBIT).

The following table provides an overview of the business for the 2013 and 2012 financial years:

in € million	2013	2012
Order intake	172	411
Order backlog (Dec. 31)	414	491
Revenue	250	214
Cost of sales	(221)	(170)
Gross profit	29	44
Expenses/other income (net)	(28)	(37)
Earnings before interest and taxes (EBIT)	1	7
Net finance income	1	2
Profit before tax	2	9
Changes in unrestricted cash and cash equivalents	(82)	(4)
Total assets (Dec. 31)	**418**	**436**
Liquidity (Dec. 31)	228	283
Liabilities (Dec. 31)	196	206

Geographical allocation of project data:

	Revenue		Non-current assets	
in € thousand	**2013**	**2012**	**2013**	**2012**
Germany	3,825	7,506	6,451	7,457
Russia	12,923	31,116	3,049	3,281
Rest of Europe	36,411	5,630	–	–
North America	25,975	12,618	85	86
South America	19,214	19,940	25	1
Middle East	14,345	21,870	–	–
India	47,189	46,439	770	909
China	4,914	9,968	23	36
Rest of Asia	69,363	35,238	15	3
Africa	13,649	15,245	–	–
Other	1,816	7,976	–	–
	249,624	**213,546**	**10,418**	**11,773**

	Order Intake		Order Backlog	
in € thousand	**2013**	**2012**	**2013**	**2012**
Germany	4,959	3,253	2,900	1,818
Russia	83,128	80,463	156,462	86,361
Rest of Europe	7,775	40,036	8,073	36,709
North America	31,047	25,933	87,370	16,323
South America	10,813	7,743	11,079	5,842
Middle East	22,678	13,521	28,276	19,960
India	5,194	90,504	77,699	120,089
China	(833)	6,401	1,069	6,216
Rest of Asia	3,381	126,268	38,312	104,236
Africa	4,203	14,343	2,479	11,925
Other	75	2,421	112	81,555
	172,420	**410,886**	**413,831**	**491,034**

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

As of December 31, 2013, the order backlog of € 413.8 million was 15.7% below the previous year's value of € 491.0 million. At € 172.4 million, the order intake for the financial year decreased significantly against the previous year's value of € 410.9 million.

The order backlog includes an order of which around 60% was passed on to the strategic partner AVIC. The portion of the order that was passed on amounts to approximately € 60 million. Correspondingly, the KHD Group generates no additional gross profit for the remaining order backlog of € 22.9 million (previous year: € 53.0 million) that has not yet been recognized as revenue.

For a large project included in the order backlog at € 74.5 million (previous year: € 74.7 million) cancellation by the customer is likely. Effects on profit or loss from the possible cancellation have already been accounted for in the 2013 financial year.

At the start of the 2014 financial year, the KHD Group reorganized the internal reporting structure. From January 2014 the key indicators used to manage the Group will be reported in the segments Capex as well as Parts & Services.

Information about Key Customers

In the financial year, revenue of € 50.5 million and € 28.0 million was attributable to two individual customers, with which at least 10% of the Group's revenue was achieved (previous year: € 27 million to one customer).

05 PROPERTY, PLANT, AND EQUIPMENT

in € thousand	Leasehold improvements	Property, plant and equipment	Total
Cost			
Dec. 31, 2011	**280**	**8,974**	**9,254**
Additions	214	961	1,175
Disposals	–	(1,280)	(1,280)
Foreign currency translation	(2)	(34)	(36)
Dec. 31, 2012	**492**	**8,621**	**9,113**
Additions	10	734	744
Disposals	(30)	(304)	(334)
Foreign currency translation	(6)	(118)	(124)
Dec. 31, 2013	**466**	**8,933**	**9,399**
Accumulated depreciation			
Dec. 31, 2011	**98**	**6,208**	**6,306**
Additions	45	987	1,032
Disposals	–	(1,222)	(1,222)
Dec. 31, 2012	**143**	**5,973**	**6,116**
Additions	57	909	966
Disposals	(30)	(229)	(259)
Dec. 31, 2013	**170**	**6,653**	**6,823**
Carrying amount			
Dec. 31, 2012	**349**	**2,648**	**2,997**
Dec. 31, 2013	**296**	**2,280**	**2,576**

Additions in property, plant, and equipment principally concern investments in IT hardware at our locations worldwide and investments in the workshop of our subsidiary HWIN.

06 GOODWILL AND OTHER INTANGIBLE ASSETS

in € thousand	Goodwill	Licenses and other intangible assets	Total
Cost			
Dec. 31, 2011	**5,162**	**6,286**	**11,448**
Additions	–	1,815	1,815
Disposals	–	(2)	(2)
Dec. 31, 2012	**5,162**	**8,099**	**13,261**
Additions	–	294	294
Disposals	–	–	–
Dec. 31, 2013	**5,162**	**8,393**	**13,555**
Accumulated amortization			
Dec. 31, 2011	**–**	**3,000**	**3,000**
Additions	–	1,487	1,487
Disposals	–	(2)	(2)
Dec. 31, 2012	**–**	**4,485**	**4,485**
Additions	–	1,228	1,228
Disposals	–	–	–
Dec. 31, 2013	**–**	**5,713**	**5,713**
Carrying amount			
Dec. 31, 2012	**5,162**	**3,614**	**8,776**
Dec. 31, 2013	**5,162**	**2,680**	**7,842**

The additions to licenses and other intangible assets are largely investments in software. € 1,010 thousand was included in the preceding financial year for a SAP project.

GOODWILL

The goodwill reported as of December 31, 2013, arises from acquisitions and was allocated to the corresponding cash generating units. Overall, the carrying amount of goodwill of € 5,162 thousand remained unchanged compared with the previous year. The composition of the cash generating units to which goodwill was allocated was changed as a result of the introduction of the segments Capex and Parts & Services (reorganization of the reporting structure from the 2014 financial year onward). Goodwill has therefore been reallocated to the cash generating units. As of December 31, 2013, the goodwill is attributable to the following cash generating units:

- Parts & Services Humboldt Wedag GmbH, Cologne (€ 2,126 thousand)
- Parts & Services KHD Humboldt Engineering OOO ("KHD OOO"), Moscow (€ 1,606 thousand)
- Capex KHD OOO (€ 1,430 thousand).

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

The (pre-tax) cash flows accounted for are based on the management-approved medium-term planning, which extends over a period of four years. Planning is based on the assumption of steadily growing sales markets in the Parts & Services segment. Stable growth for the cash generating unit Capex KHD OOO on the Russian market was planned. The assumptions are based on the one hand on the increased demand from customers and the expansion of activities in the Parts & Services segment and, on the other, the increasing cement consumption forecast in Russia has been taken into account for Capex KHD OOO. In order to calculate the value contribution arising from the perpetual return (value contribution after expiry of the detailed planning period), the long-term operating cash flows were calculated as the arithmetic average of the 2016 to 2017 planning years. A 1.0% growth rate was assumed for the perpetuity. This growth rate reflects the management's long-term expectations.

The capitalization rates were derived from market data, taking into account the risk situation of the respective cash generating unit, and amount to 13.71% before tax (previous year: 12.47%) and 14.71% (previous year: 13.84%), while taking various risk premiums for country risks into consideration. Since the calculated value in use exceeds the cash generating unit's carrying amount (including goodwill), there was no need to recognize an impairment loss pursuant to IAS 36.

A change to the key measurement parameters would have the following effects: In the case of a 10% reduction in the estimated cash flows this would result in an impairment loss of € 221 thousand (previous year: € 0 thousand); a 20% increase in the capitalization rate would lead to an impairment loss of € 432 thousand (previous year: € 432 thousand).

07 RECEIVABLES AND FINANCIAL ASSETS

in € thousand	Dec. 31, 2013	Dec. 31, 2012
Current financial assets		
Trade receivables	80,469	66,460
Less valuation allowances for impairment of receivables	(5,894)	(7,043)
Trade receivables - net	74,575	59,417
Other financial assets	1,253	1,428
Financial receivables	7,309	2,966
Current financial assets	**83,137**	**63,811**
Other receivables	2,918	2,617
Current financial assets and other receivables	**86,055**	**66,428**
Fair value of trade and other receivables		
Trade receivables – net	74,575	59,417
Other financial assets	1,253	1,428
Other receivables	10,227	5,583
Total fair value of trade and other receivables	**86,055**	**66,428**

Trade receivables rose by € 14,009 thousand from € 66,460 thousand to € 80,469 thousand. This is mainly due to the change to the receivables (progress billings) payable at short notice from projects under execution. The trade receivables from projects under execution that are due for payment rose by € 26,460 thousand from € 1,460 thousand to € 27,920 thousand. The receivables resulting from completed projects decreased from € 57,951 thousand in the previous year by € 11,299 to € 46,652 thousand. As in the previous financial year, valuation allowances primarily relate to receivables from customers located in North Africa, the Middle East, and India.

Financial receivables increased year-on-year by € 4,343 thousand, from € 2,966 thousand to € 7,309 thousand. These primarily concern receivables related to the sale of KHD's former workshop (contingent purchase price consideration) and receivables from claims against customers.

Other receivables in the amount of € 2,918 thousand (previous year: € 2,617 thousand) arise from reimbursement claims for value-added tax (VAT).

For trade receivables in the amount of € 3,931 thousand (previous year: € 6,565 thousand), which were overdue more than 61 days, no valuation allowances were made, because no material change in the credit standing of these debtors was identified and the outstanding amounts are expected to be recoverable.

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

in € thousand	Dec. 31, 2013	Dec. 31, 2012
61 to 90 days	452	285
91 to 180 days	1,430	1,880
181 to 365 days	1,288	2,025
Over 365 days	761	2,375
Total	**3,931**	**6,565**

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

Movement in valuation allowances on trade receivables

in € thousand	2013	2012
Valuation Allowances as of Jan. 1	7,043	6,876
Addition	1,096	2,297
Utilization	(468)	(510)
Currency translation differences	(391)	(141)
Reversal	(1,386)	(1,479)
Valuation Allowances as of Dec. 31	**5,894**	**7,043**

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

08 DEFERRED TAX ASSETS AND LIABILITIES

The Group has recognized deferred taxes arising from temporary differences of assets and liabilities between the IFRS amount and the tax base. Deferred tax assets and liabilities are calculated on the basis of local tax rates.

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

As of December 31, 2013, total Group tax loss carry-forwards amounted to € 64.8 million (previous year: € 57.5 million) for corporate income tax and comparable foreign income taxes. Loss carry-forwards for trade tax amounted to € 75.0 million (previous year: € 66.7 million).

In line with the provisions of IAS 12.34 et seq., income tax loss carry-forwards that can probably be utilized to offset future profits within the four-year Group planning period, were included in the calculation of deferred taxes. In doing so, loss carry-forwards in the amount of € 18.4 million (previous year: € 11.9 million) for corporate income tax and comparable foreign income taxes and € 16.0 million (previous year: € 7.1 million) for trade tax were recognized.

On November 21, 2013, a consortium group of bidders consisting of AVIC International Engineering Holdings Pte. Ltd., Singapore, Europe Project Management Pte. Ltd., Singapore, Europe Technology Investment Pte. Ltd., Singapore, and Europe Engineering Holdings Pte. Ltd., Singapore, submitted to the shareholders of the Group parent company, KHD Humboldt Wedag International AG, a voluntary public takeover offer for the acquisition of their shares. Within the scope of this takeover offer, which ended on January 13, 2014, with the expiry of the extended acceptance period, more than 50% of the shares in KHD Humboldt Wedag International AG were transferred to the bidders. Several countries in which subsidiaries of the Group are active in general limit the future utilization of tax loss carry-forwards as a consequence of a direct or indirect shareholder change of over 50%. The extent to which the utilization of tax loss carry-forwards on which no deferred tax assets have been recognized is permanently limited, currently cannot be assessed conclusively.

Unutilized loss carry-forwards for foreign income taxes of € 1,732 thousand (previous year: € 5,360 thousand) will expire during the time period from 2029 through 2031.

Deferred taxes of € –146 thousand (previous year: € 1,496 thousand) were recorded in other comprehensive income in the financial year. These exclusively result from actuarial gains and losses related to defined benefit obligations that are not booked through profit or loss.

For temporary differences amounting to € 135.7 million (previous year: € 146.5 million) which are linked to shares in subsidiaries and which will not reverse in the foreseeable future, no deferred tax assets or liabilities were recognized.

Deferred tax assets and liabilities arise from the following items:

in € thousand	Dec. 31, 2013	Dec. 31, 2012
Deferred tax assets		
Provisions	6,217	6,770*
Resulting from tax loss carry-forwards	6,138	4,250
Offset with deferred tax liabilities	(7,447)	(5,329)*
	4,908	**5,691**
Deferred tax liabilities		
Construction contracts/PoC method	(9,526)	(8,244)
Offset with deferred tax assets	7,447	5,329*
	(2,079)	**(2,915)***

* Amounts adjusted due to change in accounting policy for pension benefit obligations

09 INVENTORIES

in € thousand	Dec. 31, 2013	Dec. 31, 2012
Raw materials, consumables, and supplies	6,563	6,545
Work in progress	59	391
Write-downs to net realizable value	(1,304)	(1,973)
	5,318	**4,963**

In the financial year, inventories in the amount of € 6,250 thousand (previous year: € 5,092 thousand) were expensed as part of cost of sales. Write-downs to net realizable value amounted to € 1,304 thousand (previous year: € 1,973 thousand) as of December 31, 2013. These write-downs relate to raw materials, consumables, and supplies, the carrying amount of which is € 1,974 thousand (previous year: € 3,833 thousand).

10 CONSTRUCTION CONTRACTS

in € thousand	Dec. 31, 2013	Dec. 31, 2012
Costs incurred to date for construction contracts	341,449	246,311
Proportionate profits under these contracts recognized to date	43,008	40,405
Total costs incurred and profits recognized	384,457	286,716
Less recognized contract losses	(2,007)	(967)
Less progress billings	(368,991)	(317,465)
Balance of construction contracts account	**13,459**	**(31,716)**
This amount is comprised as follows:		
Gross amount due from customers for contract work	59,050	26,563
Gross amount due to customers for contract work	(45,591)	(58,279)
	13,459	**(31,716)**
Gross amount due to customers for contract work	(45,591)	(58,279)
Advances received under construction contracts (before related work is performed)	(5,619)	(7,686)
Commitments under construction contracts	**(51,210)**	**(65,965)**

Of the revenue recognized in the 2013 financial year in the amount of € 249,624 thousand (previous year: € 213,546 thousand), € 225,258 thousand (previous year: € 199,708 thousand) is attributable to construction contracts for which revenue was recognized on the basis of stage of completion.

11 OTHER FINANCIAL ASSETS

Primarily securities are recognized under other financial assets, and these were valued at € 1,163 thousand (previous year: € 1,428 thousand). This change is mainly the result of a corresponding decrease in value of the shares held, due to the fall in the stock market price in the 2013 financial year.

12 CASH AND CASH EQUIVALENTS

The Group reports cash and cash equivalents in the amount of € 228,169 thousand (previous year: € 282,635 thousand). Of this amount, € 28,103 thousand (previous year: € 453 thousand) is pledged as collateral at banks. This cash collateral mainly relates to collateral connected with a bank guarantee credit facility provided by a consortium of banks that is available to all operating KHD Group companies. In contrast to the previous year, additional cash of € 27,650 thousand had to be deposited as collateral in the 2013 financial year under the conditions of this bank guarantee credit facility.

in € thousand	Dec. 31, 2013	Dec. 31, 2012
Bank balances and cash on hand	77,222	125,719
Short-term bank deposits	122,844	156,463
Restricted cash (collateral for guarantees)	28,103	453
	228,169	**282,635**

13 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.

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 available 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.

As in the previous year, the Company holds 229,136 treasury shares. This corresponds to 0.46% of the shares comprising the share capital. The shares have been acquired in order to manage the share price, and as a provision for any reconciliation of residual amounts that may be required in the context of capital increases. They are recognized in the balance sheet at their acquisition cost of € 0.965 per share. The share's stock market price was € 6.46 as of December 31, 2013.

On December 10, 2013, the Management Board accepted the voluntary takeover offer from a group of bidders 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 treasury shares. The economic transfer of these shares took place on January 7, 2014.

The non-controlling interests of 10.02% (previous year: 10.43%) relate solely to the minority shareholders of KIS.

14 PENSION BENEFIT OBLIGATIONS

The pension scheme granted to employees in the Group relates exclusively to three Group companies in Germany. The pension scheme is granted under defined benefit plans, which are covered by setting up pension benefit obligations. After the pension plans were frozen in 1996, it is no longer possible for employees to acquire additional vested rights to future pensions. The claims to payment of committed, non-forfeitable pension benefit obligations under the pension plans arise upon application by the beneficiaries, and through the provision of supporting evidence that the statutory pension may be drawn. The pension plans of the three Group companies are identical. They are designed as benefits for old-age pension, early retirement pension, and pension benefits to widows and orphans. Benefits to respective employees are dependent on date of entry, length of service, and income.

As of December 31, 2013, the Group's pension benefit obligations amounted to € 24,690 thousand (previous year: € 25,903 thousand).

The pension plans typically expose the Group to the following actuarial risks:

Interest rate change risk: A decrease in the loan rate will lead to an increase in the plan obligation.

Longevity risk: The present value of the defined benefit obligations arising from the plan is determined on the basis of the best possible estimate of the expected mortality of the employees participating in the plan, both during the term of the employment contract as well as after the end of the employment. An increase in the life expectancy of the employees participating in the plan will lead to an increase in the plan obligation.

The pension benefit obligations are not funded by a separate fund or in the form of plan assets, but are financed exclusively internally.

The most important actuarial assumptions made are as follows:

in %	Dec. 31, 2013	Dec. 31, 2012
Discount rate	3.10	3.00
Pension trend	2.00	2.00
Employee turnover rate	–	–

The mortality tables 2005 G from Dr. Klaus Heubeck form the biometric basis for calculating these obligations.

The assumptions shown above reflect realistic expectations at the respective reporting date. A change in the parameters named above can lead to changes in the measurement. The effects of changes to the material actuarial assumptions in the scope of obligation at the reporting date can be clarified using the following sensitivity analyses:

- If the discount rate increases by 0.5%, the pension benefit obligations fall by € 1,205 thousand. If the discount rate instead falls by 0.5%, the pension benefit obligations increase by € 1,314 thousand.
- If the pension trend increases by 0.25%, the pension benefit obligations rise by € 622 thousand. If the pension trend decreases by 0.25%, the pension benefit obligations fall by € 599 thousand.
- If the life expectancy increases by one year for both men and women, the defined benefit obligation would increase by T€ 1,442.

The above sensitivity analyses cannot be taken as representative of the actual change in the defined benefit obligation since it is unlikely that deviations from the assumptions made will arise independently of one another; this is because the assumptions are partly connected to each other.

The present value of the defined benefit obligations in the above sensitivity analyses was determined as of the reporting date using the projected unit credit method, the same method used to calculate the benefit-related obligation in the Group balance sheet.

The changes in the present value of the defined benefit obligation are as follows:

in € thousand	Dec. 31, 2013	Dec. 31, 2012
Defined benefit obligation on Jan. 1	25,903	21,749
Interest cost	758	1,049
Benefits actually paid (total)	(1,525)	(1,517)
Gains due to experience adjustments	(229)	(368)
Actuarial (gains)/losses due to change in actuarial assumptions	(217)	4,989
Defined benefit obligation on Dec. 31	**24,690**	**25,903**

Since there are no plan assets, the present value of the defined benefit obligations corresponds to net debt as of the reporting date.

As of December 31, 2013, of the total obligations of € 24,690 thousand, € 1,139 thousand falls to active employees, € 3,250 thousand to former employees, and € 20,301 to pensioners and surviving dependents.

As of December 31, 2013, the average term of the defined benefit obligation was 10.5 years.

Cumulative revaluations recorded in comprehensive income:

in € thousand	Dec. 31, 2013	Dec. 31, 2012
Opening balance – cumulative remeasurement gains (–)/losses	6,429	1,808
Actuarial gains (–)/losses	(445)	4,621
Closing balance – cumulative remeasurement gains (–)/losses	**5,984**	**6,429**

in € thousand	Dec. 31, 2013	Dec. 31, 2012
Defined benefit costs		
Current service cost	–	–
Net interest expense	**758**	**1,049**
Actuarial (gains)/losses due to experience adjustments	(229)	(368)
Actuarial (gains)/losses due to change in actuarial assumptions	(216)	4,989
Actuarial (gains)/losses recognized in other comprehensive income	**(445)**	**4,621**
Defined benefit costs	**313**	**5,670**

In the financial year under review, interest expenses on pensions of € 758 thousand (previous year: € 1,049 thousand) were recognized under finance expenses.

Expected benefit payments

Prospective pension payments

in € thousand	
in 2014	1,588
in 2015	1,600
in 2016	1,595
in 2017	1,590
in 2018	1,581
2019 to 2023	7,630

15 PROVISIONS

in € thousand	Warranty	Tax and litigation risks	Impending losses	Total
Provisions as of Jan. 1, 2013	29,657	1,335	1,131	32,123
Additions	6,025	5	72	6,102
Release	(5,524)	(604)	(154)	(6,282)
Interest accrual	334	–	–	334
Currency translation effects	(1,653)	(192)	(112)	(1,957)
Utilization/reclassification	(4,097)	(23)	(60)	(4,180)
Provisions as of Dec. 31, 2013	**24,742**	**521**	**877**	**26,140**

in € thousand	Dec. 31, 2013	Dec. 31, 2012
Non-current (warranty)	2,358	7,571
Current	23,782	24,552
	26,140	**32,123**

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

The effects from the currency translation of € 1,957 thousand are mainly attributable to the translation of HWIN's local currency.

16 LIABILITIES

in € thousand	Dec. 31, 2013	Dec. 31, 2012
Current financial liabilities		
Trade payables	77,868	62,588
Other current liabilities	6,457	7,805
Current financial liabilities	**84,325**	**70,393**
Other liabilities		
Tax and social security	591	123
Income tax liabilities	417	1,073
Other liabilities	**1,008**	**1,196**
Current liabilities	**85,333**	**71,589**
Other non-current liabilities	**6,183**	**7,901**

Other non-current liabilities include commitments due to warranty recognized in the amount of € 6,183 thousand (previous year: € 7,901 thousand).

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

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

17 COMMITMENTS UNDER CONSTRUCTION CONTRACTS

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

18 PERSONNEL EXPENSES

in € thousand	2013	2012
Wages and salaries	37,951	38,198
Social security contributions and costs, including pension costs	5,520	5,827
	43,471	**44,025**

Personnel expenses decreased year-on-year by € 554 thousand from € 44,025 thousand to € 43,471 thousand.

	As of Mar. 31, 2013	As of Jun. 30, 2013	As of Sept. 30, 2013	As of Dec. 31, 2013
Salaried employees	711	710	699	691
Industrial employees	64	64	66	66
Total	**775**	**774**	**765**	**757**

As of December 31, 2013, the number of employees was 757 (previous year: 783). In the year under review, the average number of employees was 768, of whom 65 were industrial employees (previous year: 775 employees, of whom 65 industrial).

Personnel expenses include employer contributions to statutory pension insurance in Germany in the amount of € 1,997 thousand (previous year: € 2,061 thousand) and expenses for contractually defined contribution plans of € 372 thousand (previous year: € 378 thousand).

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

The total remuneration for key management personnel amounted to € 1,466 thousand in the 2013 financial year (previous year: € 1,360 thousand). 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.

Of the total remuneration for the Management Board, € 1,149 thousand (previous year: € 599 thousand) is attributable to current benefits and € 0 thousand (previous year: € 492 thousand) to other longer term incentives. The fixed bonuses of the Management Board members, which 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. Correspondingly, the total remuneration for the Management Board is divided into € 1,149 thousand (previous year: € 635 thousand) non-performance-related compensation and € 0 thousand (previous year: € 456 thousand) performance-related compensation.

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 Group management report and also describes the main aspects of the remuneration system.

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

In 2013, members of the Supervisory Board received € 0 thousand as an advance (previous year: € 166 thousand) on remuneration that is payable after the end of the financial year pursuant to the articles of association.

20 OTHER OPERATING INCOME

in € thousand	2013	2012
Exchange gains	635	431
Other income	2,821	1,266
	3,456	**1,697**

Other income includes income of € 2,130 thousand from a contingent purchase price related to the sale of the workshop in Cologne in 2009.

21 SALES EXPENSES

Sales expenses decreased year-on-year by € 3,990 thousand, from € 13,637 thousand to € 9,647 thousand. They included costs for tendering amounting to € 4,571 thousand in the financial year (previous year: € 6,606 thousand). These items also include expenses for account management and marketing activities.

22 GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses amounted to € 16,045 thousand in the financial year (previous year: € 18,500 thousand). The decrease in the general and administrative expenses of € 2,455 thousand is a result of the strict cost management system. Aside from the costs of general administration, general and administrative expenses include in particular costs for Management Board compensation, legal and consulting costs, costs of preparing and auditing financial statements, Supervisory Board remuneration and investor relations costs.

23 OTHER EXPENSES

in € thousand	2013	2012
Research and development	3,160	3,625
Exchange rate losses	845	1,047
Amortization of intangible assets	224	757
Miscellaneous expenses	1,732	1,525
	5,961	**6,954**

Other expenses decreased year-on-year by € 993 thousand, from € 6,954 thousand to € 5,961 thousand. Research and development costs amounting to € 3,160 thousand (previous year: € 3,625 thousand) accounted for a significant portion of other expenses. Amortization of intangible assets of € 757 thousand (current financial year: € 224 thousand) was included in other expenses during the past financial year. Miscellaneous expenses contain expenses for consultancy services, fees, and insurance premiums.

24 NET FINANCE INCOME

Net finance income is composed as follows:

in € thousand	2013	2012
Interest income	2,476	3,522
Total interest income	**2,476**	**3,522**
Gains on securities	–	723
Other financial income	26	–
Dividend income	54	47
Interest related to non current assets	136	440
Income from foreign exchange forward contracts	–	46
Finance income	**2,692**	**4,778**
Other finance expenses	–	(200)
Interest related to pension benefit obligations, provisions and other non-current liabilities losses on securities	(1,179)	(2,214)
Losses on securities	(147)	–
Losses from foreign exchange forward contracts	(119)	–
Finance expenses	**(1,445)**	**(2,414)**
Net finance income	**1,247**	**2,364**

Interest income primarily contains interest from bank deposits and fixed term deposits. The decrease of € 1,046 thousand in interest income from € 3,522 thousand to € 2,476 thousand is the result of the historically low market interest rate and the reduced liquidity compared with the previous year. As in the previous year, interest income is attributable exclusively to financial assets measured at amortized cost. Due to the falling stock exchange price in the financial year under review, the fair value measurement of shares held resulted in a loss of € 147 thousand (previous year: gain of € 723 thousand).

Finance expenses include interest on pension benefit obligations in the amount of € 758 thousand (previous year: € 1,049 thousand). In the financial year under review, interest expenses of € 421 thousand (previous year: € 1,165 thousand) are attributable to interest on provisions and other non-current liabilities.

25 INCOME TAX

The income tax expense of € 1,689 thousand incurred in the 2013 financial year (previous year: € 1,765 thousand) is composed as follows:

in € thousand	2013	2012
Current tax expense	(2,337)	(3,779)
Deferred tax income	648	2,014
Tax expense for the year	**(1,689)**	**(1,765)**

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

in € thousand	2013	2012
Earnings before income tax	2,425	8,793
Average tax rate (in %)	32.45	32.45
Expected tax expense	(787)	(2,853)
Effects of tax-free income	117	–
Effects of non-tax-deductible expenses	(72)	(188)
Effects of unutilized not as deferred tax assets recognized tax losses and offset possibilities	(439)	145
Effects of originally unrecognized unutilized tax losses and offset possibilities, which are now reported as deferred tax assets and effects arising from changes to previous years' tax loss carry-forwards	(244)	2,327
Effects of subsidiaries' divergent tax rates	(81)	(14)
Adjustments for previous years' taxes recognized in the current period	(77)	(1,094)
Other non-tax-effective additions and deductions	(106)	(88)
Tax expense for the year	**(1,689)**	**(1,765)**

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

The effective Group taxation rate is 69.65% (previous year: 20.07%).

26 EARNINGS AND DIVIDEND PER SHARE

EARNINGS PER SHARE

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

	2013	2012
Net profit attributable to shareholders (in € thousand)	733	6,923
Weighted average number of shares outstanding	49,474,437	49,474,437
Basic (undiluted) and diluted earnings per share (in €)	0.01	0.14

DIVIDEND PER SHARE

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

27 TOTAL FEES CHARGED BY THE AUDITORS FOR THE FINANCIAL YEAR

The total fees charged by the auditors Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft for the financial year under review are comprised as follows:

in € thousand	2013	2012
Financial statement audit services	348	391
Tax advisory services	23	8
Other services	6	38
	377	**437**

28 COMMITMENTS AND CONTINGENT LIABILITIES AND ASSETS

COMMITMENTS FOR OPERATING LEASES

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

in € thousand	Dec. 31, 2013	Dec. 31, 2012
Within one year	2,007	2,050
Between two and five years	4,060	4,789
After five years	657	981
Total lease and rental commitments	**6,724**	**7,820**

Expenses for leased and rented office space and office equipment recognized in the Group income statement amount to € 3,417 thousand in the year under review (previous year: € 2,635 thousand).

CONTINGENT LIABILITIES

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

The KHD Group's total purchase commitments amount to € 93.5 million (previous year: € 89.5 million).

CONTINGENT ASSETS

As of December 31, 2013, all receivables were accounted for in the Group balance sheet. The contingent assets mentioned in the previous financial year have been recognized as receivables in an amount of € 2,130 thousand as the conditions for the contingent purchase price were largely met.

29 ADDITIONAL NOTES ON FINANCIAL INSTRUMENTS

FINANCIAL RISK FACTORS

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

CAPITAL MANAGEMENT

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

Financial security is largely measured using the equity ratio. The components of this key performance indicator are equity and total assets as reported in the consolidated financial statements. The equity ratio is used as a key performance indicator to communicate with investors, analysts, banks, and rating agencies.

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

KHD is subject to the minimum capital requirements applicable to German stock corporations. Compliance with these requirements is monitored continuously. KHD was in compliance with these requirements in 2013.

in € thousand	Dec. 31, 2013	Dec. 31, 2012
Equity	222,450	229,290*
Total assets	418,085	435,686
Equity ratio (in %)	53.21	52.63*

* Amounts adjusted due to change in accounting policy for pension benefit obligations

At 53.2%, the equity ratio is approaching the level of the previous year (52.6%).

MARKET RISK

Currency Risk

In the case of foreign exchange risks, a differentiation should be made between currency risks related to the execution of projects in different currency areas and risks arising from translation of individual Group companies' financial statements denominated in a foreign currency at various reporting dates. As part of the execution of projects, exchange-rate risks are determined on the basis of budgeted cash flows and minimized by using derivative financial instruments. The derivative financial instruments utilized exclusively comprise foreign exchange forward contracts. The Group recognized assets and liabilities denominated in foreign currencies translated to a carrying amount of € 1,461 thousand (previous year: € 16,854 thousand). A 10% variation in exchange rates would change Group earnings by € 99 thousand (previous year: € 1,138 thousand).

The individual financial statements prepared by the foreign subsidiaries are translated into Euro in line with the functional currency principle. The Group's functional currency is the Euro. Assets and liabilities are translated at the balance sheet closing rate. Currency translation differences resulting from translating the assets and liabilities of foreign subsidiaries denominated in local currencies into the Group's functional currency may have an impact on Group equity. Due to annual net profits and equity denominated in foreign currencies, an impact on Group equity may arise from: the US dollar (USD) in the amount of € 2,778 thousand (previous year: € 4,652 thousand), the Russian ruble (RUB) in the amount of € 1,036 thousand (previous year: € 1,203 thousand), the Indian rupee (INR) in the amount of € 16,987 thousand (previous year: € 17,090 thousand), and other currencies in the amount of € 42 thousand (previous year: € 495 thousand). A 10% variation in exchange rates would change Group equity by € 2,084 thousand (previous year: € 2,344 thousand).

Price Risk

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

CREDIT AND DEFAULT RISK

The Group is not exposed to significant credit risks. The risk of credit concentration with regard to receivables is generally diminished as receivables are spread out worldwide, reflecting the Group's customer structure. Credit risk is also mitigated through the payment terms the Group agrees with its customers, notably progress billings and advance payments that avoid excessively high levels of outstanding receivables. Internal guidelines ensure that products are generally sold to customers with appropriate credit ratings. The risk of counterparty default is managed through regular monitoring and reviews of the trade receivables and the structure of receivables. At the KHD Group, receivables from export contracts are to a large extent secured against default risks by letters of credit, as well as through letters of comfort, guarantees, and cover notes, which also include export credit agencies (e.g. Hermes).

Securities for receivables amounted to € 12,381 thousand in the financial year under review (previous year: € 26,286 thousand).

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

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

LIQUIDITY RISK

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

In order to avoid financial risks from the plant engineering business, construction contracts are executed through progress billings and customer payments made in advance, which led to a net cash inflow as of the balance sheet date. By means of financial and liquidity planning, cash and cash equivalents are available in such a way that the KHD Group is at all times able to fully meet its payment obligations. The majority of current liabilities reported as of the balance sheet date are payable within 60 days.

Within the scope of its normal business transactions, the Group has commitments due to advance guarantees, performance bonds, and guarantees for warranty obligations. The Group does not anticipate any material cash outflows due to these commitments. A bank guarantee facility, which allows individual KHD Group companies to provide bank guarantees for their customers worldwide, is in place with a consortium of banks. Under the aforementioned guarantee facility as well as under additional bank guarantee facilities, the Group has provided bank guarantees within the scope of its normal business activities in the amount of € 93.5 million (previous year: € 112.2 million).

INTEREST RATE RISK

The Group holds assets that are affected by changes in market interest rates over the course of time. In the event that market interest rates had risen or fallen by 50 basis points, Group earnings as of December 31, 2013, would have been € 771 thousand (previous year: € 955 thousand) higher or lower, respectively.

NET EARNINGS PER CATEGORY

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

2013	Financial assets		Financial liabilities		Total
in € thousand	**Fair value trough profit or loss**	**Amortized cost**	**Fair value trough profit or loss**	**Amortized cost**	
Expenses due to valuation allowances on financial assets	–	(1,096)	–	–	(1,096)
Interest Income/expense	–	2,476	–	–	2,476
Other net earnings	(212)	1,181	–	–	969
Net earnings	**(212)**	**2,561**	**0**	**0**	**2,349**

2012	Financial assets		Financial liabilities		Total
in € thousand	**Fair value trough profit or loss**	**Amortized cost**	**Fair value trough profit or loss**	**Amortized cost**	
Expenses due to valuation allowances on financial assets	–	(2,297)	–	–	(2,297)
Interest Income/expense	–	3,522	–	–	3,522
Other net earnings	825	914	–	–	1,739
Net earnings	**825**	**2,139**	**0**	**0**	**2,964**

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

LIST OF FINANCIAL ASSETS AND LIABILITIES BY CATEGORY

Dec. 31, 2013	Financial assets		
in € thousand	Fair value trough profit or loss	Amortized cost	Not in IAS 39 application area
Trade receivables	–	74,575	–
Other financial assets	1,163	90	–
Derivatives	191	–	–
Other receivables	–	7,118	2,918
Cash and cash equivalents	–	228,169	–
Total financial assets	**1,354**	**309,952**	**2,918**
Other liabilities	–	–	–
Derivatives	–	–	–
Trade payables	–	–	–
Total financial liabilities	**–**	**–**	**–**

Dec. 31, 2012	Financial assets		
in € thousand	Fair value trough profit or loss	Amortized cost	Not in IAS 39 application area
Trade receivables	–	59,417	–
Other financial assets	1,428	–	–
Derivatives	376	–	–
Other receivables	–	2,590	2,617
Cash and cash equivalents	–	282,635	–
Total financial assets	**1,804**	**344,642**	**2,617**
Other liabilities	–	–	–
Derivatives	–	–	–
Trade payables	–	–	–
Total financial liabilities	**–**	**–**	**–**

Financial liabilities				
Fair value trough profit or loss	**Amortized cost**	**Not in IAS 39 application area**	**Carrying amount**	**Fair value**
–	–	–	74,575	–
–	–	–	1,253	1,163
–	–	–	191	191
–	–	–	10,036	–
–	–	–	228,169	–
–	**–**	**–**	**314,224**	**1,354**
–	6,457	6,183	12,640	–
144	–	–	144	144
–	77,868	–	77,868	–
144	**84,325**	**6,183**	**90,652**	**144**

Financial liabilities				
Fair value trough profit or loss	**Amortized cost**	**Not in IAS 39 application area**	**Carrying amount**	**Fair value**
–	–	–	59,417	–
–	–	–	1,428	1,428
–	–	–	376	376
–	–	–	5,207	–
–	–	–	282,635	–
–	**–**	**–**	**349,063**	**1,804**
–	7,805	7,901	15,706	–
83	–	–	83	83
–	62,588	–	62,588	–
83	**70,393**	**7,901**	**78,377**	**83**

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

- The fair values of the listed securities that are held for trading are determined by reference to quoted market prices.
- The fair values of derivatives are calculated using quoted market prices or based on discounted cash flow analyses, using corresponding yield curves for the term to maturity for the instrument concerned.

Non-current financial assets accrue interest at common market conditions. The carrying amounts reported as of the reporting date in general correspond to the fair values.

Financial assets and financial liabilities	Fair value		Level	Measurement method	significant unobservable input(s)	relationship of significant unobservable inputs to fair value
	Dec. 31, 2013	Dec. 31, 2012				
Derivatives	Financial assets: € 191 thousand Financial liabilities: € 144 thousand	Financial assets: € 376 thousand Financial liabilities: € 83 thousand	level 2	Discounted cash flow: derivatives are measured based on interest yield curves, which are derived from interest rates with corresponding terms and conditions.	N/A	N/A
Securities	Financial assets: € 1,163 thousand	Financial assets: € 1,428 thousand	level 1	listed price on active market	N/A	N/A

The Company also recognizes 50% of the shares in KHD Engineering Holding GmbH under financial assets. KHD Engineering, an inactive company with no operating business activities, is valued at amortized cost of € 90 thousand as of December 31, 2013. According to the assessment of the Management Board, the amortized costs correspond to the fair value of the Company on the reporting date.

SECURITIES HELD FOR TRADING

Securities held for trading amounted to € 1,163 thousand (previous year: € 1,428 thousand). A 10% variance in the market price would change Group earnings by € 110 thousand (previous year: € 136 thousand).

RECEIVABLES

Overdue Group receivables, including receivables for which valuation allowances were made, amounted to € 17,393 thousand (previous year: € 13,787 thousand). After deducting securities (letters of credit and Hermes coverage), the Group values the resulting risk at € 4,978 thousand (previous year: € 13,231 thousand). The receivables for which valuation allowances have been made are generally more than 90 days overdue.

DERIVATIVES

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

The net balance of the derivatives carry a fair value of € 46 thousand (previous year: € 293 thousand). A 10% change in the exchange rate hedged by the derivative would affect earnings by € 732 thousand (previous year: € 982 thousand). The total amount of underlying transactions allocated to foreign exchange forward contracts amounts to € 10.8 million (previous year: € 14.5 million).

30 LITIGATION

ARBITRATION CLAIM AGAINST A CUSTOMER IN SOUTH AMERICA

On December 20, 2013, HWUS brought an arbitration claim against a customer before the International Chamber of Commerce ("ICC"). The arbitration proceedings will take place in Lisbon, Portugal. The arbitration claim aims to make the customer pay outstanding receivables of USD 5 million and reimburse the bank guarantee of USD 3.2 million unfairly called in. The arbitration claim also aims to make the customer pay compensation of USD 2.7 million to HWUS, in case the contract is canceled, or to compensate HWUS for consequential damage resulting from the cancellation.

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 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.

31 RELATED PARTY DISCLOSURES

There has been a cooperation agreement with AVIC since 2010, underpinned by the capital interests amounting to 20% of Max Glory Industries Limited (Max Glory) in KHD.

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

In March 2012, the KHD Group received a € 100 million order from Straits Cement (external customer) to construct a fully integrated cement production facility in Malaysia, with a daily production capacity of 5,000 tons. As KHD's partner, AVIC supplies and constructs the entire steel structure as well as provides various electrical and mechanical packages, which represents approximately 60% of the above order value. This 60% will be channeled through AVIC. KHD will not realize any additional gross profit from this pass-through business.

Also in the preceding financial year, the AVIC-KHD partnership was awarded its first turnkey (EPC) contract in Venezuela. Invecem Cement has chosen AVIC as the general contractor for a new line with a capacity of 2,400 tons per day at the San Sebastian cement plant. As AVIC's subcontractor, KHD will supply process technology expertise, key equipment components, as well as engineering and supervision services. The order is worth around € 19 million.

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

Within the scope of the order for the delivery and installation of two roller presses in Malaysia, AVIC was commissioned as the KHD Group's subcontractor for € 2.4 million in the 2012 financial year.

INCOME

Income from related companies amounted to € 18,052 thousand (previous year: € 5,618 thousand). Income in the current year exclusively refers to income generated together with our cooperation partner AVIC and results from the orders in Turkey and Venezuela described above.

in € thousand	2013	2012
AVIC	18,052	5,618
	18,052	**5,618**

EXPENSES

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

in € thousand	2013	2012
AVIC	35,392	3,428
	35,392	**3,428**

The AVIC expenses from transactions involve contract costs arising from the aforementioned contracts.

CURRENT ASSETS

In the financial year under review, there were current assets due from AVIC in the amount of € 7,217 thousand (previous year: € 19,178 thousand). These result exclusively from advance payments and relate to the order in Malaysia described above.

LIABILITIES

As of December 31, 2013, liabilities due to AVIC were reported in the amount of € 1,671 thousand (previous year: € 1,281 thousand). The liabilities also relate to the aforementioned contracts.

RELATIONSHIPS WITH ASSOCIATED PERSONS

In the 2013 financial year, KHD concluded a consultancy contract with NASENDA, Douglas, Isle of Man, a company whose shares are held by the Supervisory Board member Seppo Kivimäki. In accordance with the contractual agreement, € 60 thousand (previous year: € 0 thousand) was recorded by KHD as an expense for consulting services in the 2013 financial year; € 45 thousand of this amount was paid out as of December 31, 2013.

As of December 31, 2013, liabilities to NASENDA amount to € 15 thousand (previous year: € 0 thousand).

32 CORPORATE GOVERNANCE

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

Furthermore, the Management Board and Supervisory Board of publicly listed Group company KIS issued the statement required pursuant to Section 161 of the German Stock Corporation Act (AktG) on March 12, 2013, and also made it permanently publicly available to shareholders on the Company's website (www.khdis.de).

33 EVENTS AFTER THE REPORTING PERIOD

On November 21, 2013,

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

the "bidders" have published the offer document in accordance with Section 11 of the WpÜG (German Securities Acquisition and Takeover Act) regarding the voluntary public takeover bid for the acquisition of all shares in KHD. 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.

According to the notification pursuant to Section 23, Paragraph 1, Sentence 1, No. 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. executed by the purchase and contracts of sale and transfer listed under 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 accepted the bidders' voluntary public takeover bid and sold all 229,136 of its own shares. Since the economic transfer of these shares to the bidders took place on January 7, 2014, the transaction was recognized in the 2014 financial year. The difference of € 1,257 thousand between the takeover price paid by the bidders (€ 1,478 thousand) and the value of own shares recognized in the balance sheet (€ 221 thousand) was entered into the capital reserves.

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

34 RELEASE FOR PUBLICATION BY THE MANAGEMENT BOARD

These consolidated financial statements were released for publication by the Management Board resolution of March 11, 2014. Supervisory Board approval is due to be issued at the Supervisory Board meeting on March 18, 2014.

Cologne, Germany, March 11, 2014

The Management Board

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

RESPONSIBILITY STATEMENT

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

Cologne, Germany, March 11, 2014

The Management Board

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

INDEPENDENT AUDITOR'S REPORT

We have audited the consolidated financial statements prepared by KHD Humboldt Wedag International AG, Cologne, Germany, comprising the income statement as well as the statement of comprehensive income, the balance sheet, the cash flow statement, statement of changes in equity, and the notes to the consolidated financial statements as well as the Group management report, for the financial year from January 1 through December 31, 2013 The preparation of the consolidated financial statements and the Group management report in accordance with the International Financial Reporting Standards (IFRS), as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315a Para. 1 of the German Commercial Code (HGB) are the responsibility of the Company's Management Board. Our responsibility is to express an opinion on the consolidated financial statements and the Group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB ("German Commercial Code") and the German generally accepted standards for the audit of financial statements set by the Institut der Wirtschaftsprüfer ("Institute of Public Auditors") in Germany. Those standards require that we plan and perform the audit such that misstatements and breaches materially affecting the presentation of the net assets, financial position, and results of operations in the consolidated financial statements, in accordance with the applicable accounting regulations, and in the Group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and Group management report are examined predominantly on the basis of spot checks within the framework of the audit. The audit includes the assessment of the annual financial statements of those entities included in the consolidation, the determination of entities to be included in the consolidation, the accounting and consolidation principles applied and the material estimates of the Management Board, as well as an evaluation of the overall presentation of the consolidated financial statements and the Group 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 consolidated financial statements of KHD Humboldt Wedag International AG, Cologne, Germany, comply with IFRS, as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315a Para. 1 HGB, and give a true and fair view of the net assets, financial position, and results of operations of the Group in accordance with these requirements. The Group management report is consistent with the consolidated financial statements and, as a whole, provides a suitable view of the Group's position and accurately presents the opportunities and risks of future development.

Düsseldorf, Germany, March 13, 2014

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

(Tissen)	(Neu)
German Public Auditor	German Public Auditor

LIST OF ABBREVIATIONS

AVIC Beijing	AVIC International Beijing Company Limited, Beijing, China
AVIC Engineering	AVIC International Engineering Holdings Pte. Ltd., Singapore, Singapore
CSC	Customer Service Center
CSC Risks	Risks affecting the operating units
Group Risks	Risks that affect the entire Group
HWIN	Humboldt Wedag India Private Ltd., New Delhi, India
HWUS	Humboldt Wedag Inc., Norcross (Georgia), USA
KHD	KHD Humboldt Wedag International AG, Cologne, Germany
KHD HW	KHD Humboldt Wedag GmbH, Cologne, Germany
KHD OOO	KHD Humboldt Engineering OOO, Moscow, Russia
KIS	KHD Humboldt Wedag Industrial Services AG, Cologne, Germany
Max Glory	Max Glory Industries Ltd., Hong Kong, Hong Kong
Weir Minerals	Weir Minerals Europe Limited, a subsidiary of Weir Group PLC, Glasgow, United Kingdom

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FORWARD-LOOKING STATEMENTS AND FORECASTS

This report contains forward-looking statements. These statements are based on the current experiences, assumptions, and forecasts of the Board of Management, as well as on the information currently available. The forward-looking statements do not constitute a guarantee for the future developments and results detailed therein. Future developments and results depend heavily on a range of factors. They comprise various risks and uncertainties and are based on assumptions that may turn out to be inaccurate. These risk factors include in particular the factors detailed in the risk report on pages 39 to 48. We undertake no obligation to update the forward-looking statements made in this report.

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