Prospectus

for the public offering in Germany and Luxembourg

of 16,571,276 no-par value ordinary bearer shares of

KHD Humboldt Wedag International AG

Cologne

each with a notional value of EUR 1.00 per share in the share capital
and with full dividend rights as of 1 January 2010
from the capital increase against cash contributions with subscription rights
from EUR 33,142,552 by up to EUR 16,571,276 to up to EUR 49,713,828
resolved by the executive board on 21 December 2010 with consent of the supervisory board of the same day (the "New Shares")

and the admission of up to 16,571,276 New Shares to trading
on the regulated market (*regulierter Markt*)
(General Standard) of the Frankfurt Stock Exchange.

International Securities Identification Number (ISIN): DE0006578008
Securities Identification Number (WKN): 657800
Trading Symbol: KWG

LANG & SCHWARZ BROKER GMBH

Prospectus dated 29 December 2010

Table of Contents

SUMMARY OF THE PROSPECTUS ... 6
Summary of the Business Activity ... 6
Summary of General Information on the Company ... 8
Offering ... 10
Selected Financial Data ... 13
Summary of Risk Factors ... 17
Summary of Recent Business Developments and Outlook ... 18
ZUSAMMENFASSUNG DES PROSPEKTS ... 19
Zusammenfassung der Geschäftstätigkeit ... 19
Zusammenfassung von allgemeinen Informationen die Gesellschaft betreffend ... 21
Das Angebot ... 23
Ausgewählte Finanzdaten ... 25
Zusammenfassung der Risikofaktoren ... 30
Zusammenfassung des jüngsten Geschäftsgangs und der Aussichten ... 32
RISK FACTORS ... 33
Risks Related to the Business of KHD and Market Related Risks ... 33
Risks Related to the Offering and the Shares ... 42
GENERAL INFORMATION ... 45
Responsibility for the Content of the Prospectus ... 45
Subject Matter of the Prospectus ... 45
Forward-looking Statements ... 45
Sources of Market Data and Information from Third Parties ... 46
Documents Available for Inspection ... 47
Note on Financial Data, Currency and Numerical Information ... 47
THE OFFERING ... 48
Subject Matter of the Offering ... 48
Sole Lead Manager, Subscription Agent, Settlement Agent ... 48
Timetable for the Offering ... 48
The Subscription Offer ... 49
Trading of the Subscription Rights ... 52
General and Specific Information on the Shares ... 52
Previous Acquisition of Shares by Members of Management, the Supervisory Board and Related Parties ... 53
Subscription Agreement ... 53
Lock-In of MGI ... 54
Issue Date, Admission to Trading and Stock Exchange Listing ... 54
Designated Sponsor ... 55

Paying and Registration Agent ... 55

REASON FOR THE OFFERING, USE OF PROCEEDS, COSTS RELATED TO THE OFFERING ... 56

INTERESTS OF PERSONS INVOLVED IN THE OFFERING ... 57

DILUTION ... 58

CAPITALIZATION AND INDEBTEDNESS, WORKING CAPITAL ... 59

Capitalization and Indebtedness ... 59

Contingent Liabilities and Other Financial Obligations ... 60

Working Capital Statement ... 60

SELECTED FINANCIAL DATA ... 61

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS ... 64

Business Overview ... 65

Basis of Presentation of Consolidated Financial Statements ... 65

Significant Accounting and Valuation Policies ... 67

Factors Having a Material Influence on KHD's Business and Results of Operations ... 72

Results of Operations ... 77

Liquidity and Capital Resources ... 109

Unconsolidated Financial Statements of KHD AG ... 118

BUSINESS ACTIVITY ... 120

Overview ... 120

Competitive Strengths ... 120

Strategy ... 121

Services and Products ... 122

Production ... 133

Suppliers ... 133

Customers ... 133

Sales and Marketing ... 135

Market and Competition ... 136

Property, Plant and Equipment ... 143

Research and Development ... 144

Intellectual Property ... 145

Material Agreements ... 146

Investments ... 151

Insurance ... 152

Regulatory Environment ... 152

Legal Disputes, Official Government Proceedings ... 152

GENERAL INFORMATION ABOUT THE COMPANY ... 156

Formation, History, Registered Office ... 156

Business purpose of the Company 156
Financial Year and Term of the Company 156
Milestones in the Development of KHD Group 156
Group History, Restructuring of KHD Ltd. Group and Reintegration of Subsidiaries 158
Group Structure 161
Material Shareholdings 162
Earnings and Dividend Policy 169
Notices, Paying and Depositary Agent 170
Statutory Auditor 170
INFORMATION ON THE SHARE CAPITAL OF THE COMPANY 171
Share Capital and Shares 171
Development of the Share Capital 171
General Provisions on Share Capital Increases 171
Authorized Capital 172
Contingent Capital 173
Treasury Shares, Authorization to Acquire Shares 173
Exclusion of Minority Shareholders (Squeeze Out) 174
Disclosure and Notification Obligations for Shareholdings 174
GOVERNING BODIES OF THE COMPANY AND EMPLOYEES 176
Overview 176
Executive Board 177
Supervisory Board 184
General Shareholders' Meeting 188
Corporate Governance Code 190
Senior Management 191
Employees 191
SHAREHOLDER STRUCTURE 194
TRANSACTIONS AND LEGAL RELATIONSHIPS WITH RELATED PARTIES 195
General 195
Relationships with Related Parties due to the Sale of the Coal and Mineral Business to McNally Bharat 195
Relationships with TNRC 195
Relationships with KIA GmbH 197
Relationships with Other Related Parties 202
TAXATION IN THE FEDERAL REPUBLIC OF GERMANY 203
Taxation of the Company 203
Other Taxes 208
TAXATION IN LUXEMBOURG 209
General 209

Taxation of the shareholders 209

GLOSSARY.......... 213

RECENT BUSINESS DEVELOPMENTS AND OUTLOOK G-1

FINANCIAL SECTION.......... F-1

Consolidated Interim Financial Statement of KHD Humboldt Wedag International AG for the period from 1 January to 30 September 2010 in accordance with IFRS F-3

Consolidated Financial Statements of KHD Humboldt Wedag International (Deutschland) AG for the Financial Year Ended 31 December 2009 in accordance with IFRS.......... F-19

Consolidated Financial Statements of KHD Humboldt Wedag International (Deutschland) AG for the Financial Year Ended 31 December 2008 in accordance with IFRS.......... F-58

Consolidated Financial Statements of KHD Humboldt Wedag International (Deutschland) AG For the Financial Year Ended 31 December 2007 in accordance with IFRS.......... F-95

Annual Financial Statements as at 31 December 2009 of KHD Humboldt Wedag International (Deutschland) AG.......... F-127

SIGNATURES.......... S-1

SUMMARY OF THE PROSPECTUS

The following summary is intended as an introduction to this securities prospectus (the "Prospectus"). It summarizes the material information and risks in relation to the issuer and its shares. Therefore, investors should base their investment decision on an examination of the Prospectus in its entirety. KHD Humboldt Wedag International AG, Colonia-Allee 3, 51067 Cologne, Germany (hereinafter also referred to as the "Company" or "KHD AG" or, in the Financial Section commencing on page F-1, "KHD ID", and together with its respective subsidiaries collectively referred to as "KHD" or the "KHD Group") and Lang & Schwarz Broker GmbH, Breite Strasse 34, 40213 Düsseldorf, Germany (hereinafter also referred to as "Lang & Schwarz") assume responsibility for the content of this summary pursuant to section 5 paragraph 2 sentence 3, no. 4 of the German Securities Prospectus Act (Wertpapierprospektgesetz, the "WpPG"). They may be held liable for its content, but only if the summary proves to be misleading, inaccurate or contradictory when read in conjunction with the other parts of this Prospectus.

In the event that claims are asserted before a court of law based on information contained in this Prospectus, the investor appearing as plaintiff may be required to bear the costs of translating the Prospectus prior to the commencement of legal proceedings in compliance with the national laws of the individual Member States of the European Economic Area.

Summary of the Business Activity

Overview of the Business of KHD

KHD ranks among the TOP 5 global cement plant and equipment suppliers.[1] The range of services covers design and engineering, project management and supply, as well as supervision of erection and commissioning of cement plants and equipment. Customer services such as supply of replacements parts, plant optimization and training of plant personnel complement KHD's services.

KHD's core equipment includes a wide range of grinding and pyro-processing technologies which are the core elements of a cement plant. KHD's grinding technologies are utilized in raw material, clinker and finished cement grinding and include crushing, grinding and separation equipment, while KHD's pyro-process equipment includes pre-heaters, calciner systems, kilns, burners and clinker coolers. KHD also has developed a range of systems automation products, including process control systems and equipment optimization products. Manufacturing is almost entirely outsourced to contract manufacturers who produce the equipment to KHD's specifications.

KHD provides its products and services either directly to the operator of a cement plant, or in a consortium that includes other equipment specialists, in particular in the complementary fields of materials transport, blending, storage and packing or as an equipment supplier as part of an overall turn-key project.

Depending on the customer's needs, KHD provides either single equipment, a package of equipments or 'full-line' supply for a complete cement plant equipment line. The latter offering includes equipment from other specialized suppliers and usually KHD takes overall supervisory and technological responsibility for the supply of the entire cement plant equipment line. KHD equipment is used in more than 400 plants worldwide.

KHD's long term vision is to become a customer focused equipment supplier and service company providing environmentally friendly technologies.

As at 30 September 2010, KHD Group had a workforce of 715 employees and generated revenues of EUR 188.6 million and a net profit of EUR 9.5 million in the nine month period ended 30 September 2010.

Since 1993 the business of KHD has been certified (e.g: 2009 ISO 9001:2000)

---

1 Based on the analysis of OneStone Intelligence GmbH, Cement Projects Focus 2013, Market Report, November 2009.

Competitive Strengths

The Company is of the opinion that KHD has the following competitive strengths:

- KHD has a well known and reputed brand name with over 100 years of history in the cement market.
- The product portfolio of KHD comprises the key cement plant equipment, in particular pyro-processing as well as raw material and clinker grinding equipment.
- KHD has a number of products which are specifically focused on the environmental requirements of customers.
- A focused business model with outsourced production gives KHD higher flexibility and lower fixed costs.
- KHD's management and employees have significant experience in the cement plant equipment sector and strong technical expertise.

Strategy

KHD's long term strategy is to become a customer focused equipment supplier and service company providing environmentally friendly technologies.

The key elements of KHD's business strategy are:

- Further develop a position as a leading supplier of environmentally friendly technologies.
- Broaden KHD's product offering via strategic partnerships.
- Break into the Chinese market through the intended cooperation with CATIC.
- Extend the roller press business into the minerals market.
- Develop a service offering in order to reduce the cyclicality of the business and improve the sustainability of earnings.
- Capitalise on KHD's existing market position in emerging markets such as India and Russia.
- Adopt a more customer focused approach to sales.

Summary of General Information on the Company

Formation of the Company	KHD Humboldt Wedag International AG is a stock corporation (*Aktiengesellschaft*) organised under the laws of the Federal Republic of Germany. It was formed under the name Maschinenfabrik Fahr Aktiengesellschaft Gottmadingen and entered into the commercial register at the local court (*Amtsgericht*) of Singen/Hohentwiel under registration number HRB 29 on 24 October 1911. The Company changed its name pursuant to a resolution of the general shareholders' meeting on 29 August 2001 to FAHR Beteiligungen AG which was registered in the commercial register on 10 September 2001. The registered seat was moved to Cologne and the company was entered into the commercial register of the Local Court of Cologne under HRB 36688 on 12 December 2001. By registration in the commercial register on 15 October 2004, the company changed its name to MFC Industrial Holdings AG, which was amended by registration in the commercial register on 20 November 2006, to KHD Humboldt Wedag International (Deutschland) AG. By resolution of the annual general shareholders' meeting dated 23 March 2010 shareholders voted in favour of a change of the Company's name into KHD Humboldt Wedag International AG. This name change was registered in the commercial register on 25 March 2010.
Restructuring and Reintegration	KHD AG was a subsidiary of KHD Humboldt Wedag International Ltd., Vancouver, Canada (”**KHD Ltd.**”, today Terra Nova Royalty Corporation Ltd. “**TNRC**”) a company listed on the New York Stock Exchange, which held further shareholdings in companies active in the cement plant and equipment supply business as well as in companies focused on mineral royalties from iron ore mines. In January 2010 the management of KHD Ltd. decided to separate the two business segments (the “**Restructuring**”). As part of the Restructuring, KHD Ltd. (today TNRC) distributed 25,115,927 of the Company's shares held by it in several tranches to its shareholders; and announced on 15 November 2010 to distribute the remaining Company's shares to its shareholders with record date 31 December 2010 (the ”**Distribution of Shares**”) . Further, in the course of the Restructuring, a direct subsidiary of the Company acquired all shares in Humboldt Wedag Australia Pty. Ltd., Australia (”**HW Australia**”), Humboldt Wedag Inc., USA (”**HW USA**”), Humboldt Wedag India Private Ltd., India (”**HW India**”), KHD Humboldt Wedag Machinery Equipment (Beijing) Co. Ltd., China (”**KHD China**”) as well as 50% of the shares in KHD Engineering Holding GmbH, Austria (”**KHD Austria**”), and its direct subsidiary KHD Humboldt Engineering OOO, Russia (”**KHD Russia**”), and its subsidiary OAO Sibgiprozoloto, Russia (”**Sibgiprozoloto**”) which are all active in the cement plant and equipment supply business as well as all shares in EKOF Flotation GmbH, Germany (”**EKOF**”) (the ”**Reintegration Subsidiaries**”) from KHD Humboldt Wedag International GmbH, Austria (”**KIA GmbH**”), an indirect subsidiary of KHD Ltd. (the ”**Reintegration**”). As part of the Restructuring KHD Ltd. changed its name to Terra Nova Royalty Corporation Ltd. in March 2010.
Company Address	The Company's business address is Colonia-Allee 3, 51067 Cologne, Germany. The Company can be reached by telephone at 0049-221 6504 1106.

Executive Board	Jouni Olavi Salo (CEO) Manfred Weinandy (CFO)
Supervisory Board	Gerhard Beinhauer (chairman of the supervisory board) Silke Stenger (deputy chairman of the supervisory board) Gerhard Rolf
Share Capital	EUR 33,142,552.00 divided into 33,142,552 no par value ordinary bearer shares with a notional value of EUR 1.00 per share in the share capital (each a **"Share"**, together the **"Shares"**).
Existing Shareholders as at the date of this Prospectus (to the extent known to the Company)	Terra Nova Royalty Corporation Ltd., Canada .... 21.86%* Peter Kellogg.. 5.7% KGC Strategische Dienstleistungen UG, Germany............................. 0.0%* Treasury Shares... 0.7% * KGC Strategische Dienstleistungen UG ("**KGC**") and TNRC entered into a voting agreement on 27 March 2010 pursuant to which TNRC will exercise its voting rights in the Shares only in accordance with the determination of KGC. As a consequence, the Shares held by TNRC are attributed to KGC and vice versa.
Free Float as at the date of this Prospectus	71.75%
Treasury Shares as at the date of this Prospectus	0.7%
Current Auditor	Deloitte & Touche, GmbH, Wirtschaftsprüfungsgesellschaft, Düsseldorf
Financial Year of the Company	The Company's financial year is the calendar year.
Employees	On 30 September 2010, KHD AG had 1 employee besides the executive board members. KHD Group employed 715 employees on 30 September 2010.
Related Party Transactions	The Company was part of the group of companies headed by KHD Ltd. ("**KHD Ltd. Group**"). As such it was party to several related party transactions within the meaning of IAS 24. In particular KHD Ltd. issued several guarantees for the benefit of KHD Ltd. Group companies including the Company and its subsidiaries and maintained several other relationships with the Company and its subsidiaries. Further, KIA GmbH, a former sister company of the Company acted as central group treasurer, bond arranger, risk controller and investment manager and technology licenser providing several services related thereto to the Company and its subsidiaries as well as other companies of the KHD Ltd. Group. Accordingly, numerous contractual and factual relations existed between KHD Group companies and KIA GmbH. In the course of Restructuring (see "*Summary - Restructuring and Reintegration*"), most of these relations have been terminated.

Offering

Summary of the Offering	The offering (the "**Offering**") relates to 16,571,276 no-par value ordinary bearer shares (*Stückaktien*) each with a notional value of EUR 1.00 per share ("**New Shares**") in the share capital of the Company and with full dividend rights as of 1 January 2010 from the capital increase against cash contributions with subscription rights (the "**Subscription Offer**") from EUR 33,142,552 by up to EUR 16,571,276 to up to EUR 49,713,828 resolved by the executive board on 21 December 2010 with consent by the supervisory board granted on the same day (the "**Capital Increase**"). Implementation of the Capital Increase is expected to be registered with the commercial register on 18 February 2011. The Offering consists of a public offering to shareholders of the Company in the Federal Republic of Germany and Luxembourg. New Shares not subscribed for by the shareholders of the Company in an amount of 20% of the share capital of the Company (calculated on the basis of the Company's share capital after registration of the implementation of the Capital Increase) will be, subject to fulfillment of agreed conditions, subscribed for by Max Glory Industries Ltd., Hong Kong ("**MGI**"), an indirect subsidiary of CATIC Bejing Co., Ltd., Bejing ("**CATIC**"), a subsidiary of China's state-owned AVIC International Holding Corporation, pursuant to a preliminary subscription agreement between the Company and MGI dated 21 December 2010.
Publication of the Subscription Offer	On or about 4 January 2011, the Company will make publicly available the subscription offer related to the New Shares on the website of the Company and in the electronic federal gazette (*elektronischer Bundesanzeiger*).
Subscription Ratio	The New Shares will be offered to shareholders for subscription in the ratio of 2 old shares for 1 New Share.
Subscription Price	The subscription price for each New Share subscribed for amounts to EUR 4.53. The subscription price must be paid at the latest by 19 January 2011 (receipt by the subscription agent). Shareholders who have exercised their subscription rights within the Subscription Period must pay the subscription price through their custodian bank at the time when exercise is made, at the latest, however, on the last day of the subscription period on which the subscription price must be received by the Company as well.
Subscription Period	The subscription period for New Shares under the Subscription Offer is expected to commence on 5 Janaury 2011 and is expected to end on and including 19 January 2011 (the "**Subscription Period**").
Rump Placement	The New Shares which have not been subscribed for by existing shareholders will be offered in an amount of 20% of the share capital of the Company (calculated on the basis of the Company's share capital after registration of the implementation of the Capital Increase), following the expiration of the Subscription Period, to MGI.
Sole Lead Manager	Sole Lead Manager and Sole Bookrunner is Lang & Schwarz Broker GmbH, Breite Straße 34, 40213 Düsseldorf, Germany.
Subscription Agent	Subscription Agent is Lang & Schwarz Broker GmbH, Breite Straße 34, 40213 Düsseldorf, Germany.
Settlement Agent	Settlement Agent for the purposes of the implementation of the subscription

	offer is Bankhaus Gebr. Martin AG, Göppingen,Germany
Unexercised Subscription Rights	Unexercised subscription rights will be taken off the books worthless following the expiry of the Subscription Period.
Preliminary Subscription Agreement with MGI	On 21 December 2010, the Company and MGI entered into a preliminary subscription agreement according to whichMGI, *inter alia*, undertook to subscribe for such number of New Shares which will result in MGI holding 20% of the Company's share capital after registration of implementation of the Capital Increase with the commercial register ("**Target Participation**") against cash consideration of the subscription price (EUR 4.53 per New Share). The subscription is subject to certain conditions precedent that *inter alia* (i) sufficient New Shares will be left available for subscription by MGI, (ii) the relevant approvals by Chinese authorities have been obtained (the "**Preliminary Subscription Agreement**").
Cancellation of the Offering	If there are not sufficient New Shares available to reach the Target Participation, the executive board will not implement the Capital Increase.
Lock-In of MGI	In the Preliminary Subscription Agreement, MGI, *inter alia*, undertook not to sell, assign or transfer any of the New Shares to be issued to it in the Capital Increase during a period of the earlier of 29 months following the registration of implementation of the Capital Increase with the commercial register or the termination of this Lock-In in certain events ("**Lock-In**"). In order to secure compliance with these restrictions, MGI agrees that the New Shares to be issued to it in the Capital Increase shall be delivered exclusively to a locked account (*Sperrdepot*) which is subject to transfer restrictions in favour of the Company. The Lock-In shall automatically expire in certain events,
Subscription Agreement	The Company and the Sole Lead Manager entered into a subscription agreement in relation to the subscription of the New Shares by the Sole Lead Manager on behalf of the shareholders exercising their subscription rights and the delivery of the New Shares to the shareholders on 23 December 2010 (the "**Subscription Agreement**"). The Subscription Agreement provides that both the Sole Lead Manager and the Company may, under certain circumstances, rescind this agreement. These circumstances include in particular: • representations or warranties given by the Company in the Subscription Agreement are incorrect; • political, economical incidents or governmental measures and a deterioation of the commercial situation of the Company or of its subsidiaries occure which may jeopardize the Capital Increase and which would make it inacceptable for a party to continue the Capital Increase; • any negative fact will be revealed which may jeopardize the Capital Increase, the admission of New Shares or the quotation. If the Subscription Agreement is rescinded, the Capital Increase will not be implemented. In this case the subscription rights will expire and any exercised subscription statements for New Shares will be void. Claims relating to any subscription fees already paid and costs incurred by any shareholder in connection with the subscription will be governed solely by the legal relationship between the shareholder and the institution to which the shareholder submitted its order.
Admission to Trading	An application for admission of the New Shares to trading on the regulated

	market (*regulierter Markt*) (General Standard) of the Frankfurt Stock Exchange has been filed with the Frankfurt Stock Exchange on 22 December 2010. The admission order is expected to be issued on 21 February 2011. No right to admission exists. Commencement of trading of the New Shares is planned for 22 February 2011.
Costs of the Offering	The Company estimates that the costs, including fees for Lang & Schwarz in its capacity as applicant of the Admission and fees of other advisers, related to the preparation of this Prospectus and further costs directly related to the Offering will amount to approx. EUR 500,000.
German Securities Identification Number (WKN)	657800
International Securities Identification Number (ISIN)	DE0006578008
Ticker Symbol	KWG

Selected Financial Data

The following tables summarise selected consolidated financial and operating data of KHD AG for the nine month period ended 30 September 2010 with comparative data for the nine month period ended 30 September 2009 as well as the years ended 31 December 2009, 2008 and 2007.

The consolidated financial data for the years ended 31 December 2009, 2008 and 2007 marked as "audited" has been extracted from the consolidated financial statements for the years ended 31 December 2009, 2008 and 2007 of the Company prepared in accordance with International Financial Reporting Standards of the International Accounting Standards Board (IASB) as adopted by the EU (hereinafter referred to as "**IFRS**") and the additional requirements of German commercial law pursuant to section 315a paragraph 1 of the German Commercial Code (*Handelsgesetzbuch* — "**HGB**"), which have been audited by Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft, Düsseldorf in accordance with section 317 HGB, who issued an unqualified audit opinion in each case.

However, the auditors' report on the annual financial statements of KHD AG for the financial year ended 31 December 2009 in accordance with HGB contains the following disclaimer:

Without qualifying this opinion, we draw attention to the fact that shareholders have brought actions against the Company for the Company's approved sets of annual financial statements as at 31 December 2002 and 31 December 2003 to be declared null and void, alternatively to be declared ineffective, as well as for the resolutions according to which the Directors and three Supervisory Board members were to be released from their responsibilities for the financial year 2003, which were adopted by the Company's General Meeting of Shareholders held on 29 September 2004, to be declared null and void, alternatively to be set aside. The subject matters of the actions were fees in the amount of EUR 1,206 thousand ("placement fee") and in the amount of EUR 1,914 thousand ("merchant banking fee"), which had been paid by the Company to MFC Corporate Services AG (formerly: MFC Merchant Bank S.A.), Herisau/Switzerland, at the end of 2002 for placement of new shares within the scope of a capital increase approved by the General Meeting of Shareholders in December 2002 and for provision of merchant bank services. The long-term equity investment held by MFC Corporate Services AG (formerly: MFC Merchant Bank S.A.), Herisau/Switzerland, in KHD Humboldt Wedag International (Deutschland) AG, Cologne/Germany, at that time has now been transferred to MFC Commodities GmbH, Vienna/Austria, and amounts today to roughly 20%.

In the plaintiffs' opinion, these payments had been inadmissible because they constituted a return of contributions. The corporate assets disclosed in the sets of annual financial statements as at 31 December 2002 and 31 December 2003 had, in the plaintiffs' opinion, been understated due to failure to book a corresponding repayment claim. The Cologne regional court allowed the complaints with respect to the payment of the merchant banking fee through court ruling dated 4 November 2005. The court ruling did not address the placement fee.

The Company has lodged an appeal from this court ruling in due time and due form. The application for proceedings on appeal was granted by the Cologne higher regional court. Meanwhile, it has been possible to reach a settlement out of court with one of the plaintiffs. In respect of the complaints still pending, the Company anticipates that there are good reasons to assume that its appeal will succeed.

Nevertheless, addressing the regional court ruling, the Company had capitalised in the annual financial statements as at 31 December 2005, and disclosed unchanged in its annual financial statements as at 31 December 2009, an account receivable from MFC Corporate Services AG (formerly: MFC Merchant Bank S.A.), Herisau/Switzerland, in the amount of EUR 1,914 thousand. For the expenses in connection with the services substantiated in detail by MFC Corporate Services AG (formerly: MFC Merchant Bank S.A.), Herisau/Switzerland, to the Company, a provision for contingent liabilities in the amount of EUR 1,976 thousand had been made in the annual financial statements as at 31 December 2005; this provision was also disclosed unchanged as at 31 December 2009.

On account of the proceedings still pending before the Cologne higher regional court, there is still a risk that the court ruling will deviate from the Board of Directors' assessment.

The consolidated financial data for the nine month period ended 30 September 2010 and for the nine month period ended 30 September 2009 has been extracted from the unaudited consolidated interim financial statements for the nine month period ended 30 September 2010 of the Company prepared in accordance with IFRS.

The following figures were commercially rounded; their sums when added may not be the same as the sums indicated.

Selected Consolidated Income Statement Data

	Nine month period ended 30 September		Year ended 31 December		
	2010	2009	2009	2008	2007
	IFRS (unaudited) in TEUR		IFRS (audited) in TEUR		
Revenue[1]	188,611	233,555	360,295	339,099	262,345
Cost of sales	-147,578	-195,542	-300,635	-283,804	-211,638
Gross profit	**41,033**	**38,013**	**59,660**	**55,295**	**50,707**
Other operating income	1,956	237	9,038	1,917	2,074
Distribution costs	-8,267	-9,856	-5,307	-7,082	-5,636
General and administrative expenses	-11,893	-7,101	-8,455	-8,447	-9,561
Other expenses[2]	-7,359	-7,197	-8,996	-8,544	-9,858
Restructuring income/expense	2,353	2,686	3,773	-9,755	—
Net finance income	1,864[3]	3,427[3]	3,952	1,978	4,357
Profit before tax	**19,687**	**20,209**	**53,665**	**25,362**	**32,083**
Income tax expense	-10,206	-6,651	-16,497	-10,134	-4,133
Profit after tax from continued operations	**9,481**	**13,558**	**37,168**	**15,228**	**27,950**
Loss from discontinued operations	—	—	—	—	-5,366
Net profit for the year	**9,481**	**13,558**	**37,168**	**15,228**	**22,584**

(1) Revenue does only comprise continued operations. Revenue of discontinued operations accrued only in 2007 and amounted to TEUR 38,659.

(2) Rental expenses disclosed separately in 2007, which are not included in cost of sales (EUR 688 thousand), were allocated to other expenses in the reporting period.

(3) Corresponds to the income statement item finance income and finance cost of the respective consolidated interim financial statements.

Other Selected Financial Data

	Nine month period ended 30 September		Year ended 31 December		
	2010	2009	2009	2008	2007
	IFRS (unaudited) *		IFRS (unaudited) *		
EBT(1)(2) in TEUR	19,687	20,209	53,665	25,362	32,083
EBT margin (in %)(1)(3)	10.4	8.7	14.9	7.5	12.2
Net profit margin (in %)(1)(4)	5.0	5.8	10.3	4.5	8.6
Earnings per share in EUR(5)	0.29	0.82	2.25	0.93	1.70

* Unless otherwise indicated.

(1) EBT, EBT margin and Net profit margin are not recognized as measures under IFRS and not a substitute for any figures presented under IFRS. The figures are unaudited. Because not all companies calculate EBT, EBT margin and Net profit margin the same way, the Company's presentation is not necessarily comparable to similarly–titled measures used by other companies.

(2) EBT is defined as the result before all tax expenses.

(3) EBT margin for any year is defined as EBT for such year expressed as a percentage of revenue for the same year.

(4) Net profit margin is calculated as net profit for the year expressed as a percentage of revenue for the same year.

(5) Audited for the years ended 31 December 2009, 2008 and 2007 and unaudited for the nine month period ended 30 September 2010 and for the nine month period ended 30 September 2009. Earnings per share for 2007 comprise continued operations only.

Selected Consolidated Balance Sheet Data

	30 September 2010	31 December 2009	2008	2007
	IFRS (unaudited) in TEUR	IFRS (audited) in TEUR		
ASSETS				
Property and equipment	2,544	1,526	2,624	2,608
Goodwill	2,127	2,127	2,127	2,127
Other intangible assets	833	316	445	289
Deferred tax assets	880	237	701	4,565
Non-current financial assets	851	51,741	70,332	55,569
Total non-current assets	**7,235**	**55,947**	**76,229**	**65,158**
Inventories	12,325	13,663	6,241	3,997
Gross amount due from customers for contract work	19,187	38,413	47,863	51,929
Trade and other receivables	74,730	49,387	43,482	39,591
Intercompany receivables	—	3,678	19,085	8,178
Payments made in advance	32,377	26,235	29,052	13,117
Other financial assets	1,553	5,260	3,565	16,346
Income tax assets	2,724	11,461	—	—
Cash and cash equivalents	259,484	225,844	204,636	166,681
Total current assets	**402,380**	**373,941**	**353,924**	**299,839**
Total assets	**409,615**	**429,888**	**430,153**	**364,997**

	30 September 2010	2009	31 December 2008	2007
	IFRS (unaudited) in TEUR		IFRS (audited) in TEUR	
EQUITY AND LIABILITIES				
Issued capital	33,142	33,142	33,142	33,142
Capital reserves	1,776	1,776	1,776	1,776
Treasury shares	-221	-221	-221	-221
Currency differences	-376	-53	-53	0
Undistributed profit carryforward	106,321	134,428	97,319	81,874
	140,642	169,072	131,963	116,571
Minority interest	688	659	638	1,439
Total shareholders' equity	**141,330**	**169,731**	**132,601**	**118,010**
Equity ratio (unaudited) [1]	34.5%	39.48%	30.83%	32.33%
Financial liabilities	-		—	1,405
Other liabilities	9,753	7,558	5,994	3,377
Pension benefit obligations	21,461	21,159	21,926	22,103
Deferred tax liabilities	12,073	9,755	5,446	1,572
Provisions	20,308	7,748	5,405	8,080
Total non-current liabilities	**63,595**	**46,220**	**38,771**	**36,537**
Trade and other payables	87,963	100,791	95,001	63,413
Intercompany liabilities	—	4,914	6,107	7,104
Financial liabilities	—	3,552	1,167	—
Gross amount due to customers for contract work	80,182	51,136	117,466	118,535
Income tax liabilities	16,681	10,970	6,592	11,600
Provisions	19,864	42,574	32,448	9,798
Total current liabilities	**204,690**	**213,937**	**258,781**	**210,450**
Total equity and liabilities	**409,615**	**429,888**	**430,153**	**364,997**

[1] Equity ratio is not recognized as measure under IFRS and not a substitute for any figures presented under IFRS. The figures are unaudited. The Equity ratio measures the proportion of the shareholers' equity in relation to total assets.

Selected Consolidated Cash Flow Data

	Nine month period ended 30 September		Year ended 31 December		
	2010	2009	2009	2008	2007
	IFRS (unaudited) in TEUR		IFRS (audited) in TEUR		
Profit before tax and interest	17,823	16,782	49,713	23,384	28,829
Cash inflows from operating activities	21,889	-9,983	12,607	55,139[1]	132,827[1]
Cash flows from operating activities	**30,889**	**-15,350**	**-4,458**	**45,197**	**133,469**[1]
Cash flows from investing activities	**54,308**	**4,807**	**21,287**	**-13,931**	**-32,534**[1]
Cash flows from financing activities	**-51,241**	**1,634**	**5,385**	**7,340**	**-1,122**[1]
Opening balance of cash and cash equivalents	**225,183**	**202,969**	**202,969**	**164,310**	**64,457**
Closing balance of cash and cash equivalents	**258,816**	**194,060**	**225,183**	**202,969**	**164,310**

[1] The figures indicated have been taken from the comparative figures for 2008 and 2007, respectively, as contained in the consolidated financial statements for the financial year ended 31 December 2009 and 2008, respectively, and are not comparable to the corresponding figures contained in the consolidated financial statements for the financial year ended 31 December 2008 and 2007, respectively. This is due to the repositioning of certain line items in the cash flow statements in the consolidated financial statements for the years ended 31 December 2009 and 2008 as compared to the respective previous year. According to the Company these repositionings did not trigger an obligation to disclose this fact in the notes pursuant to IAS 8.

Summary of Risk Factors

Before making a decision on the acquisition of Shares in the Company, investors should carefully read and consider the following risks:

Risks Related to the Business of KHD and Market-Related Risks

- The worldwide economic downturn has reduced and could continue to reduce the demand for cement plant engineering and equipment supply business and demand for KHD's products and services.
- The worldwide economic downturn has resulted in the prolonging or cancellation of some of KHD's customers' projects and may negatively affect KHD's customers' ability to make timely payment to KHD.
- The worldwide economic downturn may negatively affect KHD's suppliers' and contractors' business and deteriorate their ability to perform.
- KHD depends on the availability of adequate means for bonding.
- Changes in the prices and cost of raw materials and energy could lead to a decrease in the demand for cement and, in turn, in the demand for cement plants as engineered by KHD.
- KHD depends on its ability to retain suppliers and any disruption in its relationships with these partners may adversely affect its business.
- KHD has undertaken an internal restructuring program regarding its business and organisational structure to improve the profitability, competitiveness and efficiency of its business. This restructuring program may not result in the expected benefits, which may have a material adverse effect on KHD's operating results.
- Failure to manage KHD's market, product and service portfolio effectively and to develop an effective marketing and sales strategy to leverage market position in key geographical regions may adversely affect KHD's financial condition and results of operations.
- Failure to successfully deliver and execute projects in line with established project and business plans may adversely affect KHD's results of operation and financial condition.
- KHD is subject to risks associated with changing technology and manufacturing techniques, which could place KHD at a competitive disadvantage.
- Failure to attract, motivate and retain skilled personnel may have a material adverse effect on KHD's business and results of operations.
- Failure to implement effectively the strategy for KHD may have a material adverse effect on KHD's business and operations.
- KHD operates in a highly competitive environment. The worldwide downturn could increase competition in KHD's industry even further.
- KHD is exposed to political, operational and other risks in various countries due to its global operations.
- In some countries KHD may be exposed to risks relating to conduct, ethics, corporate responsibility and anti-competitive practices. Failure to implement KHD's code of conduct and ethics in day-to-day operations could have a material impact on KHD's business.
- KHD may not be able to protect the confidential or unique aspects of its proprietary technology, which would harm KHD's competitive position.

- KHD could be exposed to infringement of third party intellectual property rights.
- As a result of shareholders actions the Company's financial statements for the financial years 2002 to 2004 could be held void.
- A subsidiary of the Company is party to several lawsuits regarding infringement of utility rights and patents.
- KHD could be subject to additional tax payments.
- KHD is exposed to risks associated with consortiums and joint ventures.
- KHD is exposed to uninsured risks as part of its global business.
- KHD is exposed to various counterparty risks which may adversely impact its financial position and results of operations.
- KHD AG's ability to distribute dividends depends on profits from operating subsidiaries.

Risks Related to the Offering and the Shares

- The Offering may be cancelled.
- The price of the Company's shares could be volatile.
- Shareholders' interests in the Company could be diluted as a result of the issuing of further shares by the Company.
- Major shareholders may have a considerable influence in the general shareholders' meeting.
- A future sale of Shares in the Company by the major shareholders could have an adverse effect on the price of the Company's Shares.
- There will be no organized subscription rights trading.

Summary of Recent Business Developments and Outlook

The order intake in the third quarter was exceptionally high. After 30 September 2010, the order intake was further increased. The executive board anticipates an order intake for the entire year of between approx. EUR 310 million to EUR 320 million.

On 21 December 2010, the Company has concluded a strategic partnership with CATIC, a subsidiary of China's state-owned AVIC International Holding Corporation. Together, KHD and CATIC aim to become a market-leading force for the construction of cement plants by bidding on a wider range of projects. This includes especially turnkey projects. As a condition for the effectiveness of the cooperation agreement with CATIC, the Company and CATIC agreed that Max Glory Industries Ltd., a Hong Kong based indirect wholly owned subsidiary of CATIC shall make a capital investment in the Company and, thereafter, shall hold 20% in the share capital of the Company. The capital investment shall be implemented by way of a capital increase of up to 16,571,276 new no par value ordinary bearer shares from the existing authorized capital of the Company with statutory subscription rights of the existing shareholders.

The executive board believes the year 2011 to be to a certain extent still affected by the low order intake in 2009 and also by decreasing margins.

The executive board expects the revenues for the entire year 2010 to reach a level of around EUR 300 million and is positive to surpass this level in 2011.

ZUSAMMENFASSUNG DES PROSPEKTS

Die nachfolgende Zusammenfassung ist als Einführung zu diesem Wertpapierprospekt (der „Prospekt") zu verstehen. Sie fasst die wesentlichen Informationen und Risiken in Bezug auf die Emittentin und die Aktien zusammen. Anleger sollten daher jede Entscheidung zur Anlage in die in diesem Prospekt beschriebenen Wertpapiere auf die Prüfung des gesamten Prospektes stützen. KHD Humboldt Wedag International AG, Colonia-Allee 3, 51067 Köln, (nachfolgend auch die „Gesellschaft" oder „KHD AG" oder in den Finanzdaten beginnend auf Seite F-1 auch „KHD ID" und zusammen mit ihren Tochtergesellschaften „KHD" oder der „KHD Konzern") und Lang & Schwarz Broker GmbH, Breite Straße 34, 40213 Düsseldorf (nachfolgend auch „Lang & Schwarz") übernehmen gemäß § 5 Absatz 2 Nr. 4 Wertpapierprospektgesetz („WpPG") die Verantwortung für den Inhalt dieser Zusammenfassung, einschließlich ihrer Übersetzung. Sie können für den Inhalt der Zusammenfassung haftbar gemacht werden, jedoch nur für den Fall, dass die Zusammenfassung irreführend, unrichtig oder widersprüchlich ist, wenn sie zusammen mit den anderen Teilen dieses Prospekts gelesen wird.

Für den Fall, dass vor einem Gericht Ansprüche auf Grund der in diesem Prospekt enthaltenen Informationen geltend gemacht werden, könnte der als Kläger auftretende Anleger in Anwendung der einzelstaatlichen Rechtsvorschriften der Staaten des Europäischen Wirtschaftsraums die Kosten für die Übersetzung des Prospekts vor Prozessbeginn zu tragen haben.

Zusammenfassung der Geschäftstätigkeit

Überblick über die Geschäftstätigkeit der KHD

KHD ist weltweit einer der TOP-5 Zementanlagenbauer und Lieferanten von Maschinen für Zementwerke.[1] Das Leistungsspektrum umfasst die Gestaltung und Konstruktion, das Projekt-Management und die Lieferung sowie die Überwachung der Errichtung und der Inbetriebnahme von Zementanlagen und von dazugehörigen Maschinen. Kundendienstleistungen wie die Lieferung von Ersatzteilen, die Optimierung von Anlagen und die Ausbildung von Anlagenmitarbeitern runden die Bandbreite der von KHD angebotenen Leistungen ab.

Zum Kernsortiment der Anlagen von KHD gehören eine große Auswahl von Maschinen der Zerkleinerungs- und Verbrennungstechnik, welche von grundsätzlicher Bedeutung in jeder Zementanlage sind. Die Zerkleinerungstechnik von KHD findet Anwendung bei der Zerkleinerung von Rohmaterialien und Klinker sowie fertigem Zement und beinhaltet Mahl-, Zerkleinerungs- und Trennungsanlagen. Daneben umfasst die Verbrennungstechnik Vorwärmer, Calcinatorsysteme, Brennöfen und Kühlanlagen für Klinker. KHD hat außerdem eine Bandbreite von Systemautomatisierungsprodukten entwickelt, die Systeme zur Verfahrenskontrolle sowie Geräte zur Anlagenoptimierung umfasst. Die Produktion ist fast vollständig an externe Hersteller ausgelagert, die Anlagen und Maschinen gemäß den Vorgaben von KHD fertigen.

KHD liefert ihre Produkte und Dienstleistungen entweder direkt an den Betreiber einer Zementanlage oder innerhalb eines Konsortiums aus anderen Anlagenspezialisten, vor allem aus verwandten Bereichen des Materialtransports, der Vermischung, der Lagerung und Verpackung oder als Lieferant im Rahmen eines Komplettprojekts.

Je nach den Anforderungen des Kunden liefert KHD entweder einzelne Maschinen, eine Reihe von Maschinen oder das vollständige Sortiment für die komplette maschinelle Ausstattung einer Zementanlage. Das letztgenannte Angebot umfaßt Maschinen von anderen Spezialherstellern, wobei KHD für gewöhnlich die Verantwortung für die Koordinierung und die Technik für die Bereitstellung der kompletten maschinellen Ausstattung der Zementanlage übernimmt. Maschinen von KHD werden in über 400 Anlagen weltweit eingesetzt.

Die langfristige Vision von KHD ist es, kundenorientierter Ausrüstungslieferant und Dienstleister zu werden, der umweltfreundliche Technologien zur Verfügung stellt.

---

[1] Gemäß der Studie von OneStone Intelligence GmbH, Cement Projects Focus 2013, Marktstudie, November 2009.

Am 30. September 2010 beschäftigte der KHD Konzern 715 Mitarbeiter und erwirtschaftete im zum 30. September 2010 endenden Neun-Monats-Zeitraum Umsätze in Höhe von EUR 188,6 Mio. und einem Konzernergebnis von EUR 9,5 Mio.

Seit 1993 ist die Geschäftstätigkeit von KHD ISO-zertifiziert (2009: ISO 9001:2000).

Wettbewerbsstärken

Die Gesellschaft ist der Auffassung, dass sie über die nachfolgend aufgeführten Wettbewerbsvorteile verfügt:

- KHD verfügt über einen bekannten und im Markt geschätzten Markennamen mit einer über 100jährigen Unternehmensgeschichte.
- Das Produktportfolio von KHD beinhaltet diejenigen Maschinen, denen eine Schlüsselstellung in einer Zementanlage zukommt, insbesondere Anlagen zur Verbrennung sowie Maschinen zur Bearbeitung von Rohmaterialien und zur Zerkleinerung von Klinker.
- KHD verfügt über eine Vielzahl von Produkten, die insbesondere auf die Umweltanforderungen ihrer Kunden ausgerichtet sind.
- Ein fokussiertes Geschäftsmodell mit ausgelagerter Herstellung verschafft KHD höhere Flexibilität und niedrigere Fixkosten.
- Management und Mitarbeiter von KHD verfügen über umfangreiche Expertise im Zementanlagenbausektor sowie über ausgeprägte technische Expertise.

Strategie

KHD's langfristige Strategie ist es, ein kundenorientierter Anlagenbauer und eine Servicegesellschaft zu werden, die umweltfreundliche Technologien anbietet.

Kernelemente der Geschäftsstrategie von KHD sind:

- die Weiterentwicklung zu einem führenden Lieferanten für umweltfreundliche Technologien.
- die Erweiterung der Produktpalette von KHD durch Eingehung von strategischen Partnerschafen.
- Eintritt in den chinesischen Markt durch die beabsichtigte Kooperation mit CATIC.
- Ausweitung des Rollerpressen-Geschäfts in die Mineralverarbeitende Industrie
- die Entwicklung eines Dienstleistungsangebots, um Geschäftszyklen abzumildern und die Nachhaltigkeit der Erträge zu verbessern.
- von der bestehende Marktposition von KHD in Schwellenländern wie Indien und Russland Kapital zu profitieren.
- Einführung eines stärker auf Kundenbetreuung ausgerichteten Ansatz für den Verkauf.

Zusammenfassung von allgemeinen Informationen die Gesellschaft betreffend

Gründung der Gesellschaft	Die KHD Humboldt Wedag International AG ist eine Aktiengesellschaft deutschen Rechts. Sie wurde unter der Firma Maschinenfabrik Fahr Aktiengesellschaft Gottmadingen errichtet und in das Handelsregister des Amtsgerichts Singen/Hohentwiel unter der Registernummer HRB 29 am 24. Oktober 1911 eingetragen. Die Gesellschaft änderte ihre Firma durch Beschluss der Hauptversammlung vom 29. August 2001 in FAHR Beteiligungen AG, eingetragen im Handelsregister am 10. September 2001. Ihr Sitz wurde nach Köln verlegt und die Gesellschaft wurde am 12. Dezember 2001 im Handelsregister des Amtsgerichts Köln unter HRB 36688 eingetragen. Mit Eintragung im Handelsregister am 15. Oktober 2004 hat die Gesellschaft ihre Firma in MFC Industrial Holdings AG geändert, die wiederum durch Eintragung im Handelsregister am 20. November 2006 in KHD Humboldt Wedag International (Deutschland) AG geändert wurde. Durch Beschluss der ordentlichen Hauptversammlung vom 23. März 2010 haben die Aktionäre für die Änderung der Firma in KHD Humboldt Wedag International AG gestimmt. Diese Umfirmierung wurde am 25. März 2010 im Handelsregister eingetragen.
Restrukturierung und Reintegration	Die KHD AG war eine Tochtergesellschaft der KHD Humboldt Wedag International Ltd., Vancouver, Kanada („**KHD Ltd.**", heute Terra Nova Royalty Corporation Ltd. „**TNRC**"), die an der Börse von New York notiert ist. TNRC hielt weitere Beteiligungen an Gesellschaften, die im Bereich des Zementanlagenbaus und der Lieferung von Maschinen für Zementanlagen tätig sind und hält Beteiligungen an Gesellschaften, deren Geschäftsfeld in der Generierung von Förderabgaben aus Eisenerzminen liegt. Die Geschäftsführung der KHD Ltd. (heute TNRC) beschloss im Januar 2010, diese beiden Geschäftsbereiche zu trennen (die „**Restrukturierung**"). Als Teil der Restrukturierung schüttete die TNRC 25.115.927 der von ihr gehaltenen Aktien an der Gesellschaft an ihre Aktionäre aus und gab am 15. November 2010 bekannt, auch die restlichen von ihr gehaltenen Aktien an ihre Aktionäre auszuschütten (die „**Ausschüttung der Aktien**"). Im Zuge der Restrukturierung erwarb zudem eine Tochtergesellschaft der KHD AG alle Anteile an der Humboldt Wedag Australia Pty. Ltd., Australien („**HW Australien**"), der Humboldt Wedag Inc., USA („**HW USA**"), der Humboldt Wedag India Private Ltd., Indien („**HW Indien**"), der KHD Humboldt Wedag Machinery Equipment (Peking) Co. Ltd., China („**KHD China**"), sowie 50% der Anteile an der KHD Engineering Holding GmbH, Österreich („**KHD Österreich**") und deren unmittelbare Tochtergesellschaft KHD Humboldt Engineering OOO, Russland („**KHD Russland**") sowie deren Tochtergesellschaft OAO Sibgiprozoloto, Russland („**Sibgiprozoloto**"), die alle im Bereich des Zementanlagenbaus und der Lieferung von Maschinen für Zementanlagen tätig sind, sowie sämtliche Anteile an der EKOF Flotation GmbH, Deutschland („**EKOF**") (die „**Reintegrations-Tochtergesellschaften**") von der KHD Humboldt Wedag International GmbH, Österreich („**KIA GmbH**"), einer mittelbaren Tochtergesellschaft der TNRC (die „**Reintegration**"). Als Teil der Restrukturierung änderte die KHD Ltd. im März 2010 ihren Namen in Terra Nova Royalty Corporation Ltd.
Geschäftsadresse	Die Geschäftsadresse der Gesellschaft ist Colonia-Allee 3, 51607 Köln. Die Gesellschaft ist telefonisch erreichbar unter der Telefonnummer 0049-221 6504 1106.

Vorstand	Jouni Olavi Salo (Vorstandsvorsitzender) Manfred Weinandy (Finanzvorstand)
Aufsichtsrat	Gerhard Beinhauer (Aufsichtsratsvorsitzender) Silke Stenger (stellvertretende Aufsichtsratsvorsitzende) Gerhard Rolf
Grundkapital	Das Grundkapital der Gesellschaft beträgt EUR 33.142.552,00 und ist eingeteilt in 33.142.552 auf den Inhaber lautenden Stückaktien mit einem anteiligen Nennbetrag von EUR 1,00 pro Aktie am Grundkapital der Gesellschaft (jeweils nachfolgend eine „**Aktie**“, zusammen die „**Aktien**“).
Altaktionäre (soweit der Gesellschaft bekannt)	Terra Nova Royalty Corporation Ltd., Kanada...................... ....21,86%* Peter Kellogg... .....5,7% KGC Strategische Dienstleistungen UG, Deutschland………………..…0,0%* * KGC Strategische Dienstleistungen UG („**KGC**“) und die TNRC haben am 27. März 2010 einen Stimmbindungsvertrag geschlossen, nach welchem die TNRC sich verpflichtet hat, die Stimmrechte aus den Aktien an der Gesellschaft nur nach Weisung der KGC auszuüben. Aus diesem Grund werden die von der TNRC gehaltenen Aktien der KGC zugerechnet und umgekehrt deren Aktien der TNRC zugerechnet.
Aktien im Streubesitz zum Datum des Prospektes	71,75%
Eigene Aktien zum Zeitpunkt des Prospekts	0,7%
Gegenwärtiger Abschlussprüfer	Deloitte & Touche GmbH, Wirtschaftsprüfungsgesellschaft, Düsseldorf.
Geschäftsjahr der Gesellschaft	Das Geschäftsjahr der Gesellschaft entspricht dem Kalenderjahr.
Mitarbeiter	Am 30. September 2010 beschäftigte die KHD AG einen Arbeitnehmer neben den zwei Mitgliedern des Vorstands der Gesellschaft. Der KHD Konzern beschäftigte am 30. September 2010 715 Arbeitnehmer.
Geschäfte und Rechtsbeziehungen mit nahe stehenden Personen	Die Gesellschaft war Teil des Konzerns unter der Führung der KHD Ltd. („**KHD Ltd. Konzern**"). Als solche war sie Partei verschiedener Rechtsgeschäfte mit nahe stehenden Personen gemäß IAS 24. Insbesondere hat KHD Ltd. verschiedene Bürgschaften zu Gunsten der Gesellschaften des KHD Ltd. Konzerns einschließlich der Gesellschaft und ihrer Tochtergesellschaften übernommen und verschiedene andere Rechtsbeziehungen mit der Gesellschaft und ihren Tochtergesellschaften unterhalten. Zudem fungierte die KIA GmbH, eine frühere Schwestergesellschaft der Gesellschaft als zentraler Konzernfinanzverwalter, Finanzierungsarrangeur, Risikomanager, Investmentmanager und Lizenzgeber und erbrachte verschiedene hierauf bezogene Leistungen für die Gesellschaft und ihre Tochtergesellschaften sowie andere Gesellschaften des KHD Ltd. Konzerns. Dementsprechend gab es zahlreiche vertragliche und faktische Beziehungen zwischen KHD Konzerngesellschaften und KIA GmbH. Im Zuge der Restrukturierung (siehe „*Zusammenfassung - Restrukturierung und Reintegration*“) wurden die meisten Beziehungen beendet.

Das Angebot

Zusammenfassung des Angebots	Das Angebot bezieht sich auf 16.571.276 auf den Inhaber lautende Stückaktien mit einem rechnerischen anteiligen Betrag am Grundkapital von EUR 1,00 je Aktie (die „**Neuen Aktien**") und mit voller Gewinnanteilsberechtigung ab dem 1. Januar 2010 aus der Kapitalerhöhung gegen Bareinlagen mit Zeichnungsrechten (das „**Bezugsangebot**") von EUR 33.142.552 um bis zu 16.571.276 auf bis zu EUR 49.713.828, die der Vorstand am 21. Dezember 2010 mit Zustimmung des Aufsichtsrats, vom gleichen Tage beschlossen hat (die „**Kapitalerhöhung**"). Die Durchführung der Kapitalerhöhung wird voraussichtlich am 18. Februar 2011 im Handelsregister eingetragen. Das Angebot besteht aus einem öffentlichen Angebot an die Aktionäre der Gesellschaft in der Bundesrepublik Deutschland und Luxemburg.. Neue Aktien in Höhe von 20% des Grundkapitals der Gesellschaft (gerechnet auf Basis des Grundkapitals der Gesellschaft nach Eintragung der Durchführung der Kapitalerhöhung), die nicht von den Aktionären der Gesellschaft gezeichnet werden, werden, bei Eintritt der vereinbarten Bedingungen von der Max Glory Industries Ltd., Hong Kong („**MGI**"), einer mittelbaren Tochtergesellschaft der CATIC Bejing Co. Ltd., Bejing („**CATIC**"), eine Tochtergesellschaft der staatseigenen chinesischen AVIC International Holding Corporation, gemäß einem Zeichnungsvorvertrag zwischen der Gesellschaft und MGI vom 21. Dezember 2010 gezeichnet.
Veröffentlichung des Bezugsangebots	Die Gesellschaft wird das Bezugsangebot für die Neuen Aktien voraussichtlich am 4. Januar 2011 auf der Webseite der Gesellschaft und im elektronischen Bundesanzeiger veröffentlichen.
Bezugsverhältnis	Die Neuen Aktien werden den Aktionären im Verhältnis 2:1 zum Bezug angeboten, d.h. für zwei alte Aktien kann eine Neue Aktie bezogen werden.
Bezugspreis	Der Bezugspreis für die Neuen Aktien beträgt EUR 4,53 je Neuer Aktie. Die Zahlung des Bezugspreis muss spätestens bis zum 19. Januar 2011 erfolgt sein (Zahlungseingang bei der Abwicklungsstelle). Aktionäre, die ihre Bezugsrechte innerhalb der Bezugssfrist ausgeübt haben, müssen den Bezugspreis über ihre Depotbank zum Zeitpunkt der Ausübung, spätestens jedoch am letzten Tag der Bezugsfrist entrichten.
Bezugsfrist	Die Bezugsfrist für die Neuen Aktien im Rahmen des Bezugsangebots beginnt voraussichtlich am 5. Januar 2011 und endet voraussichtlich mit Ablauf des 19. Januar 2011 (die „**Bezugsfrist**").
Platzierung von nicht bezogenen Neuen Aktien	Neue Aktien, die nicht von Aktionären bezogen wurden, werden nach Ablauf der Bezugsfrist in Höhe von 20% der Aktien der Gesellschaft (berechnet auf Basis des Grundkapitals der Gesellschaft nach Durchführung der Kapitalerhöhung) der MGI angeboten.
Sole Lead Manager	Sole Lead Manager und Sole Bookrunner ist Lang & Schwarz Broker GmbH, Breite Straße 34, 40213 Düsseldorf, Deutschland.
Bezugsstelle	Bezugsstelle ist Lang & Schwarz Broker GmbH, Breite Straße 34, 40213 Düsseldorf, Deutschland.
Abwicklungsstelle	Als Abwicklungsstelle zur Durchführung des Bezugsangebots fungiert Bankhaus Gebr. Martin AG, Göppingen, Deutschland.
Nicht ausgeübte Bezugsrechte	Nicht ausgeübte Bezugsrechte werden nach Ablauf der Bezugsfrist wertlos

ausgebucht.

Zeichnungsvorvertrag mit MGI	Am 21. Dezember 2010 schlossen die Gesellschaft und MGI einen Zeichnungsvorvertrag ab (der „**Zeichnungsvorvertrag**“), nach dem sich MGI u.a. verpflichtet hat, die Anzahl an Neuen Aktien gegen Barzahlung des Zeichnungspreises (EUR 4,53 je Neuer Aktie) zu zeichnen, die erforderlich ist, damit MGI 20% des Grundkapitals der Gesellschaft nach Eintragung der Durchführung der Kapitalerhöhung im Handelsregister („**Zielbeteiligung**“) hält. Die Zeichnung unterliegt verschiedenen aufschiebenden Bedingungen, u.a. dass (i) genügend Aktien zur Zeichnung durch MGI zur Verfügung stehen, (ii) die erforderlichen Genehmigungen der chinesischen Behörden erteilt wurden.
Abbruch des Angebots	Sofern nicht genügend Neue Aktien zur Verfügung stehen, um die Zielbeteiligung zu erreichen, wird die Kapitalerhöhung nicht durchgeführt.
Veräußerungsbeschränkung von MGI (Lock-In)	In dem Zeichnungsvorvertrag hat sich MGI verpflichtet, keine der an sie im Rahmen der Kapitalerhöhung auszugebenden Neuen Aktien für einen Zeitraum von 29 Monaten nach Eintragung der Durchführung der Kapitalerhöhung im Handelsregister bzw. bis zur Beendigung dieses Lock-Ins zu verkaufen, abzutreten oder zu übertragen („**Lock-In**“) Zur Sicherstellung der Erfüllung dieser Beschränkungen erklärt sich MGI damit einverstanden, dass die an sie im Rahmen der Kapitalerhöhung auszugebenden Neuen Aktien ausschließlich auf ein Sperrdepot übertragen werden, für das die Veräußerungsbeschränkungen zugunsten der Gesellschaft gelten. Der Lock-In endet im Falle des Eintritts bestimmter Ereignisse automatisch.
Zeichnungsvertrag	Die Gesellschaft und der Sole Lead Manager haben am 23. Dezember 2010 einen Vertrag über die Zeichnung der Neuen Aktien durch den Sole Lead Manager namens der Aktionäre, die von ihrem Bezugsrecht Gebrauch gemacht haben, sowie deren Lieferung an die Aktionäre, (der „**Zeichnungsvertrag**“) abgeschlossen. Der Zeichnungsvertrag sieht vor, dass der Sole Lead Manager und die Gesellschaft von diesem Vertrag unter bestimmten Umständen zurücktreten können. Zu diesen Umständen zählen insbesondere die folgenden Ereignisse: • die in dem Zeichnungsvertrag abgegebenen Gewährleistungen sind unzutreffend; • es treten Ereignisse wirtschaftlicher oder politischer Art oder staatliche Maßnahmen oder ein Verschlechterung der wirtschaftlichen Situation der Gesellschaft oder eines ihrer Beteiligungsunsunternehmen auf, die die Kapitalerhöhung gefährden und es daher für ein Partei unzumutbar machen würden, die Kapitalerhöhung fortzuführen; • negative Ergebnisse in Bezug auf die Gesellschaft werden zutage gefördert, durch welche die Kapitalerhöhung, Börsenzulassung und die Börseneinführung gefährdet wäre. Im Falle des Rücktritts vom Zeichnungsvertrag wird die Kapitalerhöhung nicht durchgeführt. In diesem Fall erlischt das Bezugsrecht und bereits erteilte Bezugserklärungen für Neue Aktien werden unwirksam. In einem solchen Fall besteht kein Anspruch auf Lieferung von Neuen Aktien. Ansprüche im Zusammenhang mit bereits gezahlten Zeichnungsgebühren und Aktionären im Rahmen der Zeichnung entstandenen Kosten unterliegen ausschließlich dem Rechtsverhältnis zwischen dem Aktionär und dem Institut, dem der Aktionär seinen Auftrag erteilt hat.

Zulassung zum Börsenhandel	Ein Antrag auf Zulassung der Neuen Aktien zum Handel am regulierten Markt (General Standard) der Frankfurter Wertpapierbörse wurde am 22. Dezember 2010 bei der Frankfurter Wertpapierbörse gestellt. Der Beschluss über die Zulassung der Aktien zum Börsenhandel wird voraussichtlich am 21. Februar 2011 gefasst werden. Ein Anspruch auf Zulassung besteht nicht. Die Aufnahme der Notierung der Neuen Aktien ist für den 22. Februar 2011 vorgesehen.
Einbeziehung in die bestehende Notierung	Mit Aufnahme des Handels werden die Neuen Aktien in die bestehende Notierung der Aktien der Gesellschaft an der Frankfurter Wertpapierbörse einbezogen.
Emissionskosten	Die Gesellschaft schätzt, dass sich die Kosten des Angebots der Aktien, einschließlich der Kosten für Lang & Schwarz, als Zulassungsantragsteller, sowie die Kosten anderer Berater hinsichtlich der Vorbereitung dieses Prospektes auf rund EUR 500.000 belaufen werden.
Wertpapierkennnummer (WKN)	657800
International Securities Identification Number (ISIN)	DE0006578008
Börsenkürzel	KWG

Ausgewählte Finanzdaten

Die nachfolgenden Tabellen fassen ausgewählte konsolidierte Finanzdaten der KHD AG für den Neun-Monats-Zeitraum zum 30. September 2010, mit Vergleichszahlen für den Neun-Monats-Zeitraum zum 30. September 2009 sowie die Geschäftsjahre zum 31. Dezember 2009, 2008 und 2007 Geschäftsjahre zusammen.

Die konsolidierten Finanz- und Geschäftsdaten für die am 31. Dezember 2009, 2008 und 2007 abgelaufenen Geschäftsjahre, die als „geprüft” markiert sind, wurden den Konzernabschlüssen der Gesellschaft für die Geschäftsjahre zum 31. Dezember 2009, 2008 und 2007 entnommen, die gemäß den Anforderungen des Standards des International Accounting Standard Board (IASB) in ihrer Umsetzung durch die EU (nachfolgend „**IFRS**“) und nach den zusätzlichen Anforderungen des deutschen Handelsrechts gem. § 315a Abs. 1 Handelsgesetzbuch („**HGB**“) erstellt wurden. Diese Konzernabschlüsse wurden von Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft, Düsseldorf nach Maßgabe des § 317 HGB geprüft und jeweils mit einem uneingeschränkten Bestätigungsvermerk versehen.

Allerdings enthält der Bestätigungsvermerk des Abschlussprüfers zum Jahresabschluss der KHD AG für das Geschäftsjahr zum 31. Dezember 2009 nach HGB den folgenden Hinweis:

Ohne diese Beurteilung einzuschränken, weisen wir darauf hin, dass Aktionäre gegen die Gesellschaft Klagen auf Feststellung der Nichtigkeit, hilfsweise auf Feststellung der Unwirksamkeit der festgestellten Jahresabschlüsse der Gesellschaft zum 31. Dezember 2002 und 31. Dezember 2003 sowie Nichtigkeits-, hilfsweise Anfechtungsklage gegen die auf der Hauptversammlung der Gesellschaft am 29. September 2004 gefassten Beschlüsse, den Mitgliedern des Vorstands sowie drei Mitgliedern des Aufsichtsrats für das Geschäftsjahr 2003 Entlastung zu erteilen, erhoben haben. Gegenstand der Klagen waren Gebühren in Höhe von TEUR 1.206 („Platzierungsgebühr”) sowie in Höhe von TEUR 1.914 („Merchant Banking Fee”), die die Gesellschaft der MFC Corporate Services AG (vormals: MFC Merchant Bank S.A.), Herisau/Schweiz, Ende 2002 für die Platzierung neuer Aktien im Rahmen einer von der Hauptversammlung genehmigten Kapitalerhöhung im Dezember 2002 und die Erbringung von Merchant Bank-Leistungen gezahlt hatte. Die damalige Beteiligung der MFC Corporate Services AG (vormals: MFC Merchant Bank S.A.), Herisau/Schweiz, an der KHD Humboldt Wedag International (Deutschland) AG, Köln, ist nunmehr auf die MFC Commodities GmbH, Wien/Österreich, übergegangen und beträgt heute rd. 20%.

Diese Zahlungen waren nach Auffassung der Kläger als Einlagenrückgewähr unzulässig. Das in den Jahresabschlüssen zum 31. Dezember 2002 und 31. Dezember 2003 ausgewiesene Gesellschaftsvermögen war nach Ansicht der Kläger mangels Verbuchung eines entsprechenden Rückforderungsanspruchs unterbewertet. Das

Landgericht Köln hat den Klagen mit Urteil vom 4. November 2005 bezüglich der Zahlung der Merchant Banking Fee stattgegeben. Über die Platzierungsgebühr wurde nicht geurteilt.

Die KHD Humboldt Wedag International (Deutschland) AG, Köln, hat gegen dieses Urteil frist- und formgerecht Berufung eingelegt. Dem Antrag auf Revisionsverhandlung wurde seitens des Oberlandesgerichts Köln stattgegeben. Zwischenzeitlich konnte mit einem Kläger ein außergerichtlicher Vergleich vereinbart werden. Die Gesellschaft geht im Hinblick auf die noch anhängigen Klagen davon aus, dass ihre Berufung Aussicht auf Erfolg hat.

Gleichwohl hat die Gesellschaft als Reaktion auf das Landgerichtsurteil eine Forderung gegen die MFC Corporate Services AG (vormals: MFC Merchant Bank S.A.), Herisau/Schweiz, in Höhe von TEUR 1.914 im Jahresabschluss zum 31. Dezember 2005 aktiviert und weist diese unverändert im Jahresabschluss zum 31. Dezember 2009 aus. Für die von der MFC Corporate Services AG (vormals: MFC Merchant Bank S.A.), Herisau/Schweiz, der Gesellschaft detailliert nachgewiesenen Aufwendungen im Zusammenhang mit den Leistungen wurde im Jahresabschluss zum 31. Dezember 2005 eine Rückstellung für ungewisse Verbindlichkeiten in Höhe von TEUR 1.976 passiviert, welche ebenfalls unverändert zum 31. Dezember 2009 ausgewiesen wird.

Aufgrund des noch bei dem Oberlandesgericht Köln anhängigen Verfahrens verbleibt das Risiko eines von der Beurteilung des Vorstands abweichenden Urteils.

Die konsolidierten Finanzdaten für den Neun-Monats-Zeitraum zum 30. September 2010 und den Neun-Monats-Zeitraum zum 30. September 2009 wurden dem ungeprüften Konzernzwischenabschluss der Gesellschaft für den Neun-Monats-Zeitraum zum 30. September 2010 entnommen, der in Übereinstimmung mit IFRS erstellt wurde.

Die nachfolgenden Zahlen sind kaufmännisch gerundet. Aufgrund von Rundungseffekten ergeben die Spalten nicht notwendigerweise die Summe aller Einzelbeträge.

Ausgewählte Daten zur Gewinn- und Verlustrechnung

	Neun-Monats-Zeitraum zum 30. September		Geschäftsjahr zum 31. Dezember		
	2010	2009	2009	2008	2007
	IFRS (ungeprüft) in TEUR		IFRS (geprüft) in TEUR		
Umsatzerlöse [(1)]	188.611	233.555	360.295	339.099	262.345
Herstellungskosten der zur Erzielung der Umsatzerlöse erbrachten Leistungen	-147.578	-195.542	-300,635	-283,804	-211,638
Bruttoergebnis vom Umsatz	**41.033**	**38.013**	**59.660**	**55.295**	**50.707**
Sonstige betriebliche Erträge	1.956	237	9.038	1.917	2.074
Vertriebsaufwendungen	-8.267	-9.856	-5.307	-7.082	-5.636
Verwaltungsaufwendungen	-11.893	-7.101	-8.455	-8.447	-9.561
Sonstige Aufwendungen[(2)]	-7.359	-7.197	-8.996	-8.544	-9.858
Restrukturierungsertrag/-aufwand	2.353	2.686	3.773	-9.755	—
Finanzergebnis	1.864[3]	3.427[3]	3.952	1.978	4.357
Gewinn vor Steuern	**19.687**	**20.209**	**53.665**	**25.362**	**32.083**
Ertragssteueraufwand	-10.206	-6.651	-16.497	-10.134	-4.133
Gewinn nach Steuern aus fortgeführten Geschäftsbereichen	**9.481**	**13.558**	**37.168**	**15.228**	**27.950**
Verlust aus aufgegebenen Geschäftsbereichen	—	—	—	—	-5.366
Jahresüberschuss	**9.481**	**13.558**	**37.168**	**15.228**	**22.584**

(1) Umsatzerlöe beziehen sich nur auf nicht fortgwführte Geschäftsbereiche. Umsätze aus fortgeführten Geschäftsbereichen, betrafen in 2007 TEUR 33.659.

(2) Aufwendungen für Miete und Pacht, die in 2007 noch separat ausgewiesen wurden und die nicht zu den Herstellungskosten der zur Erzielung der Umsatzerlöse erbrachten Leistungen (TEUR 688) gehören, wurden in dem Berichtszeitraum den Sonstigen Aufwendungen zugewiesen.

(3) Entspricht der Summe aus Ertrag aus Finanzinvestitionen und Finanzierungskosten in dem jeweiligen konsolidierten Zwischenabschluss.

Andere ausgewählte Finanzdaten

	Neun-Monats-Zeitraum zum30. September		Geschäftsjahr zum 31. Dezember		
	2010	2009	2009	2008	2007
	IFRS (ungeprüft) *		IFRS (ungeprüft) *		
EBT[(1) (2)] in TEUR	19.687	20.209	53.665	25.362	32.083
EBT-Marge (in %)[(1) (3)]............	10,4	8,7	14,9	7,5	12,2
Nettoumsatzrendite (in %)[(1) (4)].	5,0	5,8	10,3	4,5	8,6
Gewinn pro Aktie in EUR[(5)].....	0,29	0,82	2,25	0,93	1,70

* Soweit nicht anderweitig angegeben.

(1) EBT, EBT-Marge und Nettoumsatzrendite sind keine nach IFRS anerkannten Kennzahlen und stellen keinen gleichwertigen Ersatz für Kennzahlen nach IFRS dar. Die Kennzahlen sind ungeprüft. Da nicht alle Unternehmen EBT, EBT-Marge und Nettoumsatzrendite einheitlich berechnen, ist die Darstellung der Gesellschaft für sich alleine genommen keine Basis für Vergleiche mit anderen Unternehmen.

(2) EBT ist definiert als Ergebnis vor Steuern.

(3) EBT-Marge für ein Geschäftsjahr ist definiert als EBT für das jeweilige Geschäftsjahr ausgedrückt als Prozentsatz der Erträge für das betreffende Geschäftsjahr.

(4) Nettoumsatzrendite wird berechnet als Jahresüberschuss für das Geschäftsjahr ausgedrückt als Prozentsatz der Umsatzerlöse für das betreffende Geschäftsjahr.

(5) Geprüft für die zum 31. Dezember 2009, 2008 und 2007 endenden Geschäftsjahre. Ungeprüft für den zum 30. September 2010 und zum 30. September 2009 endenden Neun-Monats-Zeitraum. Gewinn pro Aktie für 2007 umfasst nur fortgeführte Geschäftsaktivitäten.

Ausgewählte Bilanzdaten

	30. September 2010	2009	31. Dezember 2008	2007
	IFRS (ungeprüft) TEUR		IFRS (geprüft) TEUR	
AKTIVA				
Sachanlagen	2.544	1.526	2.624	2.608
Geschäfts- oder Firmenwert.......................	2.127	2.127	2.127	2.127
Sonstige immaterielle Vermögenswerte......	833	316	445	289
Aktive latente Steuern................................	880	237	701	4.565
Langfristige finanzielle Vermögenswerte	851	51.741	70.332	55.569
Summe langfristiger Vermögenswerte....	**7.235**	**55.947**	**76.229**	**65.158**
Vorräte	12.325	13.663	6.241	3.997
Fertigungsaufträge mit aktivischem Saldo	19.187	38.413	47.863	51.929
Forderungen aus Lieferung und Leistung und sonstige Forderungen	74.730	49.387	43.482	39.591
Forderungen gegen verbundene Unternehmen..	—	3.678	19.085	8.178
Geleistete Vorauszahlungen.......................	32.377	26.235	29.052	13.117
Sonstige finanzielle Vermögenswerte.........	1.553	5.260	3.565	16.346
Forderungen aus Ertragsteuern	2.724	11.461	—	—
Zahlungsmittel und Zahlungsmitteläquivalente	259.484	225.844	204.636	166.681
Summe kurzfristiger Vermögenswerte ...	**402.380**	**373.941**	**353.924**	**299.839**
Aktiva Gesamt..	**409.615**	**429.888**	**430.153**	**364.997**

	30. September 2010	2009	31. Dezember 2008	2007
	IFRS (ungeprüft) TEUR		IFRS (geprüft) TEUR	
PASSIVA				
Gezeichnetes Kapital	33.142	33.142	33.142	33.142
Kapitalrücklage	1.776	1.776	1.776	1.776
Eigene Anteile	-221	-221	-221	-221
Währungsrücklagen	-376	-53	-53	0
Unverteilte Gewinne	106.321	134.428	97.319	81.874
	140.642	169.072	131.963	116.571
Minderheitsgesellschafter	688	659	638	1.439
Summe Eigenkapital	**141.330**	**169.731**	**132.601**	**118.010**
Eigenkapitalquote (ungeprüft) [1]	34,5%	39,48%	30,83%	32,33%
Finanzschulden	—	—	—	1.405
Sonstige Verbindlichkeiten	9.753	7.558	5.994	3.377
Pensionsverpflichtungen	21.461	21.159	21.926	22.103
Passive latente Steuern	12.073	9.755	5.446	1.572
Rückstellungen	20.308	7.748	5.405	8.080
Summe langfristiger Schulden	**63.595**	**46.220**	**38.771**	**36.537**
Verbindlichkeiten aus Lieferung und Leistung und sonstige Verbindlichkeiten	87.963	100.791	95.001	63.413
Verbindlichkeiten gegenüber verbundenen Unternehmen	—	4.914	6.107	7.104
Finanzschulden	—	3.552	1.167	—
Verpflichtungen aus Fertigungsaufträgen	80.182	51.136	117.466	118.535
Verbindlichkeiten aus Ertragssteuern	16.681	10.970	6.592	11.600
Rückstellungen	19.864	42.574	32.448	9.798
Summe kurzfristige Schulden	**204.690**	**213.937**	**258.781**	**210.450**
Passiva Gesamt	**409.615**	**429.888**	**430.153**	**364.997**

(1) Die Eigenkapitalquote ist keine nach IFRS anerkannte Kennzahl und stellt keinen gleichwertigen Ersatz für Kennzahlen nach IFRS dar. Die Eigenkapitalquote misst das Verhältnis von Eigenkapital zu Aktiva Gesamt.

Ausgewählte Angaben zur Konzernkapitalflussrechnung

	Neun-Monats-Zeitraum zum 30. September		Geschäftsjahr zum 31. Dezember		
	2010	2009	2009	2008	2007
	IFRS (ungeprüft) TEUR		IFRS (geprüft) TEUR		
Ergebnis vor Steuern und Zinsen	17.823	16.782	49.713	23.384	28.829
Zahlungsmittelzufluss aus betrieblicher Tätigkeit	21.889	-9.983	12.607	55.139[1]	132.827[1]
Cashflow aus betrieblicher Tätigkeit	**30.889**	**-15.350**	**-4.458**	**45.197**	**133.469**[1]
Cashflow aus Investitionstätigkeit	**54.308**	**4.807**	**21.287**	**-13.931**	**-32.534**[1]
Cashflow aus Finanzierungstätigkeit	**-51.241**	**1.634**	**5.385**	**7.340**	**-1.122**[1]
Finanzmittelfonds am Ende des Jahres	**225.183**	**202.969**	**202.969**	**164.310**	**64.457**
Finanzmittelfonds zu Beginn des Jahres	**258.816**	**194.060**	**225.183**	**202.969**	**164.310**

(1) Die angegebenen Zahlen wurden den Vergleichszahlen für 2008 bzw. 2007 der Konzernabschlüsse für die Geschäftsjahre zum 31. Dezember 2009 bzw. 2008 entnommen und sind mit den entsprechenden Zahlen, wie sie in den Konzernabschlüssen für das Geschäftsjahr zum 31. Dezember 2008 bzw. 2007 enthalten sind, nicht vergleichbar. Dies gründet sich darauf, dass in den Konzemabschlüssen für die Geschäftsjahre zum 31. Dezember 2009 und 2008 in der Darstellung einzelner Positionen der Kapitalflussrechnung Umgliederungen gegenüber dem jeweiligen Vorjahreszeitraum vorgenommen wurden. Diese Umgliederungen führten nach Einschätzung der Gesellschaft nicht zu einer besonderen Angabepflicht im Anhang gemäß IAS 8.

Zusammenfassung der Risikofaktoren

Vor einer Entscheidung über den Erwerb von Aktien der Gesellschaft sollten Anleger die nachfolgenden Risiken sorgfältig lesen und abwägen:

Geschäftsrisiken von KHD und marktbezogenen Risiken

- Der weltweite wirtschaftliche Abschwung hat die Nachfrage nach Zementanlagenbau und der Lieferung von Maschinen, Produkten und Dienstleistungen von KHD reduziert und könnte deren Nachfrage auch weiterhin beeinträchtigen.

- Der weltweite wirtschaftliche Abschwung hat zu Verzögerungen oder der Stornierung von einigen Projekten durch Kunden von KHD geführt und könnte die Fähigkeit dieser Kunden, Zahlungen an KHD rechtzeitig zu erbringen, negativ beeinflussen.

- Der weltweite wirtschaftliche Abschwung könnte das Geschäft der Zulieferer und Auftragsfertiger von KHD negativ beeinflussen und ihre Leistungsfähigkeit verschlechtern.

- KHD hängt von der Verfügbarkeit hinreichender Finanzierungszusagen ab.

- Preisveränderungen bei Rohmaterialien und Energie könnten zu einer verringerten Nachfrage nach Zement führen, die wiederum zu einer verringerten Nachfrage nach Zementanlagen, wie sie von KHD entwickelt werden, führen könnte.

- KHD ist von der Fähigkeit abhängig, Zulieferer an sich zu binden. Jede Störung im Verhältnis zu Zulieferern könnte das Geschäft von KHD negativ beeinflussen.

- KHD hat eine interne Restrukturierung ihres Geschäftsbetriebs und ihrer Organisationsstrukturen durchgeführt, mit dem Ziel, Rentabilität, Wettbewerbsfähigkeit und Effizienz des Unternehmens zu verbessern. Diese Restrukturierung könnte nicht die erwarteten Vorteile erbringen, was zu einer wesentlichen Verschlechterung der Ertragslage von KHD führen könnte.

- Managementversagen hinsichtlich des Marktes des Produkt- und Dienstleistungsportfolios von KHD sowie bei der Implementierung einer effektiven Marketing- und Verkaufsstrategie, mit der eine bessere

Marktposition in geographischen Schlüsselregionen erreicht werden soll, könnte die Vermögens- und Ertragslage von KHD negativ beeinflussen.

- Die fehlerhafte Durchführung von Projekten entgegen etablierten Projekt- und Geschäftsplanungen könnte die Vermögens- und Ertragslage von KHD negativ beeinflussen.

- Die Weiterentwicklung von Technologien und Fertigungstechniken ist mit dem Risiko verbunden, dass KHD in eine nachteilige Wettbewerbsposition gelangt.

- Misserfolge bei der Anwerbung, Motivation und langfristigen Anbindung von qualifizierten Mitarbeitern könnte eine wesentlich nachteilige Geschäftsentwicklung nach sich ziehen, die sich negativ auf die Vermögens- und Ertragslage von KHD auswirken könnte.

- Misserfolge bei der effektiven Umsetzung der Geschäftsstrategie von KHD könnten eine wesentlich nachteilige Geschäftsentwicklung nach sich ziehen, die sich negativ auf die Vermögens- und Ertragslage von KDH auswirken könnte.

- KHD ist in einem extrem wettbewerbsintensiven Umfeld tätig. Der weltweite wirtschaftliche Abschwung könnte zu einer weiteren Verschärfung des Wettbewerbs in den Bereichen, in denen KHD tätig ist, führen.

- KHD ist politischen, operativen und anderen Risiken in verschiedenen Ländern aufgrund der globalen Ausrichtung des Unternehmens ausgesetzt.

- In einigen Ländern könnte KHD Risiken ausgesetzt sein, die aus Verhalten, Ethik, unternehmerischer Verantwortlichkeit und wettbewerbswidrigen Praktiken resultieren. Misserfolge bei der Umsetzung von KHDs Verhaltenskodex und unternehmerischer Ethik im alltäglichen Geschäftsbetrieb könnte einen wesentlichen Einfluss auf das Geschäft von KHD haben.

- KHD könnte nicht in der Lage sein, vertrauliche oder einzigartige Eigenschaften der firmeneignen Technologie zu schützen, was die Wettbewerbsposition von KHD beeinträchtigen könnte.

- KHD ist Risiken ausgesetzt, die aus der Verletzung geistigen Eigentums Dritter resultieren.

- Aufgrund von Anfechtungsklagen von Aktionären könnten die Jahresabschlüsse für die Geschäftsjahre 2002 bis 2004 nichtig sein.

- Eine Tochtergesellschaft der Gesellschaft ist Partei verschiedener Rechtsstreite hinsichtlich der Verletzung von Gebrauchsmustern und Patenten.

- KHD könnte weiteren Steuerzahlungsverpflichtungen unterliegen.

- KHD ist Risiken ausgesetzt, die aus der Beteiligung an Konsortien und Joint Ventures resultieren können.

- KHD ist unversicherten Risiken ausgesetzt, die aus der globalen Tätigkeit von KHD resultieren.

- KHD ist Ausfallrisiken von Vertragspartnern und Gegenparteien ausgesetzt, die die Vermögens- und Ertragslage von KHD negativ beeinflussen könnten.

- Die Möglichkeit der KHD AG, Dividenden auszuschütten, hängt von den Erträgen der operativ tätigen Tochtergesellschaften ab.

Risiken im Zusammenhang mit dem Angebot und den Aktien

- Das Angebot könnte abgebrochen werden.
- Der Kurs der Aktien der Gesellschaft könnte volatil sein.
- Die Beteiligung der Aktionäre könnte durch weitere zukünftige Kapitalmaßnahmen der Gesellschaft verwässert werden.
- Wesentliche Aktionäre könnten bedeutenden Einfluss in der Hauptversammlung der Gesellschaft haben.
- Der zukünftige Verkauf von Aktien der Gesellschaft durch Großaktionäre könnte sich nachteilig auf den Kurs der Aktien auswirken.
- Es wird keinen organisierten Bezugsrechtshandel geben.

Zusammenfassung des jüngsten Geschäftsgangs und der Aussichten

Der Auftragseingang im dritten Quartal war außerordentlich stark. Nach dem 30. September 2010 konnte der Auftragseingang weiter erhöht werden. Für das Gesamtjahr nimmt der Vorstand einen Auftragseingang von zwischen ca. EUR 310 Millionen bis EUR 320 Millionen an.

Am 21. Dezember 2010 hat die Gesellschaft eine strategische Partnerschaft mit CATIC, einer Tochtergesellschaft der staatseigenen AVIC International Holding Coporation, geschlossen. Zusammen beabsichtigen CATIC und die Gesellschaft eine marktführende Kraft für die Errichtung von Zementanlagen durch Angebote für einen breiteren Bereich von Projekten zu werden. Das beinhaltet insbesondere Turn-key Projekte. Als Voraussetzung für die Wirksamkeit der Kooperationsvereinbarung mit CATIC haben CATIC und die Gesellschaft vereinbart, dass die mittelbare Tochtergesellschaft der CATIC, Max Glory Industries Ltd., Hong Kong, eine Beteiligung an der Gesellschaft mit dem Ziel eingehen soll, 20% des Grundkapitals der Gesellschaft zu halten. Die Beteiligung soll im Wege einer Kapitalerhöhung aus genehmigten Kapital der Gesellschaft unter Gewährung des gesetzlichen Bezugsrechts der Aktionäre in Höhe von bis zu 16.571.276 neuen nennwertlosen auf den Inhaber lautenden Stammaktien durchgeführt werden.

Der Vorstand geht davon aus, dass das Jahr 2011 bis zu einem gewissen Grade durch den geringen Auftragseingang in 2009 und durch sinkende Margen beeinflusst werden wird. Der Vorstand erwartet, dass die Umsatzerlöse für das Gesamtjahr 2010 im Bereich von ca. EUR 300 Millionen liegen werden und nimmt an, dass dieses Niveau in 2011 übertroffen werden kann.

RISK FACTORS

Investors should carefully read the following chapter on risk factors relating to KHD and the other information contained in this Prospectus and take such information into consideration. If one or more of these risks were to materialize, either individually or in connection with other circumstances, this could endanger the existence of the Company, substantially impair KHD's business, and have serious negative effects on the assets, financial condition and results of operations of KHD. In such case, the stock exchange price of the Company's shares could decline and investors could lose part or all of the capital they have invested. The risks outlined below are those risks that the Company currently believes are material. However these risks may prove not to be exhaustive and they may therefore not be the only risks to which KHD is vulnerable. There may also be other important risks and considerations of which the Company is currently unaware. The order in which these risk factors are listed is neither an indication of the likelihood of their occurrence, nor of severity or significance of specific risks.

Risks Related to the Business of KHD and Market Related Risks

The worldwide economic downturn has reduced and could continue to reduce the demand for cement plant engineering and equipment supply business and demand for KHD's products and services.

KHD's major business is the design and engineering, project management, supply, supervision of erection and commissioning of cement plants. As a consequence, KHD significantly depends on the availability of and its access to a sufficient number of new cement plant projects.

The economic crisis in 2008 and 2009 has had a significant negative impact on most segments of the world economy due to many factors including the effects of the subprime lending and general credit market crises, volatile but generally declining energy costs, slower economic activity, decreased consumer confidence and commodity prices, reduced corporate profits and capital spending, adverse business conditions, increased unemployment and liquidity concerns. The cement plant engineering and equipment supply industry is cyclical in nature. It tends to reflect and be amplified by general economic conditions, both domestically and abroad. Historically, in periods of recession or periods of minimal economic growth, the operations underlying industrial plant engineering and equipment supply companies have been adversely affected. Certain end-use markets for clinker and cement experience demand cycles that are highly correlated to the general economic environment, which are sensitive to a number of factors outside of KHD's control. If such end-use markets for clinker and cement significantly deteriorate due to economic effects, KHD's assets, financial condition and results of operations could be materially and adversely affected.

In addition, the cement plant engineering and equipment supply industry is generally subject to lengthy sales cycles which lengthen considerably in a downturn. Customers who continue to spend in a downturn may often engage in intense due diligence putting additional contractual and scope risks on to the suppliers. With an increasing sales cycle, the power of negotiation may often rest with the customer who may be considering multiple tenders and options at the same time.

Moreover, economic effects, including the resulting recession in various countries and slowing of the global economy, could result in a decrease in commercial and industrial demand for KHD's services and products, which could have a material adverse effect on KHD's financial results. In addition, during recessions or periods of slow growth, the construction industries typically experience major cutbacks in production which may result in decreased demand for KHD's products and services. Because KHD generally has high fixed costs, KHD's profitability is significantly affected by decreased output and decreases in the demand for the design and construction of plant systems or equipment that produce or process clinker and cement.

Payments by KHD's customers under a project agreement are typically made by means of a combination of advance payments and certain milestone payments depending on the progress of the project. As a result, KHD's revenue is generated predominantly from processing orders on hand and the corresponding project progress toward the completion of contracts resulting from the (recently high) demand in prior periods for cement plants according to the percentage-of-completion method. Historically, approximately 70 to 80% of order backlog has been converted into revenues within a 12-month period.

However, as a result of the crisis in the cement markets, KHD’s order intake dropped sharply to EUR 120 million in 2009 after EUR 374 million in 2008 (-67.91%) and EUR 493 million in 2007 (-24.14%). In addition, it was necessary to reduce the order backlog by EUR 62 million on account of cancellation of orders that had already been booked 2008. This lead to a computational order intake of only EUR 58 million for 2009.

KHD’s order backlog gave a similar picture in 2009. Order backlog, reduced by terminated customer contracts, at the close of 2008 was EUR 530 million after EUR 494 million at the close of 2007. On account of the low order intake and the simultaneous high level of sales, the consolidated order backlog has decreased strongly in 2009 by 59.81% to only EUR 213 million.

However, demand for KHD’s product’s and services has increased again in the nine month period ended 30 September 2010. Both order intake (EUR 227.3) and order backlog (EUR 361.3) as at 30 September 2010 rose in comparison to 31 December 2009.

Nevertheless, reduced demand for KHD’s products and services and pricing pressures could have a material adverse effect on the assets, financial condition and results of operations of KHD.

The worldwide economic downturn has resulted in the prolonging or cancellation of some of KHD’s customers’ projects and this may also negatively affect KHD’s customers’ ability to make timely payment to KHD.

Any downturn in the industrial plant engineering and equipment supply industry or in the demand for cement or other related products may be severe and prolonged, and any failure of the industry or associated markets to fully recover from a downturn could seriously impact KHD’s revenue and harm KHD’s business, financial condition and results of operations. During a downturn, the timing and implementation of some of KHD’s projects, including large projects, may be affected. Some projects may be prolonged or even discontinued or cancelled. During the downturn in 2009, previous contracts of KHD aggregating to EUR 62 million, were cancelled.

Furthermore, KHD’s customers may face deterioration of their business, experience cash flow shortages, and difficulty gaining timely access to sufficient credit, which could result in an impairment of their ability to make timely payments to KHD. A prolongation or cancellation of KHD’s customers’ projects and a deterioration of their business resulting in cancellation of contracts could have a material adverse effect on the assets, financial condition and results of operations of KHD.

The worldwide economic downturn may negatively affect KHD’s suppliers’ and contractors’ business and deteriorate their ability to perform.

KHD’s core products are mainly produced by contract manufacturers in accordance with KHD’s requirements and quality standards, and non-core products are supplied by other suppliers. Since the production of steel products is capital intensive, both contractors and suppliers require advance payments from KHD. In particular due to the worldwide economic downturn, KHD’s contractors and suppliers may face deterioration of their businesses, experience cash flow shortages, and difficulties gaining timely access to sufficient credit, which could result in production and supply delays resulting, in turn, in damage claims by KHD’s customers for non- or late delivery of equipment. Further, advance payments made to contract manufacturers or suppliers may not be fully recoverable in case of a contractor’s or supplier’s insolvency.

A deterioration of the business of contract manufacturers or suppliers of KHD resulting in production and supply delays or the inability to produce or supply at all may have a material adverse effect on the assets, financial condition and results of operations of KHD.

KHD depends on the availability of adequate means for bonding.

In order to be able to pursue its cement plant projects business, KHD depends on the availability of adequate means for so called bonding (i.e. providing advance payment, performance or warranty bonds to customers) (”**Bonding**").

KHD currently obtains Bonding under the terms of a revolving letter of guarantee facility agreement with Raiffeisen Bank International AG (“**RBI**”), formerly Raiffeisen Zentralbank Österreich AG (“**RZB”**), dated 20

November 2006 and amended from time to time, for a facility amount of up to EUR 150 million (the "**Bonding Facility Agreement**"). In addition, KHD AG (as arranger) and the subsidiaries of KHD AG intend to enter into a bonding arrangement agreement which stipulates the terms pursuant to which a security instrument (i.e. a bond) could be issued in favour of a customer under the Bonding Facility Agreement. The Bonding Facility Agreement has a term of one year ending 25 November 2011 subject to extension by mutual agreement. Since its inception, the Bonding Facility Agreement was renewed annually.

Under the Bonding Facility Agreement RBI agreed to issue security instruments, such as letters of credits, sureties, guarantees in favour of KHD AG and certain subsidiaries of KHD AG vis-a-vis their customers. KHD requires Bonding for providing advance and performance or warranty bonds in relation to any equipment to be supplied by KHD to its customers under irrevocable letters of credits provided by customers as payment security for a project. The vast majority of supply agreements concluded lead to a drawdown under the Bonding Facility Agreement automatically reducing the total amount still available for drawdowns under the Bonding Facility Agreement. The automatic reduction of facilities under the Bonding Facility Agreement may result in KHD not being able to make further business. This may significantly hamper KHD in its further developments and have a material adverse effect on KHD's results of operations.

RBI syndicated the facilities under the Bonding Facility Agreement to a syndicate of five banks which are not a party to the agreement. The facilities for Bonding are secured for one year, i.e. until 25 November 2011, and utilization rates are well below available limits.

Should KHD not be able to agree on bonding facilities in an amount sufficient for its business and should KHD not be able to negotiate favourable terms of bonding, this may have a material adverse effect on KHD's assets, financial position and results of operations.

Changes in the prices and cost of raw materials and energy could lead to a decrease in the demand for cement and, in turn, in the demand for cement plants as engineered by KHD.

KHD depends on the demand for cement plants and related equipment and services. KHD may be significantly affected by changes in the prices and cost of raw materials and energy. The prices and demand for these products and materials and energy can fluctuate widely as a result of various factors beyond KHD's control such as supply and demand, exchange rates, inflation, changes in global economics, political and social unrest and other factors. Any substantial increases in the cost of such materials or energy, or the transportation and/or availability of such materials, could adversely affect the demand for cement and other related products. If the demand for cement and other related products decreases, the demand for KHD's products and services will decrease which will in turn have a material adverse effect on the assets, financial condition and results of operations of KHD.

KHD depends on its ability to retain suppliers and any disruption in its relationships with these partners may adversely affect its business.

To a large extent KHD's business depends upon its ability to obtain adequate supplies of equipment and services from its local and international contractors and suppliers. As a result, KHD relies on the contractor's and supplier's abilities to deliver the equipment required by KHD. Due to the downturn in economic conditions or other market developments, KHD's suppliers may be experiencing operating or financial difficulties which would adversely affect their ability to fulfil their obligations to KHD, which, in turn could result in product delays and inventory challenges. In addition, some of its conractors or suppliers may even cease trading. KHD cannot be certain that it will be able to obtain quality equipment and support from alternative suppliers and contractors on a timely basis if its existing suppliers are unable to satisfy its requirements. This could lead to an interruption in KHD's operations, and may adversely affect its financial position and results of operations.

KHD has undertaken an internal restructuring program regarding its business and organisational structure to improve the profitability, competitiveness and efficiency of its business. This restructuring program may not result in the expected benefits, which may have a material adverse effect on KHD's operating results.

In 2009, together with a number of other measures KHD has fundamentally restructured its business and organisational structure with a view to improving profitability, competitiveness and efficiency of its global business. KHD services its customers through four Customer Service Centers ("**CSC**") in India, EMEA, Americas and

Russia/CIS. Global functional management and standardized processes and work methods are provided by the headquarters in Cologne to the CSC. A matrix organisation structure is in operation with each CSC supported and monitored by central functions.

Parallel to this, KHD is implementing an Enterprise Resource Planning system ("**ERP**") to harmonize all of its business processes. This is expected to provide KHD with more transparency regardless of location, and will support KHD in offering standardized products and services worldwide. This should enable KHD to deliver faster and more reliable data for global reporting and allow it to more effectively manage global and regional customers.

However, there is a risk that the internal changes and the integrated ERP system may not result in the expected cost and organisational benefits for KHD. The implementation of the ERP system may also involve higher costs or a longer timetable than KHD currently anticipates. Any of these risks materialising could have a material adverse effect on the assets, financial condition and results of operations of KHD.

Failure to manage KHD's market, product and service portfolio effectively and to develop an effective marketing and sales strategy to leverage market position in key geographical regions may adversely affect KHD's financial condition and results of operations.

KHD has a diversified portfolio of products and services and operates in a global market. Failure to manage this portfolio effectively could have a material impact on KHD's business. KHD conducts regular reviews of its market, product and service portfolio balance, as appropriate, and considers numerous factors, including market weighting, geographical weighting and political risk. Nevertheless, KHD may still be exposed to risks such as shifts in the demand for KHD's products and services in certain geographies; losing market share or presence; adverse changes in the business environment; increased taxes; and government regulation. In order to avoid such risks, KHD will have to successfully develop and implement a marketing and sales strategy. This marketing strategy includes opportunity identification, identifying customer requirements, targeting opportunities and quality projects that fit within KHD's strategy. Failure to successfully develop and implement a marketing and sales strategy and inability to leverage its market position in strategically important countries could have a material adverse effect on the assets, financial condition and results of operations of KHD.

Failure to successfully deliver and execute projects in line with established project and business plans may adversely affect KHD's results of operation and financial condition.

Since KHD's business is based on large projects it faces certain risks which are imminent to the project business.

The principal risk for project execution includes failure to complete the project on time owing to unforeseen construction problems which may result in significant additional costs. In addition, the plant or equipment constructed may not be able to handle the contracted volumes and quantities of product required by the customer because of design errors or mistakes in manufacturing or construction. These risks, if they materialise, may require KHD to pay penalties under the terms of the customer contract. KHD may also be faced with non-conformance of the plant and equipment it supplies which may lead to claims by the customers against it. In addition, KHD may face warranty claims in connection with the industrial and engineering products and services that it provides. If KHD receives a significant number of warranty claims or claims for liquidated damages or non-performance of equipment, then KHD's resulting costs could be substantial and it could incur significant additional legal expenses evaluating or disputing such claims.

The delivery of projects is also subject to health, safety and environmental risks. Execution of projects may also be unsuccessful due to failure to comply with local legal and regulatory requirements; equipment shortages; availability, competence and capability of human resources and contractors; and mechanical and technical difficulties. Some projects may also require the use of new and advanced technologies, which can be expensive to develop, purchase and implement and which may not function as expected.

KHD's future revenues and profits are, to a significant extent, dependent upon successfully executing projects and therefore, on KHD's reputation with customers. Failure to execute projects successfully may impact KHD's ability to win new projects and therefore impact its future business even more.

Should KHD fail to successfully deliver and implement major projects in line with project and business plans, this could have a material adverse effect on the assets, financial condition and results of operations of KHD.

KHD is subject to risks associated with changing technology and manufacturing techniques, which could place it at a competitive disadvantage.

The successful implementation of KHD's business strategy requires it to continuously evolve its existing products and services and introduce new products and services to meet customers' needs. KHD's designs and products are characterized by stringent performance and specification requirements that mandate a high degree of design and engineering expertise. KHD believes that its customers rigorously evaluate its services and products on the basis of a number of factors, including quality, price competitiveness, technical expertise and development capability, innovation, reliability and timeliness of delivery, product design capability, operational flexibility, customer service, as well as overall management. KHD's success depends on its ability to continue to meet its customers' changing requirements and specifications with respect to these and other criteria. There can be no assurance that KHD will be able to address technological advances or introduce new designs or products that may be necessary to remain competitive and meet customer's requirements within the industrial plant engineering and equipment supply business. Should KHD fail to do so this could have a material adverse effect on its assets, financial condition and results of operations.

Failure to attract, motivate and retain skilled personnel may have a material adverse effect on KHD's business and results of operations.

KHD's performance and ability to identify and capture opportunities and mitigate significant risks, as well as the development of new technology, depends on the skills and efforts of its employees and management teams. It is difficult to retain existing skilled staff or find new employees with the necessary specialized knowledge and skills for many key positions in KHD, especially for management, sales and research and development. Competition for qualified employees has increased in recent years, and could increase even more in the future. Nevertheless, KHD recently had to reduce the level of employees. KHD believes that the specialised knowledge held by employees in key positions makes them attractive to competitors or other employers. As a result, KHD's future success will depend to a large extent on its continued ability to attract, retain, motivate and organize highly skilled and qualified personnel. This in turn will be impacted by competition for human resources. In addition, in the course of the Restructuring KHD may lose additional highly skilled personnel.

Loss of the services of key people, or an inability to attract and retain employees with the right capabilities and experience, could have a material adverse effect on the assets, financial condition and results of operations of KHD.

Failure to implement effectively the strategy for KHD may have a material adverse effect on its business and operations.

KHD's future direction and success depends on the constant review, development and implementation of an appropriate business model and strategy that is aligned with the current business environment, needs of customers and the strengths of the Company. The development, communication and implementation of the strategy will depend on generating sustainable options for the future and alignment between the various stakeholders of KHD.

In particular KHD's strategy to break into the Chinese market by way of the cooperation with CATIC may not be successful. The cooperation is subject to the implementation of the Preliminary Subscription Agreement with MGI, as concluded on 21 December 2010, and may thus either not become effective or may not be implemented as intended. In such case management capacities would have been allocated inefficiently and costs in relation to the preparation and implementation of the cooperation, e.g. advisers' cost and travel expenses may have been spend useless.

Failure to effectively implement KHD's strategy may have a material adverse effect on the assets, financial condition and results of operations of KHD.

KHD operates in a highly competitive environment and the worldwide downturn could increase competition in its industry even further.

The markets for KHD's products and services are highly competitive in terms of pricing, service and quality. KHD's primary competitors are international companies with greater resources, capital and access to information than KHD. Its competitors include entities who provide industrial and process engineering services and/or products related to cement technology, including feasibility studies, raw material testing, basic and detail plant and equipment engineering, financing concepts, construction and commissioning, and personnel training. KHD faces intense competition from a number of significant competitors. In particular, Chinese companies, which usually have a significant cost advantage, have become stronger in recent years especially in certain markets such as Africa.

KHD's competitors also may implement new technologies before it does, thereby allowing them to offer more attractively priced or enhanced products, services or solutions, or they may offer other incentives that it does not provide. KHD may also encounter increased competition from new market entrants, alternative technologies or evolving industry standards. Technological change could also result in shorter life-cycles for plant and equipment, thereby increasing the risk in all product investments. Increased competition may also lead to a decline in the demand for KHD's products and services and a decrease in market share which, in turn, could have a material adverse effect on its assets, financial condition and results of operations of KHD.

In addition, due to the current economic downturn, some of KHD's competitors may become more aggressive in their pricing practices. This could force KHD to reduce prices or result in a loss of new business which, in turn, could adversely impact KHD's gross margin and have a material adverse effect on its assets, financial condition and results of operations.

KHD is exposed to political, operational and other risks in various countries due to its global operations.

KHD operates on a global basis, in both developed and, in particular, emerging or developing countries. In addition to the business risks inherent in developing a relationship with a newly emerging market, economic conditions may be more volatile, legal and regulatory systems less developed and predictable, and the possibility of various types of adverse governmental action more pronounced.

In addition, civil unrest and labour problems in such countries could affect KHD's business and results of operations. KHD's operations could also be adversely affected by acts of war, terrorism or the threat of any of these events, as well as government actions such as expropriation, controls on imports, exports and prices, tariffs, new forms of taxation or changes in fiscal regimes and increased government regulation. KHD also faces the risk that exchange controls or similar restrictions imposed by foreign governmental authorities may restrict its ability to convert local currency, received or to take other currencies out of those countries. The aforementioned unexpected or uncontrollable events or circumstances in any of these markets could have a material adverse effect on KHD's assets, financial condition and results of operations.

In some countries KHD may be exposed to risks relating to conduct, ethics, corporate responsibility and anti-competitive practices. Failure to implement KHD's code of conduct and ethics in day-to-day operations could have a material impact on KHD's business.

KHD's code of conduct defines KHD's philosophy and underpins corporate responsibility and ethical practice throughout the organisation. Employees of KHD are generally obliged to implement and follow this code of conduct. Moreover, KHD is operating in regions which present challenges to its firm commitment to make the code of conduct central to doing business. The failure to implement or comply with the code of conduct and ethics and/or any investigations by state authorities relating to conduct, ethics, corporate responsibility and anti-competitive practices could impact KHD's reputation and could have a material adverse effect on its assets, financial condition and results of operations.

KHD may not be able to protect the confidential or unique aspects of its proprietary technology, which would harm its competitive position.

KHD relies on a combination of patents and patent applications, trade secrets, confidentiality procedures and contractual provisions to protect its technology. Despite KHD's efforts to protect its technology, unauthorized parties may attempt to copy aspects of the products it designs or builds or to obtain and use information that it regards as proprietary. Policing unauthorized use of KHD's technology and products is difficult and expensive. In addition, KHD's competitors may independently develop similar technology or intellectual property. If KHD's technology is copied by unauthorized parties or if its competitors independently develop competing technology, KHD may lose existing technological positions and customers and its business may suffer.

Moreover, whilst KHD has been issued a large number of patents and other patent applications are pending, there can be no assurance that any of these patents or patent applications will not be challenged, invalidated or circumvented, or that any rights granted under these patents will in fact provide competitive advantage to KHD. Should any of these risks materialize, this could have a material adverse effect on the assets, financial condition and results of operations of KHD.

KHD could be exposed to infringement of third party intellectual property rights.

The development of products and introduction of new products and technologies in the industry is often done in competition with other competitors. Despite gaining patent rights in a particular geography, it is thus possible that KHD's products might infringe third party intellectual property rights. If a third party brings a successful infringement claim against KHD, the financial consequences can be an award of damages to compensate the third party for the unauthorized use of its intellectual property or an "account of profits" which strips KHD of any profits it has made through the unauthorized use of the intellectual property. There is also the possibility of a court granting an injunction, i.e. an order prohibiting further use of the products infringing the intellectual property. If the intellectual property is part of a key system or core product, the business impact on KHD could be significant. Moreover, KHD usually warrants in its supply agreements with customers that the equipment supplied to the customer does not infringe third party's intellectual property rights. A breach of such warranty could lead to a claim for damages by the customer against KHD. Any infringement of intellectual property rights of third parties, including alleged infringements, could therefore have a material adverse effect on the assets, financial condition and results of operations of KHD.

As a result of shareholder actions the Company's financial statements for the financial years 2002 to 2004 could be held void.

A shareholder has brought actions against the Company for declaratory judgment of nullity, alternatively for declaratory judgment of invalidity of the Company's approved financial statements as of 31 December 2002 and 31 December 2003 as well as for declaratory judgment of nullity of, or alternatively to rescind, the resolutions passed at the general shareholders' meeting of 29 September 2004 to give formal approval to the actions of the executive board and to three members of the supervisory board for the business year of 2003. Further, the same shareholder filed an action for declaratory judgement of nullity of the Company's approved financial statements as of 31 December 2004 on 28 November 2005 based on the same arguments (as described in the next paragraph). The regional court (*Landgericht*) of Cologne on 13 January 2006 suspended the proceedings pending final decision in the above proceedings.

The subject matter of these actions were fees in the amount of EUR 1,206,000 ("**Placing Fee**") and EUR 1,914,000 ("**Merchant Banking Fee**") paid by the Company to MFC Corporate Services AG, Herisau, Switzerland (formerly MFC Merchant Bank S.A.) which at that time was a shareholder of the Company, at the end of 2002 for placing the capital increase in December 2002 and the provision of merchant banking services. The plaintiffs claimed that, as a refund of contributions, these payments were unlawful and that said financial statements were undervalued because a corresponding claim for refund had not been recognized. By judgment of 4 November 2005 the regional court (*Landgericht*) decided that the Merchant Banking Fee was an unlawful repayment of share capital and the financial statements thus null and void and the resolutions passed at the general shareholders' meeting of 29 September 2004 to give formal approval to the actions of the executive board and to three members of the supervisory board for the business year of 2003 were null and void. The Company has lodged an appeal against this judgment with the higher regional court (*Oberlandesgericht*) of Cologne on 15 December 2005.

With regard to the pending action, the Company expects that its appeal will be successful. The decision is still pending due to various postponements.

It cannot be ruled out that the higher regional court (*Oberlandesgericht*) of Cologne confirms the judgment of the regional court (*Landgericht*) of Cologne for the declaratory judgment of nullity of the financial statements as of 31 December 2002 and 2003 and the regional court (*Landgericht*) of Cologne rules in favour of the claimant and holds the Company's financial statements as of 31 December 2004 null and void. The respective financial statements would then have to be corrected and reapproved. Based on the regional court ruling, the Company had already booked an account receivable from MFC Corporate Services AG the amount of the Merchant Banking Fee and asserted this claim against MFC Corporate Services AG.

The incorrectness and retroactive correction of financial statements of the Company could have a material adverse effect on the assets, financial condition and results of operations of KHD and could harm the Company's reputation on the capital market which could have a negative impact on the Company's share price.

A subsidiary of the Company is party to several lawsuits regarding infringement of utility rights and patents.

Claudius Peters Technologies GmbH filed two claims with the regional court (*Landgericht*) of Düsseldorf for infringement of utility models by KHD GmbH, the direct subsidiary of KHD AG, relating to the PYROFLOOR® Cooler. In each case KHD GmbH filed a counter-claim against Claudius Peters Technologies GmbH with the regional court (*Landgericht*) of Düsseldorf seeking an order against Claudius Peters Technologies GmbH to approve the registration of KHD GmbH as joint applicant, concession of right of KHD GmbH to use the utility models and various European and national patents relating to the utility models based on the assignation of rights in connection with the invention by a joint inventor to KHD GmbH on 8/18 September 2009. The joint inventor further approved all past and future actions by KHD GmbH in connection with the PYROFLOOR® Cooler. The regional court (*Landgericht*) of Düsseldorf suspended the proceedings pending decision in parallel proceedings. KHD GmbH applied for resumption of the proceedings.

These parallel proceedings relate to a request to nullify the utility models in question initiated by KHD GmbH on 17 November 2005 with the German Patent and Trademark Office (*Deutsches Patent- und Markenamt*). The German Patent and Trademark Office granted the request by KHD GmbH in 2008 and Claudius Peters Technologies GmbH appealed the decision. The appeal was rejected by the German Patent and Trademark Office in May 2010.

Moreover, the European Patent Office granted an European patent for Claudius Peters Technologies GmbH on 9 January 2010. The opposition against the European patent by KHD GmbH was rejected by the European Patent Office on 30 September 2010. KHD GmbH is entitled to file an appeal against the decision and is planning to file an appeal in due time.

Furthermore, Claudius Peters Technologies GmbH filed an opposition against the walking floor European patent of KHD GmbH. Its opposition was also rejected by the European Patent Office and it is entitled to appeal such decision.

Should Claudius Peters Technologies GmbH ultimately be successful with its action for infringement of its utility models to the regional court (*Landgericht*) of Düsseldorf, the Company may be prohibited from further using the technology underlying the PYROFLOOR® Cooler, may be required to pay damages to the claimant compensating it for the unauthorized use of its utility right or pay an "account of profits" which strips KHD of any profits it has made through the unauthorized use of the PYROFLOOR® Cooler. The Company has set up a provision in an amount it deems sufficient to satisfy any damage claims by Claudius Peters Technologies GmbH. Any of these rulings could have a material adverse effect on the assets, financial condition and results of operations of KHD.

KHD could be subject to additional tax payments.

Starting in 2009, a tax audit with regard to corporate income tax, trade tax, value added tax and wage tax covering the years from 2005 to 2007 was carried out at KHD AG. The periods which were covered by this tax audit included, inter alia, the sale of the shares in the Sold Subsidiaries of KHD GmbH to KIA GmbH as at 31 December 2005 and the payment by KHD of the Merchant Banking Fee for services to MFC Merchant Bank S.A., Switzerland, which are both subject of actions by shareholders (see *"Risk factors - Risks Related to the Business of KHD and Market Related Risks - As a result of shareholder actions the Company's financial statements for the financial years 2002 to 2004 could be held void."*). This tax audit finally led to an additional payment of KHD in the amount of TEUR 2.167. Based on this assessment KHD took the relevant measures in coordination with the tax authorities to avoid further additional tax payments in the future. However, it cannot be excluded that in the future tax authorities will change their view on the tax assessment of KHD and that KHD will be subject to further additional tax payments retroactively. This also applies in particular to taxes payable abroad, which can be influenced, among other things, by the transfer pricing system that exists between the Company and its subsidiaries. In addition, it cannot be ruled out that future tax audits with respect to as yet unaudited assessment periods or tax types could lead to additional tax liabilities for KHD.

KHD is exposed to risks associated with consortiums and joint ventures.

KHD regulatory performs its services in a consortium with other suppliers who are experts in their respective field of business in order to offer a customer all of the services it requires. Such suppliers may, in particular, be suppliers of electrical work or suppliers of specific equipment not offered by KHD. As the consortium leader, KHD would be the contracting party of the supply contract with the customer. Usually each consortium partner is fully responsible for its proportionate share of supplies and/or services, and in particular for damage caused by that partner. However, as a consortium leader KHD is ultimately liable for the fulfilment of all obligations under the supply contract vis-a-vis the customer. In this regard, KHD may not be able to fully take recourse against the relevant consortium partner.

Furthermore, KHD's business activities are conducted to a minor extent with joint venture partners. KHD is indirectly partner of a joint venture in Russia the purpose of which is to develop the Russian and CIS cement plant and equipment market. However, KHD cannot rule out future arrangements with joint venture partners in other regions or for different purposes. Such joint ventures may be conducted under the day-to-day management of these joint venture partners, and may therefore be subject to risks that are outside the control of KHD.

In addition, relationships with joint venture partners and partners in consortiums may deteriorate or end up in litigation, thereby blocking the business activities of the joint venture company or the consortium.

Should any of the risks associated with consortiums or joint ventures materialize, they may have a material adverse effect on the on the assets, financial condition and results of operations of KHD.

KHD is exposed to uninsured risks as part of its global business.

KHD maintains an insurance programme to mitigate significant risks which, as is consistent with good industry practice, includes cover for physical damage, removal of debris, pollution and employer's and third-party liabilities. Nevertheless, some of the risks involved in the KHD's Group's activities cannot, or may not, reasonably and economically be insured. The programme is subject to certain limits, deductibles, and terms and conditions. In addition, insurance premium costs are subject to changes based on the overall loss experience of the insurance markets accessed. Should it turn out that KHD is not sufficiently insured against a certain risk and such risk materializes, this could have a material adverse effect on its assets, financial condition and results of operations.

KHD is exposed to various counterparty risks which may adversely impact its financial position and results of operations.

The challenging credit environment since 2008 has highlighted the importance of governance and management of credit risk. KHD's exposure to credit risk takes the form of a loss that would be recognized in the event that counterparties failed, or were unable to, meet their payment obligations. Such risk may in particular arise in certain agreements in relation to amounts owed for physical product sales, the use of derivative instruments and the investment of surplus cash balances. The current credit crisis could also lead to the failure of companies in KHD's sector, potentially including partners, contractors and suppliers.

KHD has exposure to the financial condition of its various lending, investment and derivative counterparties. With respect to derivative counterparties, KHD is periodically party to derivative instruments to hedge its exposure to foreign currency exchange rate fluctuations. As of 30 September 2010, KHD was party to foreign currency contracts with a notional value of approximately EUR 10.6 million. The counterparties to these contracts are commercial banks. On the maturity dates of these contracts, the counterparties are potentially obligated to pay KHD the net settlement value. If any of the counterparties to these derivative instruments were to liquidate, declare bankruptcy or otherwise cease operations, they may not satisfy their obligations under these derivative instruments. In addition, KHD may not be able to cost effectively replace the derivative position depending on the type of derivative and the current economic environment. If KHD was not able to replace the derivative position, KHD would be exposed to a greater level of foreign currency exchange rate risk which could lead to additional losses.

With respect to lending and investment counterparties, current market conditions may increase counterparty risks related to KHD's cash equivalents, restricted cash, short-term cash deposits, receivables and equity securities. To the extent monies were not transferred to KIA GmbH as treasurer of KHD Ltd.'s group in the past, KHD has deposited its cash and cash equivalents (including restricted cash) and term deposits with reputable financial institutions with high credit ratings. As at 30 September 2010, KHD had cash and cash equivalents aggregating EUR 157.1 million with one bank in Austria. If any such counterparties are unable to perform their obligations, KHD may, depending on the type of counterparty arrangement, experience a significant loss of liquidity or a significant economic loss. Changes in the fair value of these items may adversely impact KHD's assets, position and results of operations.

KHD AG's ability to distribute dividends depends on profits from operating subsidiaries.

The decision to distribute future dividends will be made by the Company's general shareholders' meeting. The decision is always dependent on the circumstances at the time, including the Company's results of operations, financial and investment needs, the availability of distributable reserves and other relevant factors. These factors may restrict the Company's general shareholders' meeting ability to distribute dividends. In certain situations, the Company may distribute either no dividend or a dividend that is small relative to the sector as a whole.

Since KHD AG performs no operating activities, its ability to pay dividends depends in particular on whether profits from its operating subsidiaries are distributed to its subsidiary KHD GmbH and from KHD GmbH to KHD AG. No profit transfer agreement exists between KHD AG and KHD GmbH and any of its operating subsidiaries.

Risks Related to the Offering and the Shares

The Offering may be cancelled

The Company entered into a Subscription Agreement with the Sole Lead Manager on 23 December 2010. The Subscription Agreement provides that both the Sole Lead Manager and the Company may rescind this agreement under certain circumstances. If the Subscription Agreement is rescinded, the Capital Increase will not be implemented.

Morover, the primary purpose of the Offering is to make available to MGI, subject to sufficient New Shares being available after the end of the Subscription Period, 20% of the Company's Shares (the Targeting Amount) on the basis of the number of existing Shares after implementation of the Capital Increase in accordance with the Preliminary Subcription Agreement between the Company and MGI. If this purpose may not be reached due to subscriptions in excess of the amount which may be the maximum amount in order to allow for the Company offering to MGI the Targeting Amount, the executive board will not implement the Capital Increase.

In both cases, no claim for delivery of New Shares exists. Claims relating to any subscription fees already paid and costs incurred by any investor in connection with the subscription will be governed solely by the legal relationship between the investor and the institution to which the investor submitted its order. Any investors who have made "short sales" would bear the risk of being unable to cover their positions.

The price of the Company's shares could be volatile.

Due to, *inter alia,* fluctuations in actual or predicted results; changes in profit prognoses and/or a failure to meet the expectations of securities analysts; changes in overall economic conditions, particularly in the stock market of developing countries or in the general stock market; or as a result of other factors the exchange price of the Company's shares may be subject to fluctuations. The general volatility of share prices could also put pressure on the Company's shares, even if this is not directly related to the Company's business, its assets, financial and profit situation or its business prospects.

Shareholders' interests in the Company could be diluted as a result of the issuing of further shares by the Company.

In the future, the Company may be required to raise additional capital in order to finance its business and planned growth. The issuing of new shares pursuant to a resolution of the general shareholders' meeting may result in a substantial dilution of the shareholders' interests in the Company's share capital. This also applies to the exercise of any convertible or bonds with warrants, if issued, the acquisition of other enterprises or equity interests in other enterprises against the issue of new shares in the Company and other measures affecting the Company's capital.

Major shareholders may have a considerable influence in the general shareholders' meeting.

Generally, any major shareholder of the Company may be in a position to exercise considerable influence in the general shareholders' meeting of the Company, and consequently on proposals presented to the general shareholders' meeting for approval, including resolutions which require a majority of 75% of the votes cast in a general shareholders' meeting. This may in particular be the case if on a shareholders' meeting the presence of shareholders is low so factual influence a major shareholder may be higher than it would be the case if all shareholders were present.

Currently, TNRC holds 21.86% of the Company's Shares and thus may have considerable influence in the shareholders' meeting. However, upon completion of the Distribution of the Sahres, presumably on 31 December 2010, as announced by TNRC on 15 November 2010, TNRC will cease to be a shareholder of the Company.

Upon implementation of the Capital Increase, MGI will hold 20% of the Company's share capital. Further, pursuant to the Preliminary Subscription Agreement, it is intended that one third of the new supervisory board, consisting of six board members, shall be nominated by MGI and the Company, to the extent legally permitted, will support the appointment of one additional member of the executive boad nominated by MGI. Accordingly, MGI may have a considerable influence on the Company.

According to the Preliminary Subscription Agreement, MGI represents and warrants to the Company that it will not, and CATIC, its parent company and the subsidiaries of the parent company (collectively, the "Related Parties") will not acquire any Shares if such acquisition would result in it or any of the Related Parties holding alone or together with it or amongst each other more than 29% of the share capital of the Company for a period of 12 months following the registration of the implementation of the Capital Increase. Should, however, CATIC, disobeying this obligation, or any Related Party purchase further Shares, CATIC's influence in the general shareholders' meeting will be broadend and may become even more material.

This influence of both TNRC and MGI, respectively, on the decisions of the Company's general shareholders' meeting could be seen critical by investors which, in turn, could have an adverse effect on the share price of the Company's Shares.

A future sale of Shares in the Company by the major shareholders could have an adverse effect on the price of the Company's Shares.

The Company's share price could be materially adversely affected by a potential share sale by MGI after completion of the Lock-In period (29 months after registration of the implementation of the Capital Increase or prior termination of such period in certain events as provided for in the Preliminary Subscription Agreement) or in case MGI disobeys its obligation under the Preliminary Subscription Agreement according to which the Lock-In period was agreed. Such actions could have material adverse effects on the stock exchange price of the Company's shares, and consequently also render a potential further capital raising on the part of the Company more difficult.

Since the free float, and consequently also the daily number of KHD AG shares traded, is low, a future sale of KHD AG shares by the major shareholders may result in sharp moves in the price of the Shares.

There will be no organized subscription rights trading.

Though subscription rights are generally freely transferable, neither the Company nor the Sole Lead Manager is organizing trading of the subscription rights. As a consequence, it is impossible to buy or sell the subscription rights through the stock exchange as part of organized subscription rights trading in the regulated market. Unexercised subscription rights and fractional amounts of New Shares resulting from individual share positions will be booked out as worthless from the depository account of the relevant shareholder.

GENERAL INFORMATION

Responsibility for the Content of the Prospectus

KHD Humboldt Wedag International AG, Colonia-Allee 3, 51067 Cologne, Germany and Lang & Schwarz Broker GmbH, Breite Strasse 34, 40213 Düsseldorf, Germany ("**Lang & Schwarz**") assume responsibility for the content of this securities prospectus (the "**Prospectus**") pursuant to section 5 para. 4 of the German Security Prospectus Act (*Wertpapierprospektgesetz* "**WpPG**") and declare that, to the best of their knowledge, the information contained in this Prospectus is in accordance with the facts and that no material information has been omitted. They further declare that, having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus is, to the best of their knowledge, in accordance with the facts and contains no omissions likely to affect its import.

In the event claims are asserted before a court of law based on information contained in this Prospectus, the investor appearing as plaintiff may be required to bear the costs of translating the Prospectus prior to the commencement of legal proceedings in compliance with the national laws of the individual Member States of the European Economic Area.

Subject Matter of the Prospectus

The subject matter of this Prospectus is the public offering in Germany and Luxembuorg of 16,571,276, no-par value ordinary bearer shares (shares without nominal value, *Stückaktien*) of KHD AG each with a notional value of EUR 1.00 per share in the share capital and with full dividend rights as of 1 January 2010 (No. 33,142,552 to 49,713,828) (the "**New Shares**") from the capital increase against cash contributions with subscription rights from EUR 33,142,552 by up to EUR 16,571,276 to up to EUR 49,713,828 resolved by the executive board on 21 December 2010 with consent by the supervisory board granted on the same day (the "**Capital Increases**") and the admission of up to 16,571,276 New Shares to trading on the regulated market (*regulierter Markt*) (General Standard) of the Frankfurt Stock Exchange.

The implementation of the Capital increase is expected to be registered with the commercial register on 18 February 2011.

The Prospectus will be published on the Company's website at (www.khd-hv.com and www.khd.com). The Prospectus will also be available in printed form free of charge during regular business hours from the Company and Lang & Schwarz as of 29 December 2010.

Forward-looking Statements

This Prospectus contains certain forward-looking statements. Forward-looking statements concern future facts, events and other circumstances that are not historical facts. This applies especially to statements in this Prospectus concerning the future financial performance of KHD, plans and expectations relating to the business of KHD, its growth and profitability, as well as the economic environment to which KHD is subject, as well as in relation to general and industry-specific market developments, technical developments and other general conditions that are relevant to business operations. Expressions such as "anticipate", "assume", "intend", "plan", "estimate", "aimed at" and "expected" are indicative of such statements. Forward-looking statements are based on the present estimates and assessments with respect to future events made by the Company according to the best of its knowledge at the present time. They are therefore subject to risks and uncertainties. The forward-looking statements in this Prospectus relate, *inter alia,* to:

- the implementation of the Company's strategic plans and the impact of these plans on the financial condition and results of operations of KHD;
- the development of competitors and the competitive situation;
- the Company's expectations with respect to the impact of economic, operational, legal and other risks relating to the business of KHD;

- other statements relating to the future business performance of KHD and general economic trends and developments.

These forward-looking statements are based on current plans, estimates, forecasts and expectations of the Company and on certain assumptions, which, although the Company believes them to be reasonable at the present time, may prove to be incorrect. Numerous factors could cause the Company's actual development, performance or earnings generated to differ materially from the development, performance or earnings expressly or implicitly assumed in the forward-looking statements.

Should any one or more of these changes, risks or uncertainties occur or should the Company's underlying assumptions prove incorrect, it cannot be ruled out that the actual results will differ materially from those described in this Prospectus as "assumed", "planned", "intended", "estimated", "aimed at" or "expected". This could operate to prevent the Company from achieving its financial and strategic objectives. Therefore, neither the Company nor its executive board nor Lang & Schwarz can assume responsibility for the future accuracy of the opinions presented in this Prospectus or for the actual occurrence of the developments forecast herein.

The same applies to the forward-looking statements and projections from studies prepared by third parties that are cited in this Prospectus (see also "*Sources of Market Data and Information from Third Parties*").

The Company does not intend to update the forward-looking statements or the industry and customer information set forth in this Prospectus beyond that which is required by law.

Sources of Market Data and Information from Third Parties

This Prospectus includes industry, market and customer data, as well as calculations taken from industry reports, market research reports, generally available information, commercial publications and other studies by third parties ("**External Data**"). External Data was used in particular for information concerning markets and market developments. This Prospectus also contains assessments of market data and information derived there from, which is not ascertainable from publications of market research institutes or from any other independent sources. Such information is based on the Company's internal assessments based on the many years of experience and expertise of its management and staff, evaluations of industry information (from trade journals, trade fairs, meetings) or Company-internal assessments and may therefore differ from estimates of KHD's competitors or future surveys by market research institutes or other independent sources.

Other assessments, by contrast, are based on published information or figures from external publicly available sources. These are the following studies:

- OneStone Intelligence GmbH, Cement Projects Focus 2013, Market Report, November 2009 ("OneStone Intelligence, 2009");

- International Monetary Fund, World Economic Outlook, October 2010 ("IMF, World Economic Outlook, October 2010");

- Portland Cement Association, Cement Outlook 2009 — 2014, Presentation, PCA Fall Board Meeting, October 2009 (Ed Sullivan, Chief Economist PCA) ("PCA, Cement Outlook 2009-2014, October 2009").

The majority of the market information contained in this Prospectus is a condensation of information derived by the Company on the basis of various studies. Specific studies were cited only in those cases where the relevant information could be taken directly from such study. The remaining assessments of the Company are based on internal sources unless expressly indicated otherwise in this Prospectus.

Industry and market research reports, publicly available sources and commercial publications generally indicate that, while the information contained therein stems from sources that are assumed to be reliable, the accuracy and completeness of such information is not guaranteed and the calculations contained therein are based on a number of assumptions. Consequently, these caveats also apply with respect to this Prospectus. Neither the Company nor Lang & Schwarz has verified the accuracy of External Data.

The Company has sourced information from third parties. It confirms thath this information has been accurately reproduced and that as far as the Company is aware and is able to ascertain from information published by that party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

Documents Available for Inspection

While this Prospectus is in effect, the following Company related documents are available for inspection during regular business hours at KHD Humboldt Wedag International AG, Colonia-Allee 3, 51067 Cologne, Germany:

- the Company's Articles of Association;
- the unaudited consolidated interim financial statements (IFRS) of the Company as at and for the period from 1 Januar 2010 to 30 September 2010;
- the audited consolidated financial statements (IFRS) of the Company as at and for the financial years ended 31 December 2009, 2008 and 2007
- the audited financial statements (HGB) of the Company for the financial year ended 31 December 2009.

Future annual and interim reports of KHD AG will be available at the offices of the Company, as well as on its website www.khd-hv.com and www.khd.com.

Note on Financial Data, Currency and Numerical Information

Investors should note that the Company's English language consolidated financial statements (IFRS) as at and for the years ended 31 December 2009, 2008 and 2007 contained in this Prospectus are translations of the audited German language consolidated financial statements and the Company's English language consolidated interim financial statements (IFRS) of the Company as at and for the period from 1 Januar 2010 to 30 September 2010 are translations of the unaudited German language consolidated interim financial statements.

All information with respect to currencies in this Prospectus, to the extent not otherwise indicated, refers to EUR. To the extent that numbers are reported in another currency, this is expressly indicated with respect to the number in question by identification of the corresponding currency or by the currency symbol. Amounts used in industry reports may have been based on different exchange rates.

Numerical figures contained in this Prospectus in units of thousands, millions or billions as well as percentages relating thereto have been rounded off in accordance with standard commercial practice. Due to rounding, totals or sub-totals contained in tables may differ minimally from the figures provided elsewhere in this Prospectus, which have not been rounded off. In addition, due to rounding differences, individual numbers and percentages may not add up exactly to the totals or sub-totals contained in tables or mentioned elsewhere in this Prospectus.

THE OFFERING

Subject Matter of the Offering

The offering (the "**Offering**") relates to 16,571,276 no-par value ordinary bearer shares (*Stückaktien*) each with a notional value of EUR 1.00 per share in the share capital of the Company and with full dividend rights as of 1 January 2010 from the Capital Increase against cash contributions with subscription rights (the "**Subscription Offer**") resolved by the executive board on 21 December 2010 with consent by the supervisory board granted on the same day. The implementation of the Capital Increase is expected to be registered with the commercial register on 18 February 2011.

The Offering consists of a public offering to shareholders of the Company in the Federal Republic of Germany and Luxembourg.

New Shares not subscribed for by the shareholders of the Company in an amount of 20% of the share capital of the Company (calculated on the basis of the Company's share capital after registration of the implementation of the Capital Increase) will be, subject to certain agreed conditions precedents, subscribed for by Max Glory Industries Ltd., Hong Kong ("**MGI**"), an indirect subsidiary of CATIC Bejing Co., Ltd. ("**CATIC**"), a subsidiary of China's state-owned AVIC International Holding Corporation, pursuant to a preliminary subscription agreement as agreed upon between the Company and CATIC and MGI on 21 December 2010 (see *"Business Activity - Material Agreements - Preliminary Subscription Agreement with MGI"*).

On the assumption that all New Shares will be subscribed for and that the Capital Increase will be fully implemented, the share capital of the Company will amount to EUR 49,713,828 and will be divided into 49,713,828 no-par value ordinary bearer shares (*Stückaktien*) after the Offering.

The New Shares are subject to German law.

Sole Lead Manager, Subscription Agent, Settlement Agent

Sole Lead Manager and Subscription Agent is Lang & Schwarz Broker GmbH, Breite Straße 34, 40213 Düsseldorf, Germany.

Bankhaus Gebr. Martin AG, Kirchstraße 35, 73033 Göppingen, Germany will act as Settlement Agent for the Subscription Agent.

Timetable for the Offering

The expected timetable for the Offering is as follows:

29 December 2010	Approval of the Prospectus by the German Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht*) (''**BaFin**'')
	Publication of the approved Prospectus on the Company's website.
4 January2011	Publication of the subscription offer on the website of the Company and in the electronic federal gazette (*elektronischer Bundesanzeiger*)
5 January 2011	Begin of subscription period
19 January 2011	End of subscription period
20 January 2011	Ad hoc announcement on the results of the Offering
No later than 14 February 2011	Subscription of New Shares by MGI, alternatively cancellation of Capital Increase
18 February 2011	Registration of implementation of capital increase with the commercial register
21 February 2011	Admission to trading of New Shares to the regulated market (*regulierter Markt*) of

	the Frankfurt Stock Exchange (General Standard)
22 February 2011	Inclusion to trading of the New Shares into the existing trading of the Company's Shares on the Frankfurt Stock Exchange

The Subscription Offer

The following is a translated reproduction of the Subscription Offer to be published on the website of the Company, and in the electronic federal gazette (*elektronischer Bundesanzeiger*) on 4 January 2010:

*"The shareholders of KHD Humboldt Wedag International AG, Cologne (hereinafter "**KHD**" or "**Company**") are hereby presented with the following subscription offer.*

*As a result of the resolution of the shareholders' meeting on 23 March 2010, the executive board of the Company is authorised, pursuant to clause 5, para. 1 of the Company's articles of association, to increase the share capital of the Company, once or several times, by up to EUR 16,571,276.00 in total by 22 March 2015 with the consent of the supervisory board, by way of issuing up to 16,571,276 new registered no-par value shares with a proportionate share in the share capital of EUR 1.00 each against contributions in cash (**"authorised capital"**). The shareholders are entitled to the statutory subscription right. The executive board is further entitled to determine further details of the capital increases and their implementation with the supervisory board's consent. The amendment to the articles of association was registered in the commercial register of the Company on 25 March 2010.*

*The executive board of the Company decided, using the authorised capital pursuant to clause 5, para. 1 of the Company's articles of association, on 21 December 2010 with the supervisory board's consent granted on the same day to increase the existing share capital of the Company in the amount of EUR 33,142,552.00 against contributions in cash by up to EUR 16,571,276.00 by way of issuing up to 16,571,276 new registered no-par value shares with a proportional share in the share capital of EUR 1.00 each (the **"New Shares"**). The subscription right shall be excluded for fractions. The subscription price for the New Shares amounts to EUR 4.53 per share (**"Subscription Price"**). All New Shares are fully qualified for dividends as of 1 January 2010.*

The New Shares will be offered to the shareholders of the Company at a ratio of 2:1. Each holder of a subscription right may exclusively exercise his subscription right by instructing and authorising his custodian thatLang & Schwarz Broker GmbH, Düsseldorf subscribes for the New Shares, which he wishes to subscribe for due to his subscription right, in its name but for the account of the holder of the subscription right and to transfer the New Shares to the account stated in the exercise notice following registration of the capital increase.

Our shareholders are requested to exercise their subscription rights for the New Shares, to avoid being excluded from exercising their subscription right, in the period from 5 January 2011 to 19 January 2011 (in each case including) at the settlement agent, Bankhaus Gebr. Martin AG, Göppingen, acting on behalf of the subscription agent, Lang & Schwarz Broker GmbH, during normal business hours. Subscription rights not exercised in time will lapse without replacement.

In accordance with the subscription ratio, the holder can purchase one New Share at a Subscription Price of EUR 4.53 each for two registered no-par value shares.

The number of subscription rights to which each shareholder is entitled is calculated on the basis of their respective shares held upon the expiry of 4 January 2011. At such time, the subscription rights (ISIN DE000A1H32R0 / WKN A1H 32R) will be separated from the shares in accordance with the scope of the relevant subscription right, and will be automatically credited to the shareholders by Clearstream Banking AG, Frankfurt/Main, via their custodian. As of the beginning of the subscription period, the existing shares are listed as "ex subscription *right". In relation to this subscription offer, the subscription rights shall serve as proof of a subscription right for the New Shares.*

In order to exercise the subscription right, we ask our shareholders to give their custodian appropriate instructions to that effect using the exercise notice provided via the custodians.

Holders of subscription rights who would like to exercise their subscription right, also have to pay the Subscription Price of EUR 4.53 per New Share upon exercising the subscription right, however, at the latest on the last day of the subscription period, 19 January 2011 via their custodian to the issuer.

For subscription of the New Shares, the customary bank commission is charged. The decisive factor for adhering to the subscription period is that the subscription application and the Subscription Price is received by the issuer within the subscription period.

No Exchange Trading of Subscription Rights, Expiration of Subscription Rights
Trading of the subscription rights will neither be organized by the Company nor by the settlement agent and such trading is not intended. A price fixing for the subscription rights on a stock exchange was not requested. The subscription rights are freely transferable according to the applicable statutory provisions. Subscription rights, which have not been exercised, will be taken off the books worthless following the expiry of the subscription period.

Placement of Non-Subscribed New Shares
*With regard to any New Shares which have not been subscribed for under the subscription offer, the executive board reserves the right to offer such shares to. Max Glory Industries Ltd., Hong Kong, ("**MGI**"), an indirect subsidiary of CATIC Beijing Co., Ltd., Bejing a state owned company under the laws of the PRC, following the expiry of the subscription period for the Subscription Price. However, New Shares which have not been subscribed for will only be allotted to MGI if, taking into account the New Shares subscribed to within the framework of the subscription period and the hitherto issued share capital of EUR 33,142,552, divided into 33,142,552 shares, there are so many New Shares left which have not been subscribed for to allow MGI holding 20 per cent. (**"Target Participation"**) of the share capital and the voting rights (following implementation of the capital increase) following the allotment. MGI has undertaken to such subscription vis-á-vis the Company by means of an agreement dated 21 December 2011 (**"Preliminary Subscription Agreement"**). According to the Preliminary Subscription Agreement, the subscription of non-subscribed New Shares by MGI is subject to the condition precedent that, amongst others, the Target Participation is reached and all permits required under Chinese law with regard to MGI's participation in the Company are available (**"MGI Subscription Conditions"**).*

If there are not sufficient New Shares available to reach the Target Participation, the Capital Increase will not be implemented. If, following the expiry of the subscription period, more New Shares which have not been subscribed are available than necessary to achieve the Target Participation of MGI, such shares will not be offered to any third party. An over or additional subscription by shareholders beyond their subscription right is not provided for. Thus, less than 16,571,276 shares may be issued and the capital increase be implemented accordingly ("up to capital increase").

Registration of the Implementation of the Capital Increase, Delivery of the New Shares; Listing
Registration of the implementation of the capital increase in the commercial register will presumably occur once the MGI Subscription Conditions have been fulfilled, presumably by the 18 Ferbruary 2011. Following registration of the implementation of the capital increase in the commercial register, the New Shares will be presented by a global certificate which will be deposited with Clearstream Banking AG, Frankfurt/Main. The shareholders' claim for the issuance of separate certificates for their share shall be excluded, pursuant to clause 6, para. 3

of the Company's articles of association.

The New Shares which have been subscribed for will, following their securitisation and admission to trading, presumably be booked into the accounts of the shareholders by 21 February 2011.

Admission of the New Shares to the Regulated Market on the Frankfurt Stock Exchange with a concurrent admission to the sub-segment, 'General Standard', of the Regulated Market of the Frankfurt Stock Exchange was applied on 22 December 2010. Admission by the Frankfurt Stock Exchange will presumably take place on 21 February 2011. It is intended that the New Shares will be included in the hitherto quotation for the shares of the Company on 22 February 2011.

Important Notes:
The allotment and delivery of the New Shares is subject to the condition of the registration of the implemented capital increase at the latest by 8 March 2011 and to the further restrictions described below.

The executive board reserves the right to cancel or not to carry out a capital increase at any time, without being obliged to give any reasons. According to the resolution of the executive board, dated 21 December 2010, a capital increase is not carried out, the Target Participation may not be reached by MGI or MGI does not subscribe for the Target Participation.

In the case of the termination of the subscription offer before the implementation of the capital increase is registered in the commercial register, the subscription right is cancelled and exercise notices for New Shares which have already been issued become ineffective. As long as such amaounts have not been paid by Lang & Schwarz Broker GmbH yet to the Company for purposes of implementation of the capital increase,amounts already paid for the Subscription Price are repaid to the shareholders. Lang & Schwarz Broker GmbH declared to the Company that it assignes to the Company, in lieu of performance, any repayment or delivery claims against the Company in relation to amounts already paid to the Company by Lang & Schwarz Broker GmbH proportionally to the shareholders accepting the subscription offer. Shareholers accept the assignment by acceptance of the Subsciprtion Offer or by placement of the subscription order.

Should any short-selling have taken place before the New Shares are booked into the accounts of the respective buyers, the seller alone shall bear the risk that he may not be able to fulfil the obligations entered into by way of the short-selling by delivering New Shares in time.

Reference to the Securities Prospectus
*The shareholders are recommended, prior to making a decision on exercising the subscription right, to attentively read the securities prospectus prepared by the Company, dated 29 December 2010 (the "**Prospectus**") and, in particular, to consider the risks described in the Section "Risk Factors" of the Prospectus in their decision. In consideration of the currently high volatility of stock prices and the market environment, shareholders should inform themselves about the current market price of the shares of the Company before exercising their subscription rights at the Subscription Prices.*

The Prospectus was approved by the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht - BaFin) on 29 December 2010 and published by the Company on its website (www.khd.de). Hard copies of the Prospectus are available, amongst others, at KHD Humboldt Wedag International AG, Colonia Allee 3, 51067 Cologne, Germany and Lang & Schwarz Broker GmbH, Breite Strasse 34, 40213 Düsseldorf, free of charge during normal business hours.

Selling Restrictions
This subscription offer is made exclusively in accordance with German law. The subscription

offer is exclusively published to comply with compelling provisions of the Federal Republic of Germany and does not intend to make or publish an offer or a placement subject to provisions of other jurisdictions than the Federal Republic of Germany or outside of the Federal Republic of Germany.

The acceptance of the subscription offer outside of the Federal Republic of Germany may be subject to restrictions. In EEA member states, the Subscription Offer may be forwarded only to qualified investors within the meaning of article 2 para. 1 (e) of the prospectus directive. Shareholders who wish to accept the subscription offer outside of the Federal Republic of Germany are requested to inform themselves about and comply with the restrictions applicable outside of the Federal Republic of Germany. The Company in particular points to the fact that depositary banks may reject exercise notices from shareholders who are resident abroad.

*The New Shares of KHD Humboldt Wedag International AG and the related subscription rights neither are nor will be, in particular, registered pursuant to the provisions of the U.S. Securities Act of 1933 (the "**Securities Act**") (nor to the provisions of any other country) or with the securities agencies of individual states of the United States of America or Canada. Therefore, they may not be directly or indirectly offered, exercised or sold in the United States of America and Canada or directly or indirectly delivered to the United States of America or Canada, unless this occurs within the framework of transactions which are excluded from or not subject to the registration requirements of the Securities Act or similar acts in other countries.*

Cologne, January 2011

The Executive Board"

Trading of the Subscription Rights

Neither the Company nor the Sole Lead Manager have applied or will apply for inclusion to trading of the subscription rights on any stock exchange.

General and Specific Information on the Shares

The New Shares of the Company which are the subject matter of this Prospectus are vested with the same rights as all other shares of the Company and do not provide for further rights or benefits.

Voting Right

Each New Share carries one vote at the general shareholders' meeting (*Hauptversammlung*) of the Company. There are no restrictions on voting rights.

Dividend Rights, Subscription Rights and Rights to Share in the Liquidation Proceeds

The New Shares carry full dividend rights as of 1 January 2010. The annual general shareholders' meeting, which is held annually within the first eight months of each financial year, votes on the appropriation of any net profits and thus on the full or partial disbursement thereof to shareholders. The executive board and supervisory board are required to submit a proposal on the appropriation of profits, but the general shareholders' meeting is not bound by such proposal. Individual shareholders have no claim to the distribution of dividends unless the general shareholders' meeting has passed a resolution to that effect. Dividend claims become time-barred after three years. Where dividend coupons are submitted, the dividend claims become time-barred two years after the limitation period for submitting the relevant dividend coupon expires; this limitation period is four years and runs from the close of the year in which the dividend claim has fallen due. If the limitation period defence is raised, the dividends remain with the Company. Once the global certificate(s) representing the Company's shares has/have been deposited with Clearstream Banking AG, Neue Börsenstrasse 1, 60487 Frankfurt am Main, Germany ("**Clearstream**"), Clearstream will automatically credit any dividends accruing on the shares in the future to the securities account held at the respective custodian banks. Domestic custodian banks are subject to a corresponding obligation to their customers. Shareholders whose shares are held in custodial accounts at foreign institutions should inform themselves of the procedures applicable at such institutions.

In the event the Company is dissolved, the liquidation surplus remaining after discharging the Company's liabilities will accrue to the shareholders pursuant to section 271 German Stock Corporation Act (*Aktiengesetz*, "**AktG**").

The shareholders have the right to subscribe for new shares issued pursuant to any future capital increases in a ratio proportionate to the respective interest they hold in the Company's current share capital (subscription right). Subscription rights do not arise in the case of capital increases to create contingent capital; otherwise subscription rights may be excluded in certain cases by resolution of the general shareholders' meeting or, if the general shareholders' meeting so authorizes, by resolution of the executive board subject to the consent of the supervisory board. All New Shares of the Company carry the same rights.

Form and Certification of Shares

According to the Company's Articles of Association (*Satzung*), all Shares have been issued as no-par value ordinary bearer shares (*Inhaber-Stückaktien*), each representing a notional interest in the share capital of EUR 1.00. The current share capital of the Company in the amount of EUR 33,142,552 is represented by one or several global share certificates without dividend coupons, which are deposited with Clearstream. One or more additional global certificate(s) will be issued for the up to 16,571,276 New Shares from the Capital Increase. Section 6 para. 3 of the Articles of Association excludes the rights of shareholders to receive individual share certificates for their Shares. The Company may issue share certificates that represent more than one Share (so-called global certificates (*Sammelurkunden*)).

WKN/ISIN/Ticker Symbol

The securities codes for the Shares of the Company and for the New Shares are:

German Securities Identification Number (WKN):	657800
International Securities Identification Number (ISIN):	DE0006578008
Ticker Symbol:	KWG

Transferability

The New Shares are freely transferable in accordance with provisions applicable to bearer shares. With the exception of the restrictions set out in the section entitled ''*The Offering - Lock--In of MGI*'', there are no lock-up agreements or restrictions pertaining to the transferability of the New Shares.

Previous Acquisition of Shares by Members of Management, the Supervisory Board and Related Parties

In the year immediately preceding the Offering Jouni Olavi Salo (CEO) received 214 Shares in the course of the Distribution of Shares (see "*General Information about the Company - Group History, Restructuring of KHD Ltd. Group and Reintegration of Subsidiaries - Restructuring and Reintegration of Subsidiaries*") free of charge due to its shareholding of 750 shares in TNRC. Except for this, no member of the executive board, the supervisory board or by companies controlled by them or their related parties have acquired shares of the Company.

Subscription Agreement

Subscription

The Company and the Sole Lead Manager entered into a subscription agreement in relation to the New Shares on 23 December 2011 (the "**Subscription Agreement**").

Pursuant to the Subscription Agreement, and subject to the occurrence and satisfaction of certain conditions precedent, the Sole Lead Manager has undertaken to subscribe for the New Shares at the issue price and to subscribe New Shares on behalf and for the account of the shareholders exercising their subscription rights and as of the date of delivery of such shares pay to the Company the issue price of the New Shares.

Rescission

The Subscription Agreement provides that both the Sole Lead Manager and the Company may, under certain circumstances, rescind this agreement. These circumstances include in particular:

- incorrect representations or warranties given by the Company in the Subscription Agreement;

- political, economical incidents or governmental measures and a deterioation of the commercial situation of the Company or of its subsidiaries, which may jeopardize the Capital Increase and which would make it inacceptable for a party to continue the Capital Increase;
- any negative fact revealed which may jeopardize the Capital Increase, the admission of New Shares or the quotation.

If the Subscription Agreement is rescinded, the Capital Increase will not be implemented. Any allotments already made to shareholders will be invalidated. In such case, no claim for delivery of New Shares exists. Claims relating to any subscription fees already paid and costs incurred by any shareholder in connection with the subscription will be governed solely by the legal relationship between the shareholder and the institution to which the shareholder submitted its order.

Indemnification

In the Subscription Agreement, the Company undertook to indemnify the Sole Lead Manager against any incorrect representation or breach of obligations under the Subscription Agreement.

Lock-In of MGI

The Company and MGI entered into a Preliminary Subscription Agreement (see "*Business Activity - Material Agreements - Preliminary Subscription Agreement with MGI*") according to which MGI *inter alia* undertakes not to sell, assign or transfer any of the New Shares to be issued to it in the Capital Increase during a period of the earlier of 29 months following the registration of implementation of the Capital Increase with the commercial register or until the termination of this Lock-In in certain events ("**Lock-In**"). In order to secure compliance with these restrictions, MGI agrees that the New Shares to be issued to it in the Capital Increase shall be delivered exclusively to a locked account (*Sperrdepot*) which is subject to transfer restrictions in favour of the Company. The Lock-In shall automatically expire in certain events, inter alia, if (i) a person other than any member of the CATIC group of companies becomes the owner of 20% or more of the issued share capital of the Company, (ii) a voluntary takeover offer is being made to shareholders of the Company or (iii) if one third of the members of the Supervisory Board, or a member of the Management Board, or the sole deputy to the CFO of KHD is not a person nominated by MGI and (iv) MGI ceases to hold 20% of the issued share capital of the Company due to an Offer of Shares not taken up by MGI.

Issue Date, Admission to Trading and Stock Exchange Listing

The issue date with respect to fixing a value date for the New Shares at Clearstream Banking AG, Frankfurt am Main, is prospectively 23 February 2011. An application for admission of the New Shares to trading on the regulated market (*regulierter Markt*) (General Standard) of the Frankfurt Stock Exchange has been filed to the Frankfurt Stock Exchange on 22 December 2010. The admission order is expected to be issued on 21 February 2011. No right to admission exists. Commencement of trading of the New Shares is planned for 22 February 2011 (the "**Emission Date**"). Upon commencement of trading the New Shares are to be included in the existing listing of the Company's shares on the Frankfurt Stock Exchange.

Designated Sponsor

Lang & Schwarz is assuming the function of designated sponsor of the New and the existing Shares traded on the Frankfurt Stock Exchange. The designated sponsor places limited buy or sell orders for shares of the Company into the electronic trading system of the Frankfurt Stock Exchange during daily trading hours. This is expected to improve liquidity in trading of the Shares.

Paying and Registration Agent

UniCredit Bank AG, Kardinal-Faulhaber-Straße 1, 80333 Munich, Germany is appointed as the paying and registration agent.

REASON FOR THE OFFERING, USE OF PROCEEDS, COSTS RELATED TO THE OFFERING

The primary purpose of the Offering is to make available to MGI, subject to sufficient New Shares being available after the end of the Subscription Period, 20% of the Company's Shares on the basis of the number of existing Shares after implementation of the Capital Increase in accordance with the Preliminary Subcription Agreement between the Company and MGI (see *"Business Activity - Material Agreements - Preliminary Subscription Agreement with MGI")* and concurrently granting the existing shareholders' statutory subscription rights in order to avoid their dilution.

The total net proceeds from subscription of the New Shares offered in connection with this Offering will depend on the number of New Shares actually subscribed for. The amount of these proceeds cannot be predicted with any specificity before the end of the subscription period, which is expected to end on 19 January 2011

If all the New Shares will be subscribed under this Offering by the Company's shareholders and MGI, the total net proceeds from the Offering will amount to approximately EUR 74.5 million.

Although, the primary purpose of the Offering is not to finance the Company, but to attract MGI as a major shareholder and CATIC as a strategic partner, the Company will use the net proceeds from the Offering for further implementation of its strategic objectives (see, "*Business—Strategy*").

Specifically, the Company plans to use the net proceeds for research and development activities in relation to grinding and pyro process equipment as well as for development of standardizations of plant equipment for packaged complete solutions for grinding and pyro-processing applications.

Moreover, the Company intends to use a certain amount of the net proceeds for a co-investment together with CATIC into a design institute and a manufacturing entity in the PRC as agreed in the Cooperation Agreement between the Company and CATIC (see "*Business—Material Agreements—Cooperation Agreements with CATIC*").

The actual timeline during which the funds from the net proceeds would be used for the aforementioned purposes depends on a number of factors, as a result the actual order may differ from the planned order. If and to the extent that the net proceeds are not required for other purposes— particularly those described above—the Company plans to invest such funds in liquid short-term bank deposits, money market instruments, short-term government bonds or similar instruments in order to permit the Company, if needed, to use the funds on short notice.

The Company estimates that costs, including fees for Lang & Schwarz in its capacity as underwriter of the New Shares and applicant for the admission of the New Shares and fees for other advisers related to the preparation of this Prospectus and further cots directly related to the admission of the New Shares to trading on the regulated market (*regulierter Markt*) (General Standard) of the Frankfurt Stock Exchange amount to approx. EUR 500,000.

INTERESTS OF PERSONS INVOLVED IN THE OFFERING

Pursuant to the Preliminary Subscription Agreement between the Company and MGI, MGI will be offered New Shares in an amount of 20% of the share capital of the Company on the basis of the amount of the Company's share capital after registration of implementation of the Capital Increase, subject to, iner alia, sufficient shares being available after the Offering. Accordingly, MGI has an interest in the Offering and in particular in the fact that sufficient New Shares will be available after exercise of subscription rights by the shareholders.

DILUTION

In the event that the Capital Increase is fully implemented (following the registration of the implementation of the Capital Increase with the commercial register), the Company's share capital, which currently amounts to EUR 33,142,552, will amount to EUR 49,713,828. Accordingly, a shareholder not participating in the Capital Increase will experience a dilution in the percentage of the share held by it in the aggregate share capital of the Company by 33.33%. A shareholder exercising all of his subscription rights for the New Shares, however, will continue to hold a share in the share capital equal to the original percentage.

The Company's Net Asset Value (defined as all assets less all intangible assets and less deferred tax assets less all liabilities) on a consolidated basis was TEUR 137,490, or EUR 4.15 per Share (based on the 33,142,552 Shares currently in issue) on 30 September 2010. Assuming the full implementation of the Capital Increase at the subscription price of EUR 4.53 per New Share, the Company would receive net issue proceeds of approximately EUR 74.5 million from the Capital Increase (see "*Reason for the Offering, Use of Proceeds, Costs related to the Offering*").

If the Company had already received this amount as of 30 September 2010, the Net Asset Value (as defined above) would have been approximately EUR 212 million, or approximately EUR 4.26 per share (based on the assumption that 49,713,828 Shares have been issued after the full implementation of the Capital Increase). This would entail a direct increase in the Net Asset Value of EUR 0.11 per Share (difference between the Net Asset Value of EUR 4.26 per Share after the Capital Increase and the Net Asset Value before the Capital Increase of EUR 4.15 per Share) for the existing shareholders. Shareholders exercising their subscription rights and thus subscribing for New Shares, in case of the full implementation of the Capital Increase, would experience an immediate dilution of EUR 0.27 per Share or 6.0% (difference between the Net Asset Value after the implementation of the Capital Increase of EUR 4.26 per Share and the subscription price for the New Shares of EUR 4.53 per New Share).

CAPITALIZATION AND INDEBTEDNESS, WORKING CAPITAL

Capitalization and Indebtedness

The following tables show the capitalization and indebtedness of KHD as at 30 September 2010 based on the Company's consolidated interim financial statements in accordance with IFRS as at 30 September 2010.

	As at 30 September 2010 IFRS (unaudited) in TEUR
Total Current debt[1]	204,690
of which guaranteed	104,663
of which secured	13,599
of which unguaranteed/unsecured	86,428
Total Non-Current debt (excluding current portion of long-term debt)[2]	63,595
of which guaranteed	22,870
of which secured	0
of which unguaranteed/unsecured	40,725
Shareholder's Equity	141,330
of which issued capital	33,142
of which capital reserves	1,776
of which treasury shares	-221
Of which currency differences	-376
of which undistributed profit carry forward	106,321
of which minority interest	688
Total	**409,615**

	As at 30 September 2010 IFRS (unaudited) in TEUR
Cash	259,484
of which cash at bank and cash in hand	71,977
of which short term and restricted bank deposits	187,507
thereof restricted cash for collaterals and guarantees	668
Cash equivalents	0
Trading securities[3]	1,553
Liquidity	**261,037**
Current Financial Receivables[4]	**12,931**
Current bank debt	0
Current portion of non current debt	0
Other current financial debt	0
Current Financial Debt	**0**
Net current financial indebtedness	**-273,968***
Non current bank loans	0
Bonds issued	0
Other non current loans	0
Non current financial indebtedness	**0**
Net Financial Indebtedness	**-273,968***

* The negative amount means that the total of liquidity and current financial receivables exceeds the total amount of financial indebtedness.

1 Corresponds to the balance sheet item total current liabilities.

2 Corresponds to the balance sheet item total non-current liabilities.

3 Corresponds to the balance sheet item other financial assets.

4 Contained in the balance sheet item Trade and other receivables.

As at 30 September 2010, TEUR 668 were deposited as security with banks in return for sureties provided.

Contingent Liabilities and Other Financial Obligations

The Company has contingent liabilities as at 30 September 2010 in the amount of EUR 104.7 million resulting from performance and allowance payment guarantees.

Other financial obligations relate to operating leases. The total amount of future minimum payments for non-cancellable operating and other leases basically results from leases for buildings.

	As of 30 September 2010 IFRS (unaudited) in TEUR
Within 1 year	1,841
Within 2 to 5 years	3,294
After 5 years	486
Total rental commitments	**5,621**

Working Capital Statement

The Company believes that from today's point of view KHD is able to meet all payment obligations within the next twelve months.

SELECTED FINANCIAL DATA

The following tables summarise selected consolidated financial data of KHD AG for the nine month period ended 30 September 2010 with comparative figures for the nine month period ended 30 September 2009 and the years ended 31 December 2009, 2008 and 2007.

The consolidated financial data for the years ended 31 December 2009, 2008 and 2007 marked as “audited” has been extracted from the consolidated financial statements for the years ended 31 December 2009, 2008 and 2007 of the Company prepared in accordance with International Financial Reporting Standards of the International Accounting Standards Board (IASB) as adopted by the EU (hereinafter referred to as ”**IFRS**”) and the additional requirements of German commercial law pursuant to section 315a paragraph 1 of the German Commercial Code (*Handelsgesetzbuch* - ”**HGB**”), which have been audited by Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft, Düsseldorf in accordance with section 317 HGB, who issued an unqualified audit opinion in each case. Financial information marked as “unaudited” has been prepared by the Company based on figures derived from the audited or unaudited consolidated financial statements but has not been audited by the Company’s auditor.

The consolidated financial data for the nine month period ended 30 September 2010 and the nine month period ended 2009 has been extracted from the unaudited consolidated interim financial statements for the nine month period ended 30 September 2010 of the Company prepared in accordance with IFRS and the additional requirements of German commercial law pursuant to section 315a paragraph HGB.

The following figures were commercially rounded; their sums when added may not be the same as the sums indicated.

Selected Consolidated Income Statement Data

	Nine month period ended 30 September		Year ended 31 December		
	2010	2009	2009	2008	2007
	IFRS (unaudited) in TEUR		IFRS (audited) in TEUR		
Revenue[1]	188,611	233,555	360,295	339,099	262,345
Cost of sales	-147,578	-195,542	-300,635	-283,804	-211,638
Gross profit	**41,033**	**38,013**	**59,660**	**55,295**	**50,707**
Other operating income	1,956	237	9,038	1,917	2,074
Distribution costs	-8,267	-9,856	-5,307	-7,082	-5,636
General and administrative expenses	-11,893	-7,101	-8,455	-8,447	-9,561
Other expenses[2]	-7,359	-7,197	-8,996	-8,544	-9,858
Restructuring income/expense	2,353	2,686	3,773	-9,755	—
Net finance income	1,864[3]	3,427[3]	3,952	1,978	4,357
Profit before tax	**19,687**	**20,209**	**53,665**	**25,362**	**32,083**
Income tax expense	-10,206	-6,651	-16,497	-10,134	-4,133
Profit after tax from continued operations	**9,481**	**13,558**	**37,168**	**15,228**	**27,950**
Loss from discontinued operations	—	—	—	—	-5,366
Net profit for the year	**9,481**	**13,558**	**37,168**	**15,228**	**22,584**

(1) Revenue does only comprise continued operations. Revenue of discontinued operations accrued only in 2007 and amounted to TEUR 38,659.

(2) Rental expenses disclosed separately in 2007, which are not included in cost of sales (TEUR 688), were allocated to other expenses in the reporting period.

(3) Corresponds to the income statement item finance income and finance cost of the respective interim financial statements.

Other Selected Financial Data

	Nine month period ended 30 September		Year ended 31 December		
	2010	2009	2009	2008	2007
	IFRS (unaudited) *				
EBT[1][2] in TEUR	19,687	20,209	53,665	25,362	32,083
EBT margin (in %)[1][3]	10.4	8.7	14.9	7.5	12.2
Net profit margin (in %)[1][4]	5.0	5.8	10.3	4.5	8.6
Earnings per share in EUR[5]	0.29	0.82	2.25	0.93	1.70

* Unless otherwise indicated.

(1) EBT, EBT margin and Net profit margin are not recognized as measures under IFRS and not a substitute for any figures presented under IFRS. The figures are unaudited. Because not all companies calculate EBT, EBT margin and Net profit margin the same way, the Company's presentation is not necessarily comparable to similarly–titled measures used by other companies.

(2) EBT is defined as the result before all tax expenses.

(3) EBT margin for any year is defined as EBT for such year expressed as a percentage of revenue for the same year.

(4) Net profit margin is calculated as net profit for the year expressed as a percentage of revenue for the same year.

(5) Audited for the years ended 31 December 2009, 2008 and 2007 and unaudited for the nine month period ended 30 September 2010 and for the nine month period ended 30 September 2009. Earnings per share for 2007 comprise continued operations only.

Selected Consolidated Balance Sheet Data

	30 September 2010	2009	31 December 2008	2007
	IFRS (unaudited) in TEUR		IFRS (audited) in TEUR	
ASSETS				
Property and equipment	2,544	1,526	2,624	2,608
Goodwill	2,127	2,127	2,127	2,127
Other intangible assets	833	316	445	289
Deferred tax assets	880	237	701	4,565
Non-current financial assets	851	51,741	70,332	55,569
Total non-current assets	**7,235**	**55,947**	**76,229**	**65,158**
Inventories	12,325	13,663	6,241	3,997
Gross amount due from customers for contract work	19,187	38,413	47,863	51,929
Trade and other receivables	74,730	49,387	43,482	39,591
Intercompany receivables	—	3,678	19,085	8,178
Payments made in advance	32,377	26,235	29,052	13,117
Other financial assets	1,553	5,260	3,565	16,346
Income tax assets	2,724	11,461	—	—
Cash and cash equivalents	259,484	225,844	204,636	166,681
Total current assets	**402,380**	**373,941**	**353,924**	**299,839**
Total assets	**409,615**	**429,888**	**430,153**	**364,997**

	30 September 2010	2009	31 December 2008	2007
	IFRS (unaudited) in TEUR		IFRS (audited) in TEUR	
EQUITY AND LIABILITIES				
Issued capital	33,142	33,142	33,142	33,142
Capital reserves	1,776	1,776	1,776	1,776
Treasury shares	-221	-221	-221	-221
Currency differences	-376	-53	-53	0
Undistributed profit carryforward	106,321	134,428	97,319	81,874
	140,642	169,072	131,963	116,571
Minority interest	688	659	638	1,439
Total shareholders' equity	**141,330**	**169,731**	**132,601**	**118,010**
Equity ratio (unaudited) [(1)]	34,5%	39.48%	30.83%	32.33%
Financial liabilities	—	—	—	1,405
Other liabilities	9,753	7,558	5,994	3,377
Pension benefit obligations	21,461	21,159	21,926	22,103
Deferred tax liabilities	12,073	9,755	5,446	1,572
Provisions	20,308	7,748	5,405	8,080
Total non-current liabilities	**63,595**	**46,220**	**38,771**	**36,537**
Trade and other payables	87,963	100,791	95,001	63,413
Intercompany liabilities	—	4,914	6,107	7,104
Financial liabilities	—	3,552	1,167	—
Gross amount due to customers for contract work	80,182	51,136	117,466	118,535
Income tax liabilities	16,681	10,970	6,592	11,600
Provisions	19,864	42,574	32,448	9,798
Total current liabilities	**204,690**	**213,937**	**258,781**	**210,450**
Total equity and liabilities	**409,615**	**429,888**	**430,153**	**364,997**

(1) Equity ratio is not recognized as measure under IFRS and not a substitute for any figures presented under IFRS. The figures are unaudited. The Equity ratio measures the proportion of the shareholers' equity in relation to total assets.

Selected Consolidated Cash Flow Data

	Nine month period ended 30 September		Year ended 31 December		
	2010	2009	2009	2008	2007
	IFRS (unaudited) in TEUR			IFRS (audited) in TEUR	
Profit before tax and interest	17,823	16,782	49,713	23,384	28,829
Cash inflows from operating activities	21,889	-9,983	12,607	55,139[(1)]	132,827[(1)]
Cash flows from operating activities	**30,889**	**-15,350**	**-4,458**	**45,197**	**133,469**[(1)]
Cash flows from investing activities	**54,308**	**4,807**	**21,287**	**-13,931**	**-32,534**[(1)]
Cash flows from financing activities	**-51,241**	**1,634**	**5,385**	**7,340**	**-1,122**[(1)]
Opening balance of cash and cash equivalents	**225,183**	**202,969**	**202,969**	**164,310**	**64,457**
Closing balance of cash and cash equivalents	**258,816**	**194,060**	**225,183**	**202,969**	**164,310**

(1) The figures indicated have been taken from the comparative figures for 2008 and 2007, respectively, as contained in the consolidated financial statements for the financial year ended 31 December 2009 and 2008, respectively, and are not comparable to the corresponding figures contained in the consolidated financial statements for the financial year ended 31 December 2008 and 2007, respectively. This is due to the repositioning of certain line items in the cash flow statements in the consolidated financial statements for the years ended 31 December 2009 and 2008 as compared to the respective previous year. According to the Company these repositionings did not trigger an obligation to disclose this fact in the notes pursuant to IAS 8.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*The following discussion and analysis of financial condition and results of operations for the nine month period ended 30 September 2010 of KHD is based on and should be read in conjunction with the unaudited consolidated financial statements of KHD Humboldt Wedag International AG in accordance with IFRS for the nine month period ended 30 September 2010 of the Company (hereinafter referred to as "**Consolidated Interim Financial Statements**") For the three years ended 31 December 2009, 2008 and 2007 of KHD the following discussion and analysis of financial condition and results of operations is based on and should be read in conjunction with the audited consolidated financial statements of KHD Humboldt Wedag International AG in accordance with IFRS for the financial years ended 31 December 2009, 31 December 2008 and 31 December 2007 of the Company (hereinafter referred to as **"Consolidated Financial Statements"**), as well as the financial statements in accordance with HGB for the financial year ended 31 December 2009 of the Company (the "**Unconsolidated Financial Statements**") including the respective notes thereto, as well as the other financial information contained elsewhere in this Prospectus. The unaudited Consolidated Interim Financial Statements, the audited Consolidated Financial Statements and the Unconsolidated Financial Statements are included in the financial part of this Prospectus, commencing on page F-1. The Consolidated Financial Statements and the Unconsolidated Financial Statements have each been audited by Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft, Düsseldorf, and have each been certified with an unqualified auditor's reports.*

However, the auditors' report on the annual financial statements of KHD AG for the financial year ended 31 December 2009 in accordance with HGB contains the following disclaimer:

Without qualifying this opinion, we draw attention to the fact that shareholders have brought actions against the Company for the Company's approved sets of annual financial statements as at 31 December 2002 and 31 December 2003 to be declared null and void, alternatively to be declared ineffective, as well as for the resolutions according to which the Directors and three Supervisory Board members were to be released from their responsibilities for the financial year 2003, which were adopted by the Company's General Meeting of Shareholders held on 29 September 2004, to be declared null and void, alternatively to be set aside. The subject matters of the actions were fees in the amount of EUR 1,206 thousand ("placement fee") and in the amount of EUR 1,914 thousand ("merchant banking fee"), which had been paid by the Company to MFC Corporate Services AG (formerly: MFC Merchant Bank S.A.), Herisau/Switzerland, at the end of 2002 for placement of new shares within the scope of a capital increase approved by the General Meeting of Shareholders in December 2002 and for provision of merchant bank services. The long-term equity investment held by MFC Corporate Services AG (formerly: MFC Merchant Bank S.A.), Herisau/Switzerland, in KHD Humboldt Wedag International (Deutschland) AG, Cologne/Germany, at that time has now been transferred to MFC Commodities GmbH, Vienna/Austria, and amounts today to roughly 20%.

In the plaintiffs' opinion, these payments had been inadmissible because they constituted a return of contributions. The corporate assets disclosed in the sets of annual financial statements as at 31 December 2002 and 31 December 2003 had, in the plaintiffs' opinion, been understated due to failure to book a corresponding repayment claim. The Cologne regional court allowed the complaints with respect to the payment of the merchant banking fee through court ruling dated 4 November 2005. The court ruling did not address the placement fee.

The Company has lodged an appeal from this court ruling in due time and due form. The application for proceedings on appeal was granted by the Cologne higher regional court. Meanwhile, it has been possible to reach a settlement out of court with one of the plaintiffs. In respect of the complaints still pending, the Company anticipates that there are good reasons to assume that its appeal will succeed.

Nevertheless, addressing the regional court ruling, the Company had capitalised in the annual financial statements as at 31 December 2005, and disclosed unchanged in its annual financial statements as at 31 December 2009, an account receivable from MFC Corporate Services AG (formerly: MFC Merchant Bank S.A.), Herisau/Switzerland, in the amount of EUR 1,914 thousand. For the expenses in connection with the services substantiated in detail by MFC Corporate Services AG (formerly: MFC Merchant Bank S.A.), Herisau/Switzerland, to the Company, a provision for contingent liabilities in the amount of EUR 1,976 thousand had been made in the annual financial statements as at 31 December 2005; this provision was also disclosed unchanged as at 31 December 2009.

On account of the proceedings still pending before the Cologne higher regional court, there is still a risk that the court ruling will deviate from the Board of Directors' assessment.

The Consolidated Financial Statements and the Unconsolidated Financial Statements contain forward — looking statements based on assumptions about the future development of the business. The actual results of KHD and the expectation contained in these forward — looking statements could prove to be inaccurate. See "General Information - Forward-looking Statements".

Business Overview

KHD ranks among the TOP 5 global suppliers of cement plants and equipment.[1] The range of services covers design and engineering, project management, supply, as well as supervision of erection and commissioning of cement plants and equipment. Supply of replacements parts, plant optimization and training of plant personnel complement KHD's service range.

KHD's core equipment includes a wide range of grinding and pyro-process technologies. KHD's grinding technologies are utilized in raw material, clinker and finished cement grinding and include crushing, grinding and separation equipment, while KHD's pyro-process equipment includes pre-heaters, calciner systems, kilns, burners and clinker coolers. KHD also has developed a range of systems automation products, including process control systems and equipment optimization products.

In October 2009, in the course of a restructuring of its business and organisational structure with a view to concentrating KHD's activities on the provision of engineering services and to reducing the cost basis for risk minimisation purposes, KHD sold its workshop in Cologne, Germany to Cologne Engineering GmbH, Germany (**"CEG"**), a company ultimately remaining controlled by McNally Bharat Engineering Company Ltd., India. Since then KHD's manufacturing is almost entirely outsourced to contract manufacturers who produce the equipment to KHD's specifications.

KHD provides its products and services either directly to the operators of cement plants, or in a consortium that includes equipment specialists in particular in the complementary fields of materials transport, blending, storage and packing or as an equipment supplier as part of an overall turn-key project.

Basis of Presentation of Consolidated Financial Statements

Application of International Financial Reporting Standards

The Consolidated Financial Statements and the Consolidated Interim Financial Statements have been prepared according to the International Financial Reporting Standards ("**IFRS**") as applicable in the European Union, that are required to be applied as at the relevant balance sheet date.

The IFRS comprise the IFRSs newly adopted by the International Accounting Standards Board (IASB), the International Accounting Standards (IAS) as well as the Interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and of the Standing Interpretations Committee (SIC). KHD is in compliance with the supplementary provisions under § 315 a German Commercial Code (HGB) regarding supplementary disclosures in the notes to the financial statements as well as under § 315 German Commercial Code (HGB) regarding the discussion and analysis by management.

For a discussion of the actual application or non-application of the relevant standards and interpretations under IFRS for the respective balance sheet dates and reporting periods, see the corresponding explanations in the notes to the Consolidated Financial Statements.

---

[1] Based on the analysis of OneStone Intelligence GmbH, Cement Projects Focus 2013, Market Report, November 2009.

Presentation of income statement

The consolidated income statement of KHD is prepared according to the cost of sales format.

Group structure and disposal of subsidiaries

KHD AG is the management holding company of the group.

KHD AG holds 100% of the shares in KHD GmbH which, in turn, holds the shares in the operating companies of the group. Both companies have no operational business but have to perform mainly, holding functions. The main operational business of KHD Group is carried out by Humboldt Wedag GmbH, Germany (”**HW GmbH**") and ZAB Zementanlagenbau GmbH Dessau, Germany (”**ZAB**"). Detailed information regarding the group can be found under the heading “*General Information about the Company - Group History, Restructuring of KHD Ltd. Group and Reintegration of Subsidiaries*".

KHD AG and its subsidiaries are hereafter referred to as “KHD” or “KHD Group”. “Subsidiaries” are companies where KHD AG holds, directly or indirectly, more than 50% of the voting rights or controls the business activities in another manner. Minority interest is addressed separately.

In recent years KHD has undergone significant changes regarding its group structure.

As at 31 December 2005 KHD AG, through its wholly-owned subsidiary KHD GmbH, sold all the shares in its then subsidiaries HW USA, HW South Africa, HW India, HW Australia, and EKOF to the KIA GmbH (then a sister company).

The agreed measurement at fair market value was carried out by an audit firm engaged as an external expert in the annual financial statements as at 31 December 2006 of the Company. The shares in the Companies sold were measured in compliance with the regulations of the Institut der Wirtschaftsprüfer (IDW S1). Based on the expert opinion on hand, the parties agreed on a purchase consideration of TEUR 12,200 under the purchase settlement agreement dated 21 December 2006. In the financial year 2007, another expert opinion including complementary statement of an audit firm engaged as an external expert was obtained in order to secure the purchase consideration. The shares were measured within the scope of this expert opinion also in compliance with the regulations of the Standard IDW S1. Based on the above-mentioned expert opinions, the purchase or sales consideration of TEUR 12,200 agreed between the parties was confirmed.

As agreed in the purchase agreement with KIA GmbH, KHD GmbH is paid a 30% share in the profits of the years 2006 to 2010 realised by the companies sold to the extent that these profits exceed a return on investment of 18.75% in relation to the consolidated equity of KHD Ltd. (now Terra Nova Royalty Corporation Ltd.), the former parent company of KHD AG and KIA GmbH. The necessary return on investment was not reached for the financial years 2006 to 2008. KHD’s claim for the financial year 2009 will be computed and possibly accounted for in 2010.

Over the period from 1 January 2007 to 31 December 2009 covered by the Consolidated Financial Statements there were no material changes to KHD’s group structure.

In March 2010, KHD Ltd. (now Terra Nova Royalty Coporation Ltd.), which was the holding company of the KHD Ltd. group of companies split it holdings into two legally separate subgroups, one of which performs all cement activities and was combined under the senior parent company of KHD AG. In this context, the shares in HW Australia, HW USA, HW India, EKOF, KHD China and KHD KHD Austria and its subsidiaries KHD Russia and Sibgiprozoloto which had been sold effective 31 December 2005 to KIA GmbH were sold and transferred by KIA GmbH to a subsidiary of the Company (see “*General Information about the Company - Group History, Restructuring of KHD Ltd. Group and Reintegration of Subsidiaries - Restructuring and Reintegration of Subsidiaries*").

Discontinued business, presentation of certain figures in the cash flow statements for 2008 and 2007

In financial years 2008 and 2009, the sole segment of KHD was industrial plant engineering. This segment includes the activities of KHD that relate to the development, supply and commissioning of plants and equipment for cement.

Until 2007, however, KHD operated in two segments. In addition to its core business, the development, supply and commissioning of cement plants and equipment, KHD operated a real property business. The corresponding segment was discontinued in 2007 (see *"General Information about the Company - Group History, Restructuring of KHD Ltd. Group and Reintegration of Subsidiaries - Disposal of non-related business assets*"). Hence, for financial year 2007 the discontinued business had been separately reported on in the income statement for the last time.

It should be noted that the figures for 2007 and 2008, respectively, contained in the discussion of the liquidity and capital resources in this section have been taken from the comparative figures for 2007 and 2008, respectively, as contained in the consolidated financial statements for the financial year ended 31 December 2008 and 2009, respectively, and may therefore not be comparable to the corresponding figures contained in the consolidated financial statements for the financial year ended 31 December 2007 and 2008, respectively. This is due to the repositioning of certain line items in the cash flow statements in the consolidated financial statements for the years ended 31 December 2009 and 2008 as compared to the respective previous year.

The recognition is based on the internal organisation and management structures as well as the internal reporting to the executive board and the supervisory board, according to which the primary and secondary reporting formats are reporting by business segments and by regions, respectively.

The major component of the real property sale segment had been management and (finally) sale of land and buildings at the Stendal location. Rental income realised in Stendal and Dessau had also been allocated to this segment.

Currency and translation of foreign currencies, rounding

The Consolidated Financial Statements and the Consolidated Interim Financial Staatements are prepared in Euro, KHD's functional currency. All amounts are, as a general rule, stated in thousands of euros (TEUR), unless otherwise indicated.

Monetary items denominated in foreign currencies are translated at the rate in effect at the date of acquisition in the sets of individual financial statements and adjusted to the respective rate in effect at the balance sheet date at each balance sheet date. Resulting translation differences are recognised in the income statement.

Sets of individual financial statements prepared by the foreign subsidiaries are translated into euros according to the functional currency concept. The equity is translated at historical rates, assets and liabilities are translated at the rate in effect at the balance sheet date, income and expenses at average rates.

Some individual figures and percentages in this section have been rounded up or down. As a result, the rounded figures in the tables may, under certain circumstances, not precisely add up to the total figures that may also be included in the table

Significant Accounting and Valuation Policies

Set forth below is a summary of material accounting and valuation policies under IFRS used by KHD AG to prepare the Consolidated Financial Statements. Under IFRS the Company has a certain degree of discretion to make its own elections and decisions, which, to the extent material for the Consolidated Financial Statements, are mentioned in the following section for the respective accounting or valuation method.

Intangible Assets

Goodwill

In the first-time Consolidated Financial Statements under IFRS, goodwill was taken over, on account of the reduced disclosure rules under IFRS 1, at the carrying amounts that have been computed according to previously applied accounting principles (§ 301 German Commercial Code (*HGB*)).

The goodwill corresponds to the positive difference between the acquisition cost of a business combination and the acquired remeasured assets and liabilities, which remains after allocating a purchase consideration, especially after identifying intangible assets. Goodwill is disclosed under intangible assets. It is subject to impairment tests, which are carried out at annual intervals and on specific occasions, and is accounted for a cost less write-downs to the lower fair value.

Licenses

Licenses are accounted for at amortised costs. Software licenses are amortised on a straight-line basis over a useful life of three years. No development costs required to be capitalised were incurred in the reporting year.

Property, Plant and Equipment

Property, plant and equipment are measured at cost less straight-line depreciation. The useful life of operating and office equipment and of other equipment is normally 3 to 10 years. Leasehold improvements are depreciated over the term of the lease. Gains on, and losses from, disposal of property, plant and equipment are determined with reference to their carrying amount and accounted for in the income statement.

Cost of repair of property, plant and equipment is, as a general rule, recognised as an expense. Expenses are regularly expensed as incurred. All major expenses for renewals and improvements are capitalised if it is probable that future economic benefit will flow to KHD Group in addition to the performance standard of the existing property, plant or equipment. Every following expense for repair and maintenance is expensed as incurred.

Property, plant and equipment is not remeasured according to the option under IAS 16. Under the leases concluded, the major risks and benefits from the leased asset remain at the level of the lessor. All leases constitute, hence, so-called “operating leases”. Therefore, payments made within the scope of operating leases are recognised as an expense in the income statement.

Borrowing Costs

Borrowing costs are capitalised by KHD Group if they relate to acquisition or production of qualifying assets. Otherwise, these costs are recognised under net finance income/cost in the income statement.

Impairment Test of Long-lived Assets

Long-lived assets and 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 realisable. If the carrying amount is higher than the estimated realisable amount, an asset is written down to its realisable amount.

Investments and Other Financial Assets

Financial assets within the meaning of IAS 39 at the level of KHD Group relate either

- to financial assets that are measured at fair value and recognised as income, or to
- loans and receivables

and are classified accordingly. Financial assets are measured at fair value at the time of initial recognition. In the case of investments other than those classified as measured at fair value and recognised as income, this item includes also transaction costs that are directly attributable to the acquisition of the asset concerned.

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

Financial Assets Measured at Fair Value and Recognised as Income

At the level of KHD Group, the category of financial assets measured at fair value and recognised as income includes the financial assets held for trading. KHD Group has not taken advantage so far of the option to designate financial assets as financial assets to be measured at fair value and to be recognised as income at the time of initial recognition.

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

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or identifiable payments that are not listed in an active market. This category includes trade receivables as well as other receivables and assets. They arise if money, goods or services are directly provided to a debtor by KHD Group. They are classified as current assets, except for those that are due only after 12 months from the balance sheet date or that are classified as non-current on account of their economic nature. The latter are disclosed as non-current assets. After initial recognition, loans and receivables are measured at amortised cost by application of the effective interest method less impairments, if any. Gains and losses are recognised in accounting income if loans and receivables have been derecognised or impaired as well as within the framework of amortisation.

Impairment of Financial Assets

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

If there are objective indications that an asset accounted for at amortised cost has been impaired, the amount of the impairment loss is the difference between the carrying amount of the asset concerned and the present value of the anticipated future cash flows (except for anticipated future loan default), discounted at the original effective interest rate of the financial asset, i.e. at the effective interest rate determined at the time of initial recognition. The impairment loss is recognised as an expense as incurred.

If the amount of the write-down decreases in the following reporting periods and if this decrease can be objectively ascribed to an item that arose after the impairment had been recognised, the write-down previously recognised is reversed. The new carrying amount of the asset concerned must, however, not exceed amortised cost at the time of the reversal. The reversal is recognised in the income statement.

If there are objective indications with respect to trade receivables that not all amounts due will be received in accordance with the originally agreed terms stated on the invoice (such as, for example, an insufficient credit rating of a debtor, disagreement on the existence or amount of an account receivable, lack of enforceability of an account receivable for legal reasons, etc.), the impairment is made by use of an allowance account. Receivables are derecognised if they are classified as irrecoverable.

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

Cash and Cash Equivalents

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

Financial Liabilities

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

The financial liabilities at the level of KHD Group basically relate to

- financial liabilities (liabilities to banks and intercompany liabilities); and
- trade payables and other liabilities.

Financial liabilities are classified as current if KHD Group is not entitled to settle the financial liability concerned only at least 12 months from the balance sheet date.

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

Derivative Financial Instruments and Hedges

At the level of KHD AG, derivative financial instruments are regularly used for mitigating the foreign currency risk of recognised assets and liabilities or of planned transactions denominated in foreign currency. All contracts concluded are foreign exchange contracts.

These are initially recognised at fair value at the date the contract is concluded and carried forward at fair value subsequent to initial recognition in the following periods. The fair value of derivatives is measured based on listed prices. If no such prices are available, advantage is taken of discounted flow analyses, using corresponding yield curves for the term to maturity of the instruments concerned.

As the derivative financial instruments concluded do not meet the strict hedge accounting requirements, changes in value are recognised in the income statement as incurred.

Inventories

Inventories have been recognised at the lower of cost or net realisable value. Cost is determined on a case-by-case basis. The net realisable value is composed of the estimated selling price in the course of ordinary transactions less estimated cost of completion and costs to sell.

Construction Contracts

Revenue and profits under construction contracts are realised according to the stage of completion under IAS 11. The stage of completion depends on the relation of contract costs incurred already as at the end of the financial year to the estimated total contract cost as at the end of the financial year. Losses under long-term contracts are fully recognised as incurred irrespective of the stage of completion reached in the financial year in which the losses become identifiable. Long-term contracts which are measured according to the percentage-of-completion method are disclosed under gross amounts due from or to customers for contract work depending on the amount of requested payments in advance. They have been measured at cost plus a proportionate profit depending on the reached stage of completion. To the extent that the accumulated asset (contract cost and contract revenue) exceeds the specific payments in advance invoiced, construction contracts are disclosed on the asset side under gross amount due from customers for contract work. If there is a negative balance after deducting payments in advance, this balance is disclosed as gross amount due to customers for contract work on the liability side. Anticipated contract losses are covered through write-downs or provisions. In determining these losses, identifiable risks are taken into account.

Pension Commitments and Retirement Benefit Plans

The provisions for pensions disclosed in the balance sheet constitute the present value of the defined-benefit commitment as at the balance sheet date. The present value of the defined-benefit commitment is determined annually by independent actuaries according to the projected unit credit method. The present value of the defined-benefit commitment is determined by discounting the estimated future cash outflows by means of interest rates of high-grade industrial bonds. KHD Group takes advantage of the so-called corridor method under IAS 19. According to this method, profits or losses from measurement of a pension commitment are not required to be recognised if they are due only to a change in actuarial parameters and the change varies within a corridor of 10% above or below the scope of the commitment recognised in the prior year. Excessive amounts are realised over the anticipated average working life of the employees under the respective pension plan. Since 1996, KHD Group has no longer entered into new pension commitments.

For the individual, defined-benefit pension commitments, KHD Group pays contributions out of the salaries of the employees concerned to public or private pension insurers on a contractual basis.

Provisions

Provisions are made if KHD Group has legal or factual commitments towards third parties as a result of past events and the amount of the commitment can be reliably estimated.

The scope of liability for all products covered by warranty agreements is estimated by KHD Group as at the balance sheet date. The provision is made on the basis of services provided in the past. The enterprise is party to various legal disputes. The Board of Directors expect that the outcome of these legal disputes will not have a material effect on the financial position, results or cash flows.

Deferred Income Tax

Deferred tax is accounted for and measured under IAS 12. Deferred tax assets and liabilities are shown as separate balance sheet items in order to take into account the future tax effect of timing differences between the amount of assets and liabilities recognised in the balance sheet and the amount to be recognised for tax purposes.

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

Realisation of Income and Expenses

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

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

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

The cost of sales include primarily cost of purchased merchandise and services, transport costs, wages and salaries, overheads, commission and customs duties.

Estimates and Assumptions

The assumptions made and estimates used in preparing the consolidated financial statements have had an influence on the recognition and amount of the assets, liabilities, income, expenses and contingent liabilities recognised. These assumptions and estimates basically refer to uniform determination of economic useful lives at group level, to the determination of the stage of completion for construction contracts, the assumption concerning the recoverability of goodwill and investments, the measurement of provisions and the recoverability of future tax benefits. In specific cases, actual amounts can deviate from the underlying assumptions and estimates. Changes are normally taken into account in the income statement at the time of better knowledge.

Factors Having a Material Influence on KHD's Business and Results of Operations

The following section summarizes key factors which have a material influence on the business and the results of operations of KHD as reflected in the Consolidated Financial Statements and the Consolidatd Interim Financial Statements. These factors should be taken into account when assessing the comparative figures illustrated and commented on below.

Availability of and access to new cement plant projects

KHD's major business is the design and engineering, project management, supply, supervision of erection and commissioning of cement plants and equipment. As a consequence, KHD significantly depends on the availability of and its access to a sufficient number of new cement plant projects and equipment demand.

The development in global cement markets in 2009 was characterized by the worldwide severest recession of the last few decades. The cement industry had to cope with significantly declining demand after an extraordinary boom phase, which had come to a sudden halt in the fourth quarter 2008. Under a global perspective, the exceptional position of the Chinese market becomes obvious, which had already been the case during the last few years: Chinese consumption reached an increase in the order of 15% in 2009. China accounted for 53% of global consumption in 2009. While the newly industrializing countries are estimated to be affected by a decline of consumption of roughly 1%, the decline of demand was at almost 14% in the developed countries in 2009.

Anticipating significant declines of demand and a price slump, the cement industry has abruptly stopped a large number of, both on-going and future, capital investment projects. Equipment suppliers such as KHD were confronted with cancellations and postponements of orders and were now forced on their part to initiate an adjustment of capacities to the expected decline of capacity utilization.

The markets for KHD's products and services are highly competitive in terms of pricing and service quality. KHD's primary competitors are international companies with greater resources, capital and access to information than KHD. KHD faces intense competition from a number of significant competitors. In particular, Chinese companies which usually have a significant cost advantage, have become relatively stronger in recent years. In addition, some of KHD's competitors may become more aggressive in their pricing practices, which could force KHD to reduce prices or result in a loss of new business.

Effects of the world wide economic crisis on the market for cement plants

The ongoing economic crisis has had a significant negative impact on most segments of the world economy due to many factors including the effects of the subprime lending and general credit market crises, volatile but generally declining energy costs, slower economic activity, decreased consumer confidence and commodity prices, reduced corporate profits and capital spending, adverse business conditions, increased unemployment and liquidity concerns.

The cement plant engineering and equipment supply industry is cyclical in nature. It tends to reflect and be amplified by general economic conditions, both domestically and abroad. Historically, in periods of recession or periods of minimal economic growth, the operations underlying industrial plant engineering and equipment supply companies have been adversely affected. Certain end-use markets for clinker and cement experience demand cycles that are highly correlated to the general economic environment, which are sensitive to a number of factors outside of KHD's control. If such end-use markets for clinker and cement significantly deteriorate due to economic effects, KHD's assets, financial condition and results of operations could be materially and adversely affected.

The current economic crisis has had a significant negative impact on consumer confidence with reduced corporate profits and capital spending. The cement plant engineering and equipment supply industry is generally subject to lengthy sales cycles which lengthen considerably in a downturn. Customers who continue to spend in a downturn may often engage in intense due diligence putting additional contractual and scope risks on to the suppliers. With an increasing sales cycle, the power of negotiation may often rest with the customer who may be considering multiple tenders and options at the same time.

In addition, economic effects, including the resulting recession in various countries and slowing of the global economy, will likely result in a continued decrease in commercial and industrial demand for KHD's services and products. This is even more fuelled since during recessions or periods of slow growth, the construction industries typically experience major cutbacks in production which may result in decreased demand for KHD's products and services. Because KHD generally has high fixed costs, in particular for its personnel, KHD's profitability is significantly affected by decreased output and decreases in the demand for the design and construction of plant systems or equipment that produce or process clinker and cement.

Termination of existing customer contracts

During a downturn, the timing and implementation of some of KHD's projects, including large projects are typically affected. As a result, projects may be prolonged or even discontinued or cancelled. After the onset of the financial crisis in third quarter of 2008, one of KHD's customers entered into proceedings under the Companies' Creditors Arrangement Act (Canada), a creditors' relief statute. In addition, certain customers approached KHD requesting cancellations, delays or modifications regarding the scope of their contracts. During 2009, contracts of KHD totalling to EUR 62 million, have been cancelled.

Furthermore, KHD's customers may face deterioration of their business, cash flow shortages, and difficulty gaining timely access to sufficient credit, which could result in an impairment of their ability to make timely payments to KHD. Although customers in certain emerging markets have obtained bank guarantees or credit insurance to support credit extended to them, as these expire, there can be no assurance that such customers will be able to renew or extend the credit support previously made available.

KHD's typical business project involves three parties, being KHD, the customer and the respective subcontractor(s) and supplier(s). Under KHD's business model, KHD's has contracts with its customers and contracts with the respective subcontractor(s) and/or supplier(s). If a customer defaults on a contract with KHD, it is still liable to the subcontractor(s) and/or supplier(s) as the result of the contract(s) with the subcontractor(s) and/or supplier(s). However, as KHD's contracts with customers have cancellation clauses in place, in the event that KHD becomes liable to a subcontractor or supplier as a result of a customer defaulting on a contract with it, KHD has the right to pursue the defaulting customer for cancellation costs pursuant to the cancellation clauses.

In the event of the cancellation of a contract, KHD is typically contractually entitled to pursue the defaulting customer for some or all of: (a) compensation for the actual costs and expenses that KHD incurs or are charged by subcontractor(s) or supplier(s) for work performed and purchase orders placed to the date of the cancellation of the contract; (b) any engineering costs directly attributable to the contract; (c) the costs for removing KHD's equipment from the contract site and the return of equipment to it and/or the subcontractor(s) as well as the cost of the repatriation of KHD's and/or the subcontractor(s) personnel; (d) a percentage of the total amount due under the contract to the extent that such amount has not already been paid to KHD in sums already invoiced; and (e) a percentage of the total cancellation costs as overhead.

Influence of the project nature of KHD's business on its revenues and results of operations

KHD's cement plant engineering business is based on large projects which are typically characterized by long project cycles. From KHD's offer for the supply of equipment to commissioning of the equipment more than 24 months may be required.

It is usual practice that customers invite several manufacturers of cement plants to bid for a new cement plant project or participate in a complex tendering process. In the course of these bidding or tendering processes for a new project significant advance costs arise on the part of KHD which may be in excess of EUR 750,000 in individual cases. These costs are not reimbursed if the project is not awarded to KHD but lead to an increase in distribution expenses.

Payments by KHD's customers under a project agreement are typically made by means of a combination of advance payments and certain milestone payments depending on the progress of the project. As a result, KHD's revenue is generated predominantly from processing orders on hand and the corresponding project progress toward the completion of contracts resulting from the (recently high) demand in prior periods for cement plants according to the percentage-of-completion method. Historically, approximately 70 to 80% of order backlog has been converted into revenues within a 12-month period.

Due to its high historical order backlog, the strong decline of the cement markets in 2009 has not yet impacted on KHD's revenues and results of operations for the financial year 2009.

However, as a result of the crisis in the cement markets, KHD's order intake dropped sharply to EUR 120 million in 2009 after EUR 374 million in 2008 (-67.91%) and EUR 493 million in 2007 (-24.14%). In addition, it was necessary to reduce the order backlog by EUR 62 million on account of cancellation of orders that that already been booked 2008. This leads to a computational order intake of only EUR 58 million for 2009.

KHD's order backlog gives a similar picture. Order backlog, reduced by terminated customer contracts, at the close of 2008 was EUR 530 million after EUR 494 million at the close of 2007. On account of the low order intake and the simultaneous high level of sales, the consolidated order backlog has decreased strongly in 2009 by 59.81% to only EUR 213 million.

However, demand for KHD's product's and services has taken up in the nine month period ended 30 September 2010. Both order intake (EUR 227.3) and order backlog (EUR 361.3) as at 30 September 2010 rose sharply in comparison to 31 December 2009.

Although KHD believes that it will be possible to increase order intake in 2011, the above mentioned development of order intake, order backlog and revenues indicates that the forhcoming years will be marked by unsteadiness and volatile results of operations for KHD.

Risks from the project nature of KHD's business

Since KHD's business is based on large projects it faces certain risks which are imminent to the project business.

The principal risk for project execution includes failure to complete the project on time owing to unforeseen construction problems. In addition the plant or equipment constructed may not be able to handle the contracted volumes and quantities of product required by the customer because of design errors or errors in manufacturing or construction. These risks if they materialise may require KHD to pay penalties under the terms of the customer contract. KHD may also be faced with non-conformance of the plant and equipment it supplies which may lead to claims by the customers against it. In addition KHD may face warranty claims in connection with the industrial and engineering products and services that KHD provides. If KHD receives a significant number of warranty claims or claims for liquidated damages or non-performance of equipment, then KHD's resulting costs could be substantial and KHD could incur significant additional legal expenses evaluating or disputing such claims.

The delivery of projects is also subject to health & safety and environmental risks. Execution of projects may also be unsuccessful due to failure to comply with local legal and regulatory requirements; equipment shortages; availability, competence and capability of human resources and contractors; and mechanical and technical difficulties. Some projects may also require the use of new and advanced technologies, which can be expensive to develop, purchase and implement and which may not function as expected.

KHD's future revenues and profits are, to a significant extent dependent upon successfully executing projects, and therefore, on KHD's reputation with customers. Failure to execute projects successfully may impact KHD's ability to win new projects and therefore impact KHD's future business even more.

Restructuring programme

Effective 7 October 2009, KHD Group discontinued its activities in the coal & minerals business and, as part of this transaction, sold its shares in Humboldt Wedag Coal & Minerals Technology GmbH, Cologne/Germany ("**HWCMT**"), to an acquirer ultimately controlled by McNally Bharat, Engineering Company, Ltd. India (see "*General Information about the Company - Group History, Restructuring of KHD Ltd. Group and Reintegration of Subsidiaries - Disposal of business and assets to McNally Bharat*").

Also effective 7 October 2009, KHD's production operations (workshop) in Cologne/Germany were sold to the German subsidiary of the same acquirer by way of a so called asset deal. The goal of this disposal was to concentrate the Group's activities on provision of engineering services and to reduce the cost basis for risk minimisation purposes. As part of this disposal, the employees passed to the acquirer. Current orders of the Group are processed by the new owner of the workshop. The Group has generally reserved the possibility to continue to have construction contracts performed in the Cologne workshop.

On 11 September 2009, KHD AG's subsidiary HW GmbH entered into a capacity adjustment framework agreement with the works council, which is based on the assumption of an overcapacity of up to 80 employees based on the headcount as at 30 November 2008. This agreement specifies that it is possible to give notice of termination for operational reasons with effect from 30 August 2010. Accordingly, 80 employees have been layed off in the nine month period ended 30 September 2010.

Accordingly, in addition, a 12-month short-time working applied for was approved by the responsible German federal labour agency from the beginning of the financial year 2010, the situation in terms of capacity utilization and order intake has continuously been monitored in view of necessary human resources adjustments. As at 30 September 2010 to no individuals short-time working has been applied.

In 2008, a provision totalling roughly EUR 9.7 million had been made for a social plan. For this social plan, which related only to the engineering segment as at 31 December 2009 after the production operations had been disposed of, a provision of EUR 5.5 million was made, taking into account previous employee turnover, non-replacement of retiring employees and the recalculation of anticipated expenses. As at 30 September 2010 the provision was reduced to EUR 1.5 million.

Moreover, during the year ended 31 December 2009, KHD fundamentally restructured its business and organisational structure in order to improve profitability, competitiveness and efficiency of its global business. KHD services its customers now through four CSCs (Customer Service Centers) in India, EMEA (including Asia/Pacific), Americas and Russia/CIS. Global functional management and standardized processes and work methods are provided by KHD's headquarters in Cologne to the CSCs. A matrix organizational structure is in operation with each CSC supported and monitored by central functions. Parallel to this KHD is implementing an Enterprise, Resource Planning system to harmonize all of its business processes. This is expected to provide KHD with more transparency regardless of location and will support KHD in offering standardized products and services worldwide. This should enable KHD to deliver faster and more reliable data for global reporting and allow KHD to more effectively manage global and regional customers.

Access to adequate financing

In order to be able to pursue its cement plant projects business, KHD depends on the availability of adequate means for so called bonding (i.e. providing advance payment, performance or warranty bonds to customers).

KHD currently obtains Bonding under the terms of a revolving letter of guarantee facility agreement with Raiffeisen Bank International AG ("**RBI**"), formerly Raiffeisen Zentralbank Österreich AG, dated 20 November 2006 and amended from time to time, for a facility amount of up to EUR 150 million ("the **Bonding Facility Agreement**"). In addition, KHD AG (as arranger) and the subsidiaries of KHD AG will enter into a bonding arrangement agreement which stipulates the terms pursuant to which a security instrument (i.e. a bond) could be issued in favour of a customer under the Bonding Facility Agreement. The Bonding Facility Agreement has a term of one year ending 25 November 2011 subject to extension by mutual agreement. Since its inception, the Bonding Facility Agreement was renewed annually.

Under the Bonding Facility Agreement RBI agreed to issue security instruments, such as letters of credits, sureties, guarantees in favour of KHD AG and certain subsidiaries of KHD AG vis-a-vis their customers. KHD requires Bonding for providing advance and performance or warranty bonds in relation to any equipment to be supplied by KHD to its customers under irrevocable letters of credits provided by customers as payment security for a project. The vast majority of supply agreements concluded lead to a drawdown under the Bonding Facility Agreement automatically reducing the total amount still available for drawdowns under the Bonding Facility Agreement. The automatic reduction of facilities under the Bonding Facility Agreement may result in KHD not being able to make further business. This may significantly hamper KHD in its further developments and have a material adverse effect on KHD's results of operations.

With a view to the Restructuring (see *"General Information about the Company - Group History, Restructuring of KHD Ltd. Group and Reintegration of Subsidiaries - Restructuring and Reintegration of Subsidiaries*") KHD AG acceded to the Bonding Facility Agreement as additional guarantor until the Company replaces KIA GmbH as a borrower under the Bonding Facility Agreement. With an amendment to the Bonding Facility dated 18 November 2010 between KHD AG, KIA GmbH, TNRC Ltd. and RBI the Company acceded as borrower to the Bonding Facility and replaced KIA GmbH as borrower under the Bonding Facility Agreement.

Dependence on prices for raw materials

KHD depends on the demand for cement plants and related equipment and services. KHD may therefore be indirectly affected by changes in the prices and cost of raw materials, in particular steel and energy. The prices and demand for these products and materials and energy can fluctuate widely as a result of various factors beyond KHD's control such as supply and demand, exchange rates, inflation, changes in global economics, political and social unrest and other factors. Any substantial increases in the cost of such materials or energy, or the transportation and/or availability of such materials, could adversely affect the demand for cement and other related products. If the demand for cement and other related products decreases, then the demand for KHD's products and services will decrease as well.

Results of Operations

The table below presents the results of operations of the Company on the basis of the IFRS unaudited consolidated financial statements for the nine month period ended 30 September 2010 with comparable information for the nine month period ended 30 September 2009 as well as for the year ended 31 December 2009 with comparable information for the financial years ended 31 December 2008 and 2007:

	Nine month period ended 30 September		Year ended 31 December		
	2010	2009	2009	2008	2007
	IFRS (unaudited) in TEUR		IFRS (audited) in TEUR		
Revenue[(1)]	188,611	233,555	360,295	339,099	262,345
Cost of sales	-147,578	-195,542	-300,635	-283,804	-211,638
Gross profit	**41,033**	**38,013**	**59,660**	**55,295**	**50,707**
Other operating income	1,956	237	9,038	1,917	2,074
Distribution costs	-8,267	-9,856	-5,307	-7,082	-5,636
General and administrative expenses	-11,893	-7,101	-8,455	-8,447	-9,561
Other expenses[(2)]	-7,359	-7,197	-8,996	-8,544	-9,858
Restructuring income/expense	2,353	2,686	3,773	-9,755	
Net finance income	1,864[(3)]	3,427[(3)]	3,952	1,978	4,357
Profit before tax	**19,687**	**20,209**	**53,665**	**25,362**	**32,083**
Income tax expense	-10,206	-6,651	-16,497	-10,134	-4,133
Profit after tax from continued operations	**9,481**	**13,558**	**37,168**	**15,228**	**27,950**
Loss from discontinued operations	—	—	—	—	-5,366
Net profit for the year	**9,481**	**13,558**	**37,168**	**15,228**	**22,584**

(1) Revenue does only comprise continued operations. Revenue of discontinued operations accrued only in 2007 and amounted to TEUR 38,659.

(2) The rental expenses disclosed separately in 2007, which are not included in cost of sales (TEUR 688), were allocated to other expenses in the reporting period.

(3) Corresponds to the income statement item finance income and finance cost of the respective interim financial statements.

Comparison of results of operations for the nine month period ended 30 September 2010 and 30 September 2009

In the nine month period ended 30 September 2010, KHD's total revenue decreased by TEUR 44,944 (19.24%) to TEUR 188,611 from TEUR 233,555 in the nine month period ended 30 September 2009. Revenue is generated predominantly from processing orders on hand and the corresponding project progress toward the completion of contracts resulting from the high demand in prior periods for cement plants according to the percentage-of-completion method. The strong decline in revenues is due to the strong decline of the cement markets in 2009 which fully impacted the sales only in 2010 due to the long term production character of KHD's business.

Cement production, and as a direct result the market for equipment suppliers of cement producers, had abruptly slumped in the fourth quarter 2008. In 2009, the market situation did not improve significantly, however, in the nine month period to 30 September 2010 the market moved slightly upward again.

As a result, while the prior value for the nine month period ended 30 September 2009 was still at EUR 43.1 million, KHD's order intake rose to EUR 227.3 million in the nine month period ended 30 September 2010, representing an increase of 527.4%. The majority of this order intake pertains entirely project business in India.

Costs of sales mainly relate to raw materials (in particular steel), energy, components for machines and equipment procured from external suppliers, KHD's own engineering expenses, transport of equipment, financing costs, insurance costs and any other direct costs related to a customer order. Cost of sales also includes staff costs to the extent they relate to KHD's engineering staff and, until and including Q3 2009, production staff. Other staff costs, however, depending on their nature are recognised as distribution costs and general and administrative expenses, respectively.

In the nine month period ended 30 September 2010, cost of sales decreased by 24.53% or TEUR 47,964 to TEUR 147,578 from TEUR 195,542 in the nine month period ended 30 September 2009. The decrease reflects the decrease in revenues in the nine month period ended 30 September 2010.

KHD's overall cost of sales to revenue ratio increased to 21.8% in the nine month period ended 30 September 2010 (nine month period ended 30 September 2009: 16.3%).

KHD's total staff costs in the nine month period ended 30 September 2010 amounted to TEUR 29,336 (19.9% of cost of sales) as compared to TEUR 32,766 (16.8% of cost of sales) in the nine month period ended 30 September 2009, an decrease of TEUR 3,430 (10.5%).

In the nine month period ended 30 September 2010 and 2009, the average number of employees was 646 as compared to 566 in the nine months ended 30 September 2009. The increase in employees resulted from the acquisition of the Reintegration Subsidiaries.

As a result of the strong decrease in operating costs, KHD's **gross profits** increased from TEUR 38,013in the nine months ended 30 September 2010 by TEUR 3,020 (7.94%) to TEUR 41,033 with an overall gross margin of 21.8% (compared to 16.3% in the nine month period ended 30 September 2009). The increase in the nine month period ended 30 September 2010 was in particular due to some extraordinary effects from the revival of a contract which was treated as terminated in the period ended 30 September 2009 in which all costs related to such a termination were provided for.

Other operating income increased to TEUR 1,956 in the nine month period ended 30 September 2010 from TEUR 237 in the nine month period ended 30 September 2009, an increase of TEUR 1,719 (or 725.32%) which is primarily due to a positive effect from a terminated contract. Material in the amount of TEUR 2,300 had been written off in previous years but could be used in 2010.

Distribution costs principally comprise salaries of sales personnel and after-sales personnel, travel expenses, after-sales fees, and sales-related expenses, including marketing expenses, in particular expenses for bids and tenders, irrespective of the project or order being awarded to KHD or not.

Distribution costs decreased by TEUR 1,589 (or 16.12%) to TEUR 8,267 in the nine month period ended 30 September 2010 from TEUR 9,856 in the nine month period ended 30 September 2009. The decrease is primarily linked to a reduction of KHD's sales force.

General and administrative expenses mainly consist of salaries for administrative and IT personnel, statutory assurance expenses, office rent, IT and office equipment and other administrative expenses.

With TEUR 11,893 the general and administrative expenses in the nine month period ended 30 September 2010 were on a higher level than in the same period of the preceding year (30 September 2009: TEUR 7,101). The increase by TEUR 4,792 is mainly attributable to the consolidation of the Reintagration Companies. Moreover KHD Group has taken over administrative functions which were done by KIA GmbH before the Restructuring and the Reintagration, e.g. group budgeting, reporting and consolidation.

Other expenses consist of research and development costs, including the corresponding personnel, exchange losses, charges by affiliated companies and other expenses. Other expenses were stable (period ended 30 September 2010: TEUR 7.197 to 30 September 2009: TEUR 7.359).

Restructuring income/expense reflects provisions for restructuring and staff termination cost and is based on individual assumptions set up by the Company's management with respect to the expenses directly related to the restructuring according to a general individual value method that are not attributable to KHD's current business activities. This amount also includes severance payments to employees on the occasion of termination of employment relationships. However, the staff reduction program from end of 2008 was to a major extend effected by normal fluctuation with the effect that provisions could again be reduced. In the nine month period ended 30 September 2010 the restructuring income amounted to TEUR 2.686 compared to TEUR 2.353 in the same period of the preceeding year.

The **net finance income** basically describes the balance of finance income and finance costs.The net finance income of TEUR 1,864 comprised in particular interest income in an amount of TEUR 1,829 in the nine month period ended 30 September 2010 (2009:3,357).

The decrease in total net finance income in the nine month period ended 30 September 2010 was thus mainly a result of lower interest rates.

As a result, KHD's **profit before tax** decreased by TEUR 522 (2.58%) from TEUR 20,209 in the nine month period ended 30 September in 2009 to TEUR 19,687 in the nine month period ended 30 September 2010.

Income tax expense increased from TEUR 6,651 in the nine month period ended 30 September 2009 by TEUR 3,555 (34.83%) to TEUR 10,206 in the nine month period ended 30 September 2010. which was mainly due to a tax expense from a regular tax audit for the years 2004 to 2007 in the amount of TEUR 2,300.

The effective tax rate at KHD's group level is 33.6% in the nine month period ended 30 September 2010 (same period 2009: 32.9%).

As a result, KHD's **net profit** for the nine month period ended 30 September 2010 was TEUR 9,481, a decrease by TEUR 4,077 as compared to the net profit of TEUR 13,558 in the nine month period ended 30 September 2009, with the profit margin amounting to 5.0% in the nine month period ended 30 September 2010, a slight decrease as compared to the nine month period ended 30 September 2009 when the profit margin amounted to 5.8%.

The decrease was in particular due to higher administrative expenses due to the consolidation of the Reintegration Subsidiaries.

Comparison of results of operations for 2009 and 2008

In 2009, KHD's total revenue increased by TEUR 21,196 (6.25%) to TEUR 360,295 from TEUR 339,099 in 2008. Revenue is generated predominantly from processing orders on hand and the corresponding project progress toward the completion of contracts resulting from the high demand in prior periods for cement plants according to the percentage-of-completion method. Accordingly, the strong decline of cement markets in 2009 has not yet impacted on KHD's revenues.

The following table shows the regional split of revenues for the years 2009 and 2008 of KHD:

	Year ended 31 December	
	2009	**2008**
	IFRS (audited) in TEUR	
Europe	29,157	33,716
Of which Germany	19,935	14,173
Eastern Europe and Russia	162,687	97,198
North America/Canada	2,188	14,986
Middle East	99,192	110,030
India	28,179	31,609
Asia	32,980	48,984
Other	5,912	2,576
Total revenues	**360,295**	**339,099**

Cement production, and as a direct result the market for equipment suppliers of cement producers, had abruptly slumped in the fourth quarter 2008. In 2009, the market situation did not yet improve significantly, though there are tentative signs of a market recovery.

As a result, while the prior year's value was still at EUR 374 million, KHD's order intake dropped sharply to EUR 120 million in 2009, representing a decrease of 67.91%. The majority of this order intake pertains entirely to orders for spare parts globally and other orders for capital equipment in the emerging markets, particularly in India.

On account of the low order intake and the simultaneous high level of sales, the consolidated order backlog has decreased strongly in 2009 by 59.81% from EUR 530 million to EUR 213 million.

In addition, it was necessary to reduce the order backlog by EUR 62 million on account of cancellation of orders that had already been booked in 2008. This leads to a computational order intake of EUR 58 million.

Costs of sales mainly relate to raw materials (in particular steel), energy, components for machines and equipment procured from external suppliers, KHD's own engineering expenses, transport of equipment, financing costs, insurance costs and any other direct costs related to a customer order. Cost of sales also includes staff costs to the extent they relate to KHD's engineering staff and, until and including the first three quarters of financial year 2009, production staff. Other staff costs, however, depending on their nature are recognised as distribution costs and general and administrative expenses, respectively.

In 2009, cost of sales increased by 5.93% or TEUR 16,831 to TEUR 300,635 from TEUR 283,804 in 2008. The increase reflects the increase in revenues in 2009.

KHD's overall cost of sales to revenue ratio remained stable at 83.44% in 2009 (2008: 83.69%).

KHD's total Staff costs in 2009 amounted to TEUR 40,202 (13.37% of cost of sales) as compared to TEUR 41,938 (14.78% of cost of sales) in 2008, a decrease of TEUR 1,736 (4.14%).

However, as set out above, it should be noted that only those staff costs which are related to the engineering staff and, until and including Q3 2009, production staff (106 out of a total of 391 employees as at 31 December 2009; 212 employees out of 600 as at 31 December 2008), are recognised as cost of sales. Other staff costs, however, depending on their nature are recognised as distribution costs and general and administrative expenses, respectively.

The following is an analysis of total staff costs for the financial years 2009 and 2008:

	Year ended 31 December	
	2009	2008
	IFRS (audited) in TEUR	
Wages and salaries	34,742	36,054
Social security contributions and costs	5,460	5,884
Pension cost included in staff costs	—	—
Total staff costs	**40,202**	**41,938**

In financial years 2009 and 2008, the average number of employees was 522 as compared to 583 in the previous year.

As a result, KHD's **gross profits** increased from TEUR 55,295 by TEUR 4,365 (7.89%) to TEUR 59,660 with an overall gross margin of 16.56% compared to 16.31% in 2008.

Other operating income comprises exchange gains and other income, in particular income from the disposal of assets and shares in subsidiaries, and increased to TEUR 9,038 in 2009 from TEUR 1,917 in 2008, an increase of TEUR 7,121 (or 371.47%) which is primarily due to several factors.

The disposal of the production facility and of the shares in HWCMT to a German acquirer ultimately controlled by McNally Bharat, Engineering Company, Ltd. India resulted in other operating income of TEUR 2,029 in 2009.

In addition, in the consolidated financial statements as at 31 December 2008, it had been necessary to provide for risks resulting from several cancelled or postponed orders totalling EUR 15.7 million. As at the end of 2009, the impairment losses that had been recognised in 2008 could partly be reduced in connection with cancelled orders. This was, among other things, due to a release of risk provisions for a major order in India. At the end of 2008, the assessment of the stage of the order concerned had led to allowances on receivables, to a write-down of inventories and provisions for further uncovered costs. After a contractual arrangement regarding the continuation of this order was agreed and the customer concerned provided secure financing, KHD had released the related risk provision, which led to a positive earnings effect of TEUR 8,312.

Distribution costs principally comprise salaries of sales personnel and after-sales personnel, travel expenses, after-sales fees, and sales-related expenses, including marketing expenses, in particular expenses for bids and tenders, irrespective of the project or order being awarded to KHD or not.

Distribution costs decreased by TEUR 1,775 (or 25.06%) to TEUR 5,307 in 2009 from TEUR 7,082 in 2008. The decrease is primarily linked to a reduction of KHD's distribution personnel and a more efficient bidding process than in previous years.

As a result of the increase in revenues, the ratio of distribution costs to revenues decreased over the reporting period. It was 1.47% in 2009 as compared to 2.09% in 2008.

General and administrative expenses mainly consist of salaries for administrative and IT personnel, statutory assurance expenses, office rent, IT and office equipment and other administrative expenses.

With TEUR 8,455 the general and administrative in 2009 were essentially on the same level as in the previous year (2008: TEUR 8,447). As a result of the increase in revenues the ratio of administrative expenses to revenues decreased slightly to 2.35% in 2009 from 2.49% in 2008.

Other expenses consist of research and development costs, including the corresponding personnel, exchange losses, charges by affiliated companies and other expenses.

Charges by affiliated companies, in turn, include, among other things, charges for services in connection with the functions taken over by the group sister company KIA GmbH, especially for the function as the treasurer for all operative companies of KHD and management services. The bulk of these costs will no longer be charged following the Reintegration. Following the Reintegration any resulting overheads of KHD will be accounted for under general and administrative expenses.

The following is an overview of the development of other expenses in 2009 as compared to 2008:

	Year ended 31 December	
	2009	2008
	IFRS (audited) in TEUR	
Research and development............	3,090	2,928
Exchange loss................................	—	135
Charged by affiliated companies...	3,758	4,890
Other expenses..............................	2,149	591
Other expenses	**8,997**	**8,544**

Restructuring income/expense reflects provisions for restructuring and staff termination cost and is based on individual assumptions set up by the Company's management with respect to the expenses directly related to the restructuring according to a general individual value method that are not attributable to KHD's current business activities. This amount also includes severance payments to employees on the occasion of termination of employment relationships.

In 2008, a total provision based on best estimates of the management of TEUR 9,755 had been booked for the social plan which accounted as restructuring expenses in KHD's income statement for 2008. Following the actual disposal of the workshop, management had a much clearer basis for the planning and could now work on the basis of individual assumptions as opposed to best estimates as in 2008. As a result a reduced provision for the social plan of TEUR 5,450 was disclosed as at 31 December 2009, taking into account previous employee fluctuation, non-replacement of retired employees and the recalculation of the anticipated expenses.

Accordingly, in 2009 KHD recorded a restructuring income of TEUR 3,773 as compared to restructuring expenses in 2008 of TEUR 9,755.

The **net finance income** basically describes the balance of finance income and finance costs. The net finance income in 2009 and 2008 can be analysed as follows:

	Year ended 31 December	
	2009	2008
	IFRS (audited) in TEUR	
Interest income	3,092	7,578
Interest received from affiliated companies	650	2,108
Total interest income	**3,742**	**9,686**
Exchange gains from securities	1,695	—
Dividend income	68	106
Income from foreign currency translation	—	1,400
Other	—	368
Finance income	**5,505**	**11,560**
Exchange loss from securities	—	-8,358
Other finance cost	-332	—
Interest cost	-1,221	-1,224
Finance cost	**-1,553**	**-9,582**
Net finance income	**3,952**	**1,978**

The interest income basically includes interest income from loans, bank balances and cash equivalents. A partial amount of TEUR 1,715 relates to term deposit investments. The decrease in interest income by TEUR 5,944 to TEUR 3,742 is basically due to a strong decrease in interest rates for savings and short term financial instruments. Like in the prior year, the interest income exclusively relates to financial assets which are not measured at fair value with profit and loss impact.

The interest costs include interest added on the pension provisions in the amount of TEUR 1,142 in 2008 and TEUR 1,219 in 2009.

The increase in total net finance income in 2009 was thus mainly a result of exchange loss from securities.

As a result, KHD's **profit before tax** increased by TEUR 28,303 (111.60%) from TEUR 25,362 in 2008 to TEUR 53,665 in 2009.

Income tax expense increased from TEUR 10,134 in 2008 by TEUR 6,363 (62.79%) to TEUR 16,497 in 2009. Income tax expense comprises actual tax expense, which accounted for TEUR 11,724 in 2009 (2008: TEUR 2,396), and deferred tax expense which amounted to TEUR 4,773 in 2009 (2008: TEUR 7,738).

The anticipated tax expense is reconciled to the actual tax expense as follows:

	Year ended 31 December	
	2009	2008
	IFRS (audited) in TEUR	
Profit before taxes on income	53,665	25,362
Average tax rate	31.60%	31.60%
Anticipated tax expense	-16,958	-8,014
- Variance in deferred tax on loss carry-forwards	—	-3,047
- other amounts allocated and deducted without tax impact	461	927
Tax expense	**-16,497**	**-10,134**

The effective tax rate at KHD's group level is 30.74% (prior year: 39.96%).

In 2008 and 2009 there was no **income (loss) from discontinued operations** due to the real property business of KHD having been discontinued in 2007.

As a result, KHD's **net profit** for the financial year 2009 was TEUR 37,168, an increase by TEUR 21,940 (representing 144.08%) as compared to the net profit of TEUR 15,228 in 2008, with the profit margin amounting to 10.32% in 2009, a strong increase as compared to 2008 when the profit margin amounted only to 4.49%.

Comparison of results of operations for 2008 and 2007

KHD's **revenues** in 2008 were exclusively earned from industrial plant engineering and equipment supply and related technical and business services. KHD had discontinued its real property activities completely in 2007.

In 2008 total revenues increased by TEUR 38,095 (12.66%) to TEUR 339,099 from TEUR 301,004 in 2007 despite a strong decline of order intake, in particular in the fourth quarter 2008. The increase was primarily the result of ongoing progress toward the completion of contracts resulting from the high demand in prior periods for cement plants in Russia and the CIS states and to some extent in Europe. The increase is also to be seen in light of extraordinary revenues from the sale of KHD's real property portfolio in 2007 which generated revenues of TEUR 36,952. The actual increase in continued operations was thus 29.26%. See below for the segment reporting.

The following table shows the regional split of total revenues (including revenues from discontinued operations) for the years 2008 and 2007 of KHD:

	Year ended 31 December	
	2008	2007
	IFRS (audited) in TEUR	
Europe	143,746	122,292
North America	14,986	12,706
CIS	97,198	24,519
India	31,609	34,614
Rest of Asia	48,984	84,295
Other	2,576	22,578
Total revenues	**339,099**	**301,004**

The decrease in revenues from Asia (excluding India) and the rest of the world reflects the size of individual cement plant orders which can range, based on the Company's experience, between TEUR 100 and TEUR 90,000, and is thus within the scope of usual year to year fluctuation.

However, the operative companies of KHD were unable to maintain the high level of order intake in 2007. In 2008 KHD's order intake decreased to EUR 374 million, compared to EUR 493 million in 2007, representing a decrease of 24.14%. The majority of this order intake was in the cement business and originated especially from Eastern Europe and India. In the fourth quarter 2008 no major intakes were recorded.

Despite a reduction in order intake, order backlog, reduced by terminated customer contracts, at the close of 2008 increased by 7.29% to EUR 530 million from EUR 494 million at the close of 2007.

The following table shows the changes in revenues according to segment for the years 2007 and 2008:

	Year ended 31 December	
	2008	2007
	IFRS (audited) in TEUR	
Revenue from continued operations	339,099	262,345
Rental income from discontinued operations	—	1,707
Real property sale	—	36,952
Total revenues	**339,099**	**301,004**

As shown above revenues from continued operations rose from TEUR 262,345 in 2007 to TEUR 339,099 in 2008, an increase of TEUR 76,754 (29.26%).

Costs of sales mainly relate to raw materials (in particular steel), energy, components for machines and equipment procured from external suppliers, KHD's own engineering expenses, transport of equipment, financing costs, insurance costs and any other direct costs related to a customer order. Cost of sales also includes staff costs to the extent they relate to KHD's engineering staff and production staff. Other staff costs, however, depending on their nature are booked to distribution expenses and general and administrative expenses, respectively.

In 2008, cost of sales for KHD's industrial plant engineering and equipment supply business increased by 34.10% or TEUR 72,166 to TEUR 283,804 from TEUR 211,638 in 2007. The increase reflects the increase in revenues in 2008 in continued operations.

When taking into account revenues and cost of sales, KHD's gross margin decreased from 19.33% in 2007 to 16.31 % in 2008.

The deterioration of the gross margin is chiefly due to the high charges within the scope of terminated or postponed orders on hand.

KHD's overall cost of sales to revenue rose from 80.67% in 2007 to 83.69% in 2008.

Staff costs in 2008 amounted to TEUR 41,938 (14.78% of cost of sales) as compared to TEUR 39,202 (18.52% of cost of sales) in 2007, an increase of TEUR 2,736 (6.98%) but a decrease against cost of sales in 2008.

As set out above, it should be noted that only those staff costs which are related to the engineering staff and production staff (212 employees out of 600 as at 31 December 2008 and 203 employees out of 530 as at 31 December 2007), are booked to cost of sales. Other staff costs, however, depending on their nature are booked to distribution expenses and general and administrative expenses, respectively.

The following is an analysis of staff costs for the financial years 2008 and 2007:

	Year ended 31 December	
	2008	2007
	IFRS (audited) in TEUR	
Wages and salaries	36,054	33,185
Social security contributions and costs	5,884	5,525
Pension cost included in staff costs	—	492
Total staff costs	**41,938**	**39,202**

In financial year 2008 the average number of employees was 583 as compared to 518 in the previous year.

As a result, KHD's **gross profit** increased from TEUR 50,707 by TEUR 4,588 (representing 9.05%) to TEUR 55,295 with an overall gross margin of 16.31% compared to 19.33% in 2007.

Other operating income comprises exchange gains and other income, in particular gains from divestures, and decreased to TEUR 1,917 in 2008 from TEUR 2,074 in 2007, a decrease of TEUR 157 (or 7.57%). Exchange gains increased from TEUR 103 in 2007 to TEUR 421 in 2008. The other income basically results from recharges and a licence agreement with KIA GmbH and decreased to TEUR 1,496 in 2008 from TEUR 1,969 in 2007.

Distribution expenses principally comprise salaries of sales personnel and after-sales personnel, travel expenses, after-sales fees, and sales-related expenses, including marketing expenses, in particular expenses for bids and tenders, irrespective of the project or order being awarded to KHD or not.

Distribution expenses increased by TEUR 1,446 (or 25.66%) to TEUR 7,082 in 2008 from TEUR 5,636 in 2007. The increase is primarily linked to a decrease in the number of project awards in KHD's industry. While there are still a high number of requests for bids and tenders, the number of projects actually awarded after completion of the tendering process was down due to a combination of financing constraints and market conditions that have impacted customers' decisions as to whether to proceed with projects. This resulted in an increase in KHD's sales, marketing and tendering costs as KHD continued to invest time in the preparation of proposals and bids for opportunities that were not subsequently awarded (such costs only being chargeable to projects in the event that bids are successful).

The ratio of distribution expenses to revenues decreased over the reporting period as a whole. It was 2.09% in 2008 as compared to 2.15% in 2007.

General and administrative expenses mainly consist of salaries for administrative and IT personnel, statutory assurance expenses, office rent, IT and office equipment and other administrative expenses and decreased from TEUR 9,561 in 2007 by TEUR 1,114 (11.65%) to TEUR 8,447 in 2008. The decrease primarily resulted from costs for the relocation of the administrative staff from Cologne-Kalk to Cologne-Holweide.

The ratio of administrative expenses to revenues decreased to 2.49% in 2008 from 3.64% in 2007.

Other expenses consist of research and development costs, including the corresponding personnel, exchange losses, charges by affiliated companies and other expenses, including other expenses related to discontinued businesses (which were not applicable in 2008).

Charges by affiliated companies, in turn, include, among other things, charges for services in connection with the functions taken over by the KIA GmbH (then a sister company), especially for the function as the treasurer for all operative Companies of KHD and management services.

The following is an overview of the development of other expenses in 2008 as compared to 2007:

	Year ended 31 December	
	2008	2007
	IFRS (audited) in TEUR	
Research and development............	2,928	2,086
Exchange loss................................	135	925
Charged by affiliated companies...	4,890	5,536
Miscellaneous expenses................	591	1,329
Other expenses of discontinued operations.....................................	—	-18
Other expenses	**8,544**	**9,858**

Restructuring expense reflects provisions for restructuring and staff termination cost and is based on best estimates of the Companies Executive Board with respect to the expenses directly related to the restructuring according to a general individual value method that are not attributable to KHD's current business activities. This amount also includes severance payments to employees on the occasion of termination of employment relationships. Restructuring expense was accounted for only in 2008 at TEUR 9,755. The related provision was based on the assumption that the workforce in the engineering and production areas would here to be adjusted by 25% in 2009. On account of this restructuring provision and the increase in income tax expense by approximately TEUR 6,000. KHD's net profits for 2008 from continued operations decreased from TEUR 22,584 by 32.57% to TEUR 15,228.

The **net finance income** basically describes the balance of finance income and finance costs. The net finance income in 2008 and 2007 can be analysed as follows:

	Year ended 31 December	
	2008	2007
	IFRS (audited) in TEUR	
Interest income	7,578	4,065
Interest received from affiliated companies	2,108	2,065
Total interest income	9,686	6,130
Dividend income	106	220
Income from currency translation	1,400	166
Other	368	—
Finance income	**11,560**	**6,516**
Variance in fair value of securities	8,358	220
Other interest expenses	1,224	1,533
Interest paid to affiliated companies	—	197
Total interest cost	1,224	1,730
Finance cost	**9,582**	**1,950**
Net finance income taking into account discontinued operations	**1,978**	**4,566**
Of which related to discontinued operations	—	-209
Net finance income of continued operations	**1,978**	**4,357**

The interest income basically includes interest income from loans, bank balances and cash equivalents. A partial amount of TEUR 6,663 in 2008 (2007: TEUR 6,012) related to term deposit investments. The increase in interest income by TEUR 3,513 to TEUR 7,578 in 2008 is basically due to an increase in bank balances as a result of higher cash and cash equivalents in 2008 than in 2007.

The interest expenses include interest added on the pension provisions in the amount of TEUR 1,039 in 2007 and TEUR 1,142 in 2008.

The interest income shown relates exclusively to financial instruments which are not measured at fair value with profit and loss impact. The interest cost disclosed includes interest of TEUR 76 in 2008 (2007: TEUR 691) that relates to such financial instruments.

The decrease in total net finance income was a result of lower market values of financial instruments which required an impairment of TEUR 8,358 in 2008.

As a result, KHD’s **profit before tax** decreased by TEUR 6,721 (20.95%) from TEUR 32,083 in 2007 to TEUR 25,362 in 2008.

Income tax expense from continued operations increased from TEUR 4,133 in 2007 by TEUR 6,001 (145.20%) to TEUR 10,134 in 2008. Income tax expense comprises actual tax expense, which accounted for TEUR 2,396 in 2008 (2007: TEUR 4,747), and deferred tax expense /income (-), which amounted to TEUR 7,738 in 2008 (2007: TEUR -614). The increased income tax expense is basically due to lower deferred tax assets and higher deferred tax liabilities in comparison with the prior year. The variance in deferred tax liabilities is due to a higher total amount of timing differences, which were especially caused by revenue determination according to the POC method by appropriate application of IAS 11.

As a result of the sale of KHD’s property portfolio in 2007 an extraordinary tax expense of TEUR 6,469 arose which lead to total tax expenses in 2007 of TEUR 10,602.

The anticipated tax expense is reconciled to the actual tax expense as follows:

	Year ended 31 December 2008	2007
	IFRS (audited) in TEUR	
Profit before taxes on income of continued and discontinued operations	25,362	33,186
Average tax rate	31.60%	40.00%
Anticipated tax expense	-8,014	-13,274
Deferred tax on loss carryforwards realised/capitalised	-3,047	6,931
Impact on deferred tax due to		
- variance in tax rate in Germany	—	-3,738
- other amounts allocated and deducted without tax impact	927	-521
Tax expense of the year	**-10,134**	**-10,602**

The effective tax rate at KHD's group level is 39.96% (prior year: 31.90%).

As a result, KHD's **net profit** from continued operations for the financial year 2008 was TEUR 15,228, a decrease by TEUR 12,722 (representing 45.52%) as compared to the net profit of TEUR 27,950 in 2007, with the net profit margin amounting to 4.49% in 2008 (2007: 10.65%).

KHD's total net profit for the financial year 2007, however, amounted to TEUR 22,584 due to a loss from its real property business of TEUR 5,366. The corresponding net profit margin was 7.50% based on total revenues of TEUR 301,004 (including discontinued operations).

Development of assets and liabilities of KHD

Net Assets

The table below presents the consolidated assets of the Company on the basis of the IFRS audited financial statements as at 30 September 2010 with comparative figures as at 30 September 2009 and as at 31 December 2009, 2008 and 2007:

	30 September 2010	2009	31 December 2008	2007
	IFRS (unaudited) in TEUR		IFRS (audited) in TEUR	
ASSETS				
Property and equipment	2,544	1,526	2,624	2,608
Goodwill	2,127	2,127	2,127	2,127
Other intangible assets	833	316	445	289
Deferred tax assets	880	237	701	4,565
Non-current financial assets	851	51,741	70,332	55,569
Total non-current assets	**7,235**	**55,947**	**76,229**	**65,158**
Inventories	12,325	13,663	6,241	3,997
Gross amount due from customers for contract work	19,187	38,413	47,863	51,929
Trade and other receivables	74,730	49,387	43,482	39,591
Intercompany receivables	—	3,678	19,085	8,178
Payments made in advance	32,377	26,235	29,052	13,117
Other financial assets	1,553	5,260	3,565	16,346
Income tax assets	2,724	11,461	—	—
Cash and cash equivalents	259,484	225,844	204,636	166,681
Total current assets	**402,380**	**373,941**	**353,924**	**299,839**
Total assets	**409,615**	**429,888**	**430,153**	**364,997**

Comparison of KHD's net assets as at 30 September 2010 and 31 December 2009

Property and equipment mainly comprise IT equipment (hard- and software) as well as office equipment. The increase from TEUR 1,526 as at 31 December 2009 by 1.018 (66.7%) in comparison to TEUR 2.544 as at 30 September 2010 relates to the consolidation of the Reintegration Subsidiaries.

Property, plant and equipment are depreciated over time. Depreciation is applied by the straight line method in accordance with expected useful lives.

The **goodwill** shown as at 30 September 2010 and 31 December 2009 results from the acquisition of HW GmbH in 2002 and represents the difference between the equity value and the purchase price paid.

Other intangible assets exclusively relate to SAP licences at the level of HW GmbH. The increase from TEUR 316 as at 31 December 2010 and TEUR 833 as at 30 September 2010 by TEUR 517 (163%) relates to the transfer of an ongoing SAP project from KIA GmbH in the course of the Restructuring.

The predominant portion of amortisation and write-downs are included in cost.

Deferred tax assets increased from TEUR 237 as at 31 December 2009 by TEUR 643 (73%) to TEUR 880 as at 30 September 2010.

The Company has recognised deferred income tax from temporary differences between the IFRS and tax balance sheets. As in the prior year, the underlying tax rate in 2010 was 33.5%. This basically corresponds to the German income tax rates.

Deferred income tax assets are recognised for tax loss carry-forwards only to the extent that the corresponding tax benefit is likely to occur.

Non-current financial assets comprise long-term borrowings to affiliates and other non-current financial assets and decreased from TEUR 51,741 as at 30 December 2009 to TEUR 851 as at 30 September 2010 by TEUR 50,890 (98.36%). The decrease is due to the repayment of loans by KIA GmbH which, in turn, increased KHD's cash position (see below "*Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources - Comparison of cash-flows for the nine month period ended 30 September 2010 and 2009 - Cash and cash equivalents*").

As a result, **total non-current assets** amounted to TEUR 7,235 as at 30 September 2010, a decrease of TEUR 48,712 (87.1%) from TEUR 55,947 as at 30 September of the previous year.

Inventories relate to raw materials and consumables and supplies as well as work in progress and write-downs to net selling prices and decreased from TEUR 13,663 as at 31 December 2009 by TEUR 1,338 (9.8%%) to TEUR 12,325 as at 30 September 2010. As at 30 September 2010 inventories include inventories transferred from HW India in the course of the Reintegration. Beyond that the decrease in inventories was due to lower business volume in 2010

The **gross amount due from customers for contract work** reflects exclusively claims under KHD's construction contracts and decreased from TEUR 38,413 as at 30 December 2009 by TEUR 19,226 (50%) to TEUR 19,187 as at 30 September 2010. This was mainly due to a decrease in new business and, accordingly, order intake.

In accounting for claims or commitments under construction contracts, the profits and costs recognised are disclosed after netting progress billing, advances and loss-making contracts.

Trade and other receivables increased by TEUR 25,343 (33,9%) to TEUR 74,730 as at 30 September 2010 from TEUR 49,387 as at 31 December 2009. Much of the strong increase was due to reintegration of HW India which historically has a high amount of trade and other receivables. Moreover, an amount of TEUR 12.931 relates to receivables against KIA GmbH which has deposited this amount as as cash deposit of KHD in relation to the Bonding Facility.

The following table gives an overview of the age structure of overdue, but non-impaired receivables:

	30 September 2010	31 December 2009
	IFRS (unaudited) in TEUR	
60 to 90 days	871	241
90 to 120 days	1,768	20
More than 120 days	5,259	1,231
Total	**7,898**	**1,492**

Intercompany receivables decreased from TEUR 3,678 as at 31 December 2009 to TEUR 0 as at 30 September 2009 as a result of consolidation from the Reintegration Subsidiaries in 2010.

Payments made in advance by customers under KHD's construction contracts increased slightly by TEUR 6,142 (18.97%) to TEUR 32,377 as at 30 September 2010 from TEUR 26,235 as at 31 December 2009 due to the consoloidation of HW India and other Integration Subsidiaries.

The decrease in **other financial assets** from TEUR 5,260 as at 30 Septmeber 2010 by TEUR 3,707 (70.47%) to TEUR 1,553 as at 30 September 2009 was due a sale of held securities.

Income tax assets which related mainly to withheld capital gains tax *(einbehaltene und abgeführte Kapitalertragsteuer)* in connection with dividend payments by KHD GmbH and ZAB, which will largely be refund by the German tax authorities, amounted to TEUR 2,724.

KHD reported **cash and cash equivalents** of TEUR 259,484 as at 30 September 2010 after TEUR 225,844 in the previous year, an increase of TEUR 33,640 (12.96%). This increase was mainly due to the repayment of loans by KIA.

The following as a breakdown of cash and cash equivalents as at 30 September 2010 and 31 December 2009:

	30 September 2010	31 December 2009
	IFRS (unaudited) in TEUR	
Bank balances and cash	71,977	91,210
Short-term and restricted bank deposits	187,507	133,973
Cash with restraint on disposal, encumbrance or alienation for collateralisation or guarantees	668	661
Cash and cash equivalents	**259,484**	**225,844**

The amount shown as "Cash with restraint on disposal, encumbrance or alienation for collateralisation or guarantees" of TEUR 668 as at 30 September 2010 (30 September 2009: TEUR 688) was deposited with banks as collaterals for furnishing guarantees.

For changes in cash funds see below "*Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources*".

As a result, KHD's **total assets** of TEUR 409,615 as at 30 September 2010 decreased by TEUR 20,273 (4.72%) (30 September 2009: TEUR 429,888).

Comparison of KHD's net assets as at 31 December 2009 and 2008

Property and equipment mainly comprise the work shop in Cologne, machinery and equipment, including IT and office equipment, and leaseholds. In financial years 2008 and 2009 KHD did not own any real property. As at 31 December 2009, KHD's property and equipment decreased to TEUR 1,526 as compared to TEUR 2,624 as at 31 December 2008, a decrease of TEUR 1,098 or 41.84%.

Property, plant and equipment are depreciated over time. Depreciation is applied by the straight line method in accordance with expected useful lives.

The following table shows acquisition costs, accumulated depreciation and write-downs as well as the net carrying amount as balance for KHD's equipment and leasehold:

	Leasehold improvements/ re-establishment of previous structural conditions in TEUR	Equipment in TEUR	Total in TEUR
Acquisition cost			
31 Dec. 2007	**717**	**17,999**	**18,716**
Additions	—	934	934
Disposals	—	-303	-303
31 Dec. 2008	**717**	**18,630**	**19,347**
Additions	—	627	627
Disposals	**-657**	-12,887	-13,544
31 Dec. 2009	**60**	**6,370**	**6,430**
Accumulated depreciation and write-downs			
31 Dec. 2007	**449**	**15,659**	**16,108**
Additions	56	853	909
Disposals	—	-294	-294
31 Dec. 2008	**505**	**16,218**	**16,723**
Additions	42	804	846
Disposals	-520	-12,145	-12,665
31 Dec. 2008	**27**	**4,877**	**4,904**
Net carrying amount			
31 Dec. 2008	**212**	**2,412**	**2,624**
31 Dec. 2009	**33**	**1,493**	**1,526**

The disposals of the financial year 2009 include net carrying amounts that relate to the disposals of CMT and of the production operations in the amount of TEUR 159 and TEUR 577, respectively.

The **goodwill** shown as at 31 December 2009 and 2008 results from the acquisition of HW GmbH in 2002 and represents the difference between the equity value and the purchase price paid. The carrying amount is regularly examined for impairment through comparison with its value in use. This calculation is based on the medium-term planning approved by management, which covers a 5-year period. To determine the value contributed by perpetuity (value contributed after expiration of the detailed planning period), operative, sustained cash flows are extrapolated, using a growth rate of 2.0% p.a. This growth rate reflects management's long-term expectation. The discounting factor was developed on the basis of market data and amounts to 12.01% before tax (prior year: 14.05%). As the value in use exceeded the carrying amount, no write-downs had to be made under IAS 36.

A respective reduction of the cash flows and a respective increase in the discounting rate and, hence, the major measurement parameters of 1.0% do not lead to a material reduction that would cause a write-down requirement.

As in the prior year, the goodwill in the amount of TEUR 2,127 (2008: TEUR 2,127) fully relates to KHD's industrial plant engineering segment in Germany.

Other intangible assets exclusively relate to SAP licences at the level of HW GmbH.

The following is an analysis of the acquisition costs, accumulated depreciation and write-downs as well as the net carrying amount as balance in relation to KHD's goodwill and other intangible assets:

	Goodwill in TEUR	Licenses in TEUR	Total in TEUR
Acquisition cost			
31 Dec. 2007	**2,127**	**1,890**	**4,017**
Additions	—	351	351
Disposals	—	—	—
31 Dec. 2008	**2,127**	**2,241**	**4,368**
Additions	—	106	106
Disposals	—	-90	-90
31 Dec. 2009	**2,127**	**2,257**	**4,384**
Accumulated amortisation and write-downs			
31 Dec. 2007	**—**	**1,601**	**1,601**
Additions	—	195	195
Disposals	—	—	—
31 Dec. 2008	**—**	**1,796**	**1,796**
Additions	—	241	241
Disposals	—	-96	-96
31 Dec. 2009	**—**	**1,941**	**1,941**
Net carrying amount			
31 Dec. 2008	**2,127**	**445**	**2,572**
31 Dec. 2009	**2,127**	**316**	**2,443**

The predominant portion of amortisation and write-downs are included in cost.

Deferred tax assets decreased from TEUR 701 as at 31 December 2008 by TEUR 464 (66.19%) to TEUR 237 as at 31 December 2009.

The Company has recognised deferred income tax from temporary differences between the IFRS and tax balance sheets. As in the prior year, the underlying tax rate in 2009 was 31.6%. This basically corresponds to the German income tax rates.

Deferred income tax assets are recognised for tax loss carry-forwards only to the extent that the corresponding tax benefit is likely to occur.

The total amount of the non-forfeitable loss carry-forwards at group level is EUR 57.4 million (31 December 2008: EUR 97.9 million) for corporate income tax and EUR 62.4 million (31 December 2008: EUR 75.6 million) for municipal trade tax, with corresponding corporate income tax loss carry-forwards of EUR 8.9 million (31 December 2008: EUR 47.2 million) being used for determining deferred taxes. No deferred taxes were capitalised for corporate income and trade tax loss carry-forwards in the amount of EUR 48.5 million (31 December 2008: EUR 50.7 million) and EUR 62.4 million (31 December 2008: EUR 54.6 million), respectively.

Deferred tax assets as well as deferred tax liabilities arose from the following items:

	31 December	
	2009	2008
	IFRS (audited) in TEUR	
Deferred tax assets		
Provisions	1,143	1,194
Tax loss carry-forwards capitalised	2,155	10,810
Netted with deferred tax liabilities	-3,061	-11,303
	237	701
Deferred tax liabilities		
Work in progress/POC method	-12,816	-16,749
Netted with deferred tax assets	3,061	11,303
	-9,755	**-5,446**

Non-current financial assets comprise long-term borrowings to affiliates and other non-current financial assets and decreased from TEUR 70,332 as at 31 December 2008 to TEUR 51,741 as at 31 December 2009 by TEUR 18,591 (26.43%). The decrease is due to the repayment of loans by affiliated companies which, in turn, increased KHD's cash position (see below "*Management's Discussion and Analysis of Financial Condition and Results of Operations* - *Liquidity and Capital Resources* - *Comparison of cash-flows for 2009 and 2008* - *Cash and cash equivalents*").

The following table analyses the non-current financial assets as at 31 December 2009 and 2008:

	31 December	
	2009	2008
	IFRS (audited) in TEUR	
Long-term borrowings to affiliates	47,676	69,736
Other non-current financial assets	4,065	596
Non-current receivables and non-current financial assets	**51,741**	**70,332**

The free liquidity transferred by KHD to its then sister company KIA GmbH, which performed the treasury function for all operative companies of KHD then, amounted to TEUR 47,676 as at 31 December 2009 and TEUR 69,736 31 December 2008. Although all underlying contracts have a short term, the amounts are disclosed under non-current financial assets on account of their economic use because a short term repayment was not intended.

The free liquidity transferred to KIA GmbH accrued interest at 1-month EURIBOR minus 100 base points. TEUR 16,750 of this liquidity (31 December 2008: TEUR 17,866) were deposited at the level of KIA GmbH within the scope of drawings on the guarantee line granted by RBI (formerly RZB) that existed at the level of KIA GmbH. The guarantee deposit accrued interest at the respective current interest rate minus 100 base points. These related receivables had been secured by KHD Ltd. in its capacity as the parent company of KHD as a whole.

The increase in other non-current financial assets results from deferral of an account receivable from a customer in the amount of TEUR 3,251 until 30 August 2011, which accrues interest at a rate of 4% p.a. The interest is payable on each 31 December /30 June in a year.

As a result, **total non-current assets** amounted to TEUR 55,947 as at 31 December 2009, a decrease of TEUR 20,282 (26.61%) from TEUR 76,229 as at 31 December of the previous year.

Inventories relate to raw materials and consumables and supplies as well as work in progress and write-downs to net selling prices and increased strongly from TEUR 6,241 as at 31 December 2008 by TEUR 7,422 (118.92%) to TEUR 13,663 as at 31 December 2009. This was mainly due to a sharp increase in work in progress which, in turn, resulted from the measurement of components of cancelled orders that are suitable for disposal. These components are measured at the expected selling price realisable in the market.

The following is an analysis of the development of KHD's inventories between 31 December 2008 and 2009:

	31 December	
	2009	2008
	IFRS (audited) in TEUR	
Raw materials, consumables and supplies	9,056	9,140
Work in progress	7,609	40
Write-downs to net selling price	-3,002	-2,939
Inventories	**13,663**	**6,241**

The **gross amount due from customers for contract work** reflects exclusively claims under KHD's construction contracts and decreased from TEUR 47,863 as at 31 December 2008 by TEUR 9,450 (19.74%) to TEUR 38,413 as at 31 December 2009. This was mainly due to a decrease in new business and, accordingly, order intake. In addition, the cancellation and prolongation of existing customer contracts resulted in a decrease in the number of milestone payments in accordance with project progress.

In accounting for claims or commitments under construction contracts, the profits and costs recognised are disclosed after netting progress billing, advances and loss-making contracts. The following is an overview of the derivation of claims and commitments under KHD's customer contracts as shown in the balance sheet:

	31 December 2009	31 December 2008
	IFRS (audited) in TEUR	
Cost previously incurred for work in progress	127,644	164,811
Proportionate profits under these contracts previously recognised	41,702	43,378
Total costs incurred and profits disclosed	169,346	208,189
Less netted contract losses and provisions	-1,772	-1,329
Less process billing and advances received	-176,574	-272,326
Balance of construction contracts	**-9,000**	**-65,466**
This amount is disclosed in the balance sheet as follows:		
Gross amount due from customers for contract work	38,413	47,863
Gross amount due to customers for contract work	-47,413	-113,329
Balance of construction contracts	**-9,000**	**-65,466**
Gross amount due to customers for contract work	-47,413	-113,329
Advances received under construction contracts without services rendered	-3,723	-4,137
Commitments under construction contracts	**-51,136**	**-117,466**

Trade and other receivables increased by TEUR 5,905 (13.58%) to TEUR 49,387 as at 31 December 2009 from TEUR 43,482 as at 31 December 2008. Trade receivables (gross) rose to TEUR 42,264 as at 31 December 2009 from TEUR 33,909 as at 31 December 2008 (+24.64%). Other receivables, which include assets that result from input tax claims in the amount of TEUR 4,929 (31 December 2008: TEUR 2,504), decreased from TEUR 10,335 as at 31 December 2008 by TEUR 2,560 (24.77%) to TEUR 7,775 as at 31 December 2009.

No allowances were made in the reporting period for trade receivables in the amount of TEUR 1,492 (prior year: TEUR 2,451) which had been overdue at the repayment date because no material change in the credit standing of these debtors was identified and the outstanding amounts were expected to be settled on a timely basis.

The following table gives an overview of the age structure of overdue, but non-impaired receivables:

	31 December 2009	31 December 2008
	IFRS (audited) in TEUR	
60 to 90 days	241	708
90 to 120 days	20	674
More than 120 days	1,231	1,069
Total	**1,492**	**2,451**

The following table gives an overview of the movements in allowances in 2008 and 2009:

	31 December	
	2009	**2008**
	IFRS (audited) in TEUR	
Allowance at the beginning of the year	762	1,012
Addition	405	452
Utilisation	-377	-554
Reversal	-138	-148
Allowance at the end of the year	**652**	**762**

Intercompany receivables decreased significantly from TEUR 19,085 as at 31 December 2008 by TEUR 15,407 (80.73%) to TEUR 3,678 as at 31 December 2009. This was mainly due to the repayment of loans extended by KHD to KHD Ltd. Group companies. Together with non-current borrowings and intercompany receivables, borrowings and intercompany receivables fell by TEUR 37,467 from TEUR 88,821 in the prior year to TEUR 51,354 as at 31 December 2009.

Payments made in advance by customers under KHD's construction contracts decreased slightly by TEUR 2,817 (9.70%) to TEUR 26,235 as at 31 December 2009 from TEUR 29,052 as at 31 December 2008 due to the decline in order intake.

The increase in **other financial assets** from TEUR 3,565 by TEUR 1,695 (47.55%) to TEUR 5,260 as at 31 December 2009 was due to exchange gains as at 31 December 2009.

Income tax assets which related to withheld capital gains tax *(einbehaltene und abgeführte Kapitalertragsteuer)* in connection with dividend payments by KHD GmbH and ZAB, which will largely be refund by the German tax authorities, were only shown as at 31 December 2009 and amounted to TEUR 11,461.

KHD reported **cash and cash equivalents** of TEUR 225,844 as at 31 December 2009 after TEUR 204,636 in the previous year, an increase of TEUR 21,208 (10.36%). This increase was mainly due to the repayment of loans by sister company KIA GmbH.

The following as a breakdown of cash and cash equivalents for 2008 and 2009:

	31 December	
	2009	**2008**
	IFRS (audited) in TEUR	
Bank balances and cash	91,210	18,770
Short-term and restricted bank deposits	133,973	184,199
Cash with restraint on disposal, encumbrance or alienation for collateralisation or guarantees	661	1,667
Cash and cash equivalents	**225,844**	**204,636**

The amount shown as "Cash with restraint on disposal, encumbrance or alienation for collateralisation or guarantees" of TEUR 661 as at 31 December 2009 (2008: TEUR 1,667) was deposited with banks as collaterals for furnishing guarantees.

For changes in cash funds see below *"Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources*".

As a result, KHD's **total assets** of TEUR 429,888 as at 31 December 2009 remained at the level of the previous year (31 December 2008: TEUR 430,153).

Comparison of KHD's net assets as at 31 December 2008 and 2007

Property and equipment mainly comprise the work shop in Cologne, machinery and equipment, including IT and office equipment and leaseholds. As at 31 December 2008, KHD's property and equipment kept steady at TEUR 2,624 as compared to TEUR 2,608 as at 31 December 2007.

Property, plant and equipment are depreciated over time. Depreciation is applied by the straight line method in accordance with expected useful lives.

The following table shows acquisition costs, accumulated depreciation and write-downs as well as the net carrying amount as balance for KHD's equipment and leasehold:

	Leasehold improvements/ re-establishment of previous structural conditions in TEUR	Equipment in TEUR	Total in TEUR
Acquisition cost			
31 Dec. 2006	**1,404**	**21,884**	**23,288**
Additions	**29**	1,843	1,872
Disposals	**-716**	-5,728	-6,444
31 Dec. 2007	**717**	**17,999**	**18,716**
Additions	—	934	934
Disposals	—	-303	-303
31 Dec. 2008	**717**	**18,630**	**19,347**
Accumulated depreciation and write-downs			
31 Dec. 2006	**784**	**19,713**	**20,497**
Additions	100	1,527	1,627
Disposals	-435	-5,581	-6,016
31 Dec. 2007	**449**	**15,659**	**16,108**
Additions	56	853	909
Disposals	—	-294	-294
31 Dec. 2008	**505**	**16,218**	**16,723**
Net carrying amount			
31 Dec. 2007	**268**	**2,340**	**2,608**
31 Dec. 2008	**212**	**2,412**	**2,624**

The leasehold improvements and re-establishment of previous structural conditions are accounted for at the level of HW GmbH.

The **goodwill** accounted for as at 31 December 2008 and 2007 results from the acquisition of HW GmbH in 2002. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations - Results of Operations - Comparison of KHD's net assets as at 31 December 2009 and 2008 - Goodwill*" above for further explanations.

The impairment test disclosed no requirement to write down the goodwill.

As in the prior year, the goodwill in the amount of TEUR 2,127 (2007: TEUR 2,127) fully relates to KHD's industrial plant engineering segment in Germany.

Other intangible assets exclusively relate to SAP licences at the level of HW GmbH.

The following is an analysis of the acquisition costs, accumulated depreciation and write-downs as well as the net carrying amount as balance in relation to KHD's goodwill and other intangible assets:

	Goodwill in TEUR	Licenses in TEUR	Total in TEUR
Acquisition cost			
31 Dec. 2006	2,127	2,173	4,300
Additions	—	281	281
Disposals	—	-564	-564
31 Dec. 2007	2,127	1,890	4,017
Additions	—	351	351
Disposals	—	—	—
31 Dec. 2008	2,127	2,241	4,368
Accumulated amortisation and write-downs			
31 Dec. 2006	—	1,862	1,862
Additions	—	303	303
Disposals	—	-564	-564
31 Dec. 2007	—	1,601	1,601
Additions	—	195	195
Disposals	—	—	—
31 Dec. 2008	—	1,796	1,796
Net carrying amount			
31 Dec. 2007	2,127	289	2,416
31 Dec. 2008	2,127	445	2,572

The predominant portion of amortisation and write-downs are included in cost.

Deferred tax assets decreased from TEUR 4,565 as at 31 December 2007 by TEUR 3,864 (84.64%) to TEUR 701 as at 31 December 2008.

The Company has recognised deferred income tax from temporary differences between the IFRS and tax balance sheets. As in the prior year, the underlying tax rate in 2008 was 31.6%. This basically corresponds to the German income tax rates.

Deferred income tax assets are recognised for tax loss carry-forwards only to the extent that the corresponding tax benefit is likely to occur.

The total amount of the non-forfeitable loss carry-forwards at KHD group level as at 31 December 2008 was EUR 97.9 million (31 December 2007: EUR 108.8 million) for corporate income tax and EUR 75.6 million (31 December 2007: EUR 96.0 million) for municipal trade tax, with corresponding corporate income and trade tax loss carry-forwards of EUR 47.2 million (31 December 2007: EUR 57.8 million) and EUR 21.0 million (31 December 2007: EUR 31.1 million), respectively, being used for determining deferred taxes. No deferred taxes were capitalised for corporate income and trade tax loss carry-forwards in the amount of EUR 50.7 million (31 December 2007: EUR 51.0 million) and EUR 54.6 million (31 December 2007: EUR 64.9 million), respectively.

The significant decrease in deferred tax assets from 2007 to 2008 is primarily due to tax loss carry-forwards realised in the financial year 2008.

The increase in deferred tax liabilities is mainly due to a higher stage of completion of orders.

Deferred tax assets as well as deferred tax liabilities arose from the following items:

	31 December 2008	2007
	IFRS (audited) in TEUR	
Deferred tax assets		
Provisions	1,194	1,266
Tax loss carry-forwards capitalised	10,810	13,857
Netted with deferred tax liabilities	-11,303	-10,558
	701	4,565
Deferred tax liabilities		
Work in progress/POC method	-16,749	-12,130
Netted with deferred tax assets	11,303	10,558
	-5,446	**-1,572**

Non-current financial assets comprise long-term borrowings to affiliates and other non-current financial assets and increased from TEUR 55,569 as at 31 December 2007 to TEUR 70,332 as at 31 December 2008 by TEUR 14,763 (26.57%). This increase basically results from loans granted to the sister company KIA GmbH which performs the treasury function for KHD Group as well due to high liquidity.

The following table analyses the non-current financial assets as at 31 December 2008 and 2007:

	31 December 2008	2007
	IFRS (audited) in TEUR	
Non-current financial assets		
Long-term borrowings to affiliates	69,736	54,365
Other non-current financial assets	596	1,204
Non-current receivables and non-current financial assets	**70,332**	**55,569**

The free liquidity transferred by KHD to its then sister company KIA GmbH, which performed the treasury function for all operative companies of KHD, amounted to TEUR 69,736 as at 31 December 2008 and TEUR 54,365 31 December 2007. All underlying contracts have a short term and are disclosed under non-current financial assets on account of their economic use.

The free liquidity transferred to KIA GmbH accrued interest at 1-month EURIBOR minus 100 base points. TEUR 17,866 of this liquidity (31 December 2007: TEUR 10,600) were deposited at the level of KIA GmbH within the scope of drawings on the guarantee line granted by RBI (formerly RZB). The guarantee deposit accrued interest at the respective current interest rate minus 100 base points. These receivables have been secured by KHD Ltd. in its capacity as the parent company of the Group as a whole.

As a result, **total non-current assets** amounted to TEUR 76,229 as at 31 December 2008, an increase of TEUR 11,071 (16.99%) from TEUR 65,158 as at 31 December of the previous year.

Inventories relate to raw materials and consumables and supplies as well as work in progress and write-downs to net selling prices and increased from TEUR 3,997 as at 31 December 2007 by TEUR 2,244 (56.14%) to TEUR 6,241 as at 31 December 2008.

The following is an analysis of the development of KHD's inventories between 31 December 2007 and 2008:

	31 December 2008	31 December 2007
	IFRS (audited) in TEUR	
Raw materials, consumables and supplies	9,140	7,052
Work in progress	40	—
Write-downs to net selling price	-2,939	-3,055
Inventories	**6,241**	**3,997**

The **gross amount due from customers for contract work** reflects exclusively claims under KHD's construction contracts. It decreased from TEUR 51,929 as at 31 December 2007 by TEUR 4,066 (7.83%) to TEUR 47,863 as at 31 December 2008. This was mainly due to a decrease in order intake.

In accounting for claims or commitments under construction contracts, the profits and costs recognised are disclosed after netting progress billing, advances and loss-making contracts. The following is an overview of the derivation of claims and commitments under KHD's customer contracts as shown in the balance sheet:

	31 December 2008	31 December 2007
	IFRS (audited) in TEUR	
Cost previously incurred for work in progress	164,811	99,655
Proportionate profits under these contracts previously recognised	43,378	36,260
Total costs incurred and profits disclosed	208,189	135,915
Less netted contract losses and provisions	-1,329	-2,501
Less process billing and advances received	-272,326	-196,886
Balance of construction contracts	**-65,466**	**-63,472**

This amount is disclosed in the balance sheet as follows:

Gross amount due from customers for contract work	47,863	51,929
Gross amount due to customers for contract work	-113,329	-115,401
Balance of construction contracts	**-65,466**	**-63,472**
Gross amount due to customers for contract work	-113,329	-115,401
Advances received under construction contracts without services rendered	-4,137	-3,134
Commitments under construction contracts	**-117,466**	**-118,535**

Trade and other receivables increased by TEUR 3,891 (9.83%) to TEUR 43,482 as at 31 December 2008 from TEUR 39,591 as at 31 December 2007. Trade receivables remained steady at TEUR 33,909 as at 31 December 2008 from TEUR 33,690 as at 31 December 2007. Other receivables, which comprise assets that result from VAT tax claims, increased from TEUR 6,913 as at 31 December 2007 by TEUR 3,422 (49.50%) to TEUR 10,335 as at 31 December 2008.

No allowances were made in the reporting period for trade receivables in the amount of TEUR 2,451 which had been overdue at the repayment date because no material change in the credit standing of these debtors was identified and the outstanding amounts were expected to be settled on a timely basis.

The following table gives an overview of the age structure of overdue, but non-impaired receivables:

	31 December 2008	31 December 2007
	IFRS (audited) in TEUR	
60 to 90 days	708	638
90 to 120 days	674	715
More than 120 days	1,069	1,247
Total	**2,451**	**2,600**

The following table gives an overview of the movements in allowances in 2007 and 2008:

	31 December 2008	31 December 2007
	IFRS (audited) in TEUR	
Allowance at the beginning of the year	1,012	2,083
Addition	452	41
Utilisation	-554	-1,112
Reversal	-148	0
Allowance at the end of the year	**762**	**1,012**

Intercompany receivables rose strongly from TEUR 8,178 as at 31 December 2007 by TEUR 10,907 (133.37%) to TEUR 19,085 as at 31 December 2008. Together with non-current borrowings and intercompany receivables, borrowings and intercompany receivables rose by an aggregate TEUR 15,259 from TEUR 62,543 as at 31 December 2007 to TEUR 88,821 as at 31 December 2008.

Payments made in advance by customers under KHD's construction contracts also increased explicitly by TEUR 15,935 (121.48%) to TEUR 29,052 as at 31 December 2008 from TEUR 13,117 as at 31 December 2007 due to several large projects reaching the stage of advance payments.

The sharp decrease in other financial assets from TEUR 16,346 by TEUR 12,781 (78.19%) to TEUR 3,565 as at 31 December 2008 was mainly due to the impairment charges determined as at 31 December 2008, which mainly relate to the shares in KHD Ltd. and to other securities. The unrealised losses from the difference between the carrying amount and the fair value which were booked in the income statement in the financial year 2008 amounted to TEUR 8,358.

KHD reported cash and cash equivalents of TEUR 204,636 as at 31 December 2008 after TEUR 166,681 in the previous year, a strong increase of TEUR 37,955 (22.77%). This increase resulted mainly from the expansion of the business volume and related higher payments made in advance by customers.

The following is a breakdown of cash and cash equivalents for 2007 and 2008:

	31 December 2008	31 December 2007
	IFRS (audited) in TEUR	
Bank balances and cash	18,770	29,215
Short-term bank deposits	184,199	135,095
Cash on hand with restraint on disposal, encumbrance or alienation for collateralisation or guarantees	1,667	2,371
Cash and cash equivalents	**204,636**	**166,681**

For changes in cash funds see below *"Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources - Comparison of cash-flows for 2008 and 2007"*.

As a result of the expansion of the business volume, KHD's **total assets** grew from TEUR 364,997 as at 31 December 2007 by TEUR 65,156 (17.85%) to TEUR 430,153 as at 31 December 2008.

The following table shows the regional split of KHD's assets for the years 2008 and 2007:

	31 December 2008	2007
	IFRS (audited) in TEUR	
Europe	288,692	290,157
North America	4,057	470
CIS	137,212	73,904
India	192	466
Rest of Asia	—	—
Other	—	—
Total assets	**430,153**	**364,997**

Equity and liabilities

The following table presents the consolidated equity and liabilities of the Company on the basis of the IFRS audited financial statements as at 30 September 2010 with comparative figures as at 30 September 2009 as well as at 31 December 2009, 2008 and 2007:

	30 September 2010	2009	31 December 2008	2007
	IFRS (unaudited) in TEUR		IFRS (audited) in TEUR	
EQUITY AND LIABILITIES				
Issued capital	33,142	33,142	33,142	33,142
Capital reserves	1,776	1,776	1,776	1,776
Treasury shares	-221	-221	-221	-221
Currency differences	-376	-53	-53	0
Undistributed profit carry-forward	106,321	134,428	97,319	81,874
	140,642	169,072	131,963	116,571
Minority interest	688	659	638	1,439
Total shareholders' equity	**141,330**	**169,731**	**132,601**	**118,010**
Equity ratio (unaudited) [(1)]	34,5%	39.48%	30.83%	32.33%
Financial liabilities	-		—	1,405
Other liabilities	9,753	7,558	5,994	3,377
Pension benefit obligations	21,461	21,159	21,926	22,103
Deferred tax liabilities	12,073	9,755	5,446	1,572
Provisions	20,308	7,748	5,405	8,080
Total non-current liabilities	**63,595**	**46,220**	**38,771**	**36,537**
Trade and other payables	87,963	100,791	95,001	63,413
Intercompany liabilities	—	4,914	6,107	7,104
Financial liabilities	—	3,552	1,167	—
Gross amount due to customers for contract work	80,182	51,136	117,466	118,535
Income tax liabilities	16,681	10,970	6,592	11,600
Provisions	19,864	42,574	32,448	9,798
Total current liabilities	**204,690**	**213,937**	**258,781**	**210,450**
Total equity and liabilities	**409,615**	**429,888**	**430,153**	**364,997**

(1) Equity ratio is not recognized as measure under IFRS and not a substitute for any figures presented under IFRS. The figures are unaudited. The Equity ratio measures the proportion of the shareholers' equity in relation to total assets.

Discussion of KHD's equity and liabilities as at 30 September 2010

Shareholders' equity

The Company's issued share capital amounts to EUR 33,142,552 divided into 33,142,552 ordinary bearer shares with no par value and notional amount in the share capital of EUR 1.00 per share. The Company did not carry out any capital increases or other measures in relation to its capital stock in the nine month period ended 30 September 2010. Hence, the issued share capital and treasury shares remained unchanged.

The decrease in total **shareholders' equity** (including minority interests) from TEUR 169,731 as at 31 December 2009 by TEUR 28,401 (16.73%) to TEUR 141,330 as at 30 September 2010 was mainly due to the distribution of a dividend (TEUR -49,370), a net profit of TEUR 9,158 and a change in equity due to the consolidation of the Reintegration Subsidiaries in an amount of TEUR 11,832 as at 31 December 2009.

Since total equity and liabilities decreased slightly, KHD's equity ratio also decreased from 39.48% as at 31 December 2009 to 34.5% as at 30 September 2010.

As at 30 September 2010 KHD's total shareholders' equity of TEUR 141.330 significantly exceeded its non-current assets of TEUR 7.235 by 1953.4% (2009: 303.4%), leading to a favourable financing structure.

Non-current liabilities

Total non-current liabilities rose from TEUR 46,220 as at 31 December 2009 by TEUR 17,375 (37.59%) to TEUR 63,595 as at 30 September 2010. This was basically due to contract related provisions which were considered as non-current at the balance sheet date.

Other liabilities include commitments due to warranties already recognised in the amount of TEUR 9,753 as at 30 September 2010 after TEUR 7.558 in the previous year, an increase of TEUR 2,195 (29.04%).

Pension benefit obligations are paid under defined-benefit pension plans, which are funded by making pension provisions. After the pension plans had been frozen in 1996, it is no longer possible for the employees to acquire additional vested rights to future pensions. The claims to promised and vested benefits under the pension plans arise upon application of the beneficiaries, providing supporting evidence of receipt of legal pensions.

Both in 2010 and in the prior year, KHD took advantage of the so-called corridor method under IAS 19. According to this method, profits or losses from measurement of the pension commitment are not required to be disclosed if they are due only to a change in actuarial parameters and the change varies within a corridor of 10% above or below the value previously recognised (DBO). The equivalent amount of the pension commitments has not been deposited in a fund or plan assets.

Deferred tax liabilities relate to work in progress and are netted with deferred tax assets. They rose from TEUR 9,755 as at 31 December 2009 by TEUR 2,318 (23.76%) to TEUR 12,073 as at 30 September 2010. This increase in deferred tax liabilities was mainly caused by revenue recognition according to the percentage-of-completion method.

The decrease in current provisions from TEUR 42,574 by TEUR 22,710 (46.7%) to TEUR 19,864 as at 30 September 2010 is largely due to contract related provisions which were considered as current.

Current liabilities

Total current liabilities fell from TEUR 213,937 as at 31 December 2009 by TEUR 9,247 (4.32%) to TEUR 204,690 as at 30 September 2010 which was mainly due to lower provisons and lower trade and other payables.

Trade and other payables disclosed as at the balance sheet dates are subject to the usual retentions of title. The decrease from TEUR 100,791 by TEUR 12,828 (12.73%) to TEUR 87,963 was mainly due to the decrease in order volume. This decrease was higher than the additional payables which were brought in by the Reintegration Subsidiaries.

Intercompany liabilities decreased to TEUR 0 as at 30 September 2010 since after the Restructuirng KIA GmbH ceased to be a Group company.

Financial liabilities also decreased to TEUR 0, since loans granted from affiliated companies were fully repaid as at 30 September 2010.

Gross amount due to customers for contract work mainly reflects commitments under KHD's construction contracts as disclosed by application of IAS 11. In accounting for claims or commitments under construction contracts, the profits and costs recognised are disclosed after netting progress billing, advances and loss-making contracts. The commitment shown constitutes the balance of the amounts analysed under *"Management's Discussion and Analysis of Financial Condition and Results of Operations - Results of operations - Comparison of KHD's net assets as at 30 September 2010 and 31 December 2009 - Gross amount due from customers for contract work"*. In addition, this item includes advances received which are paid by the customers at the time the order is accepted and which are required to be recognised under IAS 11. Gross amounts due to customers for contract work increased significantly by TEUR 29,046 (56.8%) to TEUR 80,182 as at 30 September 2010 after TEUR 51,136 as at 31 December 2009. This was mainly due the consolidation of the Reintegration Subsidiaries.

Income tax liabilities rose from TEUR 10,970 as at 31 December 2009 by TEUR 5,711 (52.06%) to TEUR 16,681 as at 30 September 2010, since the tax authorities did not provide the respectie notification yet.

Discussion of KHD's equity and liabilities as at 31 December 2009 and 2008

Shareholders' equity

The Company's issued share capital amounts to EUR 33,142,552.00, divided into 16,571,276 ordinary bearer shares with no par value and notional amount in the share capital of EUR 2.00 per share. The Company did not carry out any capital increases or other measures in relation to its capital stock in 2009.

Hence, its issued share capital, capital reserves and treasury shares remained unchanged and the increase in **total shareholders' equity** (including minority interests) from TEUR 132,601 as at 31 December 2008 by TEUR 37,130 (28.00%) to TEUR 169,731 as at 31 December 2009 was mainly due to the retaining of TEUR 37,130 from net profits thereby increasing the undistributed profit carry-forward from TEUR 97,319 to TEUR 134,428 as at 31 December 2009.

Since total equity and liabilities remained steady, KHD's equity ratio rose significantly from 30.83% in 2008 to 39.48% in 2009.

As at 31 December 2009 KHD's total shareholders' equity of TEUR 169,731 significantly exceeded its non-current assets of TEUR 55,947 by 203.38% (2008: 73.95%), leading to a favourable financing structure.

Non-current liabilities

Total non-current liabilities rose from TEUR 38,771 as at 31 December 2008 by TEUR 7,449 (19.21%) to TEUR 46,220 as at 31 December 2009. This was basically due to an increase in deferred tax liabilities as discussed below.

Other liabilities include commitments due to warranties already recognised in the amount of TEUR 7,558 as at 31 December 2009 after TEUR 5,994 in the previous year, an increase of TEUR 1,564 (26.09%).

Pension benefit obligations are paid under defined-benefit pension plans, which are funded by making pension provisions. After the pension plans had been frozen in 1996, it is no longer possible for the employees to acquire additional vested rights to future pensions. The claims to promised and vested benefits under the pension plans arise upon application of the beneficiaries, providing supporting evidence of receipt of legal pensions.

Both in 2009 and in the prior year, KHD took advantage of the so-called corridor method under IAS 19. According to this method, profits or losses from measurement of the pension commitment are not required to be disclosed if they are due only to a change in actuarial parameters and the change varies within a corridor of 10% above or below the value previously recognised (DBO). The equivalent amount of the pension commitments has not been deposited in a fund or plan assets.

The major actuarial assumptions made were as follows:

	31 December				
	2009	2008	2007	2006	2005
Discounting rate	5.30%	6.00%	5.34%	4.75%	4.75%
Variance in pensions due to linkage with earnings	2.00%	1.50%	1.50%	1.50%	1.50%
Employee turnover	0%	0%	0%	0%	0%

	31 December				
	2009	2008	2007	2006	2005
Defined benefit obligation	21,656	21,374	22,080	23,073	23,222
Empirical adjustments	-197	-81	—	—	—

The defined benefit obligations were calculated as follows:

Defined Benefit Obligation

Amount Required to Be Disclosed in the Balance Sheet

	31 December	
	2009	2008
	IFRS (audited) in TEUR	
Defined benefit obligation (unfunded)	21,656	21,374
./. actuarial (gains)/losses not repaid	1,311	44
Amount required to be disclosed in the balance sheet	20,345	21,330
Deferred compensation	814	596
Amount carried in the balance sheet	21,159	21,926

Reconciliation of Present Value of Commitment (Beginning/End of Year)

	31 December	
	2009	2008
	IFRS (audited) in TEUR	
Defined benefit obligation at beginning of the year	21,374	22,080
Current service cost	0	0
Interest cost	1,219	1,142
Benefits actually paid (total)	-1,377	-1,367
Transfer	-777	—
Empirical adjustments (gains)/losses	-197	-81
Actuarial gains due to variances in parameters	1,414	-400
Defined benefit obligation as at 31 Dec.	**21,656**	**21,374**

Deferred tax liabilities rose from TEUR 5,446 as at 31 December 2008 by TEUR 4,309 (79.12%) to TEUR 9,755 as at 31 December 2009. This increase in deferred tax liabilities was mainly caused by revenue recognition according to the percentage-of-completion method.

The following is an overview of the deferred tax liabilities:

Deferred tax liabilities

31 December	
2009	2008
in TEUR	

Work in progress/POC method ...	-12,816	-16,749
Netted with deferred tax assets ...	3,061	11,303
Deferred tax liabilities	**-9,755**	**-5,446**

The following is an overview of KHD's **current and non-current provisions** as at 1 January 2009 and 31 December 2009:

	Guarantee in TEUR	Risk of litigation in TEUR	Restructuring in TEUR	Potential loss in TEUR	Total in TEUR
Provisions as at 1 Jan. 2009	17,798	407	9,755	9,893	37,853
Provisions made	20,903	0	239	5,090	26,232
Provisions released..................................	-1,932	-288	-4,012	-3,934	-10,166
Provisions utilised/reclassified.................	1,467	-17	-532	-4,366	-3,448
Retirement from group of consolidated entities	-149	0	0	0	-149
Provisions as at 31 Dec. 2009	38,087	102	5,450	6,683	50,322

Classification of provisions by maturity:

	31 December 2009 in TEUR	31 December 2008 in TEUR
Non-current (guarantee) ..	7,748	5,405
Current	42,574	32,448
Total provisions	**50,322**	**37,853**

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

The increase in non-current provisions is primarily due to accounting-related additions to warranty provisions in the amount of TEUR 20,903.

The calculation of the restructuring provision in the amount of EUR 9.7 million made in 2008 was based on an assumed workforce reduction in the engineering segment and administrative as well as production functions. Due to the disposal of the production operations, the portion of the provision that had been made for staff of the production operations was no longer necessary. In addition, lower provisions were necessary in the other areas due to employee turnover.

The recalculation of the restructuring provision disclosed a total amount of EUR 5.5 million. The amount of EUR 3.8 million released has been separately disclosed as restructuring income. The provision for restructuring and staff termination cost is based on best estimates of the executive board with respect to the expenses directly related to the restructuring. These were calculated on the basis of the social plan adopted in the financial year 2009. The expenses solely include post-employment benefits.

The increase in current provisions by TEUR 10,126 (31.21%) to TEUR 42,574 as at 31 December 2009 is largely due to an increase in order-related provisions.

Current liabilities

Total current liabilities fell from TEUR 258,781 as at 31 December 2008 by TEUR 44,844 (17.33%) to TEUR 213,937 as at 31 December 2009 which was mainly due to the commitments under construction contracts which dropped significantly as shown below.

Trade and other payables The trade payables disclosed as at the balance sheet dates are subject to the usual retentions of title. The other liabilities include a liability of TEUR 1,976 for the reimbursement claim of MFC Corporate Services AG in the amount of the expenses it incurred for services provided to KHD.

Trade and other payables rose slightly from TEUR 95,001 as at 31 December 2008 by TEUR 5,790 (6.09%) to TEUR 100,791 as at 31 December 2009. This mainly accounted to the increase in trade payables by TEUR 6,332 which still within the usual year by year fluctuation.

Intercompany liabilities decreased from TEUR 6,107 as at 31 December 2008 by TEUR 1,193 (19.53%) to TEUR 4,914 as at 31 December 2009. This also within the usual year by year fluctuation.

Financial liabilities comprised exclusively commitments relating to loans granted from affiliated companies (2009: TEUR 3,400; 2008: TEUR 0) and from banks or third parties in the amount of TEUR 3,552 as at 31 December 2009 (31 December 2008: TEUR 1,167), which were fully due as at 31 December 2009 (prior year: due as at 31 December 2008).

Gross amount due to customers for contract work mainly reflects commitments under KHD's construction contracts as disclosed by application of IAS 11. In accounting for claims or commitments under construction contracts, the profits and costs recognised are disclosed after netting progress billing, advances and loss-making contracts. The commitment shown constitutes the balance of the amounts analysed under *"Management's Discussion and Analysis of Financial Condition and Results of Operations - Results of Operations - Comparison of KHD's net assets as at 31 December 2009 and 2008 - Gross amount due from customers for contract work"*. In addition, this item includes advances received which are paid by the customers at the time the order is accepted and which are required to be recognised under IAS 11. Gross amounts due to customers for contract work decreased significantly by TEUR 65,916 (58.16%) to TEUR 47,413 as at 31 December 2009 after TEUR 113,329 as at 31 December 2008. This was mainly due to a marked reduction in advances received from customers.

Income tax liabilities rose from TEUR 6,592 as at 31 December 2008 by TEUR 4,378 (66.41%) to TEUR 10,970 as at 31 December 2009. This was mainly due to a consumption of tax loss carry-forwards.

Discussion of KHD's equity and liabilities as at 31 December 2008 and 2007

Shareholders' equity

The Company's issued share capital amounts to EUR 33,142,552.00, divided into 16,571,276 ordinary bearer shares with no par value and notional amount in the share capital of EUR 2.00 per share. The Company did not carry out any capital increases or other measures in relation to its capital stock in 2008. Hence, its issued share capital, capital reserves and treasury shares remained unchanged and the increase in **total shareholders' equity** (including minority interests) from TEUR 118,010 as at 31 December 2007 by TEUR 14,591 (12.36%) to TEUR 132,601 as at 31 December 2008 was mainly due to the retaining of TEUR 15,445 from net profits thereby increasing the undistributed profit carry-forward from TEUR 81,874 to TEUR 97,319 as at 31 December 2008.

The equity ratio (unaudited) was 32.33% in 2007 and 30.83% in 2008. As at 31 December 2008 KHD's equity (excluding minority interests) of TEUR 131,963 (2007: TEUR 116,571) significantly exceeded its non-current assets of TEUR 76,229 (TEUR 65,158), leading to a favourable financing structure.

Non-current liabilities

Total non-current liabilities rose slightly from TEUR 36,537 as at 31 December 2007 by TEUR 2,234 (6.11%) to TEUR 38,771 as at 31 December 2008.

Other liabilities include commitments due to warranties already recognised in the amount of TEUR 5,994 as at 31 December 2008 after TEUR 3,377 in the previous year, an increase of TEUR 2,617 (77.49%).

Pension benefit obligations relate to commitments under pension plans issued by KHD. The following is an overview of the provisions for pension obligations as well as the amounts paid and booked under the plans which have been recognised in the balance sheet of the respective financial years:

	2008	2007	31 December 2006	2005	2004
			IFRS (audited) in TEUR		
Provision at beginning of year ...	22,103	22,269	22,287	22,583	22,554
Expense booked	1,142	1,531	1,095	1,312	1,171
Pensions paid	-1,319	-1,697	-1,113	-1,031	-1,142
Disposal due to restructuring	—	—	—	-577	—
Year end	**21,926**	**22,103**	**22,269**	**22,287**	**22,583**

In 2008 and in the prior year, KHD took advantage of the so-called corridor method under IAS 19. According to this method, profits or losses from measurement of the pension commitment are not required to be disclosed if they are due only to a change in actuarial parameters and the change varies within a corridor of 10% above or below the value previously recognised. The equivalent amount of the pension commitments has not been deposited in a fund or plan assets.

The major actuarial assumptions made were as follows:

	31 December				
	2008	2007	2006	2005	2004
Discounting rate	6.00%	5.34%	4.75%	4.75%	5.50%
Variance in pensions due to linkage with earnings	1.50%	1.50%	1.50%	1.50%	1.50%
Employee turnover	0%	0%	0%	0%	0%

The defined benefit obligations were calculated as follows:

Defined Benefit Obligation

Amount Required to Be Disclosed in the Balance Sheet

	31 December 2008	2007
	IFRS (audited) in TEUR	
Defined benefit obligation (unfunded)	21,374	22,080
Less actuarial (gains)/losses not repaid	44	524
Amount required to be disclosed in the balance sheet	21,330	21,556
Deferred compensation	596	547
Amount carried in the balance sheet	21,926	22,103

Reconciliation of Present Value of Commitment (Beginning/End of Year)

	31 December 2008	31 December 2007
	IFRS (audited) in TEUR	
Defined benefit obligation at beginning of the year	22,080	23,073
Current service cost	0	0
Interest cost	1,142	1,039
Benefits actually paid (total)	-1,367	-1,748
Transfer	—	313
Empirical adjustments (gains)/losses	-81	907
Actuarial gains due to variances in parameters	-400	-1,504
Defined benefit obligation as at 31 Dec.	21,374	22,080

Deferred tax liabilities rose from TEUR 1,572 as at 31 December 2007 by TEUR 3,874 (246.44%) to TEUR 5,446 as at 31 December 2008. This sharp increase was mainly due to a higher stage of completion of orders.

The following is an overview of the deferred tax liabilities:

Deferred tax liabilities

	31 December 2008	31 December 2007
	in TEUR	
Work in progress/POC method	-16,749	-12,130
Netted with deferred tax assets	11,303	10,558
Deferred tax liabilities	**-5,446**	**-1,572**

The following is an overview of KHD's **current and non-current provisions** as at 1 January 2008 and 31 December 2008:

	Guarantee in TEUR	Risk of litigation in TEUR	Restructuring in TEUR	Potential loss in TEUR	Total in TEUR
Provisions as at 1 Jan. 2008	17,323	555	—	—	17,878
Provisions made	10,507	211	9,755	9,893	30,366
Provisions released	-6,386	-342	—	—	-6,728
Utilised/reclassified	-3,646	-17	—	—	-3,663
Provisions as at 31 Dec. 2008	**17,798**	**407**	**9,755**	**9,893**	**37,853**

Classification of provisions by maturity:

	31 December 2008	31 December 2007
	in TEUR	
Non-current (guarantee)	5,405	8,080
Current	32,448	9,798
Total provisions	**37,853**	**17,878**

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

The marked increase in the non-current provision is primarily due to risk provision with respect to existing orders in the amount of EUR 9.9 million, because several orders were either terminated or their processing was postponed by customers, as well as to expenses in connection with restructurings initiated in the financial year for capacity adjustment and cost saving purposes at the level of HW (EUR 9.7 million).

The provision for restructuring and staff termination cost is based on best estimates of the Board of Directors with respect to the expenses directly related to the restructuring according to a general individual value method that are not attributable to the Group's current business activities. This also includes benefits to employees on the occasion of termination of employment relationships.

The provisions for risks of litigation relate primarily to provisions for litigation in connection with contracts concluded in the industrial plant engineering segment.

Current liabilities

Total current liabilities rose from TEUR 210,450 as at 31 December 2007 by TEUR 48,331 (22.97%) to TEUR 258,781 as at 31 December 2008. The carrying amounts of liabilities disclosed as at the balance sheet date basically correspond to the fair values.

Trade and other payables The trade payables disclosed as at the balance sheet date are subject to the usual retentions of title. The other liabilities include a liability of TEUR 1,976 for the reimbursement claim of MFC Corporate Services AG in the amount of the expenses it incurred for services provided to KHD.

Trade and other payables rose from TEUR 63,413 as at 31 December 2007 by TEUR 31,588 (49.81%) to TEUR 95,001 as at 31 December 2008. This sharp increase mainly accounted to the increase in trade payables which rose from TEUR 56,844 by TEUR 33,446 (58.84%) to TEUR 90,290 as at 31 December 2008. This strong increase was in line with the scope of KHD's business volume expansion.

Intercompany liabilities decreased from TEUR 7,104 as at 31 December 2007 by TEUR 997 (14.03%) to TEUR 6,107 as at 31 December 2008.

Financial liabilities comprised exclusively loan commitments in the amount of TEUR 1,167 as at 31 December 2008 (31 December 2007: TEUR 1,405), which were fully due as at 31 December 2009 (prior year: due as at 31 December 2009). As in the prior year, the interest rate is 6%.

Gross amount due to customers for contract work mainly reflects commitments under KHD's construction contracts as disclosed by application of IAS 11. In accounting for claims or commitments under construction contracts, the profits and costs recognised are disclosed after netting progress billing, advances and loss-making contracts. The commitment shown constitutes the balance of the amounts analysed under *"Management's Discussion and Analysis of Financial Condition and Results of Operations - Results of Operations - Comparison of KHD's net assets as at 31 December 2008 and 2007 - Gross amount due from customers for contract work"*. In addition, this item includes advances received which are paid by the customers at the time the order is accepted and which are required to be recognised under IAS 11. Gross amounts due to customers for contract remained steady at TEUR 113,329 as at 31 December 2008 after TEUR 115,401 as at 31 December 2007.

Income tax liabilities decreased from TEUR 11,600 as at 31 December 2007 by TEUR 5,008 (43.17%) to TEUR 6,592 as at 31 December 2008. This was mainly due to the payment of the tax liabilities for the fiscal year 2006.

Liquidity and Capital Resources

The table below presents the key data regarding the Company's consolidated cash-flows based on the Consolidated Financial Statements as of 30 September 2010 with comparable information for the nine month period ended 30 September 2009 as well as of 31 December 2009 with comparable information for the financial years ended 31 December 2008 and 2007:

	Nine month period ended 30 September		Year ended 31 December		
	2010	2009	2009	2008	2007
	IFRS (unaudited) in TEUR		IFRS (audited) in TEUR		
Profit before tax and interest	17,823	16,782	49,713	23,384	28,829
Cash inflows from operating activities	21,889	-9,983	12,607	54,853	132,827
Cash flows from operating activities	**30,889**	**-15,350**	**-4,458**	**45,197**	**133,469**
Cash flows from investing activities	**54,308**	**4,807**	**21,287**	**-13,931**	**-32,534**
Cash flows from financing activities	**-51,241**	**1,634**	**5,385**	**7,340**	**-1,122**
Opening balance of cash and cash equivalents	**225,183**	**202,969**	**202,969**	**164,310**	**64,457**
Closing balance of cash and cash equivalents	**258,816**	**194,060**	**225,183**	**202,969**	**164,310**

Comparison of cash-flows for the nine month period ended 30 September 2010 and 2009

Cash flows from operating activities

The following is an overview of the cash flows from operating activities in the nine month period ended 30. September 2010 and 2009:

	Nine month period ended 30 September 2010	2009
	IFRS (unaudited) in TEUR	
Net profit for the year	9,481	13,558
Income tax expense recognised in the income statement	10,206	6,651
Net finance cost recognised in the income statement	-1,864	-3,427
Profit before tax and interest	**17,823**	**16,782**
Amortisation, depreciation and write-downs of non-current assets	840	874
Decrease/increase in trade receivables and financial assets	21,287	7,302
Decrease/increase in inventories and gross amount due from customers for contract work	26,127	1,423
Increase in payments made in advance and other financial assets	10,500	3,582
Increase/decrease in trade and other payables and in gross amount due to customers for contract work	-38,574	-30,803
Decrease in pension provisions	-231	-101
Increase in provisions	-15,883	-9,042
Cash inflows from operating activities	**21,889**	**-9,983**
Other non-cash transactions	1,729	608
Income tax received	11,226	—
Dividends received	14	—
Income tax paid	-3,969	-5,975
Cash flows from operating activities	**30,889**	**-15,350**

The total cash flow from operating activities was positive and amounted to TEUR 30,889 in the nine month period ended 30 September 2010, while in the nine month period ended 30 September 2009 there was a cash outflow of TEUR 15,350. The positive cash flow from operating activities in the nine month period ended 30 September 2010 resulted mainly from cash inflows from operating activities (TEUR 21,889) and income tax received (TEUR 11,226) and from the effects due to the acquisition of the Reintegration Subsidiaries.

Cash flows from investing activities

The following is an overview of the cash flows from investing activities in the nine month period ended 30 September 2010 and 30 September 2009:

	Nine month period ended 30 September	
	2010	**2009**
	IFRS (unaudited) in TEUR	
Interest received	68	544
Cash outflows for intangible assets	-740	-62
Cash outflows for property, plant and equipment	-647	-515
Cash in on disposal of property, plant and equipment	38	134
Cash flow from invest in consolidated companies and other business units less funds received	20,881	—
Cash inflows from repayment of non-current receivables	34,708	4,706
Cash flows from investing activities	**54,308**	**4,807**

Cash flow from investing activities increased, mainly due to the repayment of non-current receivables in the amount of EUR 34.7 million and a net cash inflow resulting from the acquisition made at the end of the first quarter (balance of purchase consideration less funds received) EUR 20.9 million.

Cash flows from investing activities increased by TEUR 49,501 (91.12%) from TEUR 4,807 in the nine month period ended 30 September 2009 to TEUR 54,308 in the nine month period ended 30 September 2010. This was mainly due to higher cash inflows from repayment of non-current receivables (TEUR 34,708) by the former sister company KIA GmbH and due to the consolidation of the Reintegration Subsidiaries (TEUR 20,881).

Cash flow from financing activities

The following is an overview of the cash flows from financing activities in the nine month period ended 30. September 2010 and 2009:

	Nine month period ended 30 September	
	2010	**2009**
	IFRS (unaudited) in TEUR	
Interest received	1,710	2,815
Payment for share repurchase from minority shareholders	-29	-14
Net amount of loans raised and repaid	-3,552	-1,167
Dividends paid to shareholders of parent company	-49,370	-
Cash flows from financing activities	**-51,241**	**1,634**

Cash flow from financing activities fell from TEUR 1,634 (cash outflow) in the nine month period ended 30 September 2009 by TEUR 52,875 to TEUR -51,241 in the nine month period ended 30 September 2010 (cash inflow). This was mainly due to the dividend paid to shareholders in the amount of TEUR 49,370 at the beginning of April.

Cash and cash equivalents

In the nine month period ended 30 September 2010 cash and cash equivalents increased by TEUR 64,756 to TEUR 258,816 (2009: TEUR 194,060). This increase was basically due to repayment of loans extended to KIA

GmbH, in the amount of (TEUR 34,708) and transferred funds from the consolidation of the Reintegration Subsidiaries (TEUR 20,881).

Apart from the named effects, the increase was due to the fact that downpayments received were considerably higher than contract related costs.

The following is an analysis of cash and cash equivalents in the nine month period ended 30. September 2010 and 2009:

	Nine month period ended 30 September	
	2010	2009
	IFRS (unaudited) in TEUR	
Analysis of cash and cash equivalents		
Opening balance of cash and cash equivalents	225,183	202,969
Increase in cash and cash equivalents	33,956	-8,909
Exchange rate effects	-323	0
Closing balance of cash and cash equivalents	**258,816**	**194,060**
Thereof:		
— Bank balances and cash on hand	71,977	30,744
— Short-term bank deposits	187,507	163,977
— Cash on hand with restriction on disposal, encumbrance and/or alienation for collaterals and guarantees	-668	-661

Comparison of cash-flows for 2009 and 2008

Cash flows from operating activities

The following is an overview of the cash flows from operating activities in 2009 and 2008:

	Year ended 31 December	
	2009	2008
	IFRS (audited) in TEUR	
Net profit for the year	37,168	15,228
Income tax expense recognised in the income statement	16,497	10,134
Net finance cost recognised in the income statement	-3,952	-1,978
Profit before tax and interest	**49,713**	**23,384**
Amortisation, depreciation and write-downs of non-current assets	1,087	1,104
Book gain on disposal of fixed assets	-2,029	—
Decrease/increase in trade receivables and financial assets	7,102	-14,798
Decrease/increase in inventories and gross amount due from customers for contract work	-883	1,822
Increase in payments made in advance and other financial assets	944	-3,154
Increase/decrease in trade and other payables and in gross amount due to customers for contract work	-55,979	26,983
Decrease in pension provisions	55	-177
Increase in provisions	12,597	19,975
Cash inflows from operating activities	**12,607**	**55,139**
Other non-cash transactions	67	-2,562
Dividends received	68	106
Interest paid	—	-82
Income tax paid	-17,200	-7,404
Cash flows from operating activities	**-4,458**	**45,197**

Cash flow from operating activities dropped significantly from TEUR 45,197 in 2008 by TEUR 49,655 (109.86%) to TEUR -4,458 in 2009.

This was mainly due to a decline in order intake and a decrease in advance payments from customers which lead to an increase in trade and other payables and in the gross amount due to customers for contract work of TEUR -55,979 as compared to TEUR 26,983 in 2008. In addition cash flows were affected by higher income tax payments in 2009 (TEUR 17,200 versus TEUR 7,404 in 2008). This was despite of a strong rise in profits before tax and interest in 2009 to TEUR 49,713 from TEUR 23,384 in 2008 due to more than doubled net profits (TEUR 37,168 versus TEUR 15,228 in 2008).

Cash flows from investing activities

The following is an overview of the cash flows from investing activities in 2009 and 2008:

	Year ended 31 December	
	2009	2008
	IFRS (audited) in TEUR	
Interest received	650	2,108
Cash outflows for intangible assets	-112	-351
Cash outflows for property, plant and equipment	-616	-934
Gain on disposal of property, plant and equipment	132	9
Gain on disposal of consolidated companies and other business units less funds transferred	2,642	—
Cash inflows from repayment of non-current receivables	18,591	-14,763
Cash flows from investing activities	**21,287**	**-13,931**

Cash flows from investing activities increased by TEUR 35,218 (252.80%) from TEUR -13,931 in 2008 to TEUR 21,287 in 2009. This was mainly due to higher cash inflows from repayment of non-current receivables by the then sister company KIA GmbH.

Cash flow from financing activities

The following is an overview of the cash flows from financing activities in 2009 and 2008:

	Year ended 31 December	
	2009	2008
	IFRS (audited) in TEUR	
Interest received	3,092	7,578
Payment for share repurchase from minority shareholders	-45	-704
Net amount of loans raised and repaid	2,385	-238
Increase in long term payables	-1,053	—
Change in non-available funds	1,006	704
Cash flows from financing activities	**5,385**	**7,340**

Cash flow from financing activities fell from TEUR 7,340 (cash outflow) in 2008 by TEUR 1,955 (26.63%) to TEUR 5,385 in 2009 (cash inflow). This was mainly due to a decrease in interest received (TEUR 3,092 versus TEUR 7,578 in 2008) and higher repayments of borrowings (TEUR 2,385 as compared to TEUR -238 in 2008).

Cash and cash equivalents

In 2009 cash and cash equivalents increased by TEUR 22,214 to TEUR 225,183 (2008: TEUR 202,969). This increase was basically due to repayment of loans extended to KIA GmbH, which went down by EUR 22.1 million. Although the increase in cash and cash equivalents in 2009 looks favourable, it should be note, however, that the increase was mainly due to the repayment of loans from sister company KIA GmbH and are not based on the significant cash inflows from operating activities.

The following is an analysis of cash and cash equivalents in 2009 and 2008:

	Year ended 31 December	
	2009	2008
	IFRS (audited) in TEUR	
Analysis of cash and cash equivalents		
Opening balance of cash and cash equivalents	202,969	164,310
Increase in cash and cash equivalents	22,214	38,606
Exchange rate effects	—	53
Closing balance of cash and cash equivalents	**225,183**	**202,969**
Thereof:		
— Bank balances and cash on hand	91,210	18,770
— Short-term bank deposits	134,634	185,866
— Cash on hand with restriction on disposal, encumbrance and/or alienation for collaterals and guarantees	-661	-1,667

Comparison of cash-flows for 2008 and 2007

Cash flows from operating activities

The following is an overview of the cash flows from operating activities in 2008 and 2007:

	Year ended 31 December 2008	2007
	IFRS (audited) in TEUR	
Cash flows from operating activities		
Net profit for the financial year	15,228	22,584
Income tax expense recognised in the income statement	10,134	10,602
Net finance loss recognised in the income statement	-1,978	-4,357
Profit before tax and interest	**23,384**	**28,829**
Impairments recognised for trade receivables	-250	-1,071
Amortisation, depreciation and write-downs of non-current assets	1,104	1,930
Net foreign currency loss/profit	-286	822
Changes in net current assets	23,952	30,510
Increase/decrease in trade receivables and financial assets	-14,548	15,994
Decrease/increase (-) in inventories and gross amount due from customers for contract work	1,822	-14,943
Decrease in available-for-sale assets	—	36,295
Increase in payments made in advance and other financial assets	-3,154	-5,403
Increase in trade and other payables and in gross amount due to customers for contract work	26,983	69,124
Decrease in pension provisions	-177	-166
Increase in provisions	19,975	1,416
Cash inflows from operating activities	**54,853**	**132,827**
Other non-cash transactions	-2,276	2,587
Dividends received	106	220
Interest paid	-82	-514
Income tax paid	-7,404	-1,651
Cash flows from operating activities	**45,197**	**133,469**

Cash flow from operating activities decreased significantly from TEUR 133,469 in 2007 by TEUR 88,272 (66.14%) to TEUR 45,197 in 2008.

This was mainly due to cash restraints resulting from cancellations of customer orders and the building up of new provisions which lead to a decline in net profits for financial year 2008 to TEUR 15,228 after TEUR 22,584 in 2007. It should also be noted that cash flows in 2007 were inflated by cash inflows from the sale of the real property portfolio.

2008 also saw an increase in trade receivables and financial assets (TEUR -14,548 as compared to TEUR 15,994 in 2007), a decrease in available for sale assets in 2007 of TEUR 36,295. In 2008 no available for sale assets existed. In addition a reduced increase in trade and other payables and in gross amount due to customers for contract work of

TEUR 26,983 as compared to TEUR 69,124 in 2007 and a higher tax payment (TEUR 7,404 versus TEUR 1,651 in 2007).

Cash flows in 2008 were, however, increased by a decrease in inventories and gross amount due from customers for contract work (TEUR 1,822 as compared to TEUR -14,943 in 2007) and a strong increase in provisions in (TEUR 19,975 versus TEUR 1,416 in 2007).

Cash flows from investing activities

The following is an overview of the cash flows from investing activities in 2008 and 2007:

	Year ended 31 December	
	2008	2007
	IFRS (audited) in TEUR	
Interest received	2,108	2,065
Payments for intangible assets	-351	-281
Payments for property, plant and equipment	-934	-1,872
Gain on disposal of property, plant and equipment	9	428
Decrease in non-current receivables	-14,763	-28,694
Cash outflows from acquisition of subsidiaries	—	-4,180
Cash flows from investing activities	**-13,931**	**-32,534**

Cash flow from investing activities increased by TEUR 18,603 (57.18%) from TEUR -32,534 in 2007 to TEUR -13,931 in 2008. This was mainly due to a lower decrease in non-current receivables (TEUR -14,763 as compared to TEUR -28,694 in 2007).

Cash flow from financing activities

The following is an overview of the cash flows from financing activities in 2008 and 2007:

	Year ended 31 December	
	2008	2007
	IFRS (audited) in TEUR	
Interest received	7,578	4,065
Payment for share repurchase from minority shareholders	-704	-1,098
Net amount of loans re-used and repaid	-238	-5,448
Change in non-available funds	704	1,359
Cash flows from financing activities	**7,340**	**-1,122**

Cash flow from financing activities rose from TEUR -1,122 (cash outflow) in 2007 by TEUR 8,462 (754.19%) to TEUR 7,340 in 2008 (cash inflow). This was mainly due to an increase in interest received (TEUR 7,578 versus TEUR 4,065 in 2007) and a decrease in repayment of borrowings (TEUR -238 as compared to TEUR -5,448 in 2007).

Cash and cash equivalents

The 2008 statement of consolidated cash flows shows an increase in cash and cash equivalents from the prior year by TEUR 38,606 to TEUR 202,969. This increase in cash and cash equivalents is basically due to higher payments received in advance from customers as well as cash inflows from trade receivables. In 2007, the increase had been TEUR 99,813 which included a special influence in the amount of EUR 36,295 due to the sale of all assets of KHD's real property segment.

The following is an analysis of cash and cash equivalents in 2008 and 2007:

	Year ended 31 December 2008	2007
	IFRS (audited) in TEUR	
Analysis of cash and cash equivalents		
Opening balance of cash and cash equivalents	164,310	64,457
Increase in cash and cash equivalents	38,606	99,813
Exchange rate effects	53	40
Closing balance of cash and cash equivalents	**202,969**	**164,310**
Thereof:		
— Bank balances and cash on hand	18,770	29,215
— Short-term bank deposits	185,866	137,466
— Cash on hand with restriction on disposal, encumbrance and/or alienation for collaterals and guarantees	-1,667	-2,371

Unconsolidated Financial Statements of KHD AG

The following is a presentation of certain financial information relating to KHD AG based on the unconsolidated financial statements of KHD AG in accordance with the regulations of the German Commercial Code (*HGB*) and the complementary provisions under the German Stock Corporation Act (*AktG*) for the financial year ended 31 December 2009 to the extent such information is deemed relevant by the Company in light of the Consolidated Financial Statements of KHD. The Unconsolidated Financial Statements and the notes thereto are contained in the Financial Section of this prospectus, commencing on page F-1.

KHD AG is a pure management holding company with no operating business. Its major asset in its capacity as the managing holding company is the shareholding in KHD GmbH, which is also a holding company. The main operational business of KHD Group is carried out by HW GmbH and ZAB .Detailed information regarding the group can be found under the heading *“Management’s Discussion and Analysis of Financial Condition and Results of Operations - Basis of Presentation of Consolidated Financial Statements - Group structure and disposal of subsidiaries”*.

KHD AG itself is a small corporation (*kleine Kapitalgesellschaft*) within the meaning of the German Commercial Code.

Information regarding assets and liabilities

KHD AG’s **assets** consist of the shares held in KHD GmbH which have been recognised at cost. Effective 7 October 2009, the Company sold its long-term equity investment in HUMBOLDT WEDAG Coal & Minerals Technology GmbH, Cologne/Germany, to an acquirer ultimately controlled by McNally Bharat, India. As a result, assets decreased by the registered share capital of this company, i.e. TEUR 25.

The **other assets** include a claim against the responsible tax office of the Company in the amount of TEUR 11,035 thousand relating to a refund of withholding taxes on capital and solidarity surcharge withheld by KHD in connection with an advance distribution of KHD to its shareholder KHD Ltd. as at the financial year end, and a value added tax asset of TEUR 4,451 (31 December 2008: TEUR 2,505), of which TEUR 4,445 (31 December 2008: TEUR 2,496) are attributable to HW GmbH, ZAB and ZABIS, within the existing group taxation relationship for value added tax purposes. Therefore, an equivalent amount has been disclosed also under liabilities to affiliated companies. In addition, the other assets include an account receivable from MFC Corporate Services AG, Herisau/Switzerland, in the amount of TEUR 1,914 which is due to the ruling of the Cologne regional court dated 4 November 2006 in connection with a fee paid for securities services.

Securities relate to 114,568 treasury shares held by the Company since 2002. They have been accounted for at acquisition cost in the amount of EUR 1.93 per share. The market price per share as at 31 December 2009 was EUR 9.52. A corresponding reserve for treasury shares was recognised. The book value of the treasury shares in the amount of TEUR 221 corresponds to 0.67% of the Company's capital stock. Like in the prior year, the shares in affiliated companies disclosed under securities relate to 295,490 shares of KHD Ltd., which were written up by TEUR 425 as at 31 December 2009.

Information regarding KHD AG's results of operations

Income from long-term equity investments relates to a distribution of profit carryforward and dividend income from affiliated companies (KHD GmbH) which accounted for TEUR 52,388 in 2009 as compared to EUR 0 in 2008.

Net income for the year in 2009 was TEUR 54,271 as compared to a loss of TEUR -3,257 in 2008.

After deduction of accumulated losses from the prior year (2008: TEUR -2,678) and allocation to legal reserve (TEUR -1,383, 2008: EUR 0) and reserve for treasury shares (TEUR -425, 2008: EUR 0) KHD AG's **net retained profits** amounted to TEUR 49,785 in 2009 as compared to TEUR -2,678 in 2008.

The Company's general shareholders' meeting on 23 March 2010 resolved to distribute EUR 2.71 per share, representing a total amount of TEUR (unaudited) 44,908 as dividend for the financial year 2009, however the dividend has not been distributed yet.

BUSINESS ACTIVITY

Overview

KHD can trace its origins back to 1856. Today KHD ranks among the TOP 5 global cement plant and equipment suppliers.[1]

The range of services covers design and engineering, project management and supply, as well as the supervision of erection and commissioning of cement plants and equipment. Customer services such as supply of replacements parts, plant optimization and training of plant personnel complement KHD's services. KHD's core equipment includes a wide range of grinding and pyro-processing technologies. KHD's grinding technologies are utilized in raw material, clinker and finished cement grinding and include crushing, grinding and separation equipment, while KHD's pyro-process equipment includes pre-heaters, calciner systems, kilns, burners and clinker coolers. KHD also has developed a range of systems automation products, including process control systems and equipment optimization products. Manufacturing is almost entirely outsourced to contract manufacturers who produce the equipment to KHD's specifications.

KHD provides its products and services either directly to the operator of a cement plant, or in a consortium that includes other equipment specialists in particular in the complementary fields of materials transport, blending, storage and packing or as an equipment supplier as part of an overall turn-key project.

KHD provides either single equipment, a package of equipments or 'full-line' supply for a complete cement plant equipment line. The latter offering includes equipment from other specialized suppliers and usually KHD takes overall supervisory and technological responsibility for the supply of the entire cement plant equipment line. KHD equipment is used in more than 400 plants worldwide.

KHD's long term vision is to become a customer focused equipment supplier and service company providing environmentally friendly technologies.

As at 30 September 2010, KHD Group had a workforce of 715 employees and generated revenues of EUR 188.6 million and a net profit of EUR 9.5 million in the nine month period ended 30 September 2010.

Since 1993 KHD's business activities have been ISO-certified (2009: ISO 9001:2000).

Competitive Strengths

The Company is of the opinion that KHD has the following major competitive strengths:

- ***Well known and reputable brand name with over 100 years of history in the cement market:*** Through its predecessor companies, including Klöckner Humboldt Deutz AG, KHD has over 100 years of experience of operating in the cement market and hence has a strong brand name. This gives the company a strong position with customers. This significant experience in cement process engineering and automation has also resulted in a good reputation for process know-how and the provision of cement plant equipment.

- ***Strong product portfolio in key cement plant processes:*** Pyro-processing and grinding equipment account for approximately half of the total value of equipment required to build a cement plant and comprise the key cement plant processes. KHD's product portfolio comprises, *inter alia*, PYROCLON® calciners, PYRORAPID® kilns, preheaters, cooler technology and high pressure grinding roll technology (KHD roller press) and thereby giving KHD a comprehensive product portfolio in key cement plant equipment.

1 Based on the analysis of OneStone Intelligence GmbH, Cement Projects Focus 2013, Market Report, November 2009.

- ***Increasing focus on environmentally friendly products:*** KHD has a number of products which are specifically focused on the environmental requirements of customers. These include LowNOx burners for NOx reduction; PyroStream burners for burning waste fuels; LowNOx PyroClon calciners for NOx reduction of kiln gases; combustion chamber for burning waste fuels; PyroTop for CO reduction; a fuel efficient clinker system which combines the PyroFloor cooler with the PyroRapid kiln and LowNOx calciner resulting in very low heat consumption when compared to competitors; and a low power grinding system utilising KHD's HPGR (roller press) for grinding raw and finished materials.

- ***High flexibility and low fixed costs due to outsourced and focused business model:***Following the sale of KHD's workshop in Cologne, Germany in October 2009, KHD no longer has any significant captive manufacturing capacity. This gives KHD the advantage of a more flexible cost base and lower fixed costs than many of its competitors as the majority of KHD's competitors have captive manufacturing facilities. Moreover, KHD has the ability to source globally and provide local supply where required by customers. In addition, with the sale of KHD's coal and minerals business in 2009 (see *"Business Activity - Material Agreements - Disposal of the coal and mineral business and the Cologne production facilities to McNally Bharat Engineering Company Ltd. in August 2009*"), KHD is now focused on cement market and products.

- ***Highly qualified and experienced management team and employees:*** KHD's management team and employees have significant experience in the cement plant equipment sector and strong technical expertise. Many employees have been with KHD in excess of twenty years, particularly in Cologne, Germany where KHD's product development function is located. This allows KHD to continue to develop and maintain its product portfolio at a high technological level.

Strategy

KHD's long term vision is to become a customer focused equipment supplier and service company providing environmentally friendly technologies. In order to achieve this strategy KHD intends to implement the following strategic steps:

- ***Further develop a position as a leading supplier of environmentally friendly technologies:*** KHD's core competencies are grinding and pyro-processing. KHD aims to differentiate itself by becoming a leading technology provider in these core areas. One key part of this strategy is new environmental technology, for example waste heat recovery or alternative fuels. This includes the development of KHD's technology through internal research and development as well as through joint ventures, partnerships and potentially acquisitions.

- ***Broaden KHD's product offering via strategic partnerships:*** In order to be able to better meet customer requirements and address changes in market trends, KHD intends to develop strategic partnerships to strengthen its ability to offer full-line equipment supply as well as to offer full 'turn-key' solutions. Due to the lack of know-how for the implementation of turn-key projects, in certain markets, customers require suppliers to offer a turn-key solution. Up to now, KHD has addressed this on a case by case basis by supplying equipment as part of an overall turn-key project. In the future, KHD plans to address the turn-key business in particular through the cooperation with CATIC.

- ***Break into the Chinese market through the intended cooperation with CATIC**:* The purpose of the cooperation with CATIC is also to gain access to the Chinese market, which currently takes approximately half of the world's cement consumption. By adding CATIC's EPC (engineering, procurement, construction) capability for turn-key projects and procurement strength to KHD's process know how, technology, products and services, KHD believes to be able to break into the Chinese market. Furthermore, the cooperation shall result in competitive sourcing, procurement and manufacturing of products.

- ***Extend the roller press business to the minerals market:*** KHD sees growing demand for its roller press from the minerals processing industry, in particular due to the roller press feature of breaking particles by compression in a packed particle bed and not by direct nipping of the particles between the rolls. KHD intends to capitalize on this product feature and plans to enter the minerals market. In relation to this, KHD has already concluded a cooperation agreement with WEIR Group, a Scotland based company with a worldwide presence in the minerals market.

- ***Develop a service offering in order to reduce the cyclicality of the business and improve the sustainability of earnings:*** Currently KHD is dependent on cement equipment demand which tends to be cyclical. The period 2010 to 2014 is likely to be a transitional period for KHD to shift from a mainly equipment supplier and add a much greater services offering. KHD's intention is to differentiate itself from its competitors through greater alignment with customers and offering world class service solutions. In order to do this, KHD needs to develop a "footprint" of services centres that are close to the customers, starting with markets where there is the greatest potential and largest installed base. In order to achieve this goal KHD services its customers through four Customer Service Centers in India, EMEA, Americas and Russia/CIS. Global functional management and standardized processes and work methods are provided by the headquarters in Cologne to the CSC. A matrix organisation structure is in operation with each CSC supported and monitored by central functions. As part of this services offering, KHD also intends to conduct more plant audits in order to offer upgrade solutions to replace the existing older technology with more efficient and environmentally friendly technology. KHD believes that the services business will be less cyclical than the provision of capital equipment.

- ***Capitalise on KHD's existing market position in emerging markets such as India and Russia:*** KHD has developed a presence in certain emerging markets, notably India and Russia as well as certain other regions such as the Middle East and North Africa. In the short to medium term, KHD intends to focus on further developing its presence in these markets. In India this will be complimented through the reintegration of HW India (see *"General Information about the Company - Group History, Restructuring of KHD Ltd. Group and Reintegration of Subsidiaries - Restructuring and Reintegration of Subsidiaries"*, in the longer term, KHD intends to develop a much greater presence in other geographic regions where KHD currently has a more limited presence, most notably South America and China so that ultimately KHD has a strong presence in all major emerging markets.

- ***Adopt a more customer focused approach to sales:*** KHD's customers can generally be divided into two categories: global customers and regional customers. Global customers consist of the major cement producers, which represent around 66% of global production capacity outside China, and examples include Lafarge, Cemex and HeidelbergCement. Regional customers comprise the bulk of global production capacity and are mainly regional and local players. KHD plans to implement dedicated key account managers responsible for understanding the requirement of these customers and ensuring that it meets, to the extent possible, the requirements of these customers and wins sustainable, profitable business with an acceptable balance of risks and rewards. This account management concept also incorporates plans to approach customers at various different levels, for example at both executive management level and plant manager level in order to maximise the chances of being awarded business.

Services and Products

Technical Background — Cement and Cement Production

As the principal constituent of concrete, cement is basically the most important building material worldwide and is used as a primary building material in residential, non-residential and infrastructure construction. Cement is used by concrete producers, building materials product manufacturers, contractors and builders and masons. It is the most common binder for mortar and concrete. By adding water, cement becomes a suspension which, after hardening, allows making products and structures of the highest strength. The basic form of cement is made from limestone, clay, marl, sand, bauxite and iron ore.

The industrial production of cement is performed in cement plants and is characterized by the following simplified steps:

(i) Transportation of crushed raw material (limestone, clay, marl) and additives (bauxite, sand, iron ore) to storage.

(ii) Mixing, drying and grinding of raw meal.

(iii) Preheating and burning of raw meal at approx. 1,450°C and forming clinker by chemical conversion (sintering).

(iv) Cooling down of clinker, adding certain additives (e.g. gypsum, fly ash, slag, limestone) and grinding down to fine cement.

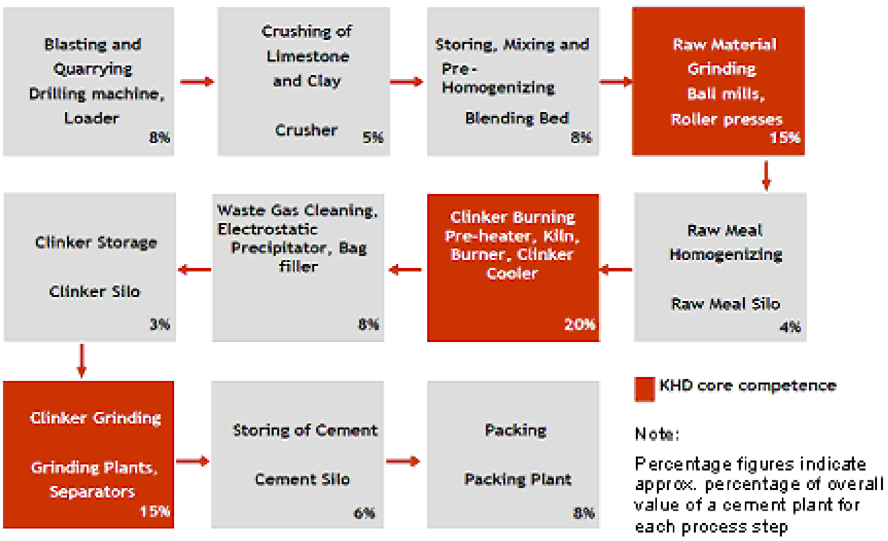
Essential equipments required for cement fabrication are raw material processing equipments such as mills, presses and separators, pyro-processing equipments such as preheaters, calciners, kilns and coolers as well as clinker processing equipment, e.g. clinker grinding plants, mills and separators. Additional equipment such as conveyors, silos, fans, filters and packing machines supplement a cement plant. Most of the equipment is very large and extremely heavy (e.g. up to 120,000 tons of steel are necessary to manufacture a cement plant) and require sophisticated construction works. Further, electrical installations and process and quality control systems complete a cement plant.

See also the Glossary at the end of this Prospectus.

KHD's Core Competencies

KHD has developed a broad equipment portfolio for industrial cement production. The core competencies of KHD are in the fields of raw material grinding, pyro-processing and clinker grinding. The pyro-processing and grinding equipment account approximately for half of the value of equipment required to build a cement plant and comprises the key cement plant process.

The following is an overview of the individual steps in the production of cement and the equipments required for each step as well as their value:



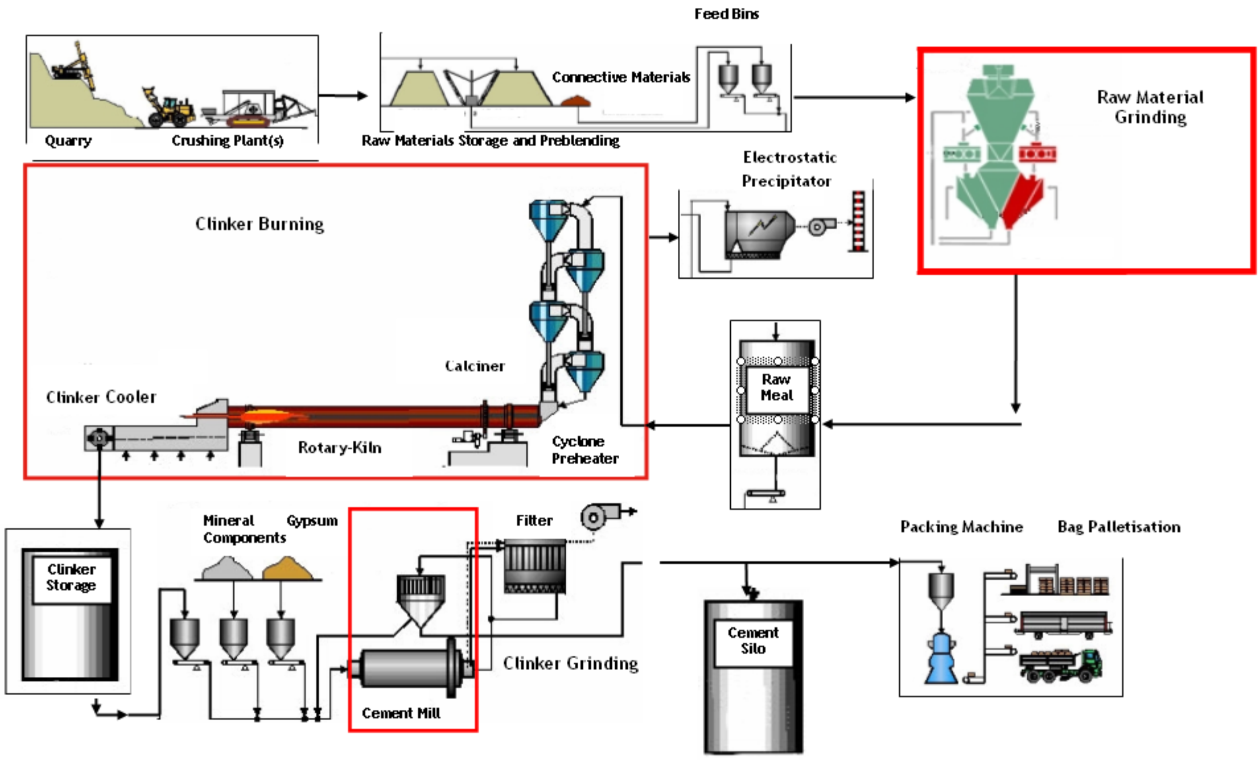
(Source: KHD)

The core equipment of KHD, which KHD has developed, constantly improved and adjusted to the customer demands, comprises in particular the following products:

- preheater

- calcines (PYROCLON®)
- kilns (three station kiln and the two station PYRORAPID® kiln)
- burners (PYRO-JET® and PYROSTREAM®)
- coolers (PYROFLOOR®)
- presses (KHD roller press)
- mills (KHD ball mills)
- separators (V-Separator®, VSK®, SKS®)

The following graphic gives an overview of the production process within a cement plant.



(Source: KHD; red frames indicate KHD's core products, see also *"Business Activity - Services and Products - Products"*)

KHD offers its core equipment either as single equipment, as a package of equipments or as a "full equipment line" supply. Single equipment is ordered by customers often in order to substitute obsolete equipment or in case of plant efficiency improvements. Moreover, customers often approach KHD in relation to plant capacity expansions. In such cases customers often order newer and more effective equipment lines which KHD through its process know-how adapts to existing process and layout.

As a package of equipments KHD sells several single equipments like a preheater, a calciner and a kiln (together a "burning line"). KHD sells packages usually in connection with the erection of a new plant but also for existing plants. In case of equipment packages KHD also offers its clients non-core equipment such as bins, conveyors and filters required in connection with the supply of a new equipment package. KHD purchases such non-core equipment regularly from suppliers.

“Full equipment line” supply offered by KHD comprises regularly several core equipment packages, such as a raw material grinding line, a burning line and a clinker grinding line and non-core equipment in order to offer the customer all equipment required for an entire cement plant.

In addition to the supply of the equipment, KHD offers its customers services in the area of design, engineering and project management, as well as supervision of erection and commissioning of cement plants and equipment. Customer services such as supply of replacement parts, plant optimization and training of plant personnel complement KHD’s services.

KHD provides its products and services either directly to the operator of a cement plant, or, in particular in case of full equipment line supply in a consortium that includes equipment specialists in particular in the complementary fields of materials transport, blending, storage and packing or as an equipment supplier as part of an overall turn-key project.

KHD does not offer civil and construction works, however aims to offer turn-key solutions together with strategic partners in the future (see *“Business Activity - Strategy”*).

Services

Design and Engineering

One of the major services provided by KHD to its customers is the basic design as well as the detailed design (engineering) for a single equipment, a package of equipments or full equipment line supply. The basic design comprises, *inter alia*, layout, process calculation, determination of quantities, and is provided by KHD before a supply agreement on the supply of a cement plant or parts of it is concluded with a customer, whereas engineering is part of KHD’s contractual obligations under a supply contract.

Generally, both, basic and detailed design of a plant or equipment, depends on the type and quality of the raw material and the customer’s specifications.

The type and quality of the raw material to be used in a cement plant is either specified by the customer or determined upon the customer’s request by KHD. For this purpose, KHD operates own facilities and laboratories. The type and quality (in particular chemistry, hardness and moisture) of the raw material has a considerable impact on the design and engineering of the crushing and grinding equipment.

Typically, customers’ specifications for a cement plant or equipment of it refer, in particular, to:

- ***The plant’s output capacity:*** in most modern cement plants, the output capacity may be between 1,500 tpd up to more than 10,000 tpd clinker. The majority of new plants have a production capacity of approximately 3,000-8,000 tpd clinker.

- ***Composition of cement:*** depending on the particular application, the composition of cement may vary. Portland cement (containing 95-100% clinker), portland composite cement (containing 6-35% additive substances, such as slag or fly-ash), blast furnace cement (5-64 clinker and 36-95% slag) or composite cement (consisting of clinker, puzzolane, slag) vary in their composition. Accordingly, the raw material and additive substances must be mixed appropriately for the production process.

- ***Environmental aspects:*** environmental aspects are becoming more and more crucial in the context of the specifications for the construction of cement plants. In this context, a reduction of the energy consumption which is required for the heating, burning, and crushing is essential. Therefore, customers often set limits for the energy consumption per kilogramme clinker to increase the plant’s efficiency. The energy consumption per kilogramme clinker of current plants is between 680 and 780 kcal. Also, the carbon footprint of the energy generated for the production becomes increasingly important. For example, in several countries in Europe, cement plants are already included in the carbon emission reduction scheme.

- ***Approval requirements for the construction of a cement plant:*** Also legal and regulatory approval requirements which are imposed on a customer for the construction of a cement plant may have a considerable impact on the plant's design. In particular the installation area and the construction height of the cement plant can be limited or particle emission requirements can be set.

In addition, the customer's requirements have a major impact on the design of the plant and the equipment in a cement plant. For instance, the crucial parameter "output capacity" determines the configuration and the layout of all components of a cement plant. Moreover, the availability of the raw material determines the type of burning process, and the power efficiency and the grinding technology in the processing of raw material and clinker. Furthermore, approval requirements determine the erection and location of the individual equipment in the plant which considerably determines the handling of the raw material, burning material, clinker and gases (waste gases and particles) within the plant.

On the basis of the customer's specifications and on the basis of the assumptions as to the type or quality of the raw material, KHD carries out the basic design and engineering of the plant or the equipment for and in cooperation with the customer.

Basic design comprises the layout, process calculation, flow sheets and a budget bill of quantity for the plant. The process calculation for a cement plant includes mass flow diagrams, volume flow diagrams and fuel demand calculations. The layout is an overall drawing showing the location and arrangement of the pertaining buildings, roads and the equipment of the entire cement plant. The flow sheets which KHD develops show the equipment in symbolics in order to reflect there function and arrangements in the plant and include lists of electrical equipment and instrumentation. From the layout and the flow sheets KHD establishes the budget bill of quantity which includes a calculation of the material such as concrete, steal work, mechanical and electrical machinery in order to let the costumer analyze the resource required for erection and putting into operation the entire plant.

The engineering KHD provides to customers includes detailed design of the entire plant, a package of equipment or single equipment and comprises in particular a customized most feasible layout. KHD develops and calculates optimal arrangements of each part of the plant considering in particular the lowest investment cost for civil works, steal and machinery (e.g conveyors and duct works). The overall aim of the detailed design is to provide the customer with a cement plant which operates on highest reliability and lowest investment and operating costs.

Once KHD and the customer have entered into a supply agreement for full equipment line supply, a package of equipments or just a single equipment, the design and engineering is jointly completed to commence procurement of the equipment and the design documentation is handed over to the customer in order to allow the customer to arrange for the erection of the equipment.

Particularly in case of full equipment line supply or upon a customer's special request, partners with specific know-how of electrical automation or process relevant equipment (vertical mill or clinker coolers) in part, provide services with respect to the planning and engineering of the plant's individual parts under a consortium agreement concluded with KHD. The scope of the supply contract with the customer determines the extent of KHD's responsibility for design and engineering, which can range from the full process of the cement plant to responsibility for a single piece of equipment such as a roller press.

Project Management and Supply

The main service KHD provides to its customers, is the organisation of the procurement of core and non-core equipment and its delivery to the customer. In this context, KHD, in accordance with customers' requirements, organises the entire order process with suppliers (see *"Business Activity - Suppliers"*) and third party contractors (see *"Business Activity - Production"*), i.e. the selection of the supplier or contractor, order, timing of the delivery, quality monitoring and delivery to the customer.

In this respect, procurement of KHD core equipment is made on the basis of parts lists and workshop drawings made by KHD. Procurement of non-core equipment is based on the specifications established during the course of design and engineering.

KHD maintains a comprehensive database where data about the individual parts required for a plant together with supplier data are collected. This allows KHD to ensure a smooth procurement process. KHD can also meet a customer's request to obtain specific products from specific suppliers.

Suppliers and contractors then deliver the parts to a central packer (if not done by the supplier or contractor) who carries out the packaging and prepares the equipment for shipment. KHD is responsible for and controls this process until the equipment is shipped to the place specified in the supply contract. Customs clearance, however, is the customer's responsibility. Deliveries are usually made on FCA, FOB und CFR basis in accordance with INCOTERMS 2000 (see *"Glossary"*). In the context of the delivery to the customer, KHD also ensures that the agreed delivery time is met in order to ensure that during the erection of a plant the required parts are available to the customer in due time.

Supervision of Erection and Commissioning

Supervision of Erection

KHD's business model of the past years has not comprised turn-key projects. Accordingly, the erection and civil works of a plant are carried out by KHD's customer at its own risk. This also applies when KHD is providing equipment or a package of equipments to a customer. However, KHD regularly monitors the erection of the equipment delivered so that the entire cement plant or the equipment can be duly erected in accordance with KHD's design and planning and in consultation with the customer. Supervision includes monitoring of time schedule for the whole project and the due assembly of KHD's equipment. However, KHD does not regularly assume any scheduling responsibility. On-time completion is the customer's responsibility. In the course of its supervision, KHD assists the customer on the erection activities, monitors and gives advice for the correct erection, such as the alignment of the equipment with its own staff and takes comprehensive reports and protocols of the erection for evidence of proper erection.

The erection process for a complete cement plant may take up to 8 months and is finished by a so-called "cold" run during which the equipment is tested without any material in use. Supervision services are agreed upon conclusion of the supply contract and calculated on the basis of man-days required.

Supervision of Commissioning

Following the supervision of the erection of the plant or equipment, KHD also supervises the commissioning of the entire plant or equipment supplied by KHD. For this purpose, first, interlocking tests are conducted. During such tests the proper sequence of operation with safety limits of all equipment involved is checked. After that the entire plant or equipment is being put in operation in order to make final adjustments and tuning.

The purpose of a further performance acceptance test supervised by KHD is to prove that the equipment fulfils the contractual performance requirements under operational conditions.

In the Company's experience commissioning of a plant takes approximately 3 to 4 months. At the end of the commissioning the customer issues an acceptance certificate declaring acceptance of the equipment which marks the begin of the warranty period.

Customer Services

As part of its customers services KHD delivers replacement parts to its customers according to the customer's needs. Replacement parts are procured through contractors and suppliers.

Customer services offered by KHD also include the analysis and optimization of existing cement plants and equipment (either designed by KHD or its competitors). Grinding, burning and cooling technologies have developed over time. In particular, in terms of energy efficiency and susceptibility for wear, there have been major changes in past twenty years. For example, KHD's roler press is considerably more energy efficient than some other, older grinding technologies. Therefore, KHD offers plant audits to customers in order to evaluate cement plants for their optimization potential. This typically involves tests and calculations and provides optimization recommendations to the customers. As a result, customers may be interested in obtaining updated versions of products designed by KHD or using plants designed by KHD for the first time and purchasing them from KHD.

In addition KHD also offers training to the customer's maintenance and operating personal.

Through its subsidiary KHD Humboldt Wedag Industrial Services AG, Germany (**"KIS AG"**) will provide an even wider scope of customer related services compared to the customer services already provided, covering initial layout consultancy at the very beginning of a project up to operational services and consultancy provided as follow up services upon completion of the erection and commissioning phase.

Products

Burning Technology

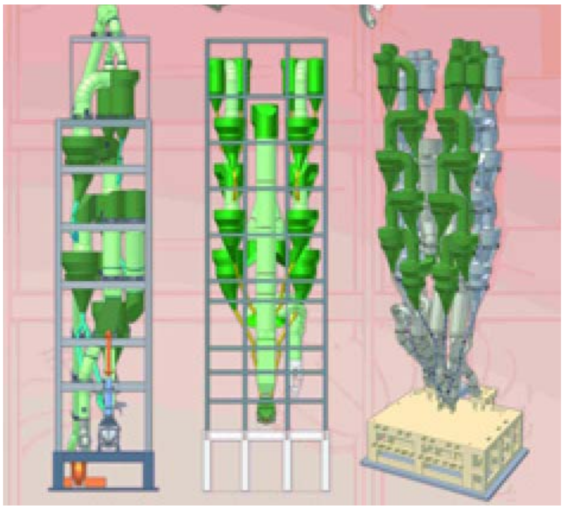
KHD offers the whole range of products required for the burning process of industrial cement production, including preheaters, calciners, bypass systems, kilns, burners, coolers and fans. KHD burning technology aims to be high efficient, fuel variable, with high recuperation efficiency, high availability and stable operation and high specific throughput rates, reduced emissions as well as with flexibility to raw materials.

Preheater

As cement clinker burning is a process with a very high energy demand, plant manufacturer's aim always at a very efficient utilization of energy to come as close as possible towards the lowest possible energy demand.

A major step in this respect was the invention of the suspension or cyclone preheater. Such a preheater mainly consists of a series of 3-6 cyclone stages with interconnecting ductwork in a steel or concrete support building. The raw material, a mixture of limestone (calcium carbonate), clay and corrective materials is finely ground and fed to the top of the preheater. As it travels downwards through the preheater stages, at first the moisture of the material is evaporated, then the calcination process (drive-out of carbon dioxide, reaction from calcium carbonate to calcium oxide) starts at the lower stages. Compared to old kilns without preheater, modern preheater kilns are much shorter as the kiln is relieved from a part of the calcination work. The degree of decarbonisation achieved with a preheater is approx. 40%

PYROCLON®-Calciner



A consistent step in the development was the introduction of the so-called precalciner. The waste gas from the kiln has still a certain amount of oxygen which allows the introduction of additional fuel in the calciner duct to achieve a higher degree of pre-calcination. This so-called secondary firing was further improved with the invention of the tertiary air duct which allows the usage of hot cooling air from the clinker cooler of the plant as an oxygen source for the precalciner. To provide the necessary burnout time for the fuel, the connecting tube between kiln and lowest cyclone stage is prolonged and equipped with a special mixing chamber, the PYROTOP®, which enables proper mixture of fuel and gas and therefore a complete combustion of the fuel in the calciner. KHD sells the preheating and calcining system under the trademark PYROCLON®-Calciner, a sturdy and established solution for precalcination. This product drives the (Source: KHD) degree of precalcination up to 95% and reduces the kiln length so far that only two roller stations for the suspension of the kiln are required anymore. The PYROCLON® may burn up to 60% of fuel in the calciner and only 40% in the kiln itself. With an overall height of over 100 m, the PYROCLON® tower is the landmark of a modern cement plant.

PYROCLON® LowNO$_x$-Calciner

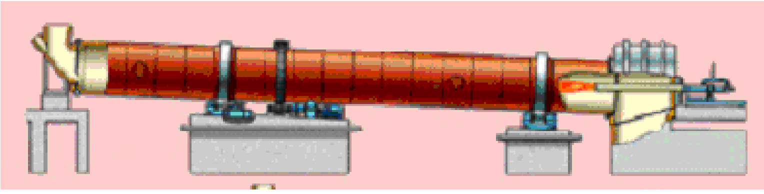
Beside the classic calciner with tertiary air duct, KHD has developed the LowNO$_x$-Calciner which enables staged combustion with a reducing zone after the kiln to lower the emission of nitrogen oxide, an air pollutant which forms in the extremely hot flame of the main burner in the kiln. As fuel and kiln gases are mixed intensely in the absence of oxygen, the fuel is oxidized while the nitrogen oxide is reduced to molecular nitrogen. The rather moderate temperatures in the precalciner avoid the production of new NO$_x$ at this stage of the process. The LowNO$_x$®-Calciner reaches the BAT (Best Available Technology) criterias due to the low emissions of air pollutants.

PYROCLON-R+® combustion chamber

Further, KHD offers the PYROCLON-R+® combustion chamber. The combustion chamber is fed with hot air from the clinker cooler and allows the ignition of fuels with difficult burning characteristics such as hard plastics, sewage sludge, tyre chips. The walls of the combustion chamber are protected by a vortex of raw meal with the open flame burning in the centre. The entire mixture of hot gases, meal and burning fuel enters the PYROCLON®-Calciner where the final burnout takes place. The combustion chamber makes the utilization of cheap fuels with a very low degree of preparation possible and allows even the usage of waste with a certain calorific value. A staged combustion is also possible with the optional Top-Air Duct to lower the NO$_x$ emissions from the combustion process.

Rotary Kilns

Besides preheaters and calciners KHD offers its clients the heart of each cement plant, the rotary kilns. Rotary kilns are slightly sloped (usually 3.5%) steel cylinders lined with firebrick, turning from about one to five revolutions per minute. Inside, located at the discharge end of the kiln is the burner. From the upper end of the kiln the feed slides and tumbles down the kiln through progressively hotter zones towards the discharge end. The kiln burner heats the kiln feed to approximately 1450°C to undergo chemical changes and partly melt. At the lower end of the kiln the feed emerges as a new substance: cement clinker. Depending on size and design, the kiln is supported on two or three roller stations. The kiln is driven by a large girth gear with a main drive and an emergency turning system with a diesel engine in case of power failures.



(Source: KHD)

Due to the high degree of calcination from the PYROCLON®-Calciner, the kiln size has decreased while KHD offers the three tire station kiln which is a classic kiln which has been thoroughly tried and tested over the decades in hundreds of plants.

KHD's two tire station PYRORAPID® kiln offers advantages over a three station kiln due to the diameter ratio and in particular lower investment costs and construction costs, and the load distribution is better balanced and this kiln requires less power for the drives.

Burners

At the low end of the rotary kiln is the burner heating the feed up to approx 1450°C. KHD burners are versatile in respect to different types of fuels. KHD designs burners for traditional fuels like coal, natural gas and oil as well as anthracite and petcoke and various alternative fuels. The type of fuel is chosen with regards to availability, price and suitability for the burning process.

KHD offers two types of kiln burners and three different calciner burners:

PYRO-JET®

The KHD PYRO-JET® burners have been implemented in more than 700 rotary kilns. The PYRO-JET® is a safe and reliably designed burner for operation under severe conditions. Because of its outstanding combustion properties, this burner is not only suitable for coal, but also for difficult solid fuels such as anthracite, pet coke and mixed fuels with oil and gas and various alternative fuels.


(Source: KHD)

PYROSTREAM®

The KHD PYROSTREAM® burner is designed to allow the highest possible alternative fuel substitution rates which makes the burning process more cost efficient. The main design feature is the adjustable jet nozzle system. This adjustment allows a more precise flame setting than conventional burners without adjustable nozzles. Besides the advantageous features to the process, KHD improved the service time and maintenance intervals.

Clinker Cooler

The clinker emerges at the end of the kiln and is cooled down for further processing in a cooler. Clinker coolers accomplish two functions: conveying and aeration of clinker.

KHD offers the cooler PYROFLOOR®, which is based on the “walking floor principle”. It consists of several lanes, arranged beside each other in the direction of clinker transport. These lanes are pushed forward simultaneously and retracted in such a pattern that no adjacent lanes are moved at the same time. The clinker bed behaves like a solid body held in place by the majority of the non moving lanes while the lane retracts beneath it.

The advantages of PYROFLOOR® clinker cooler, in comparison to other clinker coolers with different principles, are: low wear, almost no maintenance, high heat recuperation.

Grinding Technology

KHD believes it is a leading expert in grinding technology, offering crushers, roller presses and tube mills as well as separators. Combining KHD roller press and separation technology in one hybrid system COMFLEX® KHD concentrates grinding effectiveness and efficiency in narrow space. Grinding technology is used for raw material processing as well as for clinker processing.

Crushers

Crushers brake the material from the quarry to the partical size required by the raw mill for further reduction. KHD offers to its clients several types of crushers such as hammer mills, and various types of impact crushers.

A hammermill is a steel drum which contains a horizontal rotating shaft on which hammers are mounted. The hammers are free to swing at the central rotor. The rotor runs at high speed inside the grizzly drum while material is fed into a feed hopper. The material is impacted by the hammer bars and is thereby shredded and expelled through grizzly at the selected size.

Impact crushers can be used in coarse and fine crushing application. The design consists of a horizontally mounted rotor, which runs at a speed of 40-60 m/s. The material is broken when the rotor hits the material and throws it against impact plates. The discharging product is not calibrated via exit grizzly like it is the case in hammermills,

Additionally, KHD also has a special hammermill type of crushers for clinker crushing which is used before clinker is discharged from the cooler.

Roller Presses


(Source: KHD)

KHD also offers roller presses for processing of raw material, clinker, and granulated slag. Contrary to conventional crushing rolls, in roller presses the particles are broken by compression in a packed particle bed, and not by direct nipping of the particles between the rolls. A key feature of KHD roller presses is the mounting of the rollers in oillubricated cylindrical roller bearings. The oil is both, lubricant and cooling agent.

Alternatively, grease lubrication is possible. Power transmission from the electric motors is effected via cardan shaft, fluid or safe set coupling and clamping disc fitted gear boxes, usually of planetary design. Depending on the application, the rollers are either one piece solid construction or shaft and tire design with suitable wear protection for almost all applications in the cement industry.

Due to its processing qualities KHD sells its roller press also to mineral companies.

Tube Mills

In addition to roller presses KHD offers its clients tube mills with slide shoes and different drive systems. KHD tube mills are space-saving, compact, high on performance and low on maintenance.

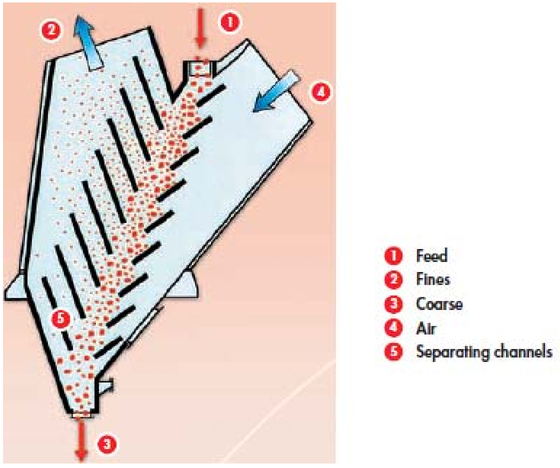
The standard KHD tube mill is shell-supported on slide shoes and has a central drive. Torque transmission is effected via the conical discharge end. This cone is welded to the mill shell and has openings for the discharge of material and exhaust gases. The drive flange is connected to the end of the cone. In this way, the drive force is distributed directly and evenly to the mill shell.

KHD’s tube mills for minimum space requirements are mounted on slide shoe bearings and have the integral drive. The core of this drive is a two stage planetary gear reducer, which is directly mounted on the end cone. Only one short slide seal at the motor end and a closed oil lubrication system extend the time between oil changes and reduce the risk of entering of dust particles.

Separation

Separators separate fine particles from coarse particles in order to ensure consistent quality. The fine particles are collected as product while the coarse particles are conveyed back for further grinding.

V-SEPARATOR®



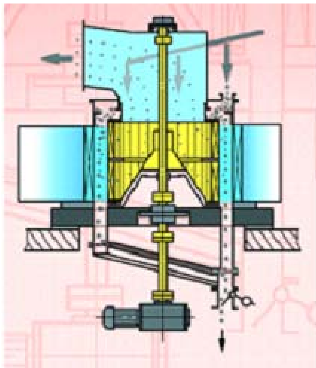
(Source: KHD)

KHD's V-SEPARATOR® is a static separator without any moving parts. This became a general practice in cement business, and has originally been patented by KHD. In the V-SEPERATOR® material is fed from above to the builtin step grate, from where the fine material is carried upwards with the air through the separating channels. The coarse material falls down over the step grate and is discharged at the bottom of the housing.

All internal parts of the V-SEPARATOR® are fixed and have straight and level surfaces, as does the housing. This ensures simple but effective protection against wear, eliminating the need for maintenance work for many years. In addition to reduced investment for machinery, the V-SEPARATOR® also results in energy savings, due to the reason that there are no drives and reducers.

SEPMASTER®

KHD's SEPMASTER® is a high-performance cage wheel separator using the centripetal force for separation of particles. The greater the centripetal force, the more particles are forced to the outside. The SEPMASTER® provides good selectivity and fits into small space and is therefore well suited for increasing the productivity of mills already in operation. The rotor cage system enables the grinding of premium product qualities. The investment cost incurred by a change of separators is quickly recovered, due to better separation efficiency compared to old generation separators.



(Source: KHD)

VSK® SEPARATOR and VSK®e SEPARATOR

KHD's VSK® SEPARATOR combines the sturdy design of the V-SEPARATOR® with the high performance of the SEPMASTER®. The cage wheel is arranged as an add-on module to the V-SEPARATOR® which reduces the need for auxiliary equipment. The VSK®e SEPARATOR is the extend version of the VSK® SEPARATOR which requires significantly less mechanical conveying capacity.

COMFLEX®

COMFLEX® is a single grinding unit containing the KHD roller press and a tailor-made separating unit. This system allows for low installation height and high capacity as well as low energy demand.

Process Automation

KHD offers the complete spectrum of cement plant automation equipment and services, including plant engineering of electrical packages and implementation of particular process control systems (PRODUX® PLUS), training simulators for cement plants (SIMULEX®), quality control systems (ROMIX®), kiln shell scanners (SCANEX®), advanced control systems for kiln (PYROEXPERT®) and for grinding process (MILLEXPERT®).

Production

Until October 2009, KHD had its own in-house manufacturing facilities in Cologne for the production of certain equipment. However, since the sale of this facility (see *"Business Activity - Material Agreements - Disposal of the coal and mineral business and the Cologne production facilities to McNally Bharat Engineering Company Ltd. in August 2009*"), KHD now outsources the production of its entire product range. A minor workshop in India has been acquired in the course of the Restructuring (see *"General Information about the Company - Group History, Restructuring of KHD Ltd. Group and Reintegration of Subsidiaries - Restructuring and Reintegration of Subsidiaries"*).

KHD's core equipment is produced by the contract manufacturers in accordance with KHD's requirements and quality standards. This means that KHD provides the manufacturer with workshop drawings and parts list of the equipment to be produced enabling the manufacturer to produce them according to KHD's specifications and requirements. The outsourcing of its production KHD to flexibly respond to market developments, in particular to use price differences and have certain equipments produced closer to the customer. After Reintegration of the Reintegration Subsidiaries KHD operates a small workshop in India for local production for that particular market and assembly of certain products.

Equipment constituting a cement plant (e.g. separator, pre-heater, kiln, cooler) mainly consist of plate work. Accordingly, the equipment contract manufacturers typically comprise heavy machinery manufacturers.

KHD utilises a number of different contractors located throughout the world. For the most part, equipment is easily available, although there are certain long-lead time items (such as gears) where in the past few years delivery has taken up to 24 months. Delivery times have now reduced significantly due to the slowdown in demand for cement plant equipment.

KHD carries out quality controls during the course of the production. This includes the constant supervision of the manufacturers' production process in order to identify production shortages in due time and avoid delays in delivery or consider any delays in the course of the procurement process. KHD also checks if the specific technical requirements for the respective equipment are complied with and whether the products are produced in accordance with the respective quality requirements.

Suppliers

Besides the equipment developed by KHD (core products) (see *"Business Activity - Services and Products - Products"*), a cement plant consist of a large number of other machineries and equipments, such as silos, assembly lines and filters which are also necessary for the operation of a cement plant. Such non-core equipment is neither produced nor designed by KHD, but purchased by KHD from suppliers if required by the supply contract. Usually, these parts are standard assemblies which are regularly offered by many suppliers. The decision to select a particular supplier is taken by KHD on the basis of price, quality, delivery term and past experience with this particular supplier. Often customers also limit the scope of permitted sub-suppliers by name or by region.

KHD applies its quality assurance system and carries out quality controls, for example by measurements or by inspections, during the production process by the supplier and before the equipment and assemblies produced by suppliers are delivered to KHD's customers.

Customers

KHD's customers may be divided into two main categories:

- Global customers: comprising the major cement producers which represent around 60% of the global cement production capacity (excluding China) and

- Regional customers: making up the remaining 40% of global production capacity and whose operations are mainly within the boundaries of their specific locations.

Regional Customers

KHD's typical customers are smaller and medium sized regional or local cement producers in emerging markets.

These customers can be characterised by the fact that they are strong local or regional players, rather than global. Due to the fact that these customers are typically located in emerging markets, their requirements are often more demanding in some ways than those of global customers as they have smaller operations and less expertise and therefore require more services from KHD.

The Company believes that KHD has a good reputation with these types of customers.

Existing regional customers include, *inter alia,* the following:

Regional Customer	Market
Orient Cement	Republic of India
Jaypee Group	Republic of India
UltraTech	Republic of India
Shree Cement	Republic of India
JSW Cement	Republic of India
Grasim Industries	Republic of India
International Hillal Company	Republic of India
PT Indocement	Republic of Indonesia
Zaveh Torbat	Islamic Republic of Iran
Iran Industrial Design	Islamic Republic of Iran
Yanbu Cement	Kingdom of Saudi Arabia
Libyan Cement Company	Great Socialist People's Libyan Arab Jamahiriya (Libya)
YTL	Federation of Malaysia
Dangote Industries	Federal Republic of Nigeria
Raysut Cement	Sultanate of Oman
Mordow Cement	Russian Federation
JUGPK Novotroizk	Russian Federation
Sterlitamak	Russian Federation
Jiangxi Ya Dong (Far Eastern Textile Asia Cement)	Republic of China (Taiwan)/People's Republic of China
EKON/PROKON	Republic of Turkey
OYAK (Bolu Cim)	Republic of Turkey
Limak Holding	Republic of Turkey
Pertech	United Arab Emirates/Kingdom of Jordan
Illinois Cement	United States of America
Continental Cement	United States of America

Global Customers

Global customers include the four largest cement producers: Lafarge, Holcim, HeidelbergCement and Cemex.

KHD currently has relatively limited sales to global customers in particular due to their limited investments and financial difficulties in the course of the economic crisis. In the short term to medium term, KHD intends to grow its sales to this group of customers.

Sales and Marketing

Sales

KHD sells its products and services globally. Geographically, demand has been strongest in the emerging market regions. In the nine month ended 30 September 2010 the Indian and Asian market was two main market from an order intake perspective, representing around 66 % of total order intake respectively. Eastern Europe and Russia accounted for around 10 % and the Middle East for around 7% of total order intake.

KHD's sales organisation comprises a central structure based in Cologne as well as regional organisations in KHD's four Customer Services Centres (Americas /EMEA (including Asia /Pacific), India /Russia & CIS). The sales organisation is managed by a head of sales and services, based in Cologne, who reports to the executive board. The sales team in Cologne is responsible for providing the strategic direction for sales and marketing as well as global tendering for projects. The purpose of KHD's CSC is to be located close to KHD's customer base and to provide local input necessary to win projects and supply contracts.

The sales organisation is structured both regionally and by customer. Sales employees are allocated to a particular region (Americas /EMEA (including Asia /Pacific), India /Russia & CIS) or are responsible for certain customers (key account managers).

KHD also utilises sales agents to access markets where it is not present. These agents are paid on a commission basis.

KHD's sales and after-sales department comprises more than 75 professionals as at 30 September 2010. The sales efforts are technical in nature, and hence most of the sales force are trained and experienced engineers.

KHD's sales process can be divided into two distinct parts: sales and tendering. Sales are responsible for identifying opportunities as a first step and these opportunities are then given to the tendering team, who are responsible for the decision whether to proceed with that opportunity.

KHD's main business is based on large projects for the erection and implementation of cement plants worldwide. Proper preparation of a proposal for full-line supply is a major effort, and in the case of a new plant, can represent an investment in excess of EUR 750,000. The customer usually approaches KHD by providing a sample of the raw material to be processed, as well as specifications for production capacity, energy requirements, emission limits, and product quality. KHD must then analyze the sample, complete preliminary engineering to a sufficient extent so that the major components can be sized, prepare arrangement plans, and in the case of expansions, develop connection details and shutdown requirements. Consequently, the decision to bid is strategic and must be made considering other opportunities available at the time, commitment load by geographic region, country risk, history with the customer (e.g. have they purchased KHD's or KHD's competitor's lines in the past), bonding capacities, and financing availability. In contrast to large projects, for the sale of single equipment little or no tendering activities are required.

Opportunities are reviewed at each step up to the delivery of an offer to a customer, which is the responsibility of the sales team.

KHD has implemented a new opportunity and tender management process in 2009. The purpose of this is to give greater clarity on future business potential and to support capacity and resource planning. This also allows stringent viability checks during the life of a specific tender.

The company also has a detailed approval process in place and large projects are subject to executive board approval.

Marketing

Marketing falls under the responsibility of the head of sales and services. As with the sales process, the strategy for marketing is determined by the headquarters in Cologne and then executed and tailored to regional requirements by the local customer service centres.

KHD regularly publishes marketing material such as product brochures, case studies and press releases regarding new clients and commissioned plants on its website. A key focus of marketing is on dedicated customer gatherings to promote KHD's product and service offerings. Marketing also includes the attendance at trade fairs specific to the cement industry.

The center of KHD Marketing activities is in India from where global marketing is being coordinated with extended use of external resources. Support is given from employees within the various customer service centers. In the future 4 employees globally shall be involved in marketing activities on a full time basis, some other employees from the CSC´s will contribute to KHD's marketing activities on a part time basis.

Market and Competition

KHD's Market

KHD is active in the industrial cement plant engineering and equipment supply market. The business of industrial cement plant engineering and equipment supply consists of design and engineering of plants as well as supplying technologies, equipment and services for the clinker and cement production.

KHD operates in both the mature and emerging markets except for China, where KHD has not been present in the past due to high competition from local Chinese manufacturers and the risks to KHD's intellectual property from entering this market. Since 1950 KHD has installed and commissioned more than 400 cement plants and more than 5,000 units of equipment globally. Almost 30% of these installations have been in Russia, another 30% in Europe, 18% in Asia Pacific (including India) and 12% in the Americas and almost 10% in Middle East and Africa. KHD's installed base provides excellent opportunities for further expanding the services business.

In the mature markets such as North America and Western Europe demand is mainly for upgrades and services whereas in the emerging markets such as India and Russia demand is mainly for new plants, to meet the growing demand for cement in these markets. KHD's main source of growth has been from emerging markets and in particular the Middle East and Asia, India and Russia.

Parameters of the Cement Plants and Equipment Market

The cement plants and equipment market depends on a number of parameters; including economic activity, cement demand and growth, per capita consumption, cement export prices, cement production capacity, capacity utilisation and overcapacity issues and capacity adjustments. Furthermore, it also depends on the willingness and ability of cement producers and new market entrants to fund investments in cement plants. Potential investment returns also play a major role in cement industry investments.

Economic activity

Following the financial crisis and a deep global recession, the global recovery remains fragile, because strong policies to foster internal rebalancing of demand from public to private sources and external rebalancing from deficit to surplus economies are not yet in place. Global activity is forecast to expand by 4.8 percent in 2010 and 4.2 percent in 2011, broadly in line with earlier expectations, and downside risks continue to predominate. IMF projections are that output of emerging and developing economies will expand at rates of 7.1 and 6.4 percent, respectively, in 2010 and 2011.

In advanced economies, however, growth is projected at only 2.7 and 2.2 percent, respectively, with some economies slowing noticeably during the second half of 2010 and the first half of 2011, followed by a reacceleration of activity. Slack will remain substantial and unemployment persistently high. Inflation is projected to stay generally low, amid continued excess capacity and high unemployment, with a few exceptions among the emerging economies. Risks to the growth forecasts are mainly to the downside. However, the probability of a sharp global slowdown, including stagnation or contraction in advanced economies, still appears low.

(Data taken from: IMF, World Economic Outlook, October 2010)

Cement demand and growth

Over a longer period of time cement consumption generally equals cement production. Cement production in 2009 suffered from the effects of the global financial crisis and recession. Although the compound annual growth rate (CAGR) was +5.3% in 2009, this is mainly due to significant growth in China (+14.5%) while the rest of the world showed a -3.7% decline. For 2010 it is expected that the cement production will grow by 7.2% and then annual production increases will slow down up to 2013 due to general market saturation. However, for the time period of 2007 to 2013 cement production is projected to increase from 2,758 million tons per year (**"Mta"**) to 3,447 Mta which will be mostly attributed to China.

For the time period between 2008 and 2013 global annual cement consumption is projected to increase by 4%. The largest growth is attributed to China and the other emerging markets. In 2009 China, India and the Far East already made up two thirds of the world cement consumption. 2009 also showed a decline of cement consumption in Europe and North America which is thought to recover in 2010.

Historically, growth in cement consumption has exceeded the rate of GDP growth. Growth in cement consumption since 1990 has been 5.5% compared with growth in GDP of 3.5%.

(Data taken from OneStone Intelligence, 2009 and IMF, World Economic Outlook, October 2010)

Per capita consumption

Future cement consumption is influenced by population growth and per capita consumption (**"PCC"**). Both of these factors are expected to grow until 2013. The world population is expected to increase from 6.6 billion in 2008 to 7.1 billion in 2013 and PCC is expected to increase from 423 kg in 2008 to 483 kg in 2013. The increase in the world population is responsible for 32.5% of the forecast increase in cement consumption. The regions with the strongest growth in cement consumption are China, India as well as Africa and Oceania.

In emerging markets, there is often a steep increase in cement consumption per capita as urbanisation and industrialisation increases, with China being the best example of this. In mature economies, such as the USA, there is generally a decline in PCC.

(Data taken from OneStone Intelligence, 2009)

Cement export and prices

Cement is a costly product to transport due to its low value to weight ratio. Therefore, cement is usually managed on a local production and consumption basis where prices are mainly a function of local production and demand, energy and transport costs and market structure.

Only 138 Mta of cement and clinker were traded worldwide in 2009. This represents just 4.7% of total cement consumption. This amount is forecasted to further reduce until 2013 with a better domestic supply due to cement capacity extensions. Cement trade is mainly seaborne and dominated by the major cement producers. The main former import regions were the Middle East as well as Africa and Oceania. However, North America, Western Europe and the Far East also show strong import numbers.

Cement prices vary significantly around the world from US$ 70 per ton to over 150 US$ per ton with the lowest price level in China and the highest in Sub-Saharan Africa. These price differences encourage producers from low cost production countries to export cement. Generally, cement prices per tons are higher for smaller plants (0.5 Mta: US$ 230 per tons) as for larger plants (2.5 Mta: US$ 90 per ton). Although prices for cement have generally improved from 2008 to 2009 there is little optimism for the future. However, especially in Eastern Europe, parts of Western Europe and the Far East cement prices have even decreased from 2008 to 2009.

(Data taken from OneStone Intelligence, 2009)

Cement production capacity

In most regions capacity growth has been higher than production growth. Capacity is expected to increase from 2990 Mta (2008) to 3997 Mta (2013). This capacity expansion however, goes hand in hand with large capacity closures (plant closures) especially in the mature markets. Nevertheless, in general the utilisation rate is expected to decrease worldwide except for China.

(Data taken from OneStone Intelligence, 2009)

According to OneStone Intelligence, 2009, capacity additions during the period from 2008 to 2013 are expected to equal to 42% of existing capacity. Capacity closures during the same period are expected to equal to 21% of existing capacity. These closures are expected to occur in particular in China as older shaft kilns are replaced by newer rotary kilns. Other closures are expected to affect older inefficient plants in Russia, Spain, Italy, the USA and Turkey. Of the total new cement capacity forecast of 1201 Mta approximately 420 mt is expected to be installed in China, 153 Mta in India, and approximately 55 Mta each in Vietnam, Russia and Iran.

(Data taken from OneStone Intelligence, 2009)

Market Size

The financial crisis and its effects on the economy have triggered a downward spiral for the cement industry: decreasing demand for cement has led to decreased profitability for cement producers. At the same time many projects have been adversely affected by the reluctance of banks to grant loans. In combination with the high debt levels of cement producers, many cement producers have delayed or terminated projects for the increase of production facilities. No new big projects were initiated in the last quarter of 2008 and the first quarter of 2009.

The following paragraph describes the past, current and future expectations in relation to the market size. All information related thereto have been derived from the OneStone Intelligence, 2009 report if marked as "Data taken from OneStone Intelligence, 2009".

In 2009, there has been a sharp drop in contracted new clinker capacity (excl. China). According to OneStone Intelligence, 2009 the market is expected to recover from 2011 onwards. In the time period from 2009 to 2013 the forecasted new operational cement capacity is 778 Mta (excl. China); thereof 56% is already contracted, leaving only 315 mt of capacity to be contracted by 2012 (with at least one year lead time). This is expected to result in new capacity for clinker of 232 mt to be contracted by 2012.

The biggest growth in new capacity is expected to be in the Middle East, Eastern Europe, Africa as well as Oceania and India. From 2008 to 2013 cement capacity is expected to grow from 1443 Mta to 2030 Mta in emerging markets (excluding China). In India for example the CAGR for cement capacity from 2008 to 2013 is expected to be 9.8%, in Africa/Oceania 10.7% and in Eastern Europe for 5.8%. By contrast, expected capacity additions in Western Europe for the years 2009 to 2013 only account for 9% of the existing capacity, whereas new installed capacity in Africa/Oceania accounts for 77% of the existing capacity, in India for 64% and in Eastern Europe 58%. Capacity additions in Western Europe are expected to be significantly lower due to the strict emissions trading regime enacted by the European Parliament.

In the United States, about 25 Mta are expected to come on line by 2012 representing more than US$ 6 billion in investment. (Data taken from Portland Cement Association (PCA), Cement Industry Overview — Economics of the United States Cement Industry, December 2009) However, the economic outlook for the USA is weak with only a gradual recovery expected and the private sector to recover only in 2011 and 2012. This resulted in major capacity delays in 2008 and 2009. Stimulus relief has been slow to materialize in the USA but should start to be seen in 2010.

(Data taken from PCA, Cement Outlook 2009-2014, October 2009)

2007 and 2008 saw a boom in capacity expansion with relatively small market shares for upgrades and spare parts with a combined market potential of US$ 9.3 billion. The decline of market potential for new plants in 2009 from 2008 was 65%. The decline in upgrades to existing plants was 26%. The decline for spares was smaller due to the closure and decommissioning of older plants. The total cement equipment market decreased significantly by 54% in 2009 to US4 4,285 million.

In 2010 the market potential for new plants is expected to recover by 28% and for upgrades by 20%. In the years up to 2013 both markets are expected to further recover to about US$ 6.1 billion, but to remain significantly below the level of 2008.

(Data taken from OneStone Intelligence, 2009)

The addition of new cement capacity generally follows a cyclical pattern. After years with strong cement demand growth, high prices and good levels of profitability, cement producers tend to add capacity to take advantage of these conditions, which in turn leads to an excess of supply and then a reduction in prices and profitability. This usually results in lower additions of capacity during this period until prices and profitability improve and overcapacity reduces. Cement demand declined in the years from 1994 until 1998 and this resulted in a lower capacity growth from 1997 until 2004. Due to strong cement demand in the years 2000 to 2007, the period 2005 until 2009 witnessed rapid expansion of cement capacity and it appears likely that the period from 2010 to 2013 will experience lower additions of new cement capacity as the cycle of cement demand improves from its low levels during 2008 to 2011.

Utilization Rate and Construction Costs

Worldwide there are 2535 cement plants (2008, considering only rotary kilns and not shaft furnaces) comprising 1938 integrated plants and 597 separate grinding facilities and an average capacity of 1.2 Mta per plant. The utilisation rate of cement plants in 2008 was 78% globally and is expected to decline slightly to about 76% in 2010 and then to increase to 77.5% by 2013.

A large proportion, estimated to be 50% of installed cement capacity (excl. China) is 25-50 years old and therefore needs to be replaced or modernised. While upgrades to plants are much cheaper than new plants, they are limited by plant size and equipment. For example, with a modern precalciner kiln capacity can be increase by 30-40%, however, clinker cooler and cement grinding facilities have to be upgraded as well.

In general, plant construction costs have decreased due to intense competition from Chinese contractors. The average price for new 1.5 Mta cement plants is US$ 167 million and US$ 126 million for new lines. This is roughly the same level as acquisition prices for existing capacity which have decreased due to overcapacity and restructuring of financial debt of cement producers following the financial crisis. Furthermore, there is a tendency to order identical clinker production lines to reduce the costs of engineering and plant construction. Other trends include the project phasing model, standardized cement production lines and smaller plants.

(Data taken from OneStone Intelligence, 2009)

Competition

Competitors

Overall, there are more than 300 local and international equipment suppliers to the cement industry.

KHD’s most relevant competitors can be segmented into two different types of companies:

- complete line competitors which are companies providing either a similar, or even broader range of equipment and services to the cement industry; and
- part line competitors which are companies focusing on a smaller range of equipment and technologies.

There are only a few global complete line competitors in the cement plant engineering business. These competitors include in addition to KHD, FLSmidth A/S (Denmark), Sinoma International Engineering Company Ltd.

(China) and Polysius AG (Germany). All of these companies are international companies with significant resources, capital and access to information and technology.

With the intensification of global competition in the last two years, especially from China, the market share of Chinese plant suppliers has increased to 32% in contracted clinker capacity. (Data taken from OneStone Intelligence, 2009)

- FLSmidth A/S (**“FLSmidth”**) is a publicly listed global company headquartered in Copenhagen, Denmark employing more than 11,000 people world-wide which offers equipment, systems and services for the cement and mineral industries. From the Company’s perspective FLSmidth is strong in standardized cement plants and can offer a wide range of products.

- Founded only in 2001, Sinoma International Engineering Company Ltd. (**“Sinoma”**) is a PRC based fast growing engineering company in the global cement industry with approximately 4,800 employees. Sinoma offers in particular general contracting, including design, equipment, civil works, installation and operation of cement plants.

- Polysius AG (**“Polysius”**) with more than 2,000 employees all around the world is the cement and minerals subsidiary of Thyssen Krupp. Similar to KHD, Polysius has a long history. Polysius in particular offers its clients engineering, design, shipment, field assembly and commissioning, as well as service activities.

KHD also competes with part line suppliers which include among others: Claudius Peters Group GmbH (Germany), Loesche GmbH (Germany), IKN GmbH (Germany) and Gebr. Pfeiffer AG (Germany).

- Claudius Peters Group GmbH (**“Claudius Peters”**) is a wholly owned subsidiary of Langley Holdings plc, a privately controlled UK engineering group and is active in the field of materials handling and processing, from stockyard, pneumatic conveying, silo, clinker cooler, grinding mill and packing & dispatch systems in the cement, coal, alumina, gypsum and bulk handling industries. Claudius Peter employs approx. 600 employees worldwide.

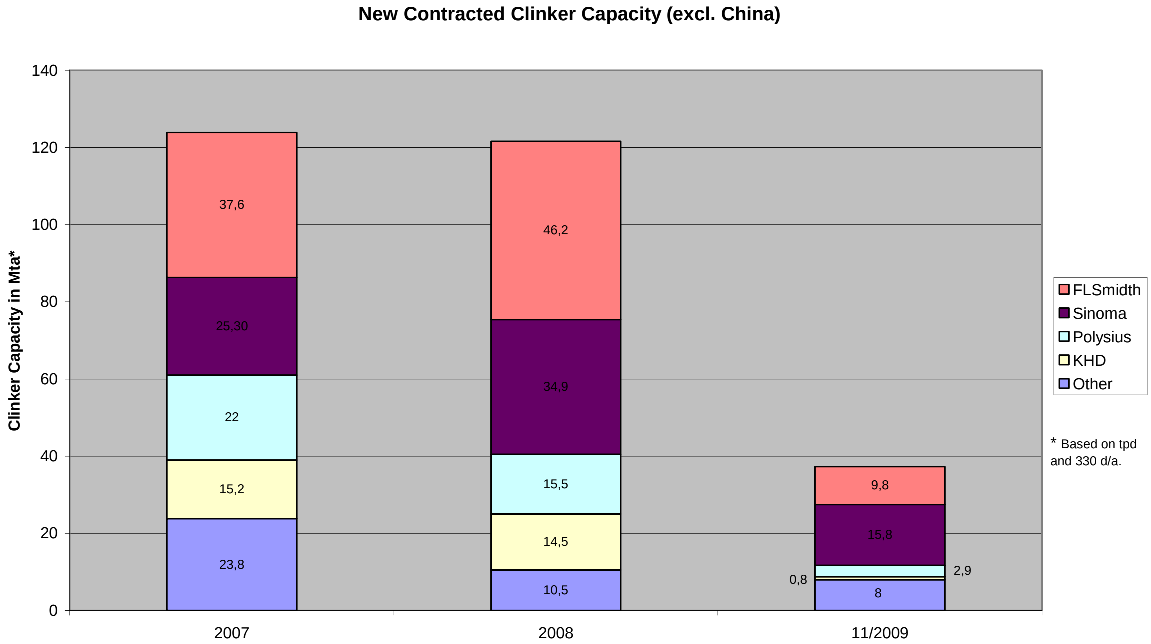
- Loesche GmbH (**“Loesche”**) is an independent and family-owned company. Loesche GmbH employs approx. 600 employees in more than 20 countries, focusing in particular on the grinding process.

- Gebr. Pfeiffer AG (**“GPAG”**) employs approx. 300 people and operates subsidiaries in the USA and India. Gebr. Pfeiffer AG focuses on the processing technology offering grinding and separating equipment.

- IKN GmbH (**“IKN”**) which focuses on cooler technology cooperates with PSP Engineering a.s. (Czech Republic), a provider of kilns. IKN employs approximately 110 people.

Competitive Position

In the market for contracted new clinker capacity (excluding China) KHD currently ranked fourth among the main suppliers for clinker capacity in 2009. According to OneStone Intelligence, 2009, the total market volume for contracted new clinker capacity (excluding China) fell significantly from 121.7 Mta in 2008 to 37.3 Mta for the 11 months period until December 2009**.**



(Source: KHD, based on OneStone Intelligence, 2009)

According to OneStone Intelligence, 2009, of a virtual 1.5 Mta cement plant which requires investments of about USD 175 million, approximately USD 69 million are invested in mechanical equipment. Of the total investments in mechanical equipment the largest share is for grinding (about USD 22 million) and pyro-processing (e.g. preheaters, kilns, coolers) (about USD 8 million).

In the preheater/kilns market KHD ranks fourth with a market share of 12% which is mostly generated in India, Eastern Europe and the Far East. The total market potential for the preheater/kilns market is expected to be USD 372 million in 2010.

Analysis of market position for preheater/kilns (world market 2007-2008)

Rank	Name	Market share in %
1.	FLSmidth	33
2.	Sinoma	26
3.	Polysius	15
4.	KHD	12
5.	Other	14

(Source: OneStone Intelligence, 2009)

KHD's market share in the clinker cooling market 2007/2008 was 6%. KHD ranks fifth with only a very limited number of competitors. The top 5 suppliers comprise 87% of the market in 2008 with a total market potential (2010) of USD 111 million.

Analysis of market position for clinker cooling (new coolers) (world market 2007/2008)

Rank	Name	Market share in %
1.	FLSmidth	30
2.	IKN	25
3.	Polysius	14
4.	Claudius Peters	12
5.	KHD	6
6.	Other	13

(Source: OneStone Intelligence, 2009)

In the fuel burners market KHD is third with a market share of 14%. The total market potential for 2010 will be around USD 32 million.

Analysis of market position for fuel burners (world market 2007/2008)

Rank	Name	Market share in %
1.	FLSmidth	22
2.	Pillard	21
3.	KHD	14
4.	GrecoEnfil	13
5.	Unitherm	10
6.	Other	21

(Source: OneStone Intelligence, 2009)

In the raw material grinding market which is expected to have a total market potential of USD 414 million in 2010 KHD ranks fifth.

Analysis of market position for raw material grinding (world market 2007/2008)

Rank	Name	Market share in %
1.	FLSmidth	31
2.	Loesche	20
3.	GPAG	17
4.	Polysius	12
5.	KHD	6
6.	Other	13

(Source: OneStone Intelligence, 2009)

KHD ranks second (together with Loesche) in the clinker grinding market comprising ball mills, vertical mills and roller presses. The total market potential of the clinker grinding market is expected to be USD 691 million in 2010.

Analysis of market position for clinker grinding (world market 2007/2008)

Rank	Name	Market share in %
1.	FLSmidth	19
2.	Loesche	14
2.	KHD	14
4.	Polysius	7
5.	GPAG	2
6.	Other	44

(Source: OneStone Intelligence, 2009)

In the slag grinding market KHD is fourth with a market share of 13% of the total market potential of USD 158 million in 2010.

Analysis of market position for slag grinding (world market 2007/2008)

Rank	Name	Market share in %
1.	Loesche	45
2.	Various Chinese suppliers	18
2.	Various Japanese suppliers	16
4.	KHD	13
5.	Polysius	8
6.	Other	0

(Source: OneStone Intelligence, 2009)

Property, Plant and Equipment

Property and Plant

In connection with the stream-lining of its business activities in 2007, KHD sold all real properties by way of four purchase agreements dated 23 May 2007, 15 August 2007 and 28 August 2007 to third parties as well as to related parties (see "*Transactions and Legal Relationships with related Parties - Relationships with Other Related Parties*"). In relation to certain of the real properties the transfer has not yet been registered in the land register. Upon registration of the transfer of all sold real properties neither the Company nor any of its subsidiaries will own real property.

The following table provides an overview of the surface area leased by KHD:

Location	Description	Approximate surface area in sqm	Subsidiary
Cologne, Holweide, Germany..	Head office	8,981	KHD GmbH
Cologne, Holweide, Germany..	Parking	1,500	KHD GmbH
Cologne, Kalk, Germany	Testing Centre	1,963	KHD GmbH
Dessau, Germany	Office	1,497	ZAB
Teheran, Iran	Office	350	HW GmbH
Benghazi, Libya	Office/apartment	2,319	HW GmbH

In the nine month period ended 30 September 2010, KHD's expenditure on leased property was around TEUR 1,942 (31 December 2009: TEUR 2,079; 2008: TEUR 1,745; 2007: TEUR 2,554).

Equipment

The material property, plant and equipment of KHD comprises in particular computer equipment and various operating and office equipment. In the nine month period ended 30 September 2010, expenditure by KHD on equipment was TEUR 647 (31 December 2009: TEUR 616; 2008: TEUR 934; 2007: TEUR 1,872).

Research and Development

Focused on cement plant engineering and equipment supply sectors, KHD's research and development is orientated to it's clients' requirements and is done by a team of specialized engineers in various disciplines, supported by testing and analysis facilities with wide-ranging capabilities organized by application of efficient project-management. KHD's research and development focus is to produce environmentally friendly sustainable products which are energy efficent and technically and economically optimized for the cement process, including crushing, grinding and pyro-processing equipment. Research and development is a permanent process within KHD in order to meet the requirements set by the customers. There is no explicit research and development team within KHD. 106 employees within the engineering/design/product and application engineering team conduct research and development in the course of product implementation.

Recent research activities include further development of clinker cooler, compact mills and waste fuel reactors. Other current proprietary research activities are addressing grinding surface materials and designs, expert systems, burners and standardization of plant equipment for packaged complete solutions for grinding and pyro-processing applications.

The research and development program focuses also on technological options to reduce carbon dioxide (CO_2) and other gaseous and solid emissions from the cement process. These accrue mainly from gaseous carbon dioxide (CO_2) and other emissions as exhaust gas from contributions of the consumption of electrical energy, use of primary fuels and the calcining process of cement manufacturing.

The approach to reduce gaseous carbon dioxide (CO_2) emissions from industrial combustion processes focuses on new means to utilize waste and specifically biomass-derived fuels. New processes to capture gaseous carbon dioxide (CO_2) from flue gases are being investigated and eventually developed.

The approach to reduce the consumption of electrical energy focuses on the application of high-pressure comminution technologies to substitute relatively inefficient conventional crushing and grinding processes presently used in the cement and minerals industry.

Other technologies are developed and incorporated to minimize the gaseous and solid emissions from the cement plant. Among others these include NOx, SOx, CO and particulate. KHD continues to develop products and process required to meet the stricter governmental environmental standards throughout the world.

Additionally, the new technologies are controlled by efficiency-boosting automation concepts, which KHD aims to develop. As a result of KHD's research and development activities in the past, KHD could register 27 patents in the past three years.

Intellectual Property

Patents

In the course of the disposal of KHD GmbH by DEUTZ AG in 2001 (see *"General Information about the Company - Milestones in the Development of KHD Group"*), a free of charge, unlimited, non-exclusive, transferable and entitling to sub-licences licence was granted to KHD subsidiaries regarding several patents in relation to the plant engineering and construction business from DEUTZ AG. Further, it was agreed that KHD GmbH is legally entitled to demand the full legal transfer of all patents for which such licence was granted from DEUTZ AG. Since then certain of these patents have been transferred to KHD GmbH. Today, KHD owns (and is entitled to the transfer of patents in accordance with the aforementioned described) a portfolio comprising approximately 110 patent families (*Patentfamilien*) consisting of about 370 patents or corresponding applications registered in Germany and, mostly under international treaties, abroad. Approximately 120 patents applications are currently pending.

Some of KHD's patents which were registered before 2001 are still registered for DEUTZ AG, although all the rights to these patents have been transferred to KHD. However, KHD is entitled to use or transfer such patents without any restrictions by DEUTZ AG. Some of KHD's patents relate to inventions comprising a basic technology. Several of such basic patents will expire in the near future. However, KHD strives to further protect its products by advancement patents relating to new inventions complementing basic technology.

KHD registers each patent in Germany and decides on a case-by-case basis whether to register patents in other countries in accordance with the client basis and product strategy for the respective market. Apart from Germany, KHD registers patents predominantly in Denmark, USA, Australia and Canada. KHD regularly decides in accordance with its general strategy and its specific requirements whether to register or to apply for patent registration for specific markets.

KHD cannot assess with certainty if pending applications for technological innovations will be granted by the German Patent and Trademark Office (*Deutsches Patent- und Markenamt*), the European Patent Office (*Europäisches Patentamt*) or the respective patent offices in other jurisdictions. Although, KHD duly researches existing patents before registering, competing patent applications are subject to confidentiality in several jurisdictions, rendering each research for existing patents ipso facto incomplete. Even in case patents are being granted, they may be cancelled with retroactive effect and therefore existing patents may prove not to be effective.

KHD owns groups of patents which pertain to the product groups: pyro-process technology, cooler technology and grinding technology the Company considers material for KHD's business and its competitive position. KHD's further patents pertaining to the following product groups of lesser commercial relevance include: tube mills, burners, rotary kilns, sifter technology, circular grinding technology, cyclone technology, control technology and further technology for the reduction of emissions.

KHD's patents relating to pyro-processing relate in particular to innovations on the reduction of emissions and comprise patents on the control of emissions of a calciner, and flame control mechanisms within the calcinator as well as patents relating to the reduction of the formation of dioxin and nitric gases in the calcination process. The basic calcinator patents will commence to expire by 2011. Advancement patents pertaining to top air duct calcination and flame control will commence to expire by 2018 and 2021, respectively.

Clinker cooling process is subject to wear and tear and KHD owns patents in relation to cooling technology which operates by shoving heated clinker over a stairway comprising movable sliders. More recent patents relate to planks carrying clinker which are simultaneously moved forward and withdrawn below in single file in order to further reduce wear and optimise the cooling process. Both patents are used in the PYROFLOOR® cooler. The basic cooler patents will commence to expire in 2011; advancement patents will commence to expire by 2023.

In relation to grinding, KHD owns patents pertaining to stud-lining technology for roller presses, which employ ceramic pins acting as armour for the presses. Further patents pertain to the facilitation of maintenance due to an easy to open machine frame and high pressure roller presses employed in vertical mills, the maintenance of which does not require a standstill of the whole plant. Other patents serve to improve logistics of roller presses by employing floating bearings. The protection of the basic grinding technology comprises patents which will start to expire by 2011. Advancement technologies comprise patents which will commence to expire by 2020 at the earliest.

Trade marks anddomains

KHD Group has registered numerous trade marks in different jurisdictions. The trade mark "KHD" has been registered as a word and design trademark in the European Union and the USA as well as in 31 other countries. Parts of KHD Group company names such as "Humboldt" or "Humboldt WEDAG" have been registered in accordance with their prominence in the respective countries. Product names such as "PYROCLON" and "PYROFLOR", "PYRORAPID", "PYRO-JET", "PYROSTREAM", "V-SEPARATOR", "COMFLEX" have predominantly been registered as trade marks in Germany.

KHD owns, *inter alia,* the domain name www.khd.com and www.khd-hv.com. Further domain names have been registered by KHD or certain of its employees. In case a domain name has been registered by an employee of KHD it is intended to be transferred to the Company in the future.

Know-how

KHD's know-how basically consists of the practical knowledge and experience of its employees. KHD has particular know-how in design and engineering of cement plant equipment. KHD looks back on a long history in the cement plant manufacturing industry. Historically, KHD has focused on providing individual and customised solutions to its customers and as a result has built up considerable knowledge of the cement manufacturing process. In the future, KHD intends to focus on a more standardised product range.

The Company believes that its know-how is sufficiently protected.

Software

KHD develops and employs simulation software for cement plants and its equipment. For this purpose KHD uses open source or licensed software.

Licences

Patent licences

The Company has entered into two agreements licensing KHD's patents for grinding technology to competitors.

Other licences

Until the Restructuring (see *"General Information about the Company - Group History, Restructuring of KHD Ltd. Group and Reintegration of Subsidiaries - Restructuring and Reintegration of Subsidiaries"*) HW GmbH licensed its entire technology to KIA GmbH which sub-licensed the technology to HW USA and HW India (see *"Transactions and Legal Relationships with related Parties - Relationships with KIA GmbH - Technology Licence Agreements"*). As part of the Restructuring (see *"General Information about the Company - Group History, Restructuring of KHD Ltd. Group and Reintegration of Subsidiaries - Restructuring and Reintegration of Subsidiaries"*) these licence agreements will be terminated and HW GmbH will licence its entire technology to HW USA and HW India directly.

Material Agreements

The following agreements to which the Company is a party are material to its business:

Guarantee Facility Agreement

In order to be able to pursue the industrial cement plant engineering and equipment supply projects business, KHD depends on the availability of adequate means for so called bonding (i.e. providing advance payment, performance or warranty bonds to customers).

On 30 November 2006, with amendments dated 10 June 2008, 27 October 2008 and 16 November 2009, KIA GmbH which until the Restructuring (see *"General Information about the Company - Group History, Restructuring of KHD Ltd. Group and Reintegration of Subsidiaries - Restructuring and Reintegration of Subsidiaries"*) performed treasury functions for KHD Group and certain other subsidiaries of KHD Ltd. (now TNRC), as the borrower, TNRC as guarantor and RBI entered into a revolving letter of guarantee facility agreement (**the Bonding Facility Agreement**). On 26 March 2010 KHD AG acceeded the Bonding Facility Agreement as additional guarantor until the Company replaces KIA GmbH as a borrower under the Bonding Facility Agreement. By amendment dated 18 November 2010 KHD AG replaced KIA GmbH as the borrower. KIA GmbH ceased to be a party and assigned all of its rights and transferred all of its obligations by way of assumption of contract (*Vertragsübernahme*) to KHD AG. In addition TNRC will be released on 30 December 2010 as a guarantor if certain numbers of he financial covenants regarding KHD AG for the period ending 30 September 2010 are met. Otherwise, TNRC will cease to be a guarantor upon expiry of the amended term. KHD AG pledged sixty (60) per cent of its shares in KHD GmbH to RBI. This pledge replaces the pledge by KIA Holding of its KIA GmbH shares under the previous agreement and is required as security for bonds taken out by HW India. Each of the operating companies is required to issue so called "Deficiency Guarantees" to RBI which cover the bonds taken out for "own purposes" of the respective operating companies of the group. The Bonding Facility Agreement provides for a loan capacity of up to EUR 150,000,000 and will expire on 25 November 2011 unless extended by another term of one year. Under the Bonding Facility Agreement security instruments such as sureties, stand-by letters of credit and guarantees may be granted to the customers of certain KHD AG subsidiaries. Utilization requests are made by solely KHD AG for its subsidiaries.

KHD GmbH, HW GmbH, ZAB and ZAB-Industrietechnik & Service GmbH, Germany (**"ZABIS"**), a former subsidiary of ZAB which has been merged into ZAB effective 1 January 2010, and HW USA have each issued deficiency guarantees in the favour of RBI as collateral for security instruments that may be granted to them under the Bonding Facility Agreement. The deficiency guarantee is an independent payment guarantee towards RBI for the payment of the monies owed by KIA GmbH under the Bonding Facility Agreement. It is paired with an assignment of all receivables and all present and future claims relating to the relevant underlying security instruments against customers of the KHD AG subsidiaries and KIA GmbH subsidiaries in whose favour a security instrument (e.g. a stand-by letters of credits) is issued by RBI.

By amendment to the Bonding Facility Agreement dated 18 November 2010 between KHD AG, KIA GmbH, TNRC and RBI the Company acceded as borrower to the Bonding Facility Agreement and replaced KIA GmbH as borrower under the Bonding Facility Agreement.

Currently another facility is provided by Europe Arab Bank plc. in the amount of up to EUR 10 million and by Zurich Versicherung AG in the amount of EUR 12.5 million.

On 1 September 2007, with amendments dated 31 December 2008 and 1 April 2009, KIA GmbH (as arranger), KHD Ltd., KHD AG, and among others HW USA, ZAB, ZABIS, HW Australia, KHD GmbH, KHD Engineering Holding GmbH, Austria (**"KHD Austria"**), HW India and other subsidiaries of KIA GmbH (the **"Beneficiaries"**, each a **"Beneficiary"**) entered into a bonding arrangement agreement (the **"Bonding Arrangement"**). The Bonding Arrangement sets the terms and conditions that have to be met by a Beneficiary if it wishes a security instrument to be issued by the bank in favour of a customer under the Bonding Facility Agreement and the facility provided by Europe Arab Bank plc. It also determines the amount and terms of payment of cash collateral, consideration and reimbursement for expenses payable to KIA GmbH as arranger under these facilities and the undertakings, covenants and information and cooperation obligations of each Beneficiary. Upon a utilization request by a Beneficiary, a cash collateral becomes due and payable to KIA GmbH against payment of interest. KIA GmbH pays a guarantee fee to KHD Ltd. in the amount of 1% of the amount utilised under the Bonding Facility Agreement each month. KIA GmbH is fully reimbursed for the guarantee fee and the security instrument fee payable to RBI and Europe Arab Bank plc of 0.45% p.a. to up to 1.30% with respect to security instruments, calculated on the basis of the face amount of the instrument (as adjusted from time to time) as well as all other reasonable costs and expenses in connection with the facilities. In addition to this, KIA GmbH receives a bonding arrangement fee of 50% of the bonding fee payable to the bank. The Bonding Arrangement automatically terminates upon termination of the Bonding Facility Agreement and the facility provided by Europe Arab Bank plc. in respect of the respective facility. HW GmbH became a party to the Bonding Arrangement on 28 February 2008 following the spin-off agreement with KHD GmbH, and KHD GmbH ceased to be a party under the Bonding Arrangement (*see "General Information about the Company - Group History, Restructuring of KHD Ltd. Group and Reintegration of Subsidiaries - Hive-*

down of cement plant and equipment supply business and workshop by KHD GmbH to HW GmbH"). At this stage it is intended to amend the Bonding Arrangement due to the changed structure of the Bonding Facility Agreement.

In light of the Restructuring (see *"-General Information about the Company - Group History, Restructuring of KHD Ltd. Group and Reintegration of Subsidiaries - Restructuring and Reintegration of Subsidiaries"*) and the transfer of the Bonding Facility Agreement to the Company, KIA GmbH, KHD AG, HW India, KHD GmbH, HW GmbH, ZAB and ZABIS on 26 March 2010 entered into a transition agreement regarding the cash collateral provided to KIA GmbH under the Bonding Arrangement and remitted to RBI (formerly RZB) by KIA GmbH with a view to the Bonding Facility. KIA GmbH assigned its repayment claims against RBI to the respective KHD Group member who provided the cash collateral conditional upon the consent of RBI. Until such consent has been granted by RBI, KIA GmbH will hold the cash collateral in trust. KIA GmbH is entitled to collect the cash collateral from RBI and obliged to remit the collected amounts to the respective KHD Group member less any outstanding amounts payable under the Bonding Arrangement by the respective KHD Group member. As at 30 September 2010, the cash collateral provided by KIA GmbH to RBI (formerly RZB) amounted to EUR 3.7 million.

Reintegration Agreement

By way of a share purchase agreement dated 22 December 2005 as amended from time to time and a purchase settlement agreement dated 21 December 2006, KHD GmbH sold all of its shares in HW Australia, HW USA, HW India, EKOF and HW South Africa (the Sold Subsidiaries) with the effect as of 31 December 2005 to KIA GmbH for a purchase price of EUR 12.2 million. The share transfer comprised 1,000 shares in HW USA, 200,002 shares in HW Australia, one share of EUR 25,000 in EKOF, 1,000 shares in HW South Africa, each representing the total issued share capital of the respective companies as well as 1,919,904 shares in HW India, representing 99.995% of the share capital. In addition to the purchase price it was agreed that KHD GmbH shall receive a share in the future earning of the Sold Subsidiaries for the financial years 2006 to 2010 in the amount of 30% of the earnings (based on the audited annual financial statement) which exceeds a return on investment of 18.75% p.a. in relation to the consolidated equity of KHD Ltd., the parent company of KHD AG and KIA GmbH. The necessary return on investment was not reached for the financial years 2006 to 2008. The Company's claim for the financial year 2009 was to be computed and possibly accounted for in 2010.

The amount of the purchase price of EUR 12.2 million which was set on the basis of an evaluation by an independent auditor is subject of several shareholders' actions against the Company (see *"Business Activity - Legal Disputes, Official Government Proceedings - Shareholders' actions regarding the evaluation of the Sold Subsidiaries"*); and KHD GmbH and KIA GmbH disagreed on the purchase price due to a tax assessment by German tax authorities which indicated a higher fair value for the Sold Subsidiaries. In the course of the Restructuring the entire cement business was transferred to KHD Group.

By way of a settlement agreement dated 10 March 2010 KIA GmbH and KHD GmbH agreed to retransfer all shares in the Sold Subsidiaries except for HW South Africa which was sold to MBE Ltd. (see *"Business Activity - Material Agreements - Disposal of the coal and mineral business and the Cologne production facilities to McNally Bharat Engineering Company Ltd. in August 2009"*), being HW Australia, HW USA, HW India and EKOF, from KIA GmbH to KHD GmbH with the effect as of 29 March 2010 and to cancel the share purchase agreement dated 22 December 2005. The original purchase price of EUR 12.2 million less the proceeds for the sale of the shares in HW South Africa by KIA GmbH to MBE Ltd. was repaid by KHD GmbH to KIA GmbH in an amount of EUR 12.1 million. Furthermore, in the settlement agreement KIA GmbH agreed to sell and transfer all shares in KHD Humboldt Wedag Machinery Equipment (Bejing) Co. Ltd., China (**"KHD China"**) and 50% of the shares in KHD Austria and its subsidiaries KHD Humboldt Engineering OOO, Russia (**"KHD Russia"**) and OAO Sibgiprozoloto, Russia (**"Sibgiprozoloto"**) (together with HW Australia, HW USA, HW India and EKOF the **"Reintegration Subsidiaries"**) each with the effect as of 29 March 2010, and subject to certain approvals, consents, legal requirements and other conditions, for a purchase price of EUR 520,500 to KHD GmbH (the Reintegration Agreement). The transfer of the Reintegration Subsidiaries has been completed.

Disposal of the coal and mineral business and the Cologne production facilities to McNally Bharat Engineering Company Ltd. in August 2009

Until October 2009, KHD Group was also engaged in the business of engineering, construction and sale of industrial equipment and components for both the processing of coal, ores and minerals of all kind as well as the provision of technical and commercial services related thereto (**“Coal and Mineral Business”**). In addition, HW GmbH operated a production facility in Cologne used for construction, manufacturing and repair of plant and system components for mechanical and plant engineering (**“Cologne Workshop”**).

In order to dispose of (i) the Coal and Mineral Business and (ii) the Cologne Workshop, certain subsidiaries of KHD Ltd. on 20 August 2009 entered into corresponding share purchase and asset purchase agreements, respectively, with MBE Holding Pte. Limited, Singapore (**“MBE-PTE”**) and CEG which became effective on 7 October 2009. Both, MBE-PTE and CEG are companies ultimately controlled by McNally Bharat Engineering Company Ltd., India.

With regard to the sale of the Coal and Minerals Business, three share purchase agreements were entered into by MBE-PTE as purchaser on the one hand and KIA GmbH, the Company and HW India as sellers on the other hand by which (1) KIA GmbH sold its shareholding in HW South Africa, for a purchase price of USD 137,100, (2) the Company sold its entire shareholding in HWCMT which operated the Coal and Minerals Business of the Company since the demerger (*Spaltung*) in 2006 (*see “General Information about the Company - Group History, Restructuring of KHD Ltd. Group and Reintegration of Subsidiaries - Demerger of coal and minerals business to HWCMT”)* for a purchase price of USD 4,305,900, and (3) HW India demerged its entire coal and minerals operations into the Indian company Humboldt Wedag Minerals India Pvt Ltd. (**“HWMIPL”**) in return for 339,323 shares in HWMIPL and then sold these entire shares (349,323, including 10,000 shares with which HWMIPL was incorporated) to MBE PTE for a consideration of USD 3,024,000.

In addition, to dispose of the Cologne Workshop, HW GmbH sold certain assets and liabilities pertaining to the Cologne production facilities under an asset purchase agreement executed on 20 August 2009 to CEG under certain conditions for a base purchase price of USD 33,000 which was paid immediately and a contingent purchase price which will be paid under certain conditions later. The contingent purchase price will be finally determined within one month of 7 October 2013 and will be 50% of EUR 5.7 million less adjustments for possible severance payments to employees and investments in the production facilities. To secure, *inter alia*, the payment of the contingent purchase price, Commerzbank AG, Düsseldorf has issued a first demand payment guarantee in the amount of EUR 4,500,000 for the benefit of HW GmbH valid until 1 April 2014. The Group has generally reserved the possibility to continue to have construction contracts performed in the Cologne workshop.

Pursuant to separate agreements HW GmbH, KHD China and HW India provide certain services to HWCMT in the areas of accounting, marketing in PRC, IT support and administration.

Cooperation Agreement with CATIC

On 21 December 2010, CATIC Bejing Co., Ltd., Bejing, a state owned company incorporated under the laws of the PRC, and the Company entered into a cooperation agreement (the “**Cooperation Agreement**”) which aims, *inter alia* at, and is based on, adding CATIC’s EPC (engineering, procurement, construction) capability and procurement strength to KHD’s process know how, technology, products and services and vice versa enabling CATIC and KHD to co-operate in EPC business relating to cement plant projects leveraging on CATIC’s EPC capability and procurement strength together with KHD’s renowned technology and brand of products and services. The Parties believe that the cooperation will accelerate both parties’ international EPC presence and will provide both KHD and CATIC and their respective technology and products with more opportunity for entering into the global market and to be closer to the local customers.

Subject to limited exceptions, the parties agreed to mutual exclusivity. Each party agrees to work, and to cause each member of its group to work, exclusively with the respective other party or such other member of the other party’s group as nominated by the other party in the case where the other party's core products and services may form part of such projects in respect of EPC business, whereas EPC means ‘engineering, procurement and construction’ contracts and is understood as well as turn-key, semi or quasi turn-key contracts pursuant to the terms of which a party is requested to provide substantially all of the products required for and services relating to a cement plant project. Consequently, but subject only to the exceptions and other terms and conditions of this Cooperation Agreement, when bidding for or otherwise offering products or services forming part of EPC business in respect of a cement plant project in the case where the other party's products and services may form part of such projects each party will exclusively include the opther party’s products and services into its offer on terms to be agreed between the parties. The parties also agreed to refer any matter which could reasonably be expected to result in a competitive situation to an executive committee to be established by the parties.

Furthermore, the parties agreed to make joint efforts on the cement market in the PRC, one of the key markets, including the sales and marketing of KHD core product and services. The marketing and sales of KHD core products and services in the PRC market will be implemented through CATIC on a non-exclusive, but closely coordinated basis. KHD further agreed to provide the necessary know-how to the sales and marketing team, including the secondment or transfer of KHD employees. Furthermore, the parties agreed to form together a procurement center in China.

As part of the Cooperation Agreement, the parties agreed that, subject to certain co-investment terms which the parties shall agree on, KHD shall be entitled to co-invest in a design institute and/or a manufacturing entity in the PRC in which CATIC considers to invest.

The agreement will become effective on the date on which the Preliminary Subscription Agreement with MGI is implemented (see "*Business - Material Agreements - Preliminary Subscription Agreement with MGI*").

The term of the Cooperation Agreement is ten years, it may, however, be terminated prior to the end of the term under certain conditions, e.g expiry of certain review periods, upon an event of default, change of control, gaining control over a party by a competitor and in case of a material change of circumstances.

Preliminary Subscription Agreement with MGI

On 21 December 2010, the Company and Max Glory Industries Ltd., Hong Kong , an indirect subsidiary of CATIC Bejing Co., Ltd., Bejing, entered into a preliminary subscription agreement according to which MGI undertook to subscribe for such number of New Shares which will result in MGI holding 20% of the Company's share capital after registration of the implementation of the Capital Increase with the commercial register ("**Target Participation**") against cash consideration of the subscription price (EUR 4.53 per New Share) (the "**Preliminary Subscription Agreement**"). The subscription is subject to certain conditions precedent that *inter alia* (i) sufficient New Shares will be available for subscription by MGI following the exercise of subscripütion rights by KHD's shareholders, (ii) the relevant approvals of Chinese authorities have been obtained, which will not be verified by the Company but represented by MGI.

In the Preliminary Subscription Agreement, MGI further undertakes vis à vis the Company that it will not sell, assign or transfer any of the New Shares to be issued to it in the Capital Increase during a period of the earlier of 29 months following the registration of implementation of the Capital Increase with the commercial register or until the termination of this Lock-In in certain events (the "**Lock-In**"). In order to secure compliance with these restrictions, MGI agrees that the New Shares to be issued to it in the Capital Increase shall be delivered exclusively to a locked account (*Sperrdepot*) which is subject to transfer restrictions in favour of the Company. The Lock-In shall automatically expire in certain events, *inter alia*, if (i) a person other than any member of the CATIC group of companies becomes the owner of 20% or more of the issued share capital of the Company, (ii) a voluntary takeover offer is being made to shareholders of the Company or (iii) if one third of the members of the Supervisory Board, or a member of the Management Board, or the sole deputy to the CFO of KHD is not a person nominated by MGI and (iv) MGI ceases to hold 20% of the issued share capital of the Company due to an offer of shares not taken up by MGI.

MGI represents and warrants to the Company that it will not, and CATIC, its parent company and the subsidiaries of the parent company (collectively, the "Related Parties") will not acquire any Shares if such acquisition would result in any of the Related Parties holding alone or together with either of it or amongst each other more than 29% of the share capital of the Company during a period of 12 (twelve) months following the registration of the capital increase. Should MGI or any of the Related Parties violate this obligation, the MGI shall be obliged to make a voluntarily public take-over offer in accordance with the German Takeover Act (WpÜG).

The Company undertakes to use its best efforts, within its power and authority, to support that (i) the articles of association will be amended by a resolution of the shareholders at the annual shareholer' meeting 2011 to be held before 20 May 2011 such that the Supervisory Board will consist of six (6) members and that (ii) 1/3 (one third) of the members thereof as nominated by MGI will be elected to the supervisory board. For such purpose, the Company undertakes to take all legally possible actions to seek support from the shareholders of the Company to vote in favour of all resolutions to be proposed at the annual shareholders' meeting 2011. To achieve the 1/3 (one third) representation of MGI in the supervisory board before the amendment of the articles of association and election of the members to the new supervisory board have taken place in the annual shareholders' meeting 2011, the supervisory board member Mr. Gerhard Beinhauer has resigned from office by declaration of 21 December 2010 with effect as of the date on which MGI subscribes for the Target Participation. Furthermore, the Company shall support, within its power and authorities, that the executive board files immediately after subscription by MGI and payment of the subscription price an application with the court of Cologne in accordance with Sec. 104 AktG to have a person appointed by MGI and accepted by the Company as new member to the supervisory board until the end of the annual shareholders' meeting 2011.

To the extent legally permitted, the Company will support the appointment of one additional member of the executive boad nominated by MGI so that the Company will have three members of the executive board, each having authority to legally bind the Company together with one other members of the executive board or prokurist.

According to the agreement the Company and CATIC will mutually determine a person to be employed as assistant to the CFO of the Company.

Further, the Company represents, warrants, and undertakes in this agreement that, for the Lock-In period, it will not, without the prior written consent of MGI, directly or indirectly, issue, offer or oblige itself to issue or offer Shares of the Company or other securities or rights which can be converted into or exchanged with Shares or which guarantee the right to acquire Shares nor otherwise distribute the securities or announce an offer for the securities, and in particular it will not make use or announce the use of authorized or contingent capital, nor propose any capital increase to the general shareholders' meeting for resolution and will not make any transactions nor any arrangements which have the same economic effect as the above mentioned measures insofar such measures would result in a dilution of MGI's equity holding in the Company by causing its holding falling below 20% of the issued share capital of the Company from time to time ("**Dilution Event**"), other than as a result of MGI not taking up any of the MGI-Offer (as defined below in this paragraph). When pursuing any proposed Dilution Events, the Company agrees to grant subscription rights in respect of such shares, securities and rights pursuant to any such Dilution Events as aforesaid to MGI ("**MGI-Offer**") such that MGI shall have the right to subscribe or take up such shares, securities or rights in order to maintain MGI's equity holding of the Company to not fall below 20% of the issued share capital of the Company from time to time, taking into account of any shares of the Company issuable under any securities or rights granted relating to shares of the Company.

Moreover, in the agreement, the executive board declared that at the day of implementation of the Capital Increase, it will make a statement vis à vis MGI that it will utilize the authorization given in section 5 para 1 of the Articles of Association to increase the share capital from the existing authorized share capital against cash contribution in cash by excluding subscription rights with regard to the exclusion of subscription rights only subject to the aforementioned capital increase restriction in relation to a Dilution Event.

Investments

In the past three years the Company has made the following investments:

	Financial year ending 31 December			Nine month period ended 30 September
	2007	2008	2009	2010
	IFRS (unaudited) In TEUR			
Total Investments	**2,153**	**1,285**	**728**	**1,387**

In the financial years ended 31 December 2007 and 31 December 2008 investments comprised replacement investments for the production as well as investments in IT equipment and hardware. During the financial year ended 31 December 2009 Investments decreased due to the sale of the Cologne Workshop (see "*Business Activity - Material Agreements - Disposal of the coal and mineral business and the Cologne production facilities to McNally Bharat Engineering Company Ltd. in August 2009*"), investments comprised solely IT investments such as hardware (e.g. server, pc-equipment) and software (e.g SAP licences).

In the nine month period ended 30 September 2010 investments comprised in particular intangible assets, e.g. controlling and accounting software (TEUR 740) and office and IT equipment (TEUR 640).

For the last quarter of the financial year 2010, KHD expects to spend further TEUR 1,300 on controlling and accounting software as well as on the development of two prototypes of a new roller press model for mineral applications.

In 2011, KHD plans to invest approx. TEUR 4,900 into IT, in particular into controlling and accounting software and other IT equipment. Moreover, approx. TEUR 3,100 are planned to be invested into the completion of the new roller press models.

All investments were financed and are planned to be financed out of cash flows.

Insurance

KHD maintains property, liability and other insurance policies. Further, KHD usually takes out a construction and performance guarantee insurance in order to cover construction or performance related damages of its customers attributable to KHD.

KHD believes the insurance policies it has as well as the amounts covered and the policy terms and conditions are customary for the industry and represent reasonable coverage considering the costs of insuring against the potential risk. However, KHD cannot guarantee that it will incur no loss or that no claims that exceed the nature and extent of the existing insurance coverage will be filed against it.

Regulatory Environment

In each country in which KHD operates, it is subject to the laws and provisions applicable in that country with respect to its business.

As an internationally active supplier of goods KHD is subject, in particular, to the provisions of the German Foreign Trade and Payments Act (*Außenwirtschaftsgesetz*) and to Council Regulation EC No 428/2009 of 5 May 2009 setting up a Community regime for the control of exports, transfer, brokering and transit of dual-use items as well as further regulations enacted to specify products falling into the scope of application. However, KHD's products and services are generally not restricted by these provisions.

Legal Disputes, Official Government Proceedings

Other than described below, during the last 12 months KHD has not been subject to any governmental legal or arbitration proceedings which may have, or had in the past, a significant effect on the financial condition or profitability of KHD, nor are there any such proceedings pending or threatened of which the Company is aware.

Completed Legal Disputes

<u>Shareholders' actions regarding the evaluation of the Sold Subsidiaries</u>

In connection with the evaluation of the subsidiaries sold by KHD GmbH to KIA GmbH in 2005 (see "*Transactions and Legal Relationships with related Parties - Relationships with KIA GmbH - Reintegration Agreement and share purchase agreement relating to Sold Subsidiaries*") a shareholder of the Company filed an action dated 13 December 2006. The shareholder requests a declaratory judgment of nullity of the approved financial statements as of 31 December 2005 and of the resolutions to give formal approval to the actions of the members of the executive board and supervisory board for 2005 resolved by the shareholders' meeting on 13 November 2006.

After the Reintegration of the Sold Subsidiaries (see "*Business Activity - Material Agreements - Reintegration Agreement*"), the shareholder dropped his claim by way of amicable settlement dated 19 April 2010.

In parallel proceedings another shareholder of the Company filed an action on 28 September 2007 seeking a declaration of nullity of the resolutions to give formal approval to the actions of the members of the executive board and the supervisory board for 2006 resolved by the shareholders' meeting on 29 August 2007 based on the evaluation of the sold subsidiaries. The regional court (*Landgericht*) of Cologne granted the action on 19 September 2008 and declared the respective shareholders' resolutions void. On the appeal of the Company the higher regional court (*Oberlandesgericht*) of Cologne on 9 July 2009 overruled the decision of the regional court. The shareholder appealed this decision by the higher regional court on 3 August 2009 to the Federal Supreme Court of Germany (*Bundesgerichtshof*) and filed the substantiation on 7 January 2010. By way of amicable settlement dated 19 April 2010 the shareholder dropped his claim.

Application by a shareholder to appoint a special auditor

In connection with the evaluation of the Sold Subsidiaries (see "*Transactions and Legal Relationships with related Parties - Relationships with KIA GmbH - Reintegration Agreement and share purchase agreement relating to Sold Subsidiaries*") in 2005 and 2006 a shareholder of the Company filed an application on 2 July 2009 for the appointment of the special auditor Dr. Klaus Lippmann with the regional court (*Landgericht*) of Cologne to examine the conduct of actions by the executive board and the supervisory board and corresponding breaches of the AktG. The regional court (*Landgericht*) of Cologne granted the application on 6 November 2009. The Company appealed the decision immediately (*sofortige Beschwerde*) on 23 November 2009. The higher regional court (*Oberlandesgericht*) of Cologne decided on 7 December 2009 to suspend the execution of the ruling of the regional court pending a decision on the appeal by the Company. By way of amicable settlement dated 19 April 2010 the shareholder dropped his claim after the Reintegration of the Sold Subsidiaries (see "*Business Activity - Material Agreements - Reintegration Agreement*").

Pending Legal Disputes

Shareholders' actions regarding the refund of contributions

Two shareholders have brought the following actions against the Company: an action for declaratory judgment of nullity, alternatively for declaratory judgment of invalidity of the Company's approved financial statements as of 31 December 2002 and 31 December 2003 as well as an action for declaratory judgment of nullity of, alternatively an action to rescind the resolutions passed at the shareholders' meeting of 29 September 2004 to give formal approval to the actions of the executive board and to three members of the supervisory board for the business year of 2003.

The subject matter of the actions were a Placing Fee in the amount of EUR 1,206,000 and the Merchant Banking Fee of EUR 1,914,000 paid by the Company to MFC Corporate Services AG, Herisau, Switzerland (formerly MFC Merchant Bank S.A.) which at that time was a shareholder of the Company at the end of 2002 for placing the capital increase in December 2002 and the provision of merchant banking services. The plaintiffs claimed that, as a refund of contributions, these payments were unlawful and that said financial statements were undervalued because a corresponding claim for refund had not been recognized. By judgment of 4 November 2005 the regional court (*Landgericht*) decided that the Merchant Banking Fee was an unlawful repayment of share capital and the financial statements thus null and void and the resolutions passed at the shareholders' meeting of 29 September 2004 to give formal approval to the actions of the executive board and to three members of the supervisory board for the business year of 2003 were null and void. The Company has lodged an appeal against this judgment with the higher regional court (*Oberlandesgericht*) of Cologne on 15 December 2005.

In the meantime, one of the claims has been dropped. With regard to the pending action, the Company expects that its appeal will be successful. The decision is still pending due to various postponements.

The same shareholder further filed an action for declaratory judgement of nullity of the Company's approved financial statements as of 31 December 2004 on 28 November 2005 based on the same arguments. The regional court (*Landgericht*) of Cologne on 13 January 2006 suspended the proceedings pending final decision in the above proceedings.

Lawsuit regarding infringement of utility models and patents ("PYROFLOOR® Cooler")

Claudius Peters Technologies GmbH filed a claim with the regional court (*Landgericht*) of Düsseldorf for infringement of utility models by KHD GmbH relating to the PYROFLOOR® Cooler. In each case KHD GmbH filed a counter-claim against Claudius Peters Technologies GmbH with the regional court (*Landgericht*) of Düsseldorf seeking an order against Claudius Peters Technologies GmbH to approve the registration of KHD GmbH as joint applicant, to allow KHD GmbH to use the utility models and various related European and national patents based on the assignation of the rights by a joint inventor in connection with the invention to KHD GmbH on 8/18 September 2009. Furthermore, the joint inventor approved all past and future actions by KHD GmbH in connection with the PYROFLOOR® Cooler. The regional court (*Landgericht*) of Düsseldorf on 12 December 2006 decided to suspend the proceedings pending decision in parallel proceedings. KHD GmbH applied for the resumption of the proceedings on 7 January 2010.

These parallel proceedings relate to a request to nullify the utility models in question by KHD GmbH on 25 August 2005 with the German Patent and Trademark Office (*Deutsches Patent- und Markenamt*). The German Patent and Trademark Office granted the request by KHD GmbH in 2008 and Claudius Peters Technologies GmbH appealed the decision. In May 2010 the German Patent and Trademark Office rejected the appeal by Claudius Peters Technologies GmbH.

In the meantime, the European Patent Office granted an European patent for Claudius Peters Technologies GmbH on 9 January 2010. The opposition against the European patent by KHD GmbH was rejected by the European Patent Office on 30 September 2010. KHD GmbH is entitled to file an appeal against the decision and is planning to file an appeal in due time.

Furthermore, Claudius Peters Technologies GmbH filed a request against the walking floor European patent by KHD GmbH. Its request was also rejected by the European Patent Office and it is entitled to appeal such decision.

<u>Lawsuits Jordan project</u>

KHD GmbH filed a claim with the courts in Jordan against a customer in 2002 for the payment of the final instalment, repayment of a guarantee amount and additional costs regarding a cement project in Jordan. In 2004 KHD GmbH filed another claim against this customer for payment of the final instalment, payment for additional work performed by KHD GmbH and expenses in this regard. The customer drew a guarantee issued by the bank claiming that KHD GmbH did not fulfil the contract. The customer each filed a counter-claim against KHD GmbH seeking payment for repairs due to failures of the project and payment for expenses due to delays in the project and other expenses for a double-digit million EUR amount. Though KHD GmbH is a party to the proceedings as original contract party, DEUTZ AG released the Company from all claims and liabilities relating to the proceedings because in connection with the purchase of the shares in KHD GmbH from DEUTZ AG, DEUTZ AG acquired all rights and liabilities in certain projects including the Jordan project back (*see "General Information about the Company - Group History, Restructuring of KHD Ltd. Group and Reintegration of Subsidiaries - Acquisition of KHD GmbH by the Company from DEUTZ AG"*).

The Company is of the opinion that its claim is founded based on expert opinions and that there was neither a failure nor a delay by KHD GmbH. The expert opinion confirmed faults in the bid documents by the customer. The main point at issue is the question whether the customer accepted the work which is to be decided under the law of Jordan and the rules of the FIDIC.

Lawsuits Indian project

HW GmbH filed a claim before the International Court of Arbitration, Paris, France on 19 February 2010 against a customer for payment of approximately EUR 4 million. The amount comprises payment for supply of services and material as well as damages in connection with the termination of 4 projects in India. In case the customer will draw a bank guarantee the amount claimed by HW GmbH will increase accordingly. In addition, HW India filed a claim against the same customer for payment of damages of Rs. 268,080,000 and Rs 90,000,000 for a drawn bank guarantee. The damages are in connection with the termination of several projects in India.

Lawsuit Libyan consultant

On 1 December 2010, a request for arbitration has been filed against KHD GmbH, a subsidiary of the Company, in front of the Vienna International Arbitral Centre. KHD GmbH was informed by the Vienna International Arbitral Centre on 13 December 2010.

The claimant is a former consultant and agent of KHD GmbH in Libya, based in Switzerland. The claimant demands payment of EUR 20,682,769.20 in total of which, according to the request for arbitration, EUR 752,240.10 relate to invoices for spare parts, EUR 13,455,072 relate to a consulting fee for two Libyan projects and EUR 3,447,128.20 result from the early unfounded termination of the consulting agreement between the claimant and KHD GmbH.

The Company takes the view that these claims are unfounded and that there is no legal basis for such claims. The Company comes to this conclusion due to its view, that the consulting agreement with the claimant has been terminated by a restructuring agreement dated 27 September 2006, pursuant to which the consulting agreement was terminated with immediate effect and the parties agreed on a full and final settlement of each and all outstanding payments from KHD GmbH to the claimant by payment of EUR 1,014,342.63 from KHD GmbH to the claimant. Further, the Company takes the view that in the restructuring agreement the claimant has expressly waived any entitlement to receive compensation or any amounts whatsoever.

GENERAL INFORMATION ABOUT THE COMPANY

Formation, History, Registered Office

KHD Humboldt Wedag International AG is a stock corporation (*Aktiengesellschaft*) organised under the laws of the Federal Republic of Germany. It was formed under the name of Maschinenfabrik Fahr Aktiengesellschaft Gottmadingen and entered into the commercial register at the local court (*Amtsgericht*) of Singen/Hohentwiel under registration number HRB 29 on 24 October 1911. The Company changed its name pursuant to a resolution of the general shareholders' meeting on 29 August 2001 to FAHR Beteiligungen AG which was registered in the commercial register on 10 September 2001. The registered seat was moved to Cologne and the Company was entered into the commercial register of the Local Court of Cologne under HRB 36688 on 12 December 2001. Pursuant to a resolution of the general shareholders' meeting on 29 September 2004 which was registered in the commercial register on 15 October 2004, the Company changed its name to MFC Industrial Holdings AG. Pursuant to a resolution of the general shareholders' meeting on 13 November 2006 which was registered in the commercial register on 20 November 2006, the Company changed its name further to KHD Humboldt Wedag International (Deutschland) AG. By resolution of the annual general shareholders' meeting on 23 March 2010 shareholders voted in favour of a change of the Company's name into KHD Humboldt Wedag International AG. This name change was registered in the commercial register on 25 March 2010.

The commercial name of the Company is KHD.

The Company has its registered seat and head of office at Colonia-Allee 3, 51607 Cologne, Germany. The telephone number of the Company is 0049-221 6504 1106 and the internet address is http://www.khd-hv.com and http://www.khd.com.

Business purpose of the Company

The Company's business purpose (*Unternehmensgegenstand*) as set forth in section 2 of the Articles of Association (*Satzung*) is the acquisition and the disposal of holdings in corporations (*Kapitalgesellschaften*) and private companies (*Personengesellschaften*), in particular real estate holdings (*Immobilienbeteiligungen*) and industry holdings (*Industriebeteiligungen*) as well as the administration of such own holdings.

Financial Year and Term of the Company

The Company's financial year is the calendar year. The Company has been formed for an unlimited period of time.

Milestones in the Development of KHD Group

1856	Formation of Maschinenfabrik für den Bergbau von Sievers & Co. near Cologne; manufacturing of iron machines for the mining industry
1870	Formation of Maschinenfabrik Fahr as producer of agricultural machinery
1871	Reorganisation of Maschinenfabrik für den Bergbau von Sievers & Co. into Maschinenbau AG Humboldt in honour of Alexander von Humboldt
1877	First patent issued to Maschinenbau AG Humboldt for "chat roller with sliding frame for ore, coal and other minerals"
1884	Liquidation of Maschinenbau AG Humboldt and transformation into Maschinenbauanstalt Humboldt AG
1898	Introduction of cement rotary kiln by ZAB-Zementanlagen- und Maschinenbau GmbH Dessau
1906	Delivery of the first cylindrical rotary kiln for the production of cement by Maschinenbau AG Humboldt

1911	Change of corporate form of Maschinenfabrik Fahr into a stock corporation with the name of Maschinenfabrik Fahr Aktiengesellschaft Gottmadingen
1924	Maschinenbau AG Humboldt enters into cooperation (Interessengemeinschaft) with Motorenfabrik Deutz AG
1930	Merger of Maschinenbau AG Humboldt and Motorenfabrik Deutz AG to form Humboldt-DEUTZmotoren AG.
1936	Humboldt-DEUTZmotoren AG focuses on factories for producing ground electrodes, entire cement factories and crushing and grinding facilities for the pit and quarry industry.
1938	Integration of Humboldt-Deutzmotoren AG (Organvertrag) with ist sister companiesKlöckner-Werke AG and Klöckner & Co. to form Klöckner-Humboldt-Deutz AG. Maschinenfabrik Fahr Aktiengesellschaft Gottmadingen is integrated (Eingliederung) into the Klöckner-Humboldt-Deutz AG group (later DEUTZ AG)
1953	The first Humboldt suspension-type heat exchanger goes into operation.
1958	Construction of the largest coal washing facility in the Ruhr region still in operation today.
1961, 1968, 1975	DEUTZ AG acquires the shares in the Company.
1969	DEUTZ AG acquires the majority of Westfalia Dinnendahl Gröppel AG (Wedag) with its subsidiary EKOF
1972	KHD GmbH is formed by way of merger of Maschinenbauanstalt Humboldt AG and Westfalia Dinnendahl Gröppel AG into KHD Industrieanlagen AG (later KHD Humboldt Wedag GmbH)
1976	The Company transfers its agricultural business and employees to DEUTZ AG
1980	The PYRORAPID® rotary kiln is developed by KHD GmbH.
1985	Introduction of roller press for clinker grinding in the cement industry
1993	Takeover of ZAB (est. 1870) by KHD GmbH following an earlier joint venture
1996	DEUTZ AG and its subsidiary KHD GmbH suffer heavy losses with three Saudi-Arabian turnkey cement factory contracts due to miscalculation of order costs leading to a major crisis and a restructuring plan.
1998	Sparta AG acquires Maschinenfabrik Fahr AG as a listed shell company.
2001	A group of shareholders acquired 97% of the shares in the Company from Sparta AG which is then used as acquisition vehicle for the acquisition of KHD GmbH and its subsidiaries from DEUTZ AG which comprise the cement plant and minerals business of DEUTZ AG.
2004	KHD Ltd. (now Terra Nova Royalty Corporation Ltd.) acquires majority of the shares in the Company
2005	Sale of Sold Subsidiaries to KIA GmbH
2009	Sale of coal and minerals business
2010	Reintegration of certain subsidiaries purchased from KHD Humboldt Wedag International AG, Vienna, Austria
	Division of the group of companies headed by KHD Ltd. ("KHD Ltd. Group") into two separate groups of companies with the Company taking over the cement plant and equipment engineering business.
	Listing of the Company's shares in the regulated market (*regulierter Markt*) (General Standard) of the Frankfurt Stock Exchange

Group History, Restructuring of KHD Ltd. Group and Reintegration of Subsidiaries

KHD Group has undergone several group restructurings since 2001.

Acquisition of the Company by KHD Ltd.

In a first step, MFC Bancorp Ltd. (later renamed to KHD Humboldt Wedag International Ltd.), Vancouver, Canada acquired the majority of the shares in the Company in 2004 as per notification to the Company dated 31 March 2004.

Acquisition of KHD GmbH by the Company from DEUTZ AG

With effect as of 1 January 2001, the Company then acquired the entire share capital in KHD GmbH (formerly KHD Humboldt Wedag Aktiengesellschaft) with its directly and indirectly wholly owned subsidiaries HW Australia, EKOF , ZAB, ZABIS and KHD S.A., Switzerland, (**"KHD S.A."**) from DEUTZ Aktiengesellschaft. In the same transaction the Company purchased all shares in HW USA from KHD Deutz of America Corporation, all shares in HW South Africa from KHD Holdings (S.A.) Pty. Ltd. and 10 shares in HW India from DEUTZ AG with the remaining 199,990 shares being held by KHD GmbH directly. At the same time DEUTZ AG purchased all assets and liabilities in certain projects by way of an asset deal from KHD GmbH, including the Jordan project. Subsequently, the Company sold and transferred the shares in HW USA and HW South Africa to its subsidiary KHD GmbH and KHD GmbH at the same time sold and transferred its shares in KHD S.A. to the Company. All acquired companies have been engaged in the cement plant and equipment supply business or the coal and minerals processing business.

Sale and transfer of subsidiaries to KIA GmbH

By way of share purchase agreement dated 22 December 2005, as amended, KHD GmbH sold all its shares in HW Australia, HW USA, HW India, EKOF and HW South Africa to KIA GmbH, an indirect subsidiary of KHD Ltd. (*see "Transactions and Legal Relationships with related Parties - Relationships with KIA GmbH - Reintegration Agreement and share purchase agreement relating to Sold Subsidiaries"*), with effect as of 31 December 2005.

Demerger of coal and minerals business to HWCMT

With effect as of 1 January 2006, KHD GmbH by way of demerger (*Spaltung*) transferred its entire coal and minerals processing business to HWCMT, then a wholly-owned subsidiary of the Company. The demerger comprised all assets and liabilities, equipment, technology and know-how, intellectual property rights and employees relating to the coal and minerals business.

Acquisition of shares in HW GmbH

In 2001 and 2007, KHD GmbH further acquired the entire shareholding in HW GmbH (formerly Altmark Industriepark AG) and subsequently transformed and renamed it into today's Humboldt Wedag GmbH, Germany. At that time HW GmbH also owned several real properties in Germany and two partnership interests in ARGE Biomasse-Kraftwerk Arneburg and Gesellschaft Bürgerlichen Rechts 'Akazienweg' Stendal.

Hive-down of cement plant and equipment supply business and workshop by KHD GmbH to HW GmbH

By way of hive-down agreement (*Ausgliederungsvertrag*) dated 18 October 2007 KHD GmbH hived-down its entire operational cement plant and equipment supply business and the Cologne Workshop to its wholly owned subsidiary HW GmbH. As a result of this hive-down KHD GmbH became a holding company without operational business. HW GmbH has continued the cement plant and equipment supply business and the production facilities related thereto. The Cologne Workshop specialized in the construction and repair of components and modules for mechanical and plant engineering.

Disposal of non-related business assets

In connection with the stream-lining of its business activities in 2007, KHD sold all of its non-cement business related assets, in particular the real property in Germany and the participation in two partnerships (*see "Transactions and Legal Relationships with related Parties - Relationships with Other Related Parties"*). The registration of certain of the real properties in the land register has not yet occured.

Acquisition of Blake International Limited and KIS AG

On 28 December 2007, HW GmbH acquired the majority of shares in Blake International Limited, British Virgin Islands (**"Blake"**) which held the majority of the shares in KIS AG (then named HIT International Trading AG), listed on the regulated market (General Standard) of the Frankfurt Stock Exchange. KIS AG has two wholly owned subsidiaries named Paper Space GmbH, Germany and HIT Paper Trading GmbH, Austria. As a result of the acquisition of indirect majority of KIS AG, on 3 February 2008 HW GmbH together with its controlling shareholders made a mandatory offer to the minority shareholders of KIS AG which was accepted by 6% of the shareholders. Thereafter, HW GmbH gradually purchased further shares in KIS AG over the stock exchange. At the date of this Prospectus, 88.4% of the shares in KIS AG are held indirectly by the Company.

Disposal of business and assets to McNally Bharat

Effective 7 October 2009, KHD sold its coal and minerals processing business and the Cologne Workshop to MBE-PTE and CEG. Both, MBE-PTE and CEG are companies ultimately controlled by McNally Bharat Engineering Company Ltd., India (*see "Business Activity - Material Agreements - Disposal of the coal and mineral business and the Cologne production facilities to McNally Bharat Engineering Company Ltd. in August 2009"*).

Merger of ZAB and ZABIS

By way of merger agreement (*Verschmelzungsvertrag*) dated 14 December 2009 ZABIS was merged into ZAB. The merger was registered in the commercial register of ZAB on 24 March 2010.

Restructuring and Reintegration of Subsidiaries

On 6 January 2010 the management of KHD Ltd., then directly and indirectly holding 77.6% of the shares of KHD AG, announced by way of a press release that it intended to separate its cement plant and equipment supply business from its royalty interest in the Wabush iron ore mine in Newfoundland and Labrador, Canada in order to establish two separate groups of companies (the **"Restructuring"**). Upon completion of the Restructuring KHD AG and its subsidiaries continued to operate in the cement plant and equipment supply business and KHD Ltd. with its subsidiaries continued to operate as a mineral royalty company under the name "Terra Nova Royalty Corporation Ltd." (see also *"Transactions and Legal Relationships with related Parties - Relationships with TNRC - Restructuring and Arrangement Agreement"*).

In the course of the Restructuring KHD Ltd. acquired 30.5% of the Shares as a consequence of the liquidation of its wholly owned subsidiary Sasamat Capital Corporation, Canada and 2.9% of the Shares by operation of law due to dissolution of Pang Hau GmbH & Co. KG, Germany. Furthermore, KHD Ltd. acquired 20.1% of the Shares by way of share purchase agreement from MFC Commodities GmbH, Austria. Thereafter, KHD Ltd. held 97.6% of the Shares.

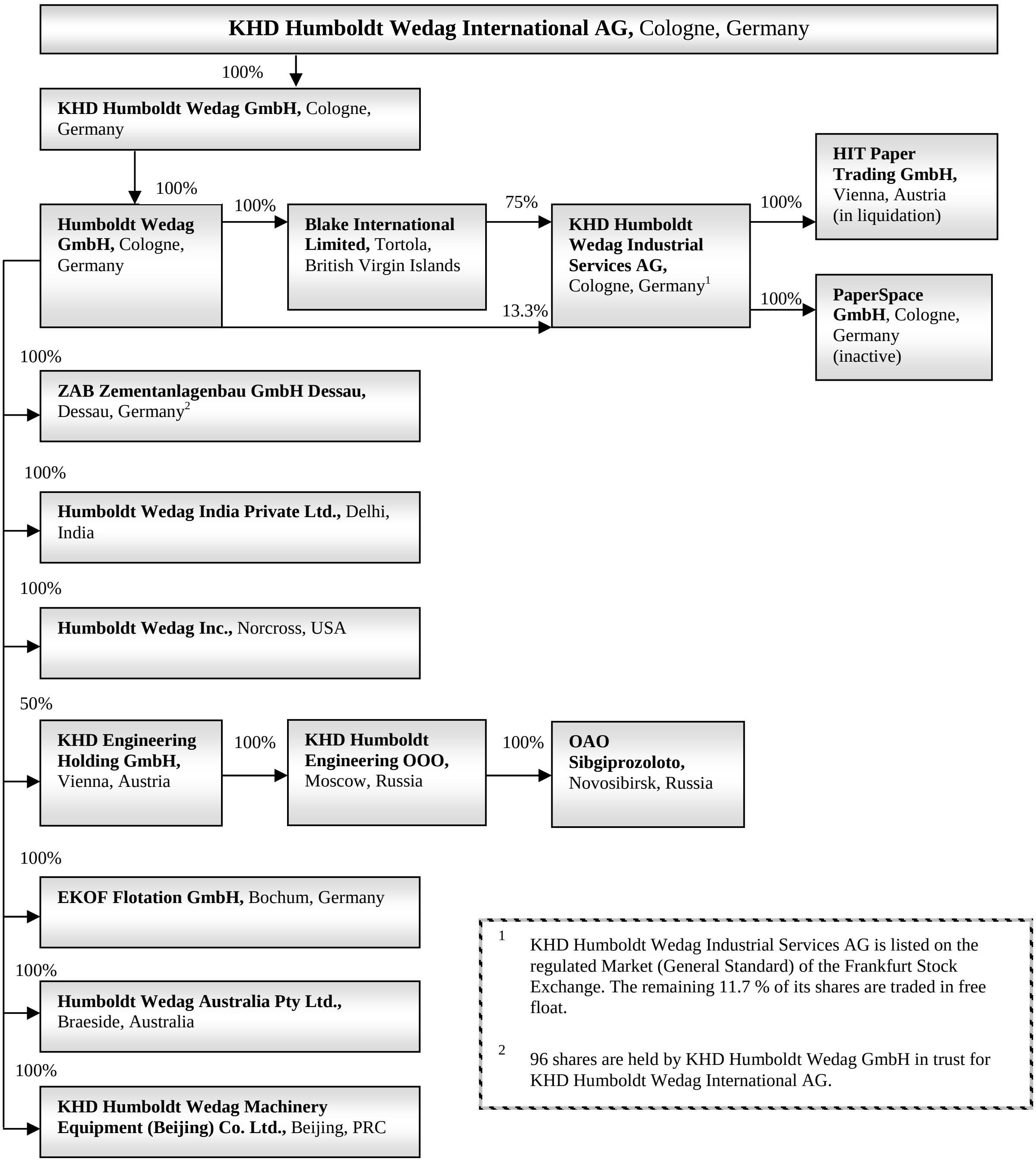
KHD AG sold and transferred its shares in KHD Ltd. to 0873013 B.C. Ltd., Canada, a wholly owned subsidiary of KHD Ltd.

As part of the Restructuring the shareholders of KHD Ltd. (now TNRC) on 29 March 2010 approved a plan of arrangement governed by Canadian law, pursuant to which all the shares of KHD AG held by KHD Ltd. are eventually to be distributed to the shareholders of KHD Ltd. (**"Plan of Arrangement"**). After admission to trading of the Company's shares to the regulated market of the Frankfurt Stock Exchange, TNRC distributed most of the Company's shares held by it in tranches to its shareholders and announced to distribute the remaining Company's shares held by it to its shareholders with record date beeing 31 December 2010 (the "**Distribution of Shares**")

With a view to the Restructuring, KIA GmbH on 10 March 2010 agreed to sell and transfer its shareholdings in the Reintegration Subsidiaries, namely HW Australia, HW USA, HW India, EKOF, KHD China and KHD Austria and its subsidiaries KHD Russia and Sibgiprozoloto to KHD GmbH (the Reintegration) certain of which it had acquired from KHD GmbH in 2005 (see *"Business Activity - Material Agreements - Reintegration Agreement"*). All of these companies are active in the cement plant and equipment supply business. The transfer of the shares in the Reintegration Subsidiaries has been completed.

Group Structure

The group structure of KHD at the date of this Prospectus is as follows:



1 KHD Humboldt Wedag Industrial Services AG is listed on the regulated Market (General Standard) of the Frankfurt Stock Exchange. The remaining 11.7 % of its shares are traded in free float.

2 96 shares are held by KHD Humboldt Wedag GmbH in trust for KHD Humboldt Wedag International AG.

Material Shareholdings

The tables below contain information relating to the material direct and indirect subsidiaries of the Company.

KHD Humboldt Wedag GmbH

Company register	Commercial Register (Handelsregister) at the local court (Amtsgericht) of Cologne, Germany under number HRB 55172
Business purpose	Development, manufacturing and marketing of industrial plants and machinery of all kinds as well as the provision of other technical or commercial services in connection with the foregoing.
Financial year	1 January - 31 December
Registered office, country	Colonia-Allee 3, 51067 Cologne, Germany
Registered holder	KHD AG
Book value at registered holder	TEUR 26,118
Book value at KHD AG	TEUR 26,118
Subscribed share capital	EUR 15,339,300
Percentage of subscribed share capital held	100%

	As of 12 months period ended 31 December 2009 (HGB) (unaudited)
	(in TEUR)
Reserves	11,124
Profit	32,490
Revenues	0
Balance sheet total	30,968
Dividends paid to KHD AG	51,636
Dividends paid to other participations within KHD Group	0
Receivables against KHD AG	0
Receivables against other participations within KHD Group	7
Liabilities against KHD AG	752
Liabilities against other participations within KHD Group	3,400

Humboldt Wedag GmbH

Company register	Commercial Register (Handelsregister) at the local court (Amtsgericht) of Cologne, Germany under number HRB 61524
Business purpose	Development, manufacturing and marketing of industrial plants and machinery of all kinds as well as the provision of other technical or commercial services in connection with the foregoing. The company may acquire real property and develop, sell and administrate real estate.
Financial year	1 January - 31 December
Registered office, country	Colonia-Allee 3, 51067 Cologne, Germany
Registered holder	KHD GmbH
Book value at registered holder	TEUR 20,192
Subscribed share capital	EUR 7,000,000
Percentage of subscribed share capital held	100%

	As of 12 months period ended 31 December 2009 (HGB) (unaudited)
	(in TEUR)
Reserves	675
Profit or loss	30,222
Revenues	258,422
Balance sheet total	169,427
Dividends paid to KHD GmbH	34,236
Dividends paid to other participations within KHD Group	0
Receivables against KHD AG	0
Receivables against other participations within KHD Group	9,135
Liabilities against KHD AG	0
Liabilities against other participations within KHD Group	10,121

ZAB Zementanlagenbau GmbH Dessau

Company register	Commercial Register (Handelsregister) at the local court (Amtsgericht) of Stendal, Germany under number HRB 10216
Business purpose	Development, manufacturing and marketing of plants, single machinery and spare parts as well as processes; intangible performances and services for the storage, manufacturing and marketing of minerals and building materials and environmental and chemical technology; administration, lease of real estate and other assets.
Financial year	1 January - 31 December
Registered office, country	Brauereistraße 13, 06847 Dessau, Germany
Registered holder	KHD GmbH
Book value at registered holder	TEUR 80
Subscribed share capital	EUR 2,000,000
Percentage of subscribed share capital held	100%

	As of 12 months period ended 31 December 2009 (HGB) (unaudited) **(in TEUR)**
Reserves	0
Profit before Profit & Loss Pooling Agreement between ZABIS & ZAB[1]	26,344
Revenues	168,617
Balance sheet total	101,574
Liability due to existing Profit & Loss Pooling Agreement between ZABIS and ZAB[1]	26,344
Dividends paid to other participations within KHD Group	0
Receivables against KHD AG	0
Receivables against other participations within KHD Group	1,271
Liabilities against KHD AG	0
Liabilities against other participations within KHD Group	29,196

1 ZAB-Industrietechnik & Service GmbH has been merged into ZAB Zementanlagenbau GmbH Dessau with effect as of 31 December 2009.

Humboldt Wedag India Pvt. Ltd.

Company register	Registrar of Companies, West Bengal. Certificate of Incorporation No. U51909WB1976PTC030634
Business purpose	Industrial plant engineering, equipment supply and associated services for Cement Manufacturing Companies
Financial year	1 April - 31 March (until 31 March, 2009)
	Changed to calendar year; first year of change being for the period 1 April, 2009 to 31 December 2009.
Registered office, country	Mehtab House, A-36, Mohan Co-operative Industrial Estate, Mathura Road, New Dehli - 110 044, India
Registered holder	KHD AG
Book value at registered holder	TEUR 5,801
Subscribed and issued share capital	Rs 19,200,000
Percentage of subscribed share capital held	KHD AG(100%)

	As of 12 months period ended 31 December 2009 (IFRS) (unaudited)
	(in TEUR)
Reserves (retained earnings)	15,917
Profit	10,722
Revenues	56,820
Balance sheet total	49,515
Dividends paid to shareholders	0
Receivables against KHD AG	0
Receivables against other participations within KHD Group	540
Liabilities against KHD AG	552
Liabilities against other participations within KHD Group	479

Humboldt Wedag Inc.

Company register	Division of Corporations, Delaware
	File No. 2077344
Business purpose	Engineering services and sales of industrial plants and machinery and other technical and commercial services.
Financial year	1 January - 31 December
Registered office, country	400 Technology Parkway, Norcross, Georgia 30092, U.S.
Registered holder	KIA GmbH, Vienna, Austria
Book value at registered holder	TEUR 5,445
Subscribed and issued share capital	1,000 USD
Percentage of subscribed share capital held	100%

	As of 12 months period ended 31 December 2009 (IFRS) (unaudited)
	(in TEUR)
Reserves	3,284
Loss	-4,712
Revenues	15,938
Balance sheet total	10,460
Dividends paid to shareholders	0
Receivables against KHD AG	0
Receivables against other participations within KHD Group	2,120
Liabilities against KHD AG	0
Liabilities against other participations within KHD Group	159

KHD Humboldt Wedag Industrial Services AG

Company register	Commercial Register (*Handelsregister*) at the local court (*Amtsgericht*) of Cologne, Germany under number HRB 64938
Business purpose	Development and manufacturing of industrial plants and machinery of all kinds as well as the provision of other engineering or technical or commercial services in connection with the foregoing.
Financial year	1 January - 31 December
Registered office, country	Colonia-Allee 3, 51067 Cologne, Germany
Registered holder	HW GmbH
	Blake
Book value at registered holder	4,921
Book value at KHD AG	741
Subscribed share capital	EUR 3,600,000
Percentage of subscribed share capital held	HW GmbH 13.3%
	Blake 75%
	As of 12 months period ended 31 December 2009 (HGB) (unaudited)
	(in TEUR)
Reserves	1,557
Profit	548
Revenues	4,209
Balance sheet total	6,962
Dividends paid to KHD AG	0
Dividends paid to other participations within KHD Group	0
Receivables against KHD AG	0
Receivables against other participations within KHD Group	573
Liabilities against KHD AG	0
Liabilities against other participations within KHD Group	13

KHD Engineering Holding AG

Company register	Commercial Register (Firmenbuch) at the commercial court (Handelsgericht) of Vienna, Austria under number FN 271530i
Business purpose	Holding of shareholdings in companies in the area of development and manufacturing of industrial cement plants, especially planning, development, advice and development of solutions for the manufacturing of industrial plants and the supervision of plants with the regional focus on the former Soviet Union.
Financial year	1 January - 31 December
Registered office, country	Faulmanngasse 4, 5th Floor, 1040 Vienna, Austria
Registered holder	KHD GmbH
	Geschlossene Aktiengesellschaft "Zentral-gesellschaft der Finanz-Industrie Group "Rusoprom"
Book value at KHD AG	350
Subscribed share capital	EUR 100,000
Percentage of subscribed share capital held	KHD GmbH 50%
	Geschlossene Aktiengesellschaft "Zentral-gesellschaft der Finanz-Industrie Group "Rusoprom" 50%

	As of 12 months period ended 31 December 2009 (HGB) (unaudited)
	(in TEUR)
Reserves	296
Profit	310
Revenues	0
Balance sheet total	396
Dividends paid to KHD AG	0
Dividends paid to other participations within KHD Group	0
Receivables against KHD AG	0
Receivables against other participations within KHD Group	0
Liabilities against KHD AG	0
Liabilities against other participations within KHD Group	0

Earnings and Dividend Policy

The following summary shows the earnings of the Company and the earnings per Share, each in accordance with IFRS, and the distributed dividends for the financial years ended 31 December 2009, 2008 and 2007.

	Year ended 31 December 2009	2008 (audited)	2007
Consolidated net profit for the year in TEUR (IFRS)	37,168	15,228	22,584
Net earnings attributable to shareholders in TEUR (IFRS)	37,102	15,276	22,584
Weighted average number of issued ordinary shares [(1)]	16,456,708	16,456,708	16,456,708
Basic and diluted earnings per share in EUR [(2)]	2.25	0.93	1.37
Net profit / loss (unconsolidated) (HGB) in TEUR	54,271	-3,257	5,472
Distributed dividends in TEUR (unaudited)	44,908[(3)]	-	-

(1) Of the Company's entire share capital comprising then 16,571,276 Shares the Company then held 114,568 Shares in treasury.

(2) Basic and diluted earnings per share shown relate to the continued operations only.

(3) The Company's general shareholders' meeting on 23 March 2010 resolved to distribute EUR 3.00 per Share entitled to dividends (16,456,708 Shares, 114,568 Shares held in treasury by the Company were not entitled to dividends) as dividend for the financial year 2009. The total amount of the dividend resolved for distribution was thus EUR 49,370,114.00. The Company distributed this dividend on 25 March 2010.

The resolution on the distribution of dividends for a given financial year and, if applicable, the amount and date of such distribution must be adopted by the general shareholders' meeting in the following financial year. The general shareholders' meeting adopts resolutions on the basis of proposals made by the executive board and the supervisory board. Dividends may be distributed from the Company's net profits only. Net profits are calculated on the basis of the Company's annual financial statements, which are prepared in accordance with the accounting principles of German Commercial Code (*Handelsgesetzbuch*). When determining the amount available for distribution, the Company's net profits for the year must be adjusted for profits/losses carried forward from the previous year as well as withdrawals from or transfers to reserves. The law requires that certain reserves be created and that such reserves be eliminated from the calculation of the net profits available for distribution. If the annual financial statements are adopted by the general shareholders' meeting, an amount equivalent to up to half of the net profits for the year may be transferred into other reserves.

The annual financial statements are prepared by the Company's executive board and are adopted by the executive board and the supervisory board jointly. If the supervisory board has not approved the annual financial statements or if the executive board and the supervisory board resolve to leave the adoption of the annual financial statements to the general shareholders' meeting then these will be adopted by the general shareholders' meeting. If the executive board and the supervisory board adopt the annual financial statements, they may transfer up to 50% of the net profits for the year into other reserves; they are also authorized to transfer further amounts up to the equivalent of 25% of the net profits the year into other revenue reserves if and to the extend that the other revenue reserves do not exceed 50% of the share capital and do not exceed 50% of the share capital after the transfer.

The Company's ability to pay dividends in the future will depend on its profits, its economic and financial condition and other factors. Such factors include, in particular, liquidity requirements, future prospects, the market development, and the tax and legislative environment and other general conditions. The net profits available for distribution are calculated on the basis of the Company's (non-consolidated) single-entity financial statements, which are prepared in accordance with the rules of the German Commercial Code (*Handelsgesetzbuch*). Since the Company is not itself engaged in operations, the payment of dividends depends, in particular, on the profits made by its direct and indirect subsidiaries. No profit and loss transfer agreement exists between the Company and its direct subsidiaries. For future financial years, the Company plans to pay the shareholders dividends depending on its financial condition and results of opeations. Dividend payments are subject to withholding tax (for more information on the taxation of capital gains in Germany, see *"Taxation in the Federal Republic of Germany - Taxation of the Company — Taxation of Dividend Income - Withholding Tax"*).

As long as shares entitled to dividends are held in safekeeping in a clearing system, the dividends resolved upon by the general shareholders' meeting are to be paid out in accordance with the rules of the relevant clearing system. Details regarding any dividends resolved upon the general shareholders' meeting and any payment agents who may have been appointed by the Company shall be published in the electronic version of the Federal Gazette (*Bundesanzeiger*) and in at least one official national publication approved by the Frankfurt Stock Exchange.

Notices, Paying and Depositary Agent

According to section 21 of the Articles of Association, notices of the Company required by the Articles of Association or the AktG shall be made exclusively in the Electronic Federal Gazette of the Federal Republic of Germany (*Elektronischer Bundesanzeiger*). If not prescribed otherwise by mandatory laws or regulations notices in connection with the approval of this Prospectus or regarding amendments to this Prospectus will be made in accordance with the provisions of the WpPG and will be published in the form intended for prospectuses i.e., on the internet website of KHD AG (www.khd-hv.com and www.khd.com) with a printed version available at the offices of KHD AG.

The paying agent in Germany and depository agent is UniCredit Bank AG, Kardinal-Faulhaber-Straße 1,80333 Munich, Germany.

Statutory Auditor

The Company's general shareholders' meeting on 23 March 2010 has appointed Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft, branch office Düsseldorf, Schwannstraße 6, 40476 Düsseldorf as the auditor and group auditor for the financial year ended 31 December 2010. Deloitte & Touche has audited the Company's consolidated financial statements as of 31 December 2009, 2008 and 2007 which were prepared in accordance with IFRS as well as the unconsolidated financial statements of KHD AG in accordance with HGB for the financial year ended 31 December 2009, and has issued unqualified audit opinions in respect of each of them.

Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft is member of the German Chamber of Public Auditors (*Wirtschaftsprüferkammer*).

INFORMATION ON THE SHARE CAPITAL OF THE COMPANY

The following overview is a summary of certain information on the Company's share capital as well as certain provisions of the Articles of Association of the Company and German law. The following overview does not purport to be exhaustive, and the information contained herein relates exclusively to the Articles of Association of the Company and German law in effect as of the date of this Prospectus.

Share Capital and Shares

The existing registered share capital of KHD AG amounts to EUR 33,142,552.00. It is divided into 33,142,552 no-par value ordinary bearer shares (shares without nominal value) (*Stückaktien*) each with a notional share in the share capital of EUR 1.00. The Shares are fully paid up. Each Share entitles its owner to one vote at the Company's general shareholders' meeting.

The Company's shares are represented by global certificates without dividend coupons attached which are deposited with Clearstream Banking AG, Frankfurt am Main and physical shares certificates (*effektive Stücke*) that are held in individual safe-deposits or private custody (*Streifband- oder Eigenverwahrung*). The holders of the Company's no-par value shares hold co-ownership interests in the respective global certificates. By consent of the supervisory board, the executive board determines the form of the share certificates, dividend and renewal coupons as well as of bonds and interest coupons. Pursuant to the Company's Articles of Association, the shareholders are not entitled to definitive share certificates representing their shareholdings. The Shares are freely transferable.They do not provide for different voting rights.

The Company's Shares are created according to the laws of Germany, specifically the relevant provisions of the German stock corporation law.

Development of the Share Capital

Since the formation of the Company its share capital was increased several times. On 23 January 2003, the share capital amounted to EUR 28,821,944. The Company's general shareholders' meeting held on 29 September 2004 resolved to authorize the executive board with consent by the supervisory board to increase the Company's share capital against cash contribution from EUR 28,821,944 by up to EUR 14,400,000 by issuance of up to 7,200,000 new ordinary bearer shares until 31 May 2009 (authorized capital). The Company's executive board utilized EUR 866,488 of the authorized capital by resolution dated 29 October 2004 which was entered into the Company's commercial register on 10 December 2004. On 10 November 2006, the implementation of the capital increase from authorized capital was entered into the Company's commercial register in the amount of further EUR 3,454,120. Since then the share capital has been unchanged. This authorized capital expired on 31 May 2009.

On 23 March 2010, the Company's general shareholders' meeting, resolved *inter alia* to authorize the executive board with consent by the supervisory board to increase the Company's share capital against cash contribution from EUR 33,142,552.00 by up to EUR 16,571,276 by issuance of up to 16,571,276 new ordinary bearer shares until 22 March 2015. The respective amendments to the Company's Articles of Association were registered with the commercial register on 25 March 2010.

General Provisions on Share Capital Increases

Generally, the Company may increase its share capital by resolution of the general shareholders' meeting. The resolution generally requires a simple majority of the share capital represented at the adoption of the resolution and a simple majority of the votes cast. However, if non-voting preferred shares are to be issued (section 182 para 1 sentence 2 AktG) or if the resolution on the share capital increase provides for the exclusion of shareholders' subscription rights (section 186 para 3 AktG), then instead of a simple majority of the share capital represented at the adoption of the resolution, a 75% capital majority will be required.

In addition, the general shareholders' meeting may create authorized capital. The creation of authorized capital requires a resolution adopted by a 75% majority of the share capital represented at the adoption of the resolution, which authorizes the executive board to issue shares up to a certain amount during a period not exceeding five years.

The nominal amount of the authorized capital may not exceed 50% of the share capital existing at the time of authorization.

The general shareholders' meeting may furthermore create contingent capital for purposes of issuing shares to holders of convertible bonds or other securities granting a right to subscribe for shares, shares serving as consideration in a merger with another company or shares offered to executives and employees, although in each case a resolution adopted by a 75% majority of the share capital represented at the vote is required. In those cases where contingent capital is created for purposes of issuing shares to executives and employees, the nominal amount of contingent capital may not exceed 10% of the share capital existing at the time the resolution is adopted; in all other cases it may not exceed 50% of the share capital existing at the time the resolution is adopted.

Pursuant to AktG, shareholders generally have a subscription right to subscribe for new shares to be issued pursuant to a capital increase as well as any convertible bonds, warrant-linked bonds, participation rights or participating bonds issued by the Company. Subscription rights are transferable and may, as a rule, be traded on a German Stock Exchange during a fixed period prior to the expiration of the subscription period. By a majority of votes cast and a concurrent majority of at least 75% of the share capital represented at the adoption of the resolution, the general shareholders' meeting may decide to exclude the shareholders' subscription rights. Subscription rights may also be excluded in relation to a capital increase from an authorized capital. Subscription rights may generally be excluded only in cases where the Company's interest in excluding subscription rights outweighs the shareholders' interests in being granted such subscription rights. Failing any such special justification, subscription rights may be excluded when new shares are issued specifically in those cases where the Company increases the capital against cash contributions and the amount of the capital increase does not exceed 10% of existing share capital and at the same time the issue price of the new shares is not substantially lower than the exchange price. The executive board is required to submit to the general shareholders' meeting a written report setting out the grounds for the partial or complete exclusion of subscription rights and justifying the proposed issue price.

Subscription rights serve to enable shareholders to maintain their existing proportionate interest in the share capital and their voting power (dilution protection). If shareholders' subscription rights are excluded, the bounds of section 255 para 2 AktG must always be observed, i.e., the issue price of the new shares may not be set "unreasonably low". The new shares may only be issued at a price that would fully compensate the loss of the ownership interest in the net assets of the shareholder whose subscription rights are being excluded. In this regard, the issue price of the new shares must always be oriented on the actual value of the corporation.

In the Preliminary Subscription Agreement between the Company and MGI (see "*Business - Material Agreements - Preliminary Subscription Agreement with MGI*"), the Company represents, warrants, and undertakes the following restriction (the "**Capital Increase Restriction**"). For the Lock-In period (which is generally 29 months after implementation of the Capital Increase, see "*Business - Material Agreements - Preliminary Subscription Agreement with MGI*"), the Company will not, without the prior written consent of MGI, directly or indirectly, issue, offer or oblige itself to issue or offer the Shares or other securities or rights which can be converted into or exchanged with Shares or which guarantee the right to acquire Shares nor otherwise distribute the securities or announce an offer for the securities, and in particular it will not make use or announce the use of authorized or contingent capital, nor propose any capital increase to the general shareholders' meeting for resolution and will not make any transactions nor any arrangements which have the same economic effect as the above mentioned measures insofar such measures would result in a dilution of MGI's equity holding in the Company by causing its holding falling below 20% of the issued share capital of the Company from time to time ("**Dilution Event**"), other than as a result of MGI not taking up any of the MGI-Offer (as defined below in this paragraph). When pursuing any proposed Dilution Events, the Company agrees to grant subscription rights in respect of such shares, securities and rights pursuant to any such Dilution Events as aforesaid to MGI ("**MGI-Offer**") such that MGI shall have the right to subscribe or take up such shares, securities or rights in order to maintain MGI's equity holding of the Company to not fall below 20% of the issued share capital of the Company from time to time, taking into account of any shares of the Company issuable under any securities or rights granted relating to shares of the Company.

Authorized Capital

Pursuant to section 5 para. 1 of the Articles of Association the Company's executive board is authorized subject to the consent of the supervisory board to increase the share capital of the Company from 23 March 2010 until 22 March 2015 on one or more occasions by a total of up to EUR 16,571,276 against cash contributions or contributions in kind by issuing up to 16,571,276 new no-par value ordinary bearer shares. Generally, shareholders shall be entitled to subscription rights. Statutory subscription rights may also be granted by way of acquisition of the new shares by a group of credit institutions obligated to indirectly offer such shares to the shareholders for subscription. The executive board is hereby authorized subject to the consent of the supervisory board to exclude shareholders' subscription rights in the following cases:

(i) in case of capital increases against cash contributions where the proportionate amount of the share capital attributable to the new shares issued pursuant to section 186 para 3 sentence 4 AktG (exclusive subscription rights) does not exceed in the aggregate 10 per cent of the share capital existing on either the date on which the authorization enters into effect or the date on which it is exercised, and the issue of the new shares is not substantially lower, within the meaning of sections 203 paras 1 and 2, 186 para 3 sentence 4 AktG than the exchange price at the time the final issue price of the shares of the same class and the same features already trading on the stock exchange is fixed. Those shares issued or to be issued in order to satisfy warrant-linked or convertible bonds are to be counted toward this maximum threshold provided such bonds were issued in analogous application of section 186 para 3 Sentence 4 AktG (exclusive subscription rights). In addition, those treasury shares of the Company which are sold during the term of the authorized capital (exclusive of subscription rights) pursuant to sections 71 para 1 no. 8 sentence 5 and 186 para 3 sentence 4 AktG are also to be counted toward the maximum threshold of 10 per cent of the share capital;

(ii) in the case of capital increases against contributions in kind in order to grant shares for purposes of acquiring companies, parts of companies or equity investments in companies or other equity;

(iii) to even out fractional amounts;

(iv) to the extent that a third party, which is not a credit institution within the meaning of section 186 para 5 AktG, subscribes the shares and ascertains that shareholders are granted indirect subscription rights to such shares.

Pursuant to section 5 para. 2 of the Articles of Association the executive board is authorized, with the approval of the supervisory board, to decide upon the details of the implementation of a capital increase from authorized capital. The supervisory board is authorized to amend the wording of the Company's Articles of Association in accordance with the utilisation of the authorized capital.

On 21. December 2010 the Company's executive board resolved with consent of the supervisory board granted on the same day to utilize the Company's authorized capital in the amount of up to EUR 16,571,276.00 for purposes of the Capital Increase.

As part of the Preliminary Subscription Agreement (see "*Business - Material Agreements - Preliminary Subscription Agreement with MGI"*), the executive board declared that at the day of implementation of the Capital Increase, it will make a statement vis à vis MGI that it will utilize the authorization given in section 5 para 1 of the Articles of Association to increase the share capital from the existing authorized share capital against cash contribution in cash by excluding subscription rights with regard to the exclusion of subscription rights only subject to the Capital Increase Restriction (see "*Information on the Share Capital of the Company _- General Provisions on Share Capital Increases*").

Contingent Capital

There is currently no contingent capital.

Treasury Shares, Authorization to Acquire Shares

The Company holds 229,136 Shares in treasury.

Further, by resolution of the general shareholders' meeting held on 23 March 2010 the Company's executive board was authorized to acquire shares in the Company up to an amount of 10% of the share capital registered at the time of the general shareholders' meeting resolution until 31 December 2014. The shares purchased on the basis of this authorization, together with other shares of the Company that the Company already holds in treasury, may at no time exceed 10% of the registered share capital. The authorization may also be exercised in whole or in part and in one or several tranches.

Exclusion of Minority Shareholders (Squeeze Out)

Under the provisions of sections 327a et seq. AktG regarding the "squeeze out", the general shareholders' meeting of a German stock corporation (*Aktiengesellschaft*) may, at the request of a shareholder holding 95% of the share capital (**"Principal Shareholder"**), resolve to transfer the shares of the remaining minority shareholders to the Principal Shareholder in return for a reasonable cash settlement. The amount of the cash settlement to be paid to the minority shareholders in this regard must take into consideration the "company's situation" prevailing at the time the general shareholders' meeting adopts the resolution. The amount of the settlement is based on the full enterprise value, which is generally determined using the capitalised earnings method.

Under the provisions of sections 319 et seq. AktG regarding the integration (*Eingliederung*), the general shareholders' meeting of a German stock corporation may resolve the integration into another corporation provided that 95% of the shares of the company to be integrated is held by the future principal entity. The departing shareholders in the company being integrated are entitled to a reasonable settlement, which is generally to be granted in the form of shares in the principal entity itself. In this regard, the amount of the settlement is to be determined based on the "merger ratio" between the two companies, i.e., the exchange ratio that would be deemed reasonable in the event the two companies were merged.

Furthermore, pursuant to the provisions contained in sections 39a and 39b of the German Securities Acquisition and Takeover Act (*Wertpapiererwerbs- und Übernahmegesetz,* **"WpÜG"**) regarding the so-called "takeover law squeeze-out" following a takeover or mandatory tender offer, a bidder who holds at least 95% of the voting share capital of the target company will by court order receive the remaining voting shares upon his or her application and against payment of adequate compensation. The compensation granted under the takeover or mandatory tender offer is considered adequate compensation when the bidder, based on the offer, has acquired at least 90% of the share capital subject to the offer. Furthermore, following a takeover or mandatory tender offer, the shareholders of the target company who did not accept the offer may accept the offer within three months after the expiration of the acceptance deadline (so-called "sell-out"), provided the bidder is entitled to file an application for the transfer of the remaining voting shares in accordance with section 39a WpÜG (section 39c WpÜG).

Disclosure and Notification Obligations for Shareholdings

KHD AG is a listed company and as such is subject to disclosure obligations under the German Securities Trading Act (*Wertpapierhandelsgesetz,* **"WpHG"**).

Under the WpHG, any person whose voting interest in an issuer whose country of origin is the Federal Republic of Germany and whose shares are admitted to trading on an organised market reaches, exceeds or falls below 3%, 5%, 10%, 15%, 20%, 25%, 30%, 50% or 75% through acquisition, sale or by other means, must promptly notify the relevant issuer and the German Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht,* **"BaFin"**), in writing or by fax in German or English and no later than within four trading days, of the fact that any of the aforementioned thresholds have been reached, exceeded or are no longer met, and report the total voting interest now held. The notification must include the person's address and the date on which the relevant threshold was reached, exceeded or no longer met. As a domestic issuer, KHD AG must forward this disclosure promptly, however not later than three trading days following receipt of said disclosure, to the media for publication, including such media that would presumably distribute this information throughout the entire European Union and the other Member States of the European Economic Area; it must also send the disclosure to BaFin and the electronic companies register for purposes of storing in the database. Exemptions from the notification obligation exist for trading activities by investment services companies up to a voting interest of 5%, shares held on a short-term basis exclusively for purposes of billing and settlement or for deposit, as well as purchases and sales in the context of market making.

The WpHG contains various provisions pursuant to which shares or voting rights attaching to shares held by third parties are attributable to those of a shareholder. This is the case, for example, for shares held by a subsidiary of a party subject to the reporting obligation or for shares held by a third party in its own name, but for the account of a party subject to the reporting obligation.

With the exception of the 3% threshold, an additional reporting obligation applies to those persons who directly or indirectly hold financial instruments, which grant them the unilateral right under a legally binding agreement to purchase already outstanding shares carrying voting rights of an issuer whose country of origin is the Federal Republic of Germany.

Shareholders who fail to provide disclosure are prohibited from exercising the rights associated with such shares (including the voting rights and subscription rights) for the duration of their non-compliance. Failure to comply with the disclosure duty may also result in the imposition of a fine.

In addition, under the WpÜG, any party whose voting interest reaches or exceeds 30% of the voting shares of an issuer is obligated to publish this fact promptly and not later than within seven calendar days, including the percentage of voting rights held, in at least one national journal for stock market publications or on an electronic information system for financial information and thereafter, unless an exemption from this obligation was granted, to submit a mandatory public offer directed to all shareholders of the issuer.

GOVERNING BODIES OF THE COMPANY AND EMPLOYEES

Overview

The governing bodies of the Company are the executive board (*Vorstand*), the supervisory board (*Aufsichtsrat*) and the general shareholders' meeting (*Hauptversammlung*). The powers of these governing bodies are set out in the AktG and the Articles of Association.

The executive board manages the Company at its own responsibility in accordance with the laws of the Federal Republic of Germany and the provisions of the Articles of Association while taking into account the resolutions of the general shareholders' meeting and the supervisory board. The executive board represents the Company in its dealings with third parties. The executive board must ensure that an appropriate risk management and internal oversight system are set up and operated within the Company in order to facilitate the early identification of developments that jeopardise the continued existence of the Company.

The members of the executive board are appointed and dismissed by the supervisory board. The executive board has a duty to report to the supervisory board. It must report to the supervisory board regularly, promptly and comprehensively on any and all issues of corporate relevance with respect to planning, business development, the risk situation, risk management, strategic measures and other relevant circumstances relating to the Company. Moreover, reports must be presented to the chairman of the supervisory board on other important occasions. Furthermore, the supervisory board may request a report on Company matters at any time.

The supervisory board is responsible for monitoring and advising the executive board in the execution of its management duties. Generally speaking, a member of the Company's supervisory board may not at the same time be a member of the Company's executive board. Under German stock corporation law, measures relating to management may not be transferred to the supervisory board. However, the Articles of Association or the supervisory board must stipulate that certain types of transactions may be undertaken only subject to its consent.

The members of the executive board and the supervisory board have fiduciary duties and duties of care toward the Company. In discharging these duties, a broad range of interests, in particular those of the Company, its shareholders, its employees, its creditors and the general public, must be taken into account. In particular, the executive board must also take into account the shareholders' rights to equal treatment and equal information.

Pursuant to AktG, individual shareholders — like any other person — are prohibited from using their influence on the Company to cause a member of the executive board or supervisory board to act in a manner that would damage the Company. Any person who uses his or her influence to cause a member of the executive board or supervisory board, a commercial attorney-in-fact (*Prokurist*) or an authorized agent to act in a manner that damages the Company or its shareholders is required to compensate the Company for the damage suffered by it as a result. In addition, members of the executive board and the supervisory board are jointly and severally liable if they act in breach of their duties and the Company suffers damage as a result thereof.

Generally, a shareholder has no standing to bring a court action against members of the executive board or the supervisory board if such shareholder believes that the relevant members have breached their duties toward the Company and that the Company has suffered damage as a result. As a rule, compensatory damages claims of the Company against members of the executive board or the supervisory board may be enforced only by the Company itself, in which respect the Company is represented by the executive board in the event of claims against supervisory board members, and by the supervisory board in the event of claims against executive board members. According to a decision by the German Federal Supreme Court (*Bundesgerichtshof*, **"BGH"**), the supervisory board is required to assert against the executive board any compensatory damages claims that are foreseeably enforceable, unless there are significant reasons involving the Company's welfare that argue against the assertion of such claims and such arguments outweigh or are at least equal to the arguments in favour of asserting them. Should the respective governing body authorized to represent the Company decide not to prosecute a claim, damages claims of the Company against members of the executive board or the supervisory board must be asserted if the general shareholders' meeting resolves to do so by a simple majority, although the general shareholders' meeting may appoint a special representative to assert the claims. A minority of shareholders whose shares collectively constitute 10% of the share capital or a pro rata amount of EUR 1,000,000 may also apply for judicial appointment of a special representative to assert the damage claims, who, if appointed, becomes responsible for this instead of the Company's governing bodies. If there are facts in evidence to justify the suspicion that the Company has suffered damage as a result of impropriety or a gross breach of the law or the Articles of Association, shareholders whose shares collectively constitute 1% of the share capital or a pro rata amount of EUR 100,000 also have the option, subject to certain requirements, to be granted leave by the competent court to assert compensatory damages claims of the Company against members of the relevant governing bodies in their own name on behalf of the Company. Such an action will become inadmissible if the Company itself claims damages.

The Company may not waive or settle compensatory damage claims against members of the governing bodies until three years after a given claim has vested, and then only if the shareholders so resolve by a simple majority of the votes cast at the general shareholders' meeting and provided that no minority of shareholders whose shares collectively constitute 10% of the share capital place an objection on the record.

Executive Board

Introduction

Pursuant to section 7 para 1 of the Company's Articles of Association, the executive board is composed of one or more persons. The exact number of members is determined by the supervisory board, which appoints the members of the executive board. Even if the share capital is higher than EUR 3,000,000 the supervisory board may determine that the executive board be composed of only one person. The supervisory board may appoint one member of the executive board as the chairman and another member as the deputy chairman of the executive board. The supervisory board dismisses members of the executive board. Executive board members are appointed for a maximum term of five years. Re-appointment or an extension of the term of office for additional five years in each case is permissible. The supervisory board may revoke the appointment of an executive board member for good cause prior to expiry of his term of office, for example in the event of a gross breach of duty, inability to duly manage the Company's business or a vote of no confidence in the executive board member by the general shareholders' meeting, unless the vote of no confidence was clearly on subjective grounds. The formal legal relationship created by virtue of appointment of an executive board member is to be distinguished from the contract of service between the executive board member and the Company. The contract of service also has a maximum term of five years, although it may provide for an automatic renewal of the contract of service in the event of re-appointment. Otherwise, the provisions of the German Civil Code (*Bürgerliches Gesetzbuch*) on service relationships apply to the service relationship and termination thereof.

Management and Representation

The members of the executive board conduct the business of the Company jointly and with collective responsibility (*Kollegialprinzip*). They are therefore obliged to inform each other regularly on important transactions in the divisions they manage and to make every effort to collaborate. Resolutions of the executive board are adopted by a simple majority of votes cast, unless the law stipulates unanimity. If the executive board is composed of two or more members, the chairman has the deciding vote. Regardless of the overall responsibility of the executive board, the responsibilities of executive board members are assigned in accordance with the Company's Articles of Association on the basis of a schedule of responsibilities requiring the supervisory board's consent.

According to the current schedule of responsibilities, Jouni Olavi Salo is responsible for overall management of the Company. Manfred Weinandy is responsible for accounting and finance.

Pursuant to section 8 para 1 of the Articles of Association, the executive board may give itself rules of procedure by unanimous resolution, unless the supervisory board issues rules of procedure for the executive board. Rules of procedure shall stipulate that certain types of transactions, in particular such which materially change the financial position or results of operations of the Company or which materially change its risk exposure as well as the formation, dissolution, acquisition or disposal of shareholdings or other transactions higher than the limited stipulated by the supervisory board in the rules of procedure for the executive board may only be carried out with consent of the supervisory board. Pursuant to the rules of procedure for the executive board issued by resolution of the supervisory board on 17 December 2010, the following transactions by the executive board require the consent of the supervisory board:

(a) Any measures or decisions, which taken alone or together materially change or affect the commercial, economic or legal position of the Company or KHD;

(b) The exercise of secondary occupations by a member of the executive board, in particular the acceptance of seats on supervisory boards outside KHD, is subject to the prior approval of the supervisory board;

(c) Pursuant to sec. 112 AktG transactions between a member of the executive board and the Company shall be concluded by the supervisory board for the Company;

(d) Changes to the schedule of responsibilities;

(e) Establishment or change of the long, medium and short term business policy (such term including type of contracts, “no-go” contract clauses risk profiles and the like) of the Company or KHD, as well as entering new fields of business and the partial or complete discontinuation of existing operations;

(f) Acceptance of or amendment to the annual budget and the midterm business (covering a business forecast of 3 years ahead) plan for the Company and KHD; any measures, acts or transactions which result in a deviation from budgets or business plans, except were such changes are negligible;

(g) Disposal or relocation of the Company or any material business operations;

(h) Entering into related parties transactions;

(i) Creation, liquidation, acquisition or disposals of entities or interests in companies including the creation of encumbrances over such (value threshold of single transaction EUR 1,000,000). Creation and cancellation of joint ventures;

(j) Creation and closure of branches, except the creation or closure of permanent establishments for project purposes that are automatically created in accordance with tax laws or formed or maintained merely for tax purposes relating to a project;

(k) Conclusion or cancellation of specific agreements between business enterprises in terms of sec. 291, 292 AktG;

(l) Acquisition, disposal or mortgaging of real estate where a single transaction has a value in excess of EUR 500,000;

(m) Disposing of or encumbrances on fixed assets in excess of EUR 1,000,000 in value;

(n) Acquisition and disposal of patents, proprietary rights and other know-how as well as the acquisition and award of licenses in excess of transaction threshold of EUR 1,000,000;

(o) The conclusion, amendment and cancellation of rental, lease or other contracts for use and occupancy if the term exceeds three years and the annual expense is more than EUR 300,000;

(p) Borrowing or issuance of debit bonds of more than EUR 1,000,000 in each individual case and, in any financial year, in aggregate more than EUR 4,000,000;

(q) Granting of loans, guarantees, sureties or assumption of any liability for the benefit of third parties outside the ordinary course of business which are not covered in the annual budget;

(r) Granting and revocation of full powers of attorney or commercial power of attorney (*Generalhandlungsvollmachten oder Prokuren*);

(s) Conclusion of employment contracts with an annual remuneration of more than EUR 150,000 and/or a period of notice of more than six months and/or employment contracts which include any profit participation or boni not commensurate with industry practices;

(t) Arrangement or change of general principles for old-age pensions (i.e. conclusion, amendment or cancellation of pension agreements with individual employees where the Company is committed beyond the permissible tax limits for direct insurance or deferred payment programs);

(u) Conclusion, amendment or cancellation of contracts requiring notification or an application to the federal cartel office or another relevant authority;

(v) The assumption of guarantees of any kind, including any kind of letter of comfort, and the conclusion of fiduciary contracts, pledges or other mortgage contracts outside the normal course of business;

(w) Investments which individually exceed a value of more than EUR 250,000 or, in a single financial year, aggregate more than EUR 1,000,000;

(x) Other Measures, such as

(i) The acceptance of orders valued at more than EUR 50,000,000 (in the aggregate, i.e. taking together in particular bundles of smaller orders from one customer or group of customers or orders to be performed by one or more group companies), or any turnkey or semi-turnkey, EPC contract;

(ii) The assumption of any other continuing obligation with a term of more than one year and a value of more than EUR 1,000,000 annually;

(iii) Any measures, decisions, acts or transactions, including transactions with other Group companies, outside the ordinary course of business.

The supervisory board may provide its revocable consent to a specific class of transactions in advance, either in general or subject to the proviso that individual transactions satisfy certain conditions.

The Company is represented vis-à-vis third parties by two executive board members collectively or by one executive board member acting jointly with a commercial attorney-in-fact (*Prokurist*). If only one executive board member has been appointed, this member represents the Company alone. The supervisory board may stipulate that individual members of the executive board are generally or for the individual case authorized to represent the Company as a representative of a third party. No executive board member is currently authorized to represent the Company alone or is exempt from the restrictions of multiple representation within the meaning of section 181 alternative 2 German Civil Code (*Bürgerliches Gesetzbuch*, **"BGB"**).

Members of the Executive Board

The members of the Company's executive board and their respective responsibilities are set forth in the following overview.

Name/Position (Date of Birth)	Member since	Appointed until	Responsibilities	Current and previous memberships in administrative, management and supervisory bodies and partnerships
Jouni Olavi Salo/Chief Executive Officer (CEO) (9 November 1959)	11 December 2008	10 December 2013	CEO, overall management	• Chief Executive Officer (CEO) of KHD Ltd., Canada (since April 2009 — 30 March 2010); • Managing Director of KHD Humboldt Wedag International GmbH, Austria (from 5 June 2008 — 30 March 2010); • Director of KHD Humboldt

Wedag
International Holding GmbH, Austria
(from June 2008 — 30 March 2010);

- Director of KHD Humboldt Wedag
Machinery Equipment (Beijing) Co. Ltd.,
China (from October 2008 — applied for removal);
- Director of Inverness Enterprises Ltd. (from June 2008 — 30 March 2010);
- Director of MFC & KHD International Ind. Ltd., Samoa (from
June 2008 — 30 March 2010);
- Director of New Image Investments Ltd., USA (from June 2008 — 30 March 2010);
- Director of KHD Holding AG, Switzerland (from May 2009 —3 0 March 2010);
- Sole Director/Manager of KHD
Humboldt Wedag International (UAE) FZE, United Arab Emirates (from June 2009 — 30 March 2010);
- Chief Operating Officer (COO)
of KHD Ltd., Canada (from November 2008 to April 2009);
- Board Member and Managing Director (President) of Metso Minerals
(Tampere) Oy, Finland (from 1 September 2003 until 31 August 2005);
- Chairman of the Board of Directors at Metso Minerals (Macon)
S.A., France (from 1 September 2003
until 28 June 2007);
- Director (Board Member) at Metso Minerals (Matamata) LTD,
New Zealand (from 10 November
2003 until 1 July 2007);
- Director of Humboldt Wedag India Private Ltd., India (from 30 May 2008 — 31 March 2009);

				• Director of Humboldt Wedag Inc., USA (from June 2008 — 30 October 2009); • Supervisory Board Member of KHD Humboldt Wedag International (Deutschland) AG, Germany (from June 2008 — December 2008)
Manfred Weinandy/Chief Financial Officer (CFO) (21 August 1955)	29 March 2010	28 March 2013	CFO, accounting and finance	—

The members of the Company's executive board can be contacted at the Company's business address.

Jouni Olavi Salo

Joni Olavi Salo has more than 25 years of international business experience in the industrial equipment market and broad based marketing and operational understanding at the senior executive level. Mr. Salo has served in a variety of senior positions with Metso Minerals Inc. and related operations. Most recently, he was President of the Construction Materials Business Line of Metso Minerals Inc. In this position he was responsible for the profitability and reorganization of one of the largest business divisions, having manufacturing plants in numerous parts of the world and with a strong focus on development of emerging markets. Previously, he played a pivotal role in the acquisition and integration of companies around the world. He holds a Bachelor of Science degree in Mechanical Engineering from the Technical College of Hameenlinna.

Manfred Weinandy

Manfred Weinandy has more than 20 years of experience in industrial accounting including human resources and IT. He studied Business Administration at the University of Cologne and graduated with an MBA (*Diplom-Kaufmann*). He began his professional career at an international accounting firm. Later Mr. Weinandy served in a variety of senior accounting positions with the Thyssen-Krupp group, also in the area of plant construction. After a position as managing director for a logistics company he joined the Company in 2003 and held senior positions in the KHD Group since.

Contracts of service

Jouni Olavi Salo

The contract of service between Mr. Salo and the Company dated 15 June 2010 runs from 1 April 2010 until 10 December 2013 and will be renewed in case of a re-appointment of Mr. Salo by the supervisory board for the period of his re-appointment. In case Mr. Salo's appointment is revoked, the Company has the right to terminate the employment contract on three month's notice to the end of the month. The Company may also terminate the contract for good cause without notice.

On regular termination of the contract of service, or in case of premature termination by the Company (except without notice for good cause) Mr. Salo will receive a severance payment. The severance payment amounts to an amount of double the fixed gross annual salary in case of regular termination of the contract of service. In case of termination of appointment less than three months prior to the scheduled end of the termination the severance payment amounts to the fixed annual gross salary for a period of 24 months starting from the premature termination less the actually paid remuneration during this time period. No severance payment is payable in case of termination by the Company for good cause, termination by the member of the executive board and in case of non-renewal at the request of the executive board member.

Manfred Weinandy

By resolutions dated 10, 17 and 18 March 2010, the Company's supervisory board appointed Mr. Manfred Weinandy as member of the Company's executive board (CFO) as of 29 March 2010 for a term of three years.

The contract of service between Mr. Weinandy and the Company dated 15 June 2010 runs from 1 April 2010 until 28 March 2013 and will be renewed in case of a re-appointment of Mr. Weinandy by the supervisory board for the period of his re-appointment. In case Mr. Weinandy's appointment is revoked, the Company has the right to terminate the employment contract on 12 month's notice to the end of the month. If the notice of termination is given less than 12 months prior to the regular end of the service contract, the contract ends on the regular day of termination. The Company may also terminate the contract for good cause without notice.

On regular termination of the contract of service, or in case of premature termination by the Company (except without notice for good cause) Mr. Weinandy will receive a severance payment. The severance payment amounts to an amount equal to the fixed gross annual salary in case of regular termination of the contract of service. In case of termination of appointment less than 12 months prior to the scheduled end of the termination the severance payment amounts to the fixed annual gross salary for a period of 12 months starting from the premature termination less the actually paid remuneration during this time period. No severance payment is payable in case of termination by the Company for good cause, termination by the member of the executive board and in case of non-renewal at the request of the executive board member.

Remuneration

The members of the executive board receive a fixed gross annual salary of EUR 180,000 for Mr. Weinandy and EUR 375,000 for Mr. Salo.

In addition, each member of the executive board receives a variable remuneration which together with the other parts of the remuneration is granted as an incentive to act in the long term interest of the Company. The variable remuneration is generally assessed over a period of two calendar years payable with the approval of the financial statements of the last year of the period of assessment. On occation of the first appointment of the executive board members the first period of assessment was set to run from 1 April 2010 to 31 December 2011 in case of Mr. Weinandy and from 1 April 2010 to 31 December 2012 in case of Mr. Salo. On the basis of the Company's plans the performance targets of the individual and business-related component of the variable remuneration for the period of assessment will be set at the beginning of the relevant period by resolution of the supervisory board by 31 March of the first calendar year. In 2010 the targets were set by 30 June 2010. After the end of the period of assessment the Chairman of the supervisory board determines to what extent the targets have been reached and discussed with the respective member of the executive board. In case the targets are reached by 100% the variable remuneration amounts to a maximum of one third of the fixed gross annual salary of the respective member of the executive board per calendar year. In this case 75% of the variable remuneration will be paid as a business performance-related or individual performance component (the "**performance component**"). If the targets have been reached by less than 80%, the performance component will not be paid. Between 80% and 100% of the target the variable remuneration will be paid to the extent the target has been reached. The remaining 25% of the maximum variable remuneration will be paid to each member of the Executive Board at the discretion of the supervisory board, whereby the supervisory board shall place particular emphasis on the medium and long-term development of the Company (the "**discretion component**").

By way of resolution the supervisory board may agree to pay the variable remuneration in half-yearly instalments based on the interim assessment of achievement of the targets. The instalments may not exceed 50% of the possible variable remuneration determined at this time. In case the targets have not been reached after the end of the assessment period any instalments have to be repaid.

In case a member of the executive board retires from the executive board prior to the end of the assessment period no variable remuneration is payable. Any instalments received have to be repaid. The entitlement to a variable remuneration is also cancelled in case of an early termination of the service contract for good cause by the Company or by the member of the executive board without cause at the time of scheduled payment. If the appointment of the member of the executive board is not renewed the variable remuneration will be paid pro rata until the time of the end of the term, unless the non-renewal was due to request by the member of the executive board, for a reason according to section 84 para. 3 sentence 2 of the AktG or for good cause. Same applies to a termination of service due to disability or incapacity.

In case of sickness of the executive board member the Company will pay the fixed gross salary and the variable remuneration for a time period of six months. If the executive board member passes away during the period of his service, the fixed gross salary and the variable remuneration will be paid to his widow and dependent children under the age of 25 for the month of his death and the following three months or until the scheduled end of the contract of service, whatever period ends first.

Furthermore, the Company provides the members of the executive board with a company car which they may use for private purposes as well. Any taxes associated therewith are borne by the respective executive board member.

In addition, subject to prior approval by the Company, the Company will bear the travel expenses for Mr. Salo's wife to accompany Mr. Salo on business trips. Mr. Salo further received a signing fee in the amount of EUR 475,000 for agreeing to enter into the contract of service with the Company.

The Company further reimburses the costs for comprehensive health insurance for Mr. Salo and his wife and children living in his household up to a maximum of EUR 1,500 gross per month. In case of Mr. Weinandy the costs for health and care insurance are reimbursed up to an amount based on the relevant statutory provisions.

For the period of the contract of service the Company will take out life insurance for Mr. Salo in an amount of EUR 1,125,000. The Executive Board member may designate a beneficiary. Mr. Salo is also covered by the Accidental Dismemberment Insurance against the consequences of accidents as well as the group accident insurance. The Company will bear the costs if Mr. Salo chooses to insure himself under the statutory accident insurance with the employer's mutual insurance association. The Company further agreed to insure Mr. Salo under an income protection insurance for the period of the contract of service against the risk of loss of income due to disability for illness starting with the seventh month of disability. The insurance will cover parts of Mr. Salo's remuneration.

The Company pays to Mr. Weinandy an amount equal to the highest statutory contributions by the employer to the statutory pension insurance upon proof. Mr. Weinandy is further covered by the accident insurance for employees (Unfallschadenverband) under group R. The current group contribution in case of total disability amounts to EUR 6,066 per months. In case of a relocation of Mr. Weinandy's place of work the Company will bear the costs of any real estate agent incurred for finding a new home and any moving expenses.

Moreover, the Company pays tax advisor expenses for Mr. Salo up to an amount of EUR 1,500 per year. For 2010 the Company agreed to reimburse Mr. Salo for any reasonable tax advisor expenses incurred. The Company will reimburse Mr. Salo for tuition fees (not including any boarding expenses) for any dependant children until the age of 18. In case of a relocation of Mr. Salo's place of work the Company will bear the costs of any real estate agent incurred for finding a new home and any moving expenses. Upon the end of the contract of service the Company pays for the expenses associated with his and his family's relocation to the U.S. unless the termination was due to good cause. In addition, the Company bears the costs for one club membership (including business related entertainment expenses) of Mr. Salo if the membership is deemed to be beneficial for the Company.

Stock-Options, Shareholding, Loans, Other Legal Relationships and Conflicts of Interest

Except for Mr. Salo, who holds 214 Shares, the members of the Company's executive board do neither hold any Shares nor options on Shares of the Company.

In addition, no member of the executive board has been a member of an administrative, management or supervisory body or partner of any company whose assets were subject to bankruptcy, receivership or liquidation proceedings. In addition, no member of the Company's executive board has been convicted in relation to fraudulent offences in the last five years or been subject to any official public incrimination and/or sanctions by statutory or regulatory authorities (including designated professional bodies), and no member of the executive board has ever been disqualified by a court of law from acting as a member of the administrative, management or supervisory bodies of an issuer or from acting in management or conduct of the affairs of any issuer.

There are no conflicts for the current executive board members of the Company between their obligations toward the Company and their private interests or obligations.

Supervisory Board

Introduction

Pursuant to section 10 para 1 of the Company's Articles of Association, the supervisory board is composed of three members. Supervisory board members are elected by the general shareholders' meeting by a simple majority of votes cast. Unless the general shareholders' meeting determines a shorter period, supervisory board members are elected for the period until conclusion of the general shareholders' meeting that resolves to exonerate the actions of the supervisory board for the fourth financial year following commencement of their term of office. The financial year in which the term of office begins shall not be included in calculating the period. For each supervisory board member a substitute member (*Ersatzmitglied*) may be simultaneously elected. A substitute member to a supervisory board member is elected for the remaining term of the supervisory board member unless the general shareholders' meeting elects a new supervisory board member. Supervisory board members may be re-elected, even more than once. Members of the supervisory board may resign from office, even without good cause, by submitting one months' written notice to the executive board. The right of supervisory board members to resign from office for good cause is not affected thereby. Supervisory board members who were elected by the general shareholders' meeting without being nominated may be dismissed by the general shareholders' meeting with a majority of at least three-quarters of the votes cast.

At the first meeting following its election, the supervisory board elects a chairman and a deputy chairman from among its ranks for the duration of his respective term of office as a supervisory board member. If the chairman or the deputy resigns from his office prematurely, the supervisory board must promptly elect a successor for the remainder of the resigning member's term of office.

Declarations of intent by the supervisory board and any committees are made by the chairman on behalf of the supervisory board. Only the chairman of the supervisory board and in case of his prevention the deputy chairman is authorized to receive declarations of intent addressed to the supervisory board.

By resolution dated 17 December 2010, the supervisory board issued itself rules of procedure.

Legal Position of the Supervisory Board

The supervisory board conducts transactions in accordance with the law and the provisions of the Articles of Association. In performing its duties, the supervisory board must work on a trusting basis together with the other governing bodies of the Company. The supervisory board members are not subject to orders and instructions. They are obliged to keep confidential any and all facts and circumstances of which they become aware in the course of their supervisory board activities, and the disclosure of which could have an adverse impact on the Company's interests.

The supervisory board appoints the executive board, advises it and supervises its management. It decides on management issues where the executive board's rules of procedure or the Articles of Association require the supervisory board's consent or where the executive board submits transactions to the supervisory board for its approval. However, in this respect as well, the supervisory board has no right of initiative or to issue instructions. The executive board must report to the supervisory board on an ongoing basis on the business policy pursued and on any and all executive board measures taken or omitted. Pursuant to the AktG the supervisory board represents the Company vis-à-vis the executive board members. It appoints the auditor to conduct the audit of the annual and consolidated financial statements pursuant to section 290 German Commercial Code (*Handelsgesetzbuch*). The supervisory board may establish committees from among its ranks. The supervisory board issues itself rules of procedure pursuant to mandatory provisions of the law and the Articles of Association.

Supervisory Board Meetings and the Adoption of Resolutions

Under the German stock corporation law the supervisory board shall hold two meetings in each calendar half year. The supervisory board must also convene a meeting if the Company's business so requires. The chairman of the supervisory board convenes at least one meeting of the supervisory board in each calendar month in writing or by facsimile, telephone, telegram or e-mail. The invitation shall state the location and the time of the meeting, the items on the agenda and any resolutions for decisions and give at least a notice of two weeks. The date on which the notice is sent and the date of the meeting are not included in the calculation of this period. In urgent cases, the chairman may reasonably shorten the period. The adoption of a resolution on an item on the agenda that was not included in a notice is only permissible if no supervisory board member present files an objection or the matter is urgent. In such cases, absent supervisory board members must be given the opportunity to subsequently object to the adoption of the resolution within a reasonable period to be determined by the chairman. The resolution only enters into force if no absent member files an objection within this period or in case of urgency.

The supervisory board has a quorum if all members have been properly invited to a meeting of the supervisory board and if at least three members take part in adoption of the relevant resolution. Absent members may take part in the adoption of resolutions by having written (section 126 BGB) votes submitted by those supervisory board members present or by members of the executive board who take part in the meeting of the supervisory board as advisors or by third persons who were authorized by the absent supervisory board.

The supervisory board met three times during the financial year ended 31 December 2009. The supervisory board has thus far met twice during the current financial year.

Supervisory board resolutions are generally adopted in writing by circular.

The supervisory board may also adopt resolutions by way of written, telephone or similar forms (e.g. by fax, video conferencing or email) of taking a resolution and voting. On instruction by the chairman of the supervisory board, resolutions of the supervisory board may also be adopted without a meeting being convened or held, by telephone, in writing by circular, by facsimile or using other modern means of communication (e.g. e-mail) provided no member objects to this procedure within a reasonable period of time stipulated by the chairman. The chairman decides on the manner of voting in each case. Such decisions are recorded by the chairman and communicated in writing to all members of the supervisory board.

The members of the executive board shall attend the meetings of the supervisory board in an advisory capacity. The supervisory board chairman or the supervisory board may preclude the attendance of members of the executive board if necessary. Other persons may attend the meetings of the supervisory board in accordance with section 109 AktG.

Resolutions of the supervisory board are adopted by a majority of votes cast, unless a different majority is mandated by law. When determining the results of the voting, abstentions are not counted. In the event of a tie, the vote of the chairman is decisive.

Minutes of the meetings of the supervisory board are to be prepared and signed by the chairman or in case of him being prevented the deputy chairman, and promptly forwarded to all members. The same applies to resolutions adopted outside of meetings.

Members of the Supervisory Board

The members of the Company’s supervisory board and their activities outside the Company are set forth in the following overview.

Mr. Gerhard Beinhauer has resigned from office by declaration of 21 December 2010 with effect as of the date on which MGI subscribes for the Target Participation.

Name (Position) (Date of Birth)	Member since	Elected until	Main occupation	Current and previous memberships in administrative, management and supervisory bodies and partnerships
Gerhard Beinhauer	23	End of annual	Managing Director,	• Web-Arts AG

(chairman of the supervisory board) (26 June 1959)	March 2010	general shareholders meeting 2013	BBI Beteiligungsgesellschaft mbH	(chairman of the supervisory board from 2005 — 12/2010; supervisory board member from 12/2010-ongoing); • DSF German Office Fund GmbH & Co KG (managing director from 11/2007 - ongoing) • DSF Vierzehnte Verwaltungsgesellschaft mbH (managing director from 11/2007-ongoing) • DSF Zehnte Verwaltungsges.mbH (managing director from 07/2009 - ongoing) • omniwatt AG (chairman of the supervisory board, from 2008 — ongoing); • Gold Cache Inc. (non-executive member of the board from 1999 — ongoing); • DSF berlinbiotechpark Verwaltungsgesellschaft mbH (Managing Director from 2002 — ongoing); • Bavaria Solar 1 Besitz GmbH (managing director from 2004 — ongoing); • IMD Alumni Deutschland eV (chairman from 1995 — ongoing); • Reisestudio Brueckmann GmbH (managing director from 2005 — ongoing)
Silke Sibylle Stenger (deputy chairman of the supervisory board) (7 April 1968)	23 March 2010	End of annual general shareholders meeting 2013	• CFO, Management One Human Capital Consultants Ltd. • Independent Management Consultant	• KHD Humboldt Wedag International Ltd. (board member from 2003 — 26 March 2010); • Management One Human Capital Consultants Ltd. (director and CFO from 2006 — ongoing); • SWA Reit and Investments Ltd. (board member until 2008); • Blue Earth Refineries Inc. (board member until April 2005); • Alegre Grundstücksverwaltungsgesellschaft mbH (general manager until March 2006); • Bahia Grundstücksverwaltungsgesellschaft mbH (general manager until March 2006); • Cuiaba Grundstücksverwaltungsgesellschaft mbH (general manager until March 2006)

Gerhard Rolf (31 March 1940)	23 March 2010	End of annual general shareholders meeting 2013	Retiree	• KHD Humboldt Wedag International Ltd. (board member from 2009 — 26 March 2010)

Gerhard Beinhauer

Mr. Beinhauer has been advising family offices and enterprises mainly on technology investments since he started his investment boutique BBI in 1992. His work included restructuring advice as a temporary executive board member. Prior to that he held several corporate leadership positions in Germany, France, the United States of America and Brazil.

Silke Stenger

Ms. Stenger has been the Chief Financial Officer of Management One Human Capital Consultants Ltd. since 2006. Previously, she was the Head of Investor Relations of Koidl & Cie. Holding AG from 1999 to 2002. She works as an independent management consultant since 2002.

Gerhard Rolf

Mr. Rolf was the European Vice President of Haworth Inc. Prior to that, he held several positions with Black & Decker in increasing levels of responsibility, first as Managing Director for Germany, Eastern Europe and Russia. He was relocated to London to serve as Vice President-Total Quality Europe, and was a member of the European Board of Black & Decker. Later he became European President of Security Hardware in Bruehl, Germany. Mr. Rolf also was with NYSE listed Steelcase Group, as well as holding positions as Head of Finance and Treasury and Managing Director with several European companies. Mr. Rolf began his distinguished career with PricewaterhouseCoopers.

The members of the supervisory board can be contacted at the Company's business address.

Remuneration, Shareholdings, other legal Relationships

Remuneration

Together the Members of the supervisory board are entitled to an aggregate fixed total remuneration in the amount of EUR 317,000 plus compensation of expenses payable to the end of the financial year. The supervisory board by way of resolution decides on the distribution of the total remuneration to the individual members of the supervisory board, including members having withdrawn from or being elected to the supervisory board in the course of the year, taking into consideration competencies of the individual members as chairman or deputy chairman of the supervisory board. By resolution dated 26 May 2010, the supervisory board resolved that a portion of EUR 288,000 of the compensation for the supervisory members as set out in the Company's Articles of Association shall be allocated equally to each member of the supervisory board as part of the remuneration for 2010. Of this amount EUR 114,240 has been paid to the members of the supervisory board until the date of this Prospectus.

The Company has not granted any pension commitments to the members of the Company's supervisory board.

The members of the supervisory board appointed until the general shareholders' meeting on 23 March 2010 have not received a renumeration for their services in financial year 2009. Although entitled to a renumeration, the supervisory board members have not claimed their remuneration, thereby following the mutual routine established by the members of the supervisory board over the past years.

Shareholdings of supervisory board members

The members of the Company's supervisory board currently do neither hold any shares nor options on shares of the Company.

Loans, other legal relationships and conflicts of interest

In addition, no member of the executive board has been a member of an administrative, management or supervisory body or partner of any company whose assets were subject to bankruptcy, receivership or liquidation proceedings, except for Silke Stenger. Silke Stenger was general manger of Alegre Grundstücksverwaltungsgesellschaft mbH, Bahia Grundstücksverwaltungsgesellschaft mbH, Cuiaba Grundstücksverwaltungsgesellschaft mbH which all have been liquidated due dto discontinuation of business. In addition, no member of the Company’s executive board has been convicted in relation to fraudulent offences in the last five years or been subject to any official public incrimination and/or sanctions by statutory or regulatory authorities (including designated professional bodies), and no member of the executive board has ever been disqualified by a court of law from acting as a member of the administrative, management or supervisory bodies of an issuer or from acting in management or conduct of the affairs of any issuer.

The Company has not granted any loans to its supervisory board members nor entered into any other contracts with them.

There are no conflicts for the current supervisory board members of the Company between their obligations toward the Company and their private interests or obligations.

General Shareholders’ Meeting

Introduction

The general shareholders’ meeting is the governing body through which the shareholders are able to exercise their rights within the Company. Pursuant to section 15 para 1 of the Company’s Articles of Association, the general shareholders’ meeting is held at the Company’s or its affiliated company’s registered office or in a city of a German stock exchange’s registered office. Audio-visual transmission of all or part of the general shareholders’ meeting is permitted if the executive board and supervisory board resolve accordingly and if this is announced together with the convening of the general shareholders’ meeting.

The general shareholders’ meeting is held within the first eight months of each financial year. Moreover, apart from those cases stipulated by law and the Articles of Association, a general shareholders’ meeting must be convened if the Company’s position so requires.

The annual (or ordinary) general shareholders’ meeting is generally convened by the executive board or by the supervisory board in those cases prescribed by law. Convening notice of the general shareholders’ meeting must be published in the Electronic Federal Gazette (*Elektronischer Bundesanzeiger*). Furthermore, shareholders whose shares collectively constitute at least 5% of the Company’s share capital may request that a general shareholders’ meeting be convened or, subject to certain requirements, may be authorized by a court of competent jurisdiction to independently convene a general shareholders’ meeting. Unless a shorter period is stipulated by law, the notice must be published no less than 30 days prior to the end of the registration period stipulated in the Articles of Association, stating the agenda. The date of the notice and the date upon which the registration period expires shall not be included in calculating such period. If the end of the notice period, which is to be counted back from the date on which the registration period expires, falls on a Saturday, Sunday or an official public holiday recognised at the Company’s registered office, such day shall be replaced by the preceding business day.

Shareholders are required to provide documentary evidence of their right to attend the general shareholders’ meeting, to exercise their voting rights and to file a petition. Evidence is provided by way of a German or English confirmation by the custodian bank which must be in writing (*Textform*) (section 126b BGB). The confirmation must refer to the begin of the twenty first day before the general shareholders’ meeting and has to be submitted to the company under the address announced in the convening notice no later than the end of the seventh day prior to the date of the general shareholders’ meeting, whereas the delivery date of the confirmation shall not be included.

Adoption of Resolutions

The resolutions of the general shareholders’ meeting are adopted by a simple majority of votes cast, unless a different majority is mandated by law. If, in addition to a simple majority of votes cast, the AktG also requires a majority of the share capital represented at adoption of the relevant resolution, a simple majority of the share capital represented at the adoption of the resolution is sufficient unless greater majority is required by law. This applies in all cases where the articles of association may provide for different majorities in particular, but not limited to the following cases: amendments to the articles with exception of amendments to the purpose of the Company; capital increases with exception of issuance of preferred non-voting shares, issuance of convertible or profit participating bonds as well as the granting of profit participation rights, capital decreases and dismissal of supervisory board members.

Pursuant to mandatory statutory provisions, capital increases excluding shareholders' subscription rights, capital reductions, the dissolution, reorganisation or merger of the Company, the transfer of the Company's assets and approval of inter-company agreements within the meaning of sections 291 et seq. AktG, in particular, require a majority of at least 75% of the share capital represented at adoption of the relevant resolution. In case of elections the relative majority of votes cast shall be decisive. If such majority is not achieved in the first ballot, a second ballot takes place between the candidates who received the highest number of votes. In the event of a tie in the second ballot, the chairman of the general shareholders' meeting draws lots.

Each no-par value Share carries one vote at the general shareholders' meeting. Voting rights may also be exercised by proxies. The power of attorney must be issued in writing (section 126 BGB). Details of the granting of this power of attorney will be announced together with the notice of the general shareholders' meeting in the newspapers authorized to publish notices of the company. The exercise of this power by a proxy appointed by the Company is excluded if not based on individual instructions.

Shareholders have the right to speak and ask questions at the general shareholders' meeting. This right may be subject to various restrictions, particularly with regard to the Company's interest in confidentiality and proper and expeditious conduct of the general shareholders' meeting. Pursuant to section 17 para 4 of the Articles of Association, the chairman is authorized to reasonably restrict the right to speak and ask questions for the entire general shareholders' meeting, several agenda items or several shareholders.

Subject to certain requirements governed by the AktG, shareholders and members of the executive board and the supervisory board may appeal resolutions of the general shareholders' meeting before the Regional Court of competent jurisdiction based on various legal aspects or seek a declaratory judgment invalidating the relevant resolution.

Responsibilities

The general shareholders' meeting resolves upon the appropriation of the Company's net profits and the ratification of the actions of the executive board and supervisory board for the respective financial year concluded prior to the general shareholders' meeting. In addition, the general shareholders' meeting elects the Company's auditor of the financial statements for the respective current financial year. The general shareholders' meeting adopts the Company's annual financial statements, unless this has been performed by the executive board and the supervisory board. It elects the supervisory board and makes decisions, in particular on the following issues:

- measures involving raising capital and capital decreases;
- amendments to the Articles of Association;
- measures involving legal restructurings such as mergers, spin-offs and legal reorganisations;
- transfer of the Company's entire assets;
- integration of a company;
- execution or modification of inter-company agreements (in particular control and profit and loss transfer agreements);
- appropriation of the net profits;

- ratification of the actions of the members of the executive board;
- ratification of the actions of the members of the supervisory board; and
- appointment of the statutory auditor.

Amendments to the Articles of Association in Relation to the General Meetings of Shareholders

On 23 March 2010, the general shareholders' meeting passed a resolution amending the Company's Articles of Association as follows:

Section 16 para 1 through 3 of the Articles of Association now reads:

(1) Only shareholders who provided timely notice of attendance shall be entitled to participate in general shareholders' meetings, to exercise voting rights and to file applications. The Company or an office determined in the notice of the general shareholders' meeting shall receive the application at least six days before the date on which the general shareholders' meeting is being held. The day on which the general shareholders' meeting is held and the day of receipt of the notice by the Company shall not be included in this calculation.

(2) The shareholder shall provide evidence of the entitlement to participate in the general shareholders' meeting, for the exercise of voting rights and to file applications. A certificate in text form in German or English language issued by the depository institution confirming the shareholder's share ownership shall constitute sufficient evidence. Such certificate shall make reference to the commencement of the twenty-first day prior to the general meeting of the shareholders and must be received by the Company or an office determined in the notice of the general shareholders' meeting six days prior to the general shareholders' meeting at the latest. The day on which the general shareholders' meeting is held and the day of receipt of the notice by the Company shall not be included in this calculation.

(3) Periods of time which need to be counted back from the date of the general shareholders' meeting shall not include the day of the general shareholders' meeting. An adjournment from a Sunday, a Saturday or a bank holiday to the preceding working day or a subsequent working day is excluded. Sections 187 to 193 of the German Civil Code (*Bürgerliches Gesetzbuch*) shall not apply accordingly.

The amendment of the Company's Articles of Association in accordance with the above resolution was registered with the commercial register on 25 March 2010.

Corporate Governance Code

Under section 161 AktG, the executive board and the supervisory board of a company listed on an organised market are required to issue an annual declaration stating that the recommendations of the "Government Commission of the German Corporate Governance Code" (*Regierungskommission Deutscher Corporate Governance Kodex*) published in the electronic Federal Gazette (*Bundesanzeiger*) have been and are being complied with, or which of those recommendations are not being complied with (so-called "declaration of compliance"), and must ensure that such declaration of compliance is made accessible to shareholders on a permanent basis. In case of newly admitted shares the one-year period generally commences on the date of admission of the shares to trading on the organised market. Both, executive board and supervisory board of KHD AG have not yet provided such declaration of compliance. However, there is a general understanding among the members of the executive board and the supervisory board that they intend to comply with the Corporate Governance Code generally.

Senior Management

Below the level of the Company's executive board, the Company does not have senior management as defined in Appendix I, no. 14.1 sub-section 1 d) of European Commission Directive No. 809/2004/EC dated 29 April 2004 in addition to the members of its executive board.

Employees

The following table provides an overview of the number of employees of KHD for the nine month period ended 30 September 2010 and the years ended 31 December 2009, 2008 and 2007.

		Number of employees of KHD		
	30 September	As of 31 December		
Division	2010[3]	2009	2008	2007
Management incl. Assistants	20	8	8	8
Finance/Accounting	50	26	28	27
IT/HR/Works Council	45	22	21	19
Procurement	46	14	10	9
Engineering/Design/Product + Application Engineering	183	106	108	94
Sales/Tendering/After Sales incl. Field Services	157	67	75	75
Technology (Process, Test Center)	23	23	24	21
Project Management technical	66	45	49	35
Project Management Commercial	47	36	35	26
Production/workshop	23	0	104	99
Trainees	2	5	15	13
Others	53	39	123[1]	104[2]
Total	**715**	**391**	**600**	**530**

(1) Including 45 employees of HWCMT.

(2) Including 38 employees of HWCMT.

(3) The significant increase in employees in comparison to 31 December 2009 was due to the reintegration of the Reintegrated Subsidiaries (see *"General Information about the Company - Group History, Restructuring of KHD Ltd. Group and Reintegration of Subsidiaries - Restructuring and Reintegration of Subsidiaries"*)

From time to time KHD Group also engages freelancers, in particular, for onsite work such as supervision as well as other temporary staff (at 30 September 2010: 63).

In Germany, a works council has currently been established only for HW GmbH.

AT HW GmbH a reduction in headcount as response to the effects of the global economic crisis resulting in a sharp decline in order placed with HW GmbH was executed.

HW GmbH and the works council established for HW GmbH had agreed on three shop floor agreements (*Betriebsvereinbarungen*) in 2009 called "Personalkonzept 2010", implementing reduced working hours (*Kurzarbeit*), a redundancy plan (*Sozialplan*) and a framework agreement on redundancies (*Rahmenregeln zur Kapazitätsanpassung*).

As laid out in mentioned agreements works council and management entered into final negotiations in April and May 2010 when a final Balance of Interest and Social Compensation Plan (Interessenausgleich und Sozialplan) were concluded. Execution of named agreements commenced in May 2010 and was finished in November 2010. Staff affected from redundancy has either left KHD HW already or will leave company in the coming months.

As of the date of publication of this Prospectus there have been no material changes to the composition of the workforce of KHD.

Collective bargaining agreements of KHD Group

KHD has a diverse range of contractual relationships with its employees.

Approximately two thirds of the employees of KHD Group are governed by collective bargaining agreements (*Tarifverträge*) agreed upon by the Employers Association for the metal and electrical industries (*Arbeitgeberverband der Metall- und Elektroindustrie)* and the trade union *IG Metall.*

There are numerous shop floor agreements concluded within KHD Group companies for the most important regulated areas within KHD Group ranging from working time to industrial health and safety.

The Company believes that in the past three years there has been a good relationship at KHD between the management and the workforce. Despite redundancies, HW GmbH has maintained a constructive relationship with its works council. No strikes, stoppages or similar labour disputes relating to KHD Group in Germany have occurred in the last three years.

Compensation Systems

Non-management employees

All employees receive a fixed monthly salary that is stipulated in their contract of employment. All employees under collective bargaining agreements receive a monthly basic salary and a performance bonus (*Leistungszulage*), as well as an annual bonus payment as a Christmas bonus of up to 55 per cent of the monthly salary and a so called annual vacation pay (*Urlaubsgeld*) of 72 per cent of one monthly salary. Employees not comprised by collective bargaining agreements receive a basic salary and are entitled to an incentive payment in the amount of up to average 15 per cent of the annual basic salary on the basis of milestones set up by the management on an annual basis. After the end of the business year and after completion of the respective financial statements milestones are compared to key figures to assess the entitlement to a bonus payment.

The company grants wage and salary increases on a case-by-case basis unless employees are bound by collective bargaining agreements usually in the range of the agreements of the respective collective agreements. The wages in Germany increased according to the collective bargaining agreements by approximately 10% between 01/2007 and 12/2009. Same average rate of increase was applied for staff not governed by collective bargaining agreements.

Compensation of management employees

For management employees of the KHD Group companies the performance-based variable component (annual bonus) is paid on the basis of quantitative financial and/or qualitative/quantitative-individual targets. With regard to the German KHD entities, these goals are part of a target agreement to be agreed upon at the beginning of the financial year. For all KHD Group companies, targets comprise corporate goals of the KHD Group and/or of individual goals. The individual amount of the variable compensation component depends on the degree by which the previously stipulated goals are met or exceeded. On average, the incentive scheme plan may generate up to 30 per cent of the base salary for German management employees.

Pension and retirement benefits

For the employees of HW GmbH, KIS AG, EKOF and KHD AG a company pension plan, which was introduced by the former parent company DEUTZ AG was revoked in June 1996 by the Company for all employees belonging to the KHD Group at that time. Due to the termination in June 1996, employees below the age of 35 at that time who have not worked for the company for at least ten years lost their entitlement to a pension to be paid by DEUTZ AG for the following years. The pension entitlements for all remaining staff were recalculated and frozen at the *status quo* as of 30 June 1996. Thereafter, KHD did not contribute to any further pension plans by external insurance companies on behalf of the employees of HW GmbH, KIS AG, EKOF and KHD AG.

Shareholdings of employees and employee stock option plan

There is no employee stock option plan and none is currently envisaged.

SHAREHOLDER STRUCTURE

The following table shows the shareholder structure and the holding of the existing shareholders in the share capital of the Company on the date of this Prospectus as far as the Company is aware.

Name of existing shareholder	No. of ordinary bearer shares	Shareholding in % (rounded)
KHD Humboldt Wedag International Ltd.	7,244,901(1)	21.86(1)
KGC Strategische Dienstleistungen UG	50(1)	0(1)
Peter Kellogg	1,888,314	5.7
Free Float	23,780,151	71.75
KHD AG (treasury shares)	229,136	0.7
Total	**33,142,552**	**100**(2)

In case no shareholder of the Company subscribes for any New Shares in the Offering and MGI subscribes for 20% of the share capital in accordance with the Preliminary Subscription Agreement (see "*Business - Material Agreements - Preliminary Subscription Agreement with MGI*") and TNRC has distributed all Shares in the Company to its shareholders (see "*General Information about the Company - Group History, Restructuring of KHD Ltd. Group and Reintegration of Subsidiaries - Restructuring and Reintegration of Subsidiaries*"), as far as the Company is aware, immediately after registration of the implementation of the Capital Increase, which is expected to occure on 18 February 2011, the shareholder structure will be as follows:

Name of shareholder	No. of ordinary bearer shares	Shareholding in % (rounded)
KGC Strategische Dienstleistungen UG	50(1)	0(1)
KHD AG (treasury shares)	229,136	0.6
Free Float	32,913,366	79.5
Max Glory Industries Ltd., Hong Kong	8,285,638	20
Total	**41,428,190**	**100**(2)

In case shareholders of the Company subscribes for New Shares in the Offering in the maximum amount so that MGI may still subscribe for the intended 20% of the share capital in accordance with the Preliminary Subscription Agreement (see "*Business - Material Agreements - Preliminary Subscription Agreement with MGI*") and TNRC has distributed all Shares in the Company to its shareholders (see "*General Information about the Company - Group History, Restructuring of KHD Ltd. Group and Reintegration of Subsidiaries - Restructuring and Reintegration of Subsidiaries*"), as far as the Company is aware, immediately after registration of the implementation of the Capital Increase, which is expected to occure on 18 February 2011, the shareholder structure will be as follows:

Name of shareholder	No. of ordinary bearer shares	Shareholding in % (rounded)
KGC Strategische Dienstleistungen UG	50(1)	0(1)
KHD AG (treasury shares)	229,136	0.5
Free Float	39,541,876	79.53
Max Glory Industries Ltd., Hong Kong	9,942,766	20
Total	**49,713,828**	**100**(2)

(1) In order to deconsolidate KHD Group, KHD Ltd. (now TNRC) and KGC entered into a voting agreement on 27 March 2010 effective on the same date pursuant to which TNRC will exercise its voting rights in the Company's Shares only in accordance with the determination of KGC which will be made by KGC in its sole discretion without any obligation to the Company's shareholders or any other third party. As a result, TNRCand KGC are qualified as shareholders acting in concert which, in turn, results in the voting rights held by TNRC being attributed to KGC and vice versa pursuant to section 22 para. 2 WpHG.

(2) Figures are rounded, therefore, their sum may not amount to the actual total.

TRANSACTIONS AND LEGAL RELATIONSHIPS WITH RELATED PARTIES

General

According to the International Accounting Standard 24 (IAS 24), parties considered related to KHD AG are such entities with which KHD AG forms a group of companies (*Konzernverbund*), or in which KHD holds a share enabling it to exert a material influence on the business policy of the entity. Under IAS 24, related parties also include the members of the executive board and supervisory board, including their close family members, as well as any entities that members of the managing board and supervisory board of the Company or their close family members are capable of significantly influencing or in which they hold a material share; of voting rights. In addition, pursuant to Section 312 AktG any dependent company must prepare a dependence report (*Abhängigkeitsbericht*) on an annual basis. An entity is considered to be dependent if another entity can directly or indirectly exercise a controlling influence on the dependent entity. Before the Restructuring (*see "General Information about the Company - Group History, Restructuring of KHD Ltd. Group and Reintegration of Subsidiaries - Restructuring and Reintegration of Subsidiaries"*), the Company was controlled (as defined above) by KHD Ltd. (now TNRC). In the dependence report, the Company must report all transactions in the preceding financial year between the Company and related parties or any of their affiliated companies, or at the instruction or in the interest of these companies in the preceding financial year, as well as on other measures taken or not taken by the Company at the instruction or in the interest of these companies in the preceding financial year.

The Company believes that all transactions with related parties conducted in the course of ordinary business have conformed to standard market conditions. In the 2009 dependence report, which was prepared with respect to the Company's dependence on KHD Ltd. (now TNRC), the executive board accordingly reported that the Company, under the circumstances known at the time of the respective transaction, always received adequate consideration for each service within the meaning of the dependence report. No measures were taken or not taken at the instruction or in the interest of related parties or their affiliates. The Company's auditor has audited the dependence report and confirmed that the facts reported in the 2009 dependence report are correct and that the consideration paid or received by the Company for the transactions listed in the report was not inappropriate. The audit did not result in any objections.

For details on receivables from, liabilities to, and profits and expenses towards related companies, see Note 29 to the consolidated financial statements for the financial year ended 31 December 2009 (pages F-53 et seq.), which is included in the *"Financial Statements"* section of this Prospectus.

Relationships with Related Parties due to the Sale of the Coal and Mineral Business to McNally Bharat

In connection with the disposal of the Coal and Mineral Business in 2009 (see *"Business Activity - Material Agreements - Disposal of the coal and mineral business and the Cologne production facilities to McNally Bharat Engineering Company Ltd. in August 2009"*) and the entire shareholding in HWCMT the profit and loss transfer agreement between the Company and HWCMT, a company then under the ownership of KHD Ltd., dated 2 October 2006 beginning with the fiscal year 2006, was terminated by way of termination agreement dated 20 August 2009 as of 7 October 2009 which was registered in the commercial register of HWCMT on 12 October 2009.

Relationships with TNRC

TNRC (formerly KHD Ltd.) is the major shareholder of the Company and was the ultimate parent company of KHD Ltd. Group until the full Distribution of Shares and as such was and still is party to several related parties transactions.

In connection with the Plan of Arrangement (see also *"General Information about the Company - Group History, Restructuring of KHD Ltd. Group and Reintegration of Subsidiaries - Restructuring and Reintegration of Subsidiaries"*), the Company and KHD Ltd. entered into an arrangement agreement. Moreover, KHD Ltd. issued several guarantees for the benefit of KHD Ltd. Group companies including the Company and its subsidiaries and maintained several other relationships. In the following the main relationships of KHD with KHD Ltd. as a related party are described.

Restructuring and Arrangement Agreement

On 6 January 2010, the management of KHD Ltd. announced that it intended to separate its two business segments (i) cement plant engineering and equipment supply and (ii) royalty interest in the Wabush iron ore mine in Newfoundland and Labrador, Canada and to establish two separate groups of companies. Upon completion of this Restructuring (see also *"General Information about the Company - Group History, Restructuring of KHD Ltd. Group and Reintegration of Subsidiaries - Restructuring and Reintegration of Subsidiaries"*), KHD AG and its subsidiaries continued to operate in the cement plant and equipment supply business and KHD Ltd. with its subsidiaries continued to operate as a minerals royalty company under the name "Terra Nova Royalty Corporation" and shares continued to be traded on the New York Stock Exchange. Therefore, an arrangement agreement (the **"Arrangement Agreement"**) was entered into between the Company and KHD Ltd. on 26 February 2010. The Arrangement Agreement became effective on 31 March 2010 upon the approval of the Plan of Arrangement by the Supreme Court of British Columbia and the filing of the approval and any related documents with the relevant registrar of companies.

The Arrangement Agreement provides for the arrangement pursuant to which, among other things, KHD Ltd. indirectly transfers its cement plant technology, equipment and service assets to the Company and distributes all the shares held by it in KHD AG, *pro rata,* to its shareholders as well as the obligations of each party to implement the arrangement. The special shareholders' meeting of KHD Ltd. approved the Plan of Arrangement (see *"General Information about the Company - Group History, Restructuring of KHD Ltd. Group and Reintegration of Subsidiaries - Restructuring and Reintegration of Subsidiaries"*) on 29 March 2010. The Supreme Court of British Columbia consented to the Plan of Arrangement on 29 March 2010 and KHD Ltd. filed the necessary documents with the registrar of companies on 31 March 2010. Pursuant to the Plan of Arrangement the shareholders of KHD Ltd. (other than dissenting shareholders and subsidiaries of KHD Ltd.) exchanged their existing shares in KHD Ltd. ultimately for one newly created common share of KHD Ltd. and 0.143 shares in the Company.

Share sale and purchase agreement relating to KHD Ltd. shares

Pursuant to the Plan of Arrangement (see *"General Information about the Company - Group History, Restructuring of KHD Ltd. Group and Reintegration of Subsidiaries - Restructuring and Reintegration of Subsidiaries"*) the Company sold and transferred 295,490 shares in KHD Ltd., representing 0.98% (not including 5,875,617 shares owned by Subsidiaries of KHD Ltd. at that time) of its issued and outstanding share capital, on 1 March 2010 to 0873013 B.C. Ltd., Canada, a wholly owned subsidiary of KHD Ltd., for a purchase price of CDN$ 4,280,229. The shares in KHD Ltd. were held by KHD Ltd. in trust for the Company subject to the request of delivery by the Company.

Bonding Facility Accession Agreement

Pursuant to an accession agreement dated 26 March 2010 between the Company, KIA GmbH, KHD Ltd. and RBI, the Company acceded as an additional guarantor under the Bonding Facility Agreement provided by RBI (see *"Business Activity - Material Agreements - Guarantee Facility Agreement"*). Thereafter, the Company was jointly and severally liable for the liabilities of KIA GmbH towards RBI until the Company replaces KIA GmbH as a borrower under the Bonding Facility Agreement. With an amendment to the Bonding Facility Agreement dated 18 November 2010 between KHD AG, KIA GmbH TNRC and RBI the Company acceded as borrower to the Bonding Facility Agreement and replaced KIA GmbH as borrower under the Bonding Facility Agreement.

Guarantees by KHD Ltd.

From time to time KHD Ltd. provided guarantees to customers of KHD Group companies for certain down payments that customers made to these KHD Group companies. Furthermore, KHD Ltd. issued guarantees towards banks who provided financing to the Company and other third parties for the benefit of the Company and its subsidiaries.

Guarantee by KHD Ltd. to KHD China

On 9 October 2007 as amended on 6 March 2009 and 10 October 2009 KHD China, KHD Humboldt Wedag (Shanghai) International Industries Ltd. (**"KHD Shanghai"**), then a subsidiary of KHD Ltd., and RBI (formerly

RZB) entered into an uncommitted revolving guarantee facility whereby KHD China and KHD Shanghai could borrow up to RMB 20 million for the issuance of advance payment guarantees, performance bonds, bid bonds and warranty guarantees until 31 December 2011. It was agreed that no further security instruments will be issued to KHD Shanghai. KHD Ltd., as the then ultimate parent company of KHD China on 6 March 2009 issued a payment guarantee to RBI (formerly RZB) under this facility valid until 15 January 2013. In the course of the Restructuring the the uncommitted revolving guarantee facility was transferred to KHD China entirely and the guarantee by KHD Ltd. was terminated.

Repayment of Loans

On 26 September 2007 the Company repaid a loan provided to it by KHD Ltd. in the amount of EUR 2 million including interest. The interest rate for the loan was 8%. Furthermore, HW GmbH repaid a loan on 28 September 2007 provided to it by KHD Ltd. in December 2006 in the amount of EUR 2,083,000 including interest of 5% p.a.

Remuneration of Board Members and Employees by KHD Ltd.

Members of the executive and supervisory board of the Company and its subsidiaries and other important employees of KHD Group partly received their remuneration directly from KHD Ltd. and KIA GmbH. Further, stock options were granted by KHD Ltd. to some of such employees of KHD.

Relationships with KIA GmbH

KIA GmbH, an indirect subsidiary of KHD Ltd., and thus before the Restructuring (see "*General Information about the Company - Group History, Restructuring of KHD Ltd. Group and Reintegration of Subsidiaries*") a sister company of the Company acted as central group treasurer, bond arranger, risk controller and investment manager and technology licenser for companies of the KHD Ltd. Group. In this capacity it provided several services to the Company and its subsidiaries as well as to certain other members of the KHD Ltd. Group. Accordingly, numerous contractual and factual inter-company relations existed between KHD Group companies and KIA GmbH most of which were terminated in the course of the Restructuring.

Bonding Arrangement

On 1 September 2007, with amendments dated 31 December 2008,1 April 2009, KIA GmbH (as arranger), KHD Ltd., KHD AG, HW USA, ZAB, ZABIS, HW Australia, HW GmbH, KHD Austria, HW India, HWCMT and other subsidiaries of KIA GmbH (the Beneficiaries) entered into the Bonding Arrangement (*see "Business Activity - Material Agreements - Guarantee Facility Agreement"*) setting the terms and conditions for the issue of security instruments to customers of the Beneficiaries under the Bonding Facility Agreement with RBI (formerly RZB) and the facilities agreement with Europe Arab Bank plc. The Bonding Arrangement also determines the amount and terms of payment of cash collateral, consideration and reimbursement for expenses payable to KIA GmbH as arranger under these facilities and the undertakings, covenants and information and cooperation obligations of each Beneficiary. Upon a utilization request by a Beneficiary, a cash collateral becomes due and payable to KIA GmbH against payment of interest. KIA GmbH pays a guarantee fee to KHD Ltd. in the amount of 1% of the amount utilised under the Bonding Facility each month. KIA GmbH is reimbursed for the guarantee fee as well as all other reasonable costs and expenses in connection with the facilities by the Beneficiaries. KIA GmbH is further reimbursed for the security instrument fee payable to RBI and Europe Arab Bank plc in the amount of 0.45% p.a. to up to 1.30% with respect to security instruments, calculated on the basis of the face amount of the instrument (as adjusted from time to time). In addition, KIA GmbH is reimbursed for the bonding fee plus a surplus of 50% by the Beneficiaries. HWCMT was released from the Bonding Arrangement upon the disposal of the Coal and Mineral Business (see "*Business Activity - Material Agreements - Disposal of the coal and mineral business and the Cologne production facilities to McNally Bharat Engineering Company Ltd. in August 2009*"). The Bonding Arrangement automatically terminates with termination of the Bonding Facility and the facility provided by Europe Arab Bank plc. in respect of the respective facility.

In light of the Restructuring (see "*General Information about the Company - Group History, Restructuring of KHD Ltd. Group and Reintegration of Subsidiaries - Restructuring and Reintegration of Subsidiaries"*) and the transfer of the Bonding Facility Agreement to the Company, KIA GmbH, KHD AG, HW India, KHD GmbH, HW GmbH, ZAB and ZABIS on 26 March 2010 entered into a transition agreement regarding the cash collateral provided to KIA GmbH under the Bonding Arrangement and remitted to RBI (formerly RZB) by KIA GmbH with a view to the Bonding Facility. KIA GmbH assigned its repayment claims against RBI to the respective KHD Group member who provided the cash collateral conditional upon the consent of RBI. Until such consent has been granted by RBI, KIA GmbH will hold the cash collateral in trust. KIA GmbH is entitled to collect the cash collateral from RBI and obliged to remit the collected amounts to the respective KHD Group member less any outstanding amounts payable under the Bonding Arrangement by the respective KHD Group member. As at 30 September 2010, the cash collateral provided by KIA GmbH to RBI amounted to EUR 3.7 million.

Deficiency guarantees

KHD GmbH, HW GmbH, HWCMT, ZAB and ZABIS and HW USA have issued deficiency guarantees in the favour of RBI on the basis of the Bonding Facility Agreement as amended by amendement agreement dated Novemer 18, 2010 (*see "Business Activity - Material Agreements - Guarantee Facility Agreement and "Bonding Facility Accession Agreement and Bonding Facility Amendment Agreement" above*). HWCMT was released from the Bonding Facility Agreement upon the disposal of the Coal and Mineral Business (see "*Business Activity - Material Agreements - Disposal of the coal and mineral business and the Cologne production facilities to McNally Bharat Engineering Company Ltd. in August 2009*"). Each deficiency guarantee is an independent payment guarantee vis-à-vis RBI for the payment of the monies owed by the borrower under the Bonding Facility Agreement to the extent that the obligation derives from a security instrument that has been issued in favor of the relevant issuer of the deficiency guarantee. Each deficiency guarantee is valid until the termination of the Bonding Facility which has a term of one year and will expire on 25 November 2011 unless extended by mutual agreement. The deficiency guarantee is paired with an assignment of all receivables and all present and future claims relating to the relevant underlying security instruments against customers of certain KHD Ltd. Group companies in whose favour a security instrument is issued by RBI.

On the basis of the facility agreement dated 5 March 2008 between KIA GmbH and Europe Arab Bank plc, Frankfurt am Main in the total amount of up to EUR 10 million, KHD GmbH, HW GmbH, KIA GmbH and Europe Arab Bank plc concluded a deficiency guarantee agreement on 16 June 2008 which also covers the liability of KIA GmbH towards the bank with respect to the issued security instruments. This facility serves the purpose of assuring the issuance of bid bonds, advance payment bonds, warranty bonds, payment bonds, guarantees, sureties and counter-guarantees furnished to certain KHD Ltd. Group companies. The security instrument fee amounts to 0.45% up to 1.3% or EUR 53 for security instruments of EUR 20,000 or less paid by KIA GmbH and for which KIA GmbH is reimbursed under the Bond Arrangement (*see "Transactions and Legal Relationships with related Parties - Relationships with KIA GmbH - Bonding Arrangement"*). As at 30 September 2010, KHD used the facility in an amount of EUR 7,276,000 million. The parties to the facility intend to renegotiate it in due course.

On 15 April 2008, KHD Ltd., KHD GmbH and HW GmbH each issued a deficiency guarantee to Zurich Versicherung AG under a guarantee insurance agreement in the amount of up to EUR 12.5 million entered into on 20 March 2007 with amendment dated 28 February 2008, between KIA GmbH and Zurich Versicherung AG, Frankfurt am Main concluded for the benefit of KHD GmbH, HW GmbH, ZAB and ZABIS. Under the agreement advance payment bonds, performance guarantees and sureties could be issued to these companies. KHD Ltd. issued a payment guarantee. The security instrument fee was 0.5% of the nominal amount and at least EUR 40. The deficiency guarantee was terminated on 8 April 2010.

Service and Cost Allocation Agreements and Treasury Agreements

On 20 February 2006, KHD GmbH (and later by way of assignment, HW GmbH), ZAB, ZABIS and KIA GmbH, respectively, concluded a treasury framework agreement. The Company and KIA GmbH entered into such treasury agreement on 1 July 2007 with amendments dated 30 December 2007. KIS AG entered into such agreement with KIA GmbH on 1 January 2008 (together the **"Treasury Agreements"**). Pursuant to the Treasury Agreements KIA GmbH acted as group treasurer and administrated the bank accounts, cash and cash equivalents for the cash collateral for the bonding facilities, developed an investment strategy and risk control system and advised the group companies on financing and loans. To this extent the parties provided a power of attorney to KIA GmbH in relation to their respective bank accounts. For its services KIA GmbH received a monthly treasury fee of EUR 10,400 from each of the Company, KHD GmbH, ZAB, ZABIS and KIS AG as well as expenses and costs actually incurred plus costs for personnel, depending on the individual KHD Group company, in the range of 10% to 50% of the actual costs plus

10% to 20% for additional expenses. The Treasury Agreements were mutually terminated and substituted with effect as of 1 January 2009 by the Service and Cost Allocation Agreements (as defined below) entered into on 4 March and 3 April 2009, respectively.

On 19 December 2008, each KHD AG, HW GmbH, ZAB and ZABIS entered into a service and cost allocation agreement with KHD Ltd. and KIA GmbH and on 20 December 2008 with each HW Australia, HW USA and HW India for an indefinite term effective as of 1 January 2008. KIS AG, KIA GmbH and KHD Ltd., respectively, entered into such agreement on 1 January 2009 effective as of the same date (the **"Service and Cost Allocation Agreements"**). Under the Service and Cost Allocation Agreements KIA GmbH provided general administration, finance and accounting, coordination, general administration, consultancy, corporate and project financing, recruitment and education management services to the parties. This was part of the system maintained by KHD Ltd. to offer its subsidiaries assistance in decision-making, consulting, co-ordination and controlling functions as well as administrative and management through KIA GmbH. Each party to the Service and Cost Allocation Agreements bore the costs allocated to it according to various allocation keys plus any third party costs including an administrative surcharge in the amount of 15% limited to the prices charged for comparable transactions between independent third parties. As far as direct allocation was not possible all receiveing entities shared the costs.

By way of termination agreement dated 15 March 2010 the Service and Cost Allocation Agreements between KHD AG, HW GmbH, KIS AG, ZAB, HW India, HW USA and HW Australia (who by way of the Reintegration (see *"General Information about the Company - Group History, Restructuring of KHD Ltd. Group and Reintegration of Subsidiaries - Restructuring and Reintegration of Subsidiaries"*) became subsidiaries of the Company), KIA GmbH and KHD Ltd. was terminated.

Portfolio Management Agreements

On 15 February 2006, as amended from time to time, asset and portfolio management agreements were concluded between each of KHD GmbH (and later by way of assignment, HW GmbH), ZAB and ZABIS on the one part and KIA GmbH (the **"Portfolio Management Agreements"**). The Portfolio Management Agreements provide for the provision of services by KIA GmbH regarding the internal cash management and administration system for certain KHD Ltd. Group companies being a party thereto. Pursuant to the Portfolio Management Agreements KHD GmbH initially transferred an amount of EUR 4,500,000 to KIA GmbH for investments and issued a limited power of attorney to KIA GmbH. ZABIS transferred an amount of EUR 10,500,000 initially. KIA GmbH received a monthly management fee of 0.0625% or 0.125% (ZAB) respectively (i.e. 0.75% or 15% respectively) based on the managed amount and a performance fee of 15% or 20% (ZAB) of any realized gains earned as a result of the services calculated annually.

By way of termination agreement dated 15 March 2010 between KIA GmbH, HW GmbH and ZAB (as a party as well as legal successor of ZABIS which had been merged into ZAB effective as of 31 December 2009) (see *"General Information about the Company - Group History, Restructuring of KHD Ltd. Group and Reintegration of Subsidiaries - Merger of ZAB and ZABIS")* the Portfolio Management Agreements were terminated with effect as of 29 March 2010. KIA GmbH agreed to transfer all investments in respect of HW GmbH and ZAB to the respective company and received the agreed fees until 29 March 2010.

Agency Agreements

On 27 September 2006, KHD GmbH and KHD Sales and Marketing Limited, Hong Kong, a wholly owned subsidiary of KIA GmbH and, accordingly, an indirect subsidiary of KHD Ltd., entered into an agency agreement. This agency agreement was mutually terminated and replaced by an agency agreement with KHD Humboldt Wedag International (UAE) FZE, Ras al-Khaimah (**"KHD FZE"**) due to the cessation of business of KHD Sales and Marketing Limited. Each HW GmbH, HW USA, HW India and KHD FZE, a wholly owned subsidiary of KIA GmbH and KHD Ltd., respectively, concluded a framework agency agreement dated 21 October 2007 whereby KHD FZE will act as a worldwide non-exclusive agent (together the **"Agency Agreements"**). The agent's responsibility was to promote the sale of products and services and to solicit business opportunities. To this end the agent was allowed to use sub-agents at its own responsibility and account. For its services KHD FZE received a commission based on the contract value. Between HW GmbH and KHD FZE it was agreed that the typical commission payable for small scale transactions in the amount of up to or equal EUR 1,000,000 shall be 6% of the respective contract value and shall be payable as a lump sum at the end of each calendar quarter.

The Agency Agreement between HWCMT and KHD FZE was mutually terminated on 20 August 2009 in the course of the disposal of the coal and minerals business to MBE-PTE (see *"Business Activity - Material Agreements - Disposal of the coal and minerals business to McNally Bharat"*).

On 15 March 2010, KHD FZE, HW GmbH, HW India and HW USA mutually agreed to terminate the Agency Agreements with effect as of 29 March 2010. KHD FZE is not entitled to any compensation or any other claim or demand as a result of the termination except for the payment of the outstanding commissions. The commissions owed under the Agency Agreements are reduced from the date of the termination agreement to the amount payable by KHD FZE to the sub-agents plus an administration fee of 7%. KHD FZE is not entitled to receive any commissions for unfinished business, provided that the respective principals either entered into new agency agreements with the respective sub-agents or that they indemnify KHD FZE from each and any claim of the sub-agents. The principals are not responsible for any payments to the sub-agents in respect of the contracts between KHD FZE and the sub-agents. The parties agreed to use best efforts to transfer the existing sub-agency agreements to the principals or any other sales agency organization so nominated by or within the KHD group of companies within no longer than three months from 29 March 2010 against release of KHD FZE from any claims. Where sub-agents refuse to agree or consent to a transfer under full and final release of KHD FZE, KHD FZE shall be entitled to terminate the sub-agency agreements and the principals shall indemnify and hold harmless KHD FZE from each and any claims of such sub-agents, including any claim for compensation. In addition, HW GmbH holds KHD FZE and KHD Hong Kong Sales & Marketing Ltd. harmless from each and any claim of one sub-agent not provided for in KHD FZE's or KHD Hong Kong Sales & Marketing Ltd.'s accruals. The parties agreed that the sub-agency agreement with one sub-agent shall not be transferred.

Technology Licence Agreements

On 14 March 2006, KHD GmbH and KIA GmbH concluded a technology licence agreement for the granting of a worldwide, non-exclusive licence, with the right to sublicence, to fully exploit the technology including any improvements thereof for a term of seven years (the **"Technology Licence Agreement"**). Such technology relates to patents, trademarks, utility models and industrial designs, technical data and know-how, as well as software, designs, procedures and technical guidelines of KHD Group. The royalty payable to KHD GmbH is EUR 250,000 p.a. In 2006, by operation of law as a consequence of the demerger of the coal and minerals business from KHD GmbH to HWCMT (see *"General Information about the Company - Group History, Restructuring of KHD Ltd. Group and Reintegration of Subsidiaries - Demerger of coal and minerals business to HWCMT"*) HWCMT succeeded KHD GmbH in the Technology Licence Agreement with KIA GmbH in respect of the coal and mineral business related technology. Due to the hive-down of the cement business and workshop (see *"General Information about the Company - Group History, Restructuring of KHD Ltd. Group and Reintegration of Subsidiaries - Hive-down of cement plant and equipment supply business and workshop by KHD GmbH to HW GmbH"*) from KHD GmbH to HW GmbH, HW GmbH succeeded KHD GmbH in the Technology Licence Agreement with KIA GmbH in respect of the cement business related technology.

On the basis of the Technology Licence Agreement KIA GmbH entered into technology sub-licence agreements with HW USA and HW India on 1 January 2007 and on 18 August 2006 (as amended), respectively, whereby HW USA and HW India were granted non-exclusive licences to use the technology in their business for a royalty of 5%

net of taxes of the net selling price of the products and services sold by it domestically and a royalty of 8% for products and services exported by them to KIA GmbH for a term until 31 December 2012 and 18 August 2012 respectively. In addition, HW India paid a lump sum payment of USD 1,400,000 to KIA GmbH.

On 20 August 2009, the Company, KHD Ltd., HW GmbH, KHD GmbH, KIA GmbH, HW India, HW USA, HW South Africa, HWCMT and Humboldt Wedag Minerals India Pvt. Ltd. entered into an IP clarification and confidentiality agreement (the **"IP Clarification"**) with regard to the disposal of the coal and minerals business to MBE-PTE (see *"Business Activity - Material Agreements - Disposal of the coal and minerals business to McNally Bharat"*). Pursuant to the IP Clarification the parties agreed that all coal and minerals technology and intellectual property belongs to HWCMT. Any rights thereto by KHD Group companies ceased or were waived or retransferred to HWCMT. HWCMT, HW South Africa acknowledge that they do not have any rights in relation to the cement business technology and intellectual property and waived or retransferred all rights thereto to HW GmbH. Furthermore, the Technology Licence Agreement between HWCMT and KIA GmbH and the royalty free licence between HWCMT and KHD GmbH and HW GmbH was terminated. In addition, HW South Africa on the one side and KIA GmbH, KHD GmbH, HW GmbH and HWCMT on the other side agreed to terminate any implied rights to use of the cement business technology or the coal and mineral technology. The Technology Licence Agreement between KIA GmbH and HW India and HW USA was terminated in respect of the coal and mineral business technology.

On 15 March 2010, the Technology Licence Agreement and the corresponding sub-licence agreements with HW USA and HW India were terminated with the effect as of 29 March 2010. It was agreed that HW GmbH or a licensor appointed by HW GmbH would continue to licence the technology to HW India and HW USA directly on the terms of the old sub-licence agreement for at least the remaining term. KIA GmbH is released from paying any compensation for lost royalties to HW GmbH.

Loan offer agreements

Pursuant to loan offer agreements dated 15 February 2006 and 15 September 2008 as amended from time to time, respectively, KIA GmbH irrevocably offered to accept loans by HW GmbH, KHD GmbH and ZAB to minimise their excessive liquidity. HW GmbH provided a loan in the amount of EUR 35 million ZAB provided a loan in the amount of EUR 12,870,000. The loan provided by KHD GmbH amounted to EUR 4 million. Each loan bore an interest rate corresponding to the actual interest rate realised by KIA GmbH as current bank interest rate minus 15%. If the current bank interest rate was lower than 0.7% HW GmbH, KHD GmbH and ZAB respectively owed an administrative fee of 0.105% to KIA GmbH. The repayment of each loan was guaranteed through KHD Ltd. The loan granted by HW GmbH was repaid in the amount of EUR 10 million on 23 December 2009 and EUR 16 million on 28 January 2010 and the remaining balance of EUR 5 million on 5 February 2010. The ZAB loan was repaid in full on 1 February 2010. The loan granted by KHD GmbH was repaid on 23 December 2009. By way of a loan offer agreement dated 29 December 2009 KIA GmbH provided a loan to KHD GmbH in the amount of EUR 3.4 million. The loan was repaid on 5 February 2010.

Reintegration Agreement and share purchase agreement relating to Sold Subsidiaries

By way of a share purchase agreement dated 22 December 2005 as amended on 26 February 2006, 10 May 2006, 18 September 2006 and a purchase settlement agreement dated 21 December 2006, KHD GmbH sold all of its shares in the Sold Subsidiaries with the effect as of 31 December 2005 to KIA GmbH for a purchase price of EUR 12.2 million. On 10 March 2010 KIA GmbH and KHD GmbH agreed to cancel the original share purchase agreement and that KIA GmbH retransfers all shares in the Sold Subsidiaries except for HW South Africa and sells and transfers all shares in KHD China and 50% of the shares in KHD Austria and its subsidiaries KHD Russia and Sibgiprozoloto to KHD GmbH with the effect as of 29 March 2010 for a purchase price of EUR 12,620,500 (see *"Business Activity - Material Agreements - Reintegration Agreement"*).

Construction insurance agreement

KIA GmbH concluded a construction insurance agreement with Zurich Insurance plc UK Branch on 30 December 2008. The policy covers any projects by KIA GmbH and any associated companies or subsidiaries and joint venture companies commenced in the time of 1 January 2009 to 31 December 2009 for a period of construction and erection including hot testing and commissioning of up to 24 months.

Relationships with Other Related Parties

On 28 August 2007 ZAB sold its real property in Dessau, Germany to MFC (D) Ltd. (formerly SWA Reit (Dessau) Ltd.), Marshall Islands, a wholly owned subsidiary of KHD Ltd. at that time, with the effect from 1 July 2007 for a consideration of EUR 6,871,324.

HW GmbH sold its real property in Arneburg and other cities, Germany by way of two asset purchase agreements dated 28 August 2007 to MFC (A) Ltd. (formerly SWA Reit (Altmark) Ltd.), Marshall Islands, a wholly owned subsidiary of KHD Ltd. at that time, for a consideration of EUR 14,801,227.30 and EUR 14,588,585.48.

On 24 August 2007 HW GmbH sold its participation in two partnerships namely ARGE Biomasse-Kraftwerk Arneburg and Gesellschaft Bürgerlichen Rechts 'Akazienweg' Stendal to SWA Reit Ltd., Barbados, a wholly owned subsidiary of KHD Ltd. at that time, for a consideration of EUR 371,001. In addition, a loan in the amount of EUR 458,657 provided by HW GmbH to ARGE Biomasse-Kraftwerk Arneburg was sold to SWA Reit Ltd. for a purchase price equal to the value of the loan.

On 24 August 2007 the Company sold all its 2,000 shares each with a value of CHF 1,000 in KHD S.A. to SWA Reit Ltd., Barbados, a wholly owned subsidiary of KHD Ltd. at that time, for a consideration of EUR 562,000. Pursuant to a contribution and debt settlement agreement between KHD Ltd., KHD AG and KHD S.A. of the same date, KHD Ltd. agreed to contribute Canadian dollars in an amount equal to EUR 55,000 to KHD AG without the entitlement to additional shares in KHD AG. Furthermore, KHD Ltd. sold and assigned to KHD AG a loan granted to KHD S.A. with a value of EUR 49,628.19 for a purchase price equal to the value of the loan. KHD AG and KHD S.A. agreed to set-off this loan against a loan of KHD S.A. to the Company in the amount of EUR 505,444.57. Consequently, the indebtedness of KHD AG towards KHD S.A. was reduced to EUR 455,816.48.

TAXATION IN THE FEDERAL REPUBLIC OF GERMANY

The following section is a summary of certain material tax principles under German law which are or may become relevant in connection with the taxation of the Company and with the acquisition, holding or transfer of the shares. The summary is not an exhaustive description of all German tax aspects under German law that may be relevant for the Company or the shareholders. The summary is based on the German tax laws applicable as of the date of this Prospectus and on the provisions of treaties for the avoidance of double taxation (Double Taxation Treaties) entered into between Germany and other countries as of this date. In both areas, changes may occur, possibly also with retroactive effect. Tax impacts due to the religious affiliation of shareholders (e.g. church tax) are not covered by the following summary.

In view of the above, potential investors should not rely on the summary below for taxation advice and should consult their tax advisors with respect to the tax consequences which may arise in connection with the acquisition, holding, sale or free transfer of the shares, as the case may be, and with respect to the procedure to be complied with to obtain a refund, if any, of German withholding tax (Kapitalertragsteuer) paid.

Taxation of the Company

Corporate Income Tax and Solidarity Surcharge

With respect to the taxation of shareholders, a distinction is to be made between the taxation in connection with the holding of shares (see *"Taxation in the Federal Republic of Germany - Taxation of the Company - Taxation of Dividend Income"*), the sale of shares (see *"Taxation in the Federal Republic of Germany - Taxation of the Company - Taxation of Capital Gains"*) and the free transfer of shares (see *"Taxation in the Federal Republic of Germany - Taxation of the Company — Inheritance and Gift Tax"*).

Taxation of Dividend Income

Withholding Tax

Generally, the Company must withhold and remit to the German tax authorities a withholding tax on its dividend distributions at a rate of 25% plus a 5.5% solidarity surcharge thereon (in total 26.375%). The assessment basis for the withholding tax is the dividend resolved by the general meeting.

Such withholding tax is levied and withheld irrespective of whether and to what extent the dividend is taxable at the level of the shareholder and whether the shareholder is resident in Germany or outside of Germany.

Certain exceptions may apply to corporations resident in another EU Member State to which the EU Parent/Subsidiary Directive (90/435/EEC of 23 July 1990, as amended) applies. A partial or full exemption may also be available under a respective Double Taxation Treaty Germany has entered into with the country in which the relevant shareholder is resident.

Irrespective of any Double Taxation Treaties, dividends to a corporation domiciled outside of Germany are subject to a reduced withholding tax in the event the shares do not constitute an asset of a permanent establishment in Germany nor an asset for which a permanent representative has been appointed in Germany. In this case, 2/5 of the withholding tax will be refunded upon application. Refund application forms may be obtained from the German Federal Central Tax Office (*Bundeszentralamt für Steuern*), An der Kuppe 1, 53225 Bonn, Germany (www.bzst.bund.de) as well as from German embassies and consulates. A further reduction or refund under an applicable Double Taxation Treaty is possible.

In all of the cases mentioned above, generally the restrictive preconditions according to Section 50d (3) Income Tax Act have to be fulfilled. It requires that the foreign company meets a "substance test" pursuant to the German anti-treaty/parent subsidiary directive shopping rules. According to this test, the foreign company is not entitled to the waiver or refund if and to the extent (i) its shareholders would not have been entitled to those benefits if they had received the dividends directly and (ii) if (a) there is no economic or other non-tax reason for the interposition of the foreign company or (b) the foreign company does not have adequate economic substance to engage in its commercial activities or (c) the foreign company does not generate more than 10% of its gross income from own business activities. Certain exemptions apply if the foreign company qualifies as foreign investment vehicle to which the German Investment Tax Act is applicable or is a foreign stock corporation with shares being regularly traded at a stock exchange.

The German legislator has introduced further anti-avoidance legislation which allows a reduction of withholding tax to be denied irrespective of a compliance with the above substance test. For corporate shareholders of the Company seated in certain jurisdictions which have not signed a treaty regarding disclosure of tax-relevant information ("uncooperative tax havens"), the tax authorities may deny the reduction of withholding tax under certain circumstances, inter alia if such shareholders do not disclose relevant information regarding its individual shareholders holding (directly or indirectly) more than 10% in the registered share capital of the company.

For shareholders resident in Germany (i. e. shareholders whose residence, ordinary residence, seat or place of management in Germany) holding their shares as business assets as well as for shareholders residing outside Germany (foreign shareholders) holding their shares in a permanent establishment or a fixed base in Germany, or as assets for which a permanent representative has been appointed in Germany, the tax withheld is credited against the shareholders' personal income tax or corporate income tax liability. Any tax withheld in excess of the shareholders' personal tax liability is refunded. The same principles apply to the solidarity surcharge.

Taxation of Dividend Income of Investors Resident in Germany Holding their Shares as Private Assets

For individual shareholders resident in Germany holding their shares as private assets dividends are subject to the final flat tax (*Abgeltungsteuer*) already withheld (see *"Taxation in the Federal Republic of Germany - Taxation of the Company - Taxation of Dividend Income - Withholding Tax"*). Under this regime, dividend income of private investors will be taxed at the principal final flat tax rate of 25% plus a 5.5% solidarity surcharge thereon (aggregate tax burden: 26.375%).

If the flat tax results in a higher tax burden as opposed to the private investor's individual tax rate, the investor may opt for taxation at his individual tax rate. The option may only be exercised for all capital gains and income from capital investments and married couples may only exercise the option jointly. The withholding tax will be credited against the income tax.

Except for a lump sum saver's allowance (*Sparerpauschbetrag*) of EUR 801 (EUR 1,602 for married couples filing jointly), private investors will generally not be entitled to deduct expenses incurred in connection with the capital investments from their dividend income.

Taxation of Dividend Income of Investors Resident in Germany Holding their Shares as Business Assets

If shares are held as business assets of a shareholder, taxation depends on whether the shareholder is a corporate body, a sole proprietor, or a partnership (*Mitunternehmerschaft*):

Corporate Bodies

For corporations, dividends are generally exempt from corporate income tax. However, 5% of this tax-exempt income is considered as expense that is not deductible as business expense and is thus effectively subject to corporate income tax (plus solidarity surcharge). On the other hand, business expenses actually incurred in connection with the dividends are fully deductible. A minimum participation or minimum holding period is not required.

Dividends are, however, fully subject to trade tax (after deduction of business expenses related to the dividend), unless a shareholder holds at least 15% of the registered share capital of the Company at the beginning of the tax assessment period. In the latter case, the 95% corporate income tax exemption for dividends applies analogously to trade tax.

Sole Proprietors (Individuals)

If shares are held in the operating assets of a sole proprietor, 60% of the dividends for purposes of income taxation are considered as income (*Teileinkünfteverfahren*) and subject to income tax at the shareholder's personal income tax rate plus solidarity surcharge thereon. Correspondingly 60% of the operating expenses economically related to such dividends are generally tax deductible. In addition, the dividends - after deduction of economically related expenses -

are fully subject to trade tax if the shares are attributable to a permanent establishment of a commercial business in Germany, unless the taxpayer held at least 15% of the Company's share capital at the beginning of the relevant taxation period. In principle, trade tax can be (in part or entirely) deducted from a shareholder's individual income tax on a lump sum basis.

Partnerships

If the shareholder is a partnership, income or corporate income tax is only payable at the level of the respective partner and not on the level of the partnership. Taxation of a shareholder depends on whether the partner of the partnership is a corporate body or an individual. If the shareholder is a corporate body, 95% of dividends are, in principle, exempt from tax (see *"Taxation in the Federal Republic of Germany - Taxation of the Company - Taxation of Dividend Income - Taxation of Dividend Income of Investors Resident in Germany Holding their Shares as Business Assets - Corporate Bodies"*). If the shareholder is an individual, 60% of dividends are subject to income tax plus solidarity surcharge (see "*Taxation in the Federal Republic of Germany - Taxation of the Company - Taxation of Dividend Income - Taxation of Dividend Income of Investors Resident in Germany Holding their Shares as Business Assets - Sole Proprietors (Individuals)*").

However, the partnership is subject to trade tax if (i) it carries out a trade business activity or (ii) the partnership is by law deemed to be trading company. On the level of a partnership's trade tax liability, dividend payments - after deduction of economically related expenses - are generally subject to trade tax unless the partnership holds at least 15% of the Company's share capital at the beginning of the relevant taxation period. In the latter case, dividends are not subject trade tax to the extend the partners of the partnership are individuals and 5% of dividend payments are subject to trade tax to the extent corporations are partners of the partnership. To the extent that trade tax becomes applicable, all or part of the trade tax the partnership pays in proportion to the shareholders' interest in the partnership's income is generally credited as a lump-sum against the individual partners' personal income tax liability in case the partner is an individual.

Special rules apply to shareholder companies active in the financial and insurance sectors and to pension funds. See *"Taxation in the Federal Republic of Germany - Taxation of the Company - Special Rules for Banks, Financial Services Institutions, Financial Institutions, Life and Health Insurance Companies, and Pension Funds"*.

Taxation of Dividend Income of Investors not Resident in Germany

For foreign shareholders who do not hold their shares in a permanent establishment or a fixed base in Germany, or as an asset for which a permanent representative has been appointed in Germany, the German tax liability is, in principle, satisfied upon deduction of withholding tax (possibly reduced by way of a refund under a Double Taxation Treaty or EU Parent/Subsidiary Directive (90/435/EEC of 23 July 1990, as amended) or 2/5 of the withholding tax may be refunded in some cases.).

However, shareholders who hold their shares in a permanent establishment or a fixed base in Germany, or in business assets for which a permanent representative has been appointed in Germany, are subject to the same rules described above for shareholders resident in Germany.

Taxation of Capital Gains

Taxation of Capital Gains of Investors Resident in Germany Holding their Shares as Private Assets

Any gains from the sale or redemption of the shares will generally be subject to a final flat tax (*Abgeltungsteuer*) of 25% plus a solidarity surcharge of 5.5% thereon (aggregate tax burden of 26.375%). This is valid irrespective of the holding period.

Shareholders may opt to have their capital gains assessed in accordance with the general rules on determining an individual's tax bracket (i.e. at the shareholder's personal income tax rate) if this results in a lower tax burden. The option may only be exercised for all capital gains and income from capital investments and married couples may only exercise the option jointly. Any tax already withheld will be credited against the income tax so determined or refunded in the amount of any overpayment, as the case may be.

When determining the income from capital investments, only a lump sum saver's allowance (*Sparerpauschbetrag*) in the amount of EUR 801 (EUR 1,602 for married couples filing jointly) can be deducted as expenses related to investment income. Expenses actually incurred to generate the income will not be deducted.

Losses from the disposal of the shares may only be offset against other capital gains resulting from the disposal of shares. Offsetting of overall losses with other income (e.g. business or rental income) and other capital income is not possible. Such losses are to be carried forward and to be offset against positive capital gains deriving from the sale of shares in future years.

The general flat tax will not apply if the seller of the shares or, in the case of a gratuitous acquisition, the shareholder's legal predecessor directly or indirectly held at least 1% of the share capital of the Company at any time during the five years preceding the sale. In this case, 60% of any capital gain resulting from the sale is considered as income and subject to income tax at the shareholder's personal income tax rate plus solidarity surcharge thereon. Correspondingly 60% of the operating expenses economically related to such dividends are generally tax deductible. Likewise, 60% of any capital loss can be claimed for tax purposes (subject to general restrictions on tax deductions, if applicable).

Capital gains are principally subject to withholding tax of 25% plus 5.5% solidarity surcharge thereon (in total 26.375%) in the event a German credit or financial institution (including a German branch of a foreign credit or financial institution) stores or administrates or carries out the sale of the shares and pays or credits the capital income. If the shares have not been acquired by such German credit or financial institution and administered thereafter, e. g. in case of a change of administration (*Depotwechsel*), withholding tax may be levied on 30% of the sale proceeds.

Taxation of Capital Gains of Investors Resident in Germany Holding their Shares as Business Assets

If shares form part of a shareholder's business assets, then taxation of capital gains realized depends on whether the shareholder is a corporate body, a sole proprietor, or a partnership:

Corporate Bodies

Generally speaking, capital gains earned on the sale of shares by corporation are exempt from corporate income tax and trade tax. However, 5% of the capital gains are considered to be non-deductible business expenses and are therefore subject to 15% corporate income tax (plus 5.5% solidarity surcharge thereon) and trade tax.

Losses incurred upon the disposal of shares or other impairments of the shares' value are not tax deductible. A reduction of profit is also defined as any losses incurred in connection with a loan or security in the event the loan or the security is granted by a shareholder or by a related person thereto or by a third person with the right of recourse against the before mentioned persons and the shareholder holds directly or indirectly 25% or more of the share capital of the Company.

Sole Proprietors (Individuals)

If the shares are held by sole proprietors, 60% of the capital gains from the sale of shares are taxable at the personal income tax rate (plus 5.5% solidarity surcharge thereon). Correspondingly, only 60% of the business expenses related to such capital gains and 60% of any losses incurred upon disposal of shares are tax deductible. In addition, 60% of the capital gains are subject to trade tax if the sole proprietor is subject to trade tax. However, trade tax is partly or entirely credited against the shareholder's personal income tax liability depending on the applicable municipal trade tax rate and individual circumstances.

Partnerships

If the shareholder is a partnership, personal income tax or corporate income tax, as the case may be, is assessed at the level of each partner rather than at the level of the partnership. The taxation of each partner depends on whether the partner is subject to personal income tax or corporate income tax. If the partner pays corporate income tax, capital gains from the sale of shares are in general effectively 95% tax exempt (see "*Taxation in the Federal*

Republic of Germany - Taxation of the Company - Taxation of Capital Gains - Taxation of Capital Gains of Investors Resident in Germany Holding their Shares as Business Assets - Corporate Bodies").

If the partners pay personal income tax, 60% of the capital gains from the sale of shares are taxable (see *"Taxation in the Federal Republic of Germany - Taxation of the Company - Taxation of Capital Gains - Taxation of Capital Gains of Investors Resident in Germany Holding their Shares as Business Assets - Sole Proprietors (Individuals)"*).

In addition, if the shares are attributable to a commercial permanent establishment in Germany, any capital gain from their sale is generally subject to trade tax at the level of the partnership, with 60% of the gain being subject to trade tax if the partners are individuals and 5% if the partners are corporations. Losses reduce the amount subject to trade tax only if the partners are individuals, with the reduction capped at 60% of the loss; all or part of the trade tax imposed is credited as a lump sum against their personal income tax liability if the partners are individuals.

With respect to the deductibility of business expenses related to the capital gains and the deductibility of capital losses, the principles outlined in *"Taxation in Germany - Taxation of the Company - Taxation of Capital Gains - Taxation of Capital Gains of Investors Resident in Germany Holding their Shares as Business Assets - Corporate Bodies"* apply to partners paying corporate income tax, and those outlined in *"Taxation in Germany - Taxation of the Company - Taxation of Capital Gains - Taxation of Capital Gains of Investors Resident in Germany Holding their Shares as Business Assets - Sole Proprietors (Individuals)"* apply to partners paying personal income tax.

Special rules apply to capital gains realised by companies active in the financial and insurance sectors, as well as by pension funds. See *"Taxation in the Federal Republic of Germany - Taxation of the Company - Special Rules for Banks, Financial Services Institutions, Financial Institutions, Life and Health Insurance Companies, and Pension Funds"*.

For capital gains of a corporation, no withholding tax is assessed. This applies also to capital gains attributable to business assets if additional documentation requirements are met.

Taxation of Capital Gains of Shareholders Resident Outside Germany

Capital gains realized upon disposal of shares by a shareholder resident outside Germany are only subject to German income tax (plus solidarity surcharge) in the event (i) the shares are held in a permanent establishment or through a fixed base in Germany, or held as assets for which a permanent representative has been appointed in Germany or (ii) the selling Shareholders or, in case of a gratuitous transfer, its legal predecessor has held, directly or indirectly, at least 1% of the share capital of the Company at any time during the five year period prior to the disposal.

In this case

5% of the capital gain is subject to corporate income tax and solidarity surcharge, if the shareholder is a corporation; and

60% of the capital gain is taxed in all other cases.

However, some of the German Double Taxation Treaties provide for a complete exemption from German taxation (except in case (i)) in such cases and assign the right to tax to the shareholder's state of residence. In this case, no withholding tax is assessed upon the sale provided sufficient proof of the foreign tax status is given.

Capital gains realized upon disposal of shares held in a permanent establishment or through a fixed base in Germany, or held as assets for which a permanent representative has been appointed in Germany, are subject to the same rules as described above for shareholders resident in Germany.

Special Rules for Banks, Financial Services Institutions, Financial Institutions, Life and Health Insurance Companies, and Pension Funds

If financial institutions (*Kreditinstitute*) or financial services providers (*Finanzdienstleistungsinstitute*) hold or sell shares that are allocable to their trading book (*Handelsbuch*) pursuant to Section 1a of the German Banking Act

(*Gesetz über das Kreditwesen*), they will not benefit from the 40% exemption under the partial-income method or enjoy the 95% exemption from corporate income tax plus solidarity surcharge and from any applicable trade tax. Thus, dividend income and capital gains are fully taxable. The same applies to shares that are acquired by a financial enterprise (*Finanzunternehmen*) within the meaning of the German Banking Act for purposes of realising short-term gains from proprietary trading and to shares held through a permanent establishment in Germany by financial institutions, financial services providers and financial companies with their registered office in another member state of the European Union or another contracting state to the EEA Agreement. Likewise, the tax exemption described earlier granted to corporations for dividend income and capital gains from the sale of shares/subscription rights does not apply to shares/subscription rights that qualify as a capital investment in the case of life insurance and health insurance companies or which are held by pension funds. However, dividends are trade tax exempt in the event the shareholder hold at least 15% of the registered share capital (Grundkapital or Stammkapital) of the distributing corporation at the beginning of the relevant tax assessment period, unless the shareholder is a life and health insurance company which holds the shares as capital investments or the shareholder is a pension fund. Corporate income-tax-paying shareholders that have their registered office in another member state of the European Union may benefit from certain exceptions if the Parent-Subsidiary Directive (EC Directive 90/435/EEC of the Council dated 23 July 1990, as amended) applies to them.

Inheritance and Gift Tax

In principle, a transfer of shares to another person by way of gift or succession is subject to German gift or inheritance tax only if:

The testator, donor, heir, donee, or any other beneficiary has his or her place of residence or ordinary residence or place of management in Germany at the time of the transfer or is a German Citizen who has not stayed abroad for more than five years without having a residence in Germany;

the shares belonged to the testator’s or donator’s business assets for which a permanent establishment is maintained or a permanent representative is appointed in Germany; or

at the time of succession or transfer by way of gift, the testator or donor alone or jointly with other closely related persons, held a direct or indirect participation in the Company’s registered share capital of at least 10%.

There are few Double Taxation Treaties on inheritance and gift tax currently in effect in Germany but they typically provide that German inheritance or gift tax is only payable under the circumstances specified under (i) above and, subject to certain limitations, under the circumstances specified under (ii) above. Special provisions apply to certain German citizens who live abroad and former German Citizens.

Other Taxes

The sale, purchase or other disposition of shares is not subject to German capital transfer tax, value added tax, stamp duty or similar taxes. Under certain circumstances, enterprises may, however, opt for value added tax which would otherwise not be applicable. At present, wealth tax (*Vermögensteuer*) is not imposed in Germany.

TAXATION IN LUXEMBOURG

General

The following information is of a general nature only and is based on the Company's understanding of certain aspects of the laws and practise in force in Luxembourg as of the date of this Prospectus. It does not purport to be a comprehensive description of all of the tax considerations that might be relevant to an investment decision. It is included herein solely for preliminary information purposes. It is not intended to be, nor should it be construed to be, legal or tax advice. It is a description of the essential material Luxembourg tax conse-quences with respect to the Shares and may not include tax considerations that arise from rules of general application or that are generally assumed to be known to Shareholders. This summary is based on the laws in force in Luxembourg on the date of this Prospectus and is subject to any change in law that may take effect after such date. Prospective Shareholders should consult their professional advisors with respect to particular circumstances, the effects of state, local or foreign laws to which they may be subject and as to their tax position.

Please be aware that the residence concept used under the respective headings applies for Luxembourg in-come tax assessment purposes only. Any reference in the present section to a tax, duty, levy impost or other charge or withholding of a similar nature refers to Luxembourg tax law and/or concepts only. Also, please note that a reference to Luxembourg income tax encompasses corporate income tax (impôt sur le revenue des collectivités), municipal business tax (impôt commercial communal), a solidarity surcharge (contribution au fonds pour l'emploi), as well as personal income tax (impôt sur le revenue) generally. Shareholders may fur-ther be subject to net worth tax (impôt sur la fortune) as well as other duties, levies or taxes. Corporate in-come tax, municipal business tax as well as the solidarity surcharge invariably apply to most corporate tax-payers resident of Luxembourg for tax purposes. Individual taxpayers are generally subject to personal in-come tax and the solidarity surcharge. Under certain circumstances, where an individual taxpayer acts in the course of the management of a professional or business undertaking, municipal business tax may apply as well.

Withholding tax

Dividend payments made to the shareholders by the Company, as well as liquidation proceeds and capital gains derived by shareholders from the Shares of the Company, are not subject to a withholding tax in Luxembourg.

Taxation of the shareholders

Luxembourg tax residency of the shareholders

A shareholder will not become resident, nor be deemed to be resident, in Luxembourg by reason only of the holding and/or disposing of the Shares or the execution, performance or enforcement of his/her rights thereunder.

Income tax

Luxembourg resident shareholders

Luxembourg resident individuals

Dividends and other payments derived from the Shares by resident individual shareholders, who act in the course of the management of either their private wealth or their professional / business activity, are subject to income tax at the ordinary progressive rates. Under current Luxembourg tax law, 50% of the gross amount of dividends received by resident individual shareholders from (i) a Luxembourg resident fully-taxable company limited by share capital (société de capitaux), (ii) a company limited by share capital (*société de capitaux*) resident in a State with which Luxembourg has concluded a double tax treaty and liable to a tax corresponding to Luxembourg corporate income tax or (iii) a company resident in a EU Member State and covered by Article 2 of the amended Directive 90/435/ECC of 23 July 1990 ("**EU Parent-Subsidiary Directive**") are exempt from income tax.

Capital gains realized on the disposal of the Shares by resident individual shareholders, who act in the course of the management of their private wealth, are not subject to income tax, unless said capital gains qualify either as speculative gains or as gains on a substantial participation. Capital gains are deemed to be speculative and are subject to income tax at ordinary rates if the Shares are disposed of within 6 months after their acquisition or if their disposal precedes their acquisition. A participation is deemed to be substantial where a resident individual shareholder holds or has held, either alone or together with his spouse or partner and / or minor children, directly or indirectly at any time within the 5 years preceding the disposal, more than 10% of the share capital of the company whose shares are being disposed of. A shareholder is also deemed to alienate a substantial participation if he acquired free of charge, within the 5 years preceding the transfer, a par-ticipation that was constituting a substantial participation in the hands of the alienator (or the alienators in case of successive transfers free of charge within the same 5year period). Capital gains realized on a substantial participation more than 6 months after the acquisition thereof are according to the half-global rate method, (i.e. the average rate applicable to the total income is calculated according to progressive income tax rates and half of the average rate is applied to the capital gains realized on the substantial participation). A disposal may include a sale, an exchange, a contribution or any other kind of alienation of the participation.

Capital gains realized on the disposal of the Shares by resident individual shareholders, who act in the course of their professional/business activity, are subject to income tax at ordinary rates. Taxable gains are determined as being the difference between the price for which the Shares have been disposed of and the lower of their cost or book value.

Luxembourg corporate residents

Dividends and other payments derived from the Shares by Luxembourg resident fully-taxable companies are subject to income taxes, unless the conditions of the participation exemption regime, as described below, are satisfied. If the conditions of the participation exemption regime are not met, 50% of the gross amount of dividends received by Luxembourg resident fully-taxable companies from the Company are exempt from income tax if received from (i) a Luxembourg resident fully-taxable company limited by share capital (société de capitaux), (ii) a company limited by share capital (*société de capitaux*) resident in a State with which Luxembourg has concluded a double tax treaty and liable to a tax corresponding to Luxembourg corporate income tax or (iii) a company resident in a EU Member State and covered by Article 2 of the EU Parent-Subsidiary Directive.

Under the participation exemption regime, dividends derived from the Shares may be exempt from income tax if (i) the shareholder is a Luxembourg resident fully-taxable company, (ii) at the time the dividend is put at the shareholder's disposal, the shareholder has held or commits itself to hold for an uninterrupted period of at least 12 months and (iii) the Shares represent a direct participation in a qualified subsidiary ("**Qualified Subsidiary**") of either (a) at least 10% of the share capital or (b) an acquisition price of at least EUR 1.2 million ("**Qualified Shareholding**"). A Qualified Subsidiary includes (i) a company resident in a EU Member State and covered by Article 2 of the EU Parent-Subsidiary Directive and (ii) a non-resident company limited by share capital (*société de capitaux*) liable to a tax corresponding to Luxembourg corporate income tax. .Shares held through a tax transparent entity are considered as being a direct participation proportionally to the percentage held in the net assets of the transparent entity.

Capital gains realized by a Luxembourg fully-taxable resident company on the Shares are subject to income tax at ordinary rates, unless the conditions of the participation exemption regime, as described below, are satisfied. Under the participation exemption regime, capital gains realized on the Shares may be exempt from income tax at the level of the shareholder if (i) the shareholder is a Luxembourg resident fully-taxable company, (ii) at the time the capital gain is realized, the shareholder has held or commits itself to hold for an uninterrupted period of at least 12 months and (iii) the Shares represent a direct participation in a Qualified Subsidiary of either (a) at least 10% of the share capital of the Company or (b) an acquisition price of at least EUR 6 million. Taxable gains are determined as being the difference between the price for which the Shares have been disposed of and the lower of their cost or book value.

Luxembourg residents benefiting from a special tax regime

A shareholder who is either (i) an undertaking for collective investment governed by the amended law of 20 December 2002, (ii) a specialized investment fund governed by the law of 13 February 2007 or (iii) a family wealth management company governed by the law of 11 May 2007 is exempt from income tax in Luxembourg. Dividends derived from and capital gains realized on the Shares are thus not subject to income tax in their hands.

Taxation of Luxembourg non-resident shareholders

Non-resident shareholders, who have neither a permanent establishment nor a permanent representative in Luxembourg to which or whom the Shares are attributable, are not liable to any Luxembourg income tax on income and gains derived from the Shares.

As an exception, a non-resident may be liable to Luxembourg income tax on capital gains realized on the Shares if he has held, either alone or together with his spouse or partner and/or his minor children, directly or indirectly, at any time within the 5 years preceding the disposal of the Shares, more than 10% of the capital of the Company and he has either (i) held the Shares for less than 6 months or (ii) he has been a Luxembourg resident taxpayer for more than 15 years and has become a non-resident less than 5 years before the realization of the capital gains on the Shares.

Non-resident shareholders who have a permanent establishment or a permanent representative in Luxembourg to which or whom the Shares are attributable, must include any income received, as well as any gain realized on the sale, disposal or redemption of Shares, in their taxable income for Luxembourg tax assessment purposes, unless the conditions of the participation exemption regime, as described below, are satisfied. If the conditions of the participation exemption are not fulfilled, 50% of the gross amount of dividends received by a Luxembourg permanent establishment or permanent representative are however exempt from income tax if received from (i) a Luxembourg resident fully-taxable company limited by share capital (société de capitaux), (ii) a company limited by share capital (*société de capitaux*) resident in a State with which Luxembourg has concluded a double tax treaty and liable to a tax corresponding to Luxembourg corporate income tax or (iii) a company resident in a EU Member State and covered by Article 2 of the EU Parent-Subsidiary Directive.. Taxable gains are determined as being the difference between the price for which the Shares have been disposed of and the lower of their cost or book value. Under the participation exemption regime, dividends derived from the Shares may be exempt from income tax if cumulatively (i) the Shares are attributable to a qualified permanent establishment ("**Qualified Permanent Establishment**") and (ii) at the time the dividend is put at the disposal of the Qualified Permanent Establishment, it has held or commits itself to hold for an uninterrupted period of at least 12 months a Qualified Shareholding in a Qualified Subsidiary. A Qualified Permanent Establishment means (a) a Luxembourg permanent establishment of a company covered by Article 2 of the EU Parent-Subsidiary Directive, (b) a Luxembourg permanent establishment of a company limited by share capital (*société de capitaux*) resident in a State having a tax treaty with Luxembourg and (c) a Luxembourg permanent establishment of a company limited by share capital (*société de capitaux*) or a cooperative society (*société coopérative*) resident in the European Economic Area other than a EU Member State. Shares held through a tax transparent entity are considered as being a direct participation proportionally to the percentage held in the net assets of the transparent entity.

Under the participation exemption regime, capital gains realized on the Shares may be exempt from income tax if cumulatively (i) the Shares are attributable to a Qualified Permanent Establishment and (ii) at the time the capital gain is realized, the Qualified Permanent Establishment has held or commits itself to hold for an uninterrupted period of at least 12 months Shares representing a direct participation in a Qualified Subsidiary of either (a) at least 10% of the share capital or (b) of an acquisition price of at least EUR 6 million.

Net Worth Tax

Luxembourg resident shareholders, as well as non-resident shareholders who have a permanent establishment or a permanent representative in Luxembourg to which the Shares are attributable, are subject to Luxembourg net worth tax on such Shares, except if the shareholder is (i) an individual, (ii) an undertaking for collective investment governed by the amended law of 20 December 2002, (iii) a securitization company governed by the law of 22 March 2004 on securitization, (iv) a company governed by the law of 15 June 2004 on venture capital vehicles, (v) a specialized investment fund governed by the law of 13 February 2007 or (vi) a family wealth management company governed by the law of 11 May 2007.

Under the participation exemption, a Qualified Shareholding in a Qualified Subsidiary by a Luxembourg resident fully-taxable company or attributable to a Qualified Permanent Establishment is exempt from net worth tax.

Other Taxes

There is no Luxembourg registration tax, stamp duty or any other similar tax or duty payable in Luxembourg by the shareholders as a consequence of the issuance or transfer of Shares, unless recorded in a notarial deed or otherwise registered in Luxembourg (which is generally not mandatory).

Under Luxembourg tax law, where an individual shareholder is a resident of Luxembourg for tax purposes at the time of his/her death, the Shares are included in his or her taxable basis for inheritance tax purposes. On the contrary, no inheritance tax is levied on the transfer of the Shares upon death of a shareholder in cases where the deceased was not a resident of Luxembourg for inheritance purposes.

Gift tax may be due on a gift or donation of the Shares, if the gift is recorded in a Luxembourg notarial deed or otherwise registered in Luxembourg.

GLOSSARY

AktG	German Stock Corporation Act (*Aktiengesetz*)
BGH	German Federal Supreme Court (*Bundesgerichtshof)*
BaFin	Federal Agency for Financial Services Supervision in Bonn/Frankfurt *(Bundesanstalt für Finanzdienstleistungsaufsicht)*
Bauxite	Naturally occurring material composed of aluminium hydroxide
Blake	Blake International Limited, British Virgin Islands
Burners	Equipment used to burn various kinds of fuels at different stages of cement manufacturing process
Burning line	A line of equipment comprising a preheater, calciner, kiln and cooler to produce clinker/cement
Calciner systems	Equipment for decarbonation in order to convert raw material into clinker
Cardan shaft	Power transmission component used for instance in engines of rotary kilns
CATIC	CATIC Bejing Co., Ltd., Bejing
Centrifugal force	Force that impacts material when it is in circular movement
Circular grinding technology	Technology using a vertical grinding mill for grinding of raw materials in the cement manufacturing process
CIS	Commonwealth of Independent States
CFR	Means "Cost and Fright" under Incoterms 2000, meaning that seller must pay the costs and freight to bring the goods to the port of destination.
Clamping disc fitted gear boxes	Method to fix the gearbox on to the machine which it should rotate
Clay	One of cement raw materials; a naturally accruing material composed primarily of fine-grained minerals
Clinker coolers	Equipment for cooling down the hot clinker coming out of the kiln in the cement manufacturing process
Clinker grinding line	A line of equipment comprising crushers and mills to grind clinker into its final form and then to be used in cement
Combustion chamber	Equipment used to burn various types of fuels mainly in the calcinations process of cement manufacturing
Control technology	Technology used to control the cement manufacturing process and individual equipment of a cement plant
Conveyors	Equipment used for material transportation in the cement manufacturing process
Cyclone technology	Technology used to separate fine and coarse particles from each other.
Distribution of Shares	Distribution of Shares in the Company by TNRC to its shareholders
EBT	Earning before tax expenses
EBT margin	EBT for a year expressed as a percentage of revenue for the same year
EEA	European Economic Area
EKOF	EKOF Flotation GmbH, Germany
ERP	Enterprise resource planning, a system that is used to manage and coordinate all the resources, information and functions of a company
FCA	Means "Free Carrier" under Incoterms 2000, meaning that the seller fulfils his obligation to deliver when he has handed over the goods, cleared for export, into the charge of the carrier named by the buyer at the named place or point.

Fly ash	One of ingredients in cement; generated in the combustion of coal
FOB	Means “Free on Board” under Incoterms 2000, meaning that the seller pays for transportation of the goods to the specified port of shipment, plus loading costs.
Gypsum	One of ingredients in cement; a soft mineral composed of calcium sulphate dehydrate
HGB	German Commercial Code (*Handelsgesezbuch*).
High pressure grinding roll technology (KHD roller press)	Equipment which crushes material at high pressure between two rotating rollers. Used in cement raw material preparation, clinker grinding as well as in minerals applications. Very energy effective technology
HW Australia	Humboldt Wedag Australia Pty. Ltd., Australia
HW GmbH	Humboldt Wedag GmbH, Germany
HW India	Humboldt Wedag India Private Ltd., India
HW South Africa	Humboldt Wedag (S.A.) Pty Ltd, South Africa
HW USA	Humboldt Wedag Inc., USA
HWCMT	Humboldt Wedag Coal & Minerals Technology GmbH, Germany
IAS	International Accounting Standards adopted by the International Accounting Standards Boards (IASB)
Incoterms 2000	Present international sales terms, published by International Chamber of Commerce (ICC) and widely used in international commercial transactions.
International Financial Reporting Standards (IFRS)	Accounting rules of the International Accounting Standards Board (IASB)
ISIN	International Securities Identification Number
KGC	KGC Strategische Dienstleistungen UG, Frankfurt am Main
KHD AG	KHD Humboldt Wedag International AG, Cologne
KHD Austria	KHD Engineering Holding GmbH, Austria
KHD China	KHD Humboldt Wedag Machinery Equipment (Beijing) Co. Ltd., China
KHD FZE	KHD Humboldt Wedag International (UAE) FZE, Ras al-Khaimah
KHD GmbH	KHD Humboldt Wedag GmbH
KHD Group	KHD and its consolidated subsidiaries
KHD ID	KHD Humboldt Wedag International AG, Cologne
KHD Ltd.	KHD Humboldt Wedag International Ltd., Vancouver, Canada, today TNRC
KHD Ltd. Group	Division of the group of companies headed by KHD Ltd.
KHD Russia	KHD Humboldt Engineering OOO, Russia
KHD S.A.	KHD S.A., Switzerland
KHD Shanghai	KHD Humboldt Wedag (Shanghai) International Industries Ltd.
KIA GmbH	KHD Humboldt Wedag International GmbH, Austria
Kiln	Equipment that converts (sintering) at high temperatures cement raw materials into clinker during cement manufacturing process
KIS AG	KHD Humboldt Wedag Industrial Services AG, Germany
Lang&Schwarz	Lang & Schwarz Broker GmbH, Düsseldorf
Limestone	Main raw material for cement manufacturing
MGI	Max Glory Industries Ltd., Hong Kong, an indirect subsidiary of CATIC

NOx	Generic term of mono-nitrogen oxides (NO and NO(2)) produced during combustion
Plan of arrangement	A statutory procedure available under the Canada Business Corporations Act (CBCA) as well as under provincial corporations statutes of Canada according to which a corporation can make a “fundamental change” by order of the court if it cannot achieve the result it wants under another section of the statute.
Plan of Arrangement	Plan of arrangement approved by the shareholders of KHD Ltd., pursuant to which all the shares of KHD AG held by KHD Ltd. are eventually to be distributed to the shareholders of KHD Ltd.
Plant audit	Method to check the efficiency of a cement plant in order to find possible improvement potentials
Pre-heater	Heats raw material to approx. 820-840°C before it enters into the kiln, where final conversion (sintering) to clinker happens
Pyro-processing Cooler	Process covering preheater, calcination, kiln and cooler An equipment used in the cement production process that cools clinker coming from kiln to 50-100
PRC	People’s Republic of China
RBI	Raiffeisen Bank International AG, Wien, Österreich, formerly RZB
Reintegration Subsidiaries	Humboldt Wedag Australia Pty. Ltd., Australia, Humboldt Wedag Inc., USA, Humboldt Wedag India Private Ltd., India, EKOF Flotation GmbH, Germany, KHD Humboldt Wedag Machinery Equipment (Beijing) Co. Ltd., China as well as 50% of the shares in KHD Engineering Holding GmbH, Austria, and its direct subsidiary KHD Humboldt Engineering OOO, Russia, and ist subsidiary OAO Sibgiprozoloto, Russia
Restructuring	Separation of KHD Ltd. into two independent business segments by decision of the management of KHD Ltd. in January 2010.
Roller press	See high pressure grinding rolls
RZB	Raiffeisen Zentralbank Österreich AG, Wien, Österreich
Sewage sludge	Waste liquid as end product of the waste water treatment process; used as fuel in the cement manufacturing process
Sibgiprozoloto	OAO Sibgiprozoloto, Russia
Sifter technology	Technology used for separation of heavy fractions from light fractions of raw material in the cement manufacturing process
Silos	A structure for storing of raw materials and cement
Slag	Partially vitreous by-product of smelting; used as an ingredient of cement
tpd	Tons per day
Tyre chips	Shredded or cutted tyres used as fuel in the cement manufacturing process
TNRC	Terra Nova Royalty Corporation Ltd., Canada, formerly named KHD Humboldt Wedag International Ltd.
WKN	German Securities Identification Number
WpHG	Securities Trading Law (*Wertpapierhandelsgesetz*)
WpPG	Securities Prospectus Law (*Wertpapierprospektgesetz*)
WpÜG	Securities Acquisition and Takeover Law (*Wertpapiererwerbs- und Übernahmegesetz*)
ZAB	ZAB Zementanlagenbau GmbH Dessau, Germany
ZABIS	ZAB-Industrietechnik & Service GmbH, Germany

RECENT BUSINESS DEVELOPMENT AND OUTLOOK

In 2010, KHD has recovered from the very low order intake in 2009. In particular, KHD could continue the positive order intake trend of the first two quarters 2010; especially the markets in Asia showed an improved climate for investments of KHD's customers.

The order intake in the third quarter was exceptionally high, boosted by a major order from India valued at EUR 85 mio. After 30 September 2010, the order intake was further increased. The executive board anticipates an order intake for the entire year of between approx. EUR 310 million to EUR 320 million. Accordingly, KHD is currently in a good work load situation.

KHD was also able to keep its strong cash position as well as the equity ratio. Profitability will not reach the high level of 2009 but is still satisfying.

As a result of the successful restructuring in 2010, KHD is currently in a good position to participate in the expected growth of global markets. Particularly in Asia, the executive board expects further demand for KHD's products and services.

On 21 December 2010, the Company has concluded a strategic partnership with Beijing (PRC) based CATIC, a subsidiary of China's state-owned AVIC International Holding Corporation. Together, KHD and CATIC aim to become a market-leading force for the construction of cement plants by bidding on a wider range of projects. This includes especially turnkey projects.

To strengthen the relation with KHD, and as a condition for the effectiveness of the cooperation agreement with CATIC, the Company and CATIC agreed that Max Glory Industries Ltd., a Hong Kong based indirect wholly owned subsidiary of CATIC, shall make a capital investment in the Company and, thereafter, shall hold 20% in the share capital of the Company. The capital investment shall be implemented by way of a capital increase of up to 16,571,276 new no par value ordinary bearer shares from the existing authorized capital of the Company with statutory subscription rights of the existing shareholders.

Further, the Company's principle credit line for bank guarantees amounting to EUR 150 Mio. with the previous consortium of banks was finally settled in November 2010.

In the next months, KHD intends to implement the cooperation with CATIC and to focus further on its strategy to broaden its service offering. Especially the spare parts business shall contribute to this development.

The executive board expects the cooperation with The WEIR Group plc, Glasgow, a leading engineering solutions provider in the Minerals, Oil & Gas and Power & Industrial sector,to contribute significantly to revenues from Roller Presses in the minerals markets.

Despite the positive outlook the executive board believes the year 2011 to be to a certain extent still affected by the low order intake in 2009 and also by decreasing margins. The pressure on prices has increased strongly after the economic crisis. Contracts do not yield the high margins which could be negotiated before the crisis of 2008.

The executive board expects the revenues for the entire year 2010 to reach a level of around EUR 300 million and is positive to surpass this level in 2011.

Except for the aforementioned, there have been no material changes in the financial condition or trading position of the Company since 30 September 2010.

FINANCIAL SECTION

Table of Contents

Unaudited Consolidated Financial Statements of KHD Humboldt Wedag International AG as at and for the Period from 1 January to 30 September 2010 in Accordance with IFRS F-3

Group Income Statement for the Period from 1 January to 30 September 2010 of KHD Humboldt Wedag International AG F-4

Statement of Consolidated Comprehensive Income for the Period from 1 January to 30 September 2010 of KHD Humboldt Wedag International AG F-5

Group Balance Sheet as at 30 September 2010 of KHD Humboldt Wedag International AG F-6

Statement of Consolidated Cash Flows for the Period from 1 January to 30 September 2010 of KHD Humboldt Wedag International AG F-8

Statement of Changes in Consolidated Equity as at 30 September 2010 ..... F-10

Selected Notes to the Interim Consolidated Financial Statements as at 30 September 2010 of KHD Humboldt Wedag International AG F-11

Consolidated Financial Statements of KHD Humboldt Wedag International (Deutschland) AG for the Financial Year Ended 31 December 2009 in Accordance with IFRS F-19

Group Statement of Comprehensive Income for the Financial Year Ended 31 December 2009 ..... F-20

Statement of Consolidated Comprehensive Income for the Financial Year 2009 ..... F-21

Group Balance Sheet as at 31 December 2009 ..... F-22

Consolidated Cash Flow Statement for the Financial Year Ended 31 December 2009 ..... F-23

Consolidated Statement on Changes in Equity for the Financial Year Ended 31 December 2009 ..... F-25

Notes to the Consolidated Financial Statements for the Financial Year Ended 31 December 2009 ..... F-26

Auditors' Report F-57

Consolidated Financial Statements of KHD Humboldt Wedag International (Deutschland) AG for the Financial Year Ended 31 December 2008 in Accordance with IFRS F-58

Group Statement of Comprehensive Income for the Financial Year Ended 31 December 2008 ..... F-59

Group Balance Sheet as at 31 December 2008 ..... F-60

Consolidated Cash Flow Statement for the Financial Year Ended 31 December 2008 ..... F-61

Consolidated Statement on Changes in Equity for the Financial Year Ended 31 December 2008 ..... F-63

Notes to the Consolidated Financial Statements for the Financial Year Ended 31 December 2008 ..... F-64

Auditors' Report F-94

Consolidated Financial Statements of KHD Humboldt Wedag International (Deutschland) AG for the Financial Year Ended 31 December 2007 in Accordance with IFRS F-95

Group Income Statement for the Financial Year 2007 ..... F-96

Group Balance Sheet as at 31 December 2007 ..... F-97

Statement of Consolidated Cash Flows for the Financial Year 2007 ..... F-98

Statement of Changes in Consolidated Equity in the Financial Year 2007 ..... F-100

Notes to the Consolidated Financial Statements for the Financial Year 2007 ..... F-101

Auditors' Report F-127

Annual Financial Statements as at 31 December 2009 of KHD Humboldt Wedag International (Deutschland) AG F-128

Balance Sheet as at 31 December 2009 .... F-129

Income Statement 2009 .... F-130

Notes to the Financial Statements as at 31 December 2009 .... F-131

Auditors' Report F-140

UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS OF KHD HUMBOLDT WEDAG INTERNATIONAL AG AS AT AND FOR THE PERIOD FROM 1 JANUARY TO 30 SEPTEMBER 2010 IN ACCORDANCE WITH IFRS

Group Income Statement for the Period
from 1 January to 30 September 2010
of KHD Humboldt Wedag International AG

	1 Jan to 30 Sep 2010	1 Jul to 30 Sep 2010	1 Jan to 30 Sep 2009	1 Jul to 30 Sep 2009
	€'000	€'000	€'000	€'000
Revenue	188,611	74,243	233,555	89,440
Cost of sales*	(147,578)	(54,946)	(195,542)	(72,949)
Gross profit on sales	**41,033**	**19,297**	**38,013**	**16,491**
Other operating income	1,956	(2,683)	237	(1,600)
Distribution costs	(8,267)	(3,174)	(9,856)	(3,052)
General and administrative expenses*	(11,893)	(3,839)	(7,101)	(1,746)
Other expenses*	(7,359)	(2,490)	(7,197)	(2,965)
Restructuring income/expense	2,353	822	2,686	13,828
Income from investments	3,086	1,951	4,780	2,126
Net finance cost	(1,222)	(54)	(1,353)	(42)
Earnings before tax	**19,687**	**9,830**	**20,209**	**23,040**
Income tax expense	(10,206)	(4,296)	(6,651)	(7,385)
Net profit for the period	**9,481**	**5,534**	**13,558**	**15,655**
Of which related to:				
Shareholders of parent company	9,425	5,519	13,520	15,608
Minority shareholders	56	15	38	47
	9,481	**5,534**	**13,558**	**15,655**

* Prior year adjusted on account of changed disclosures.

Earnings per share

	1 Jan to 30 Sep 10	1 Jul to 30 Sep 2010	1 Jan to 30 Sep 09	1 Jul to 30 Sep 2009
Net profit attributable to shareholders (in €)	9,425,000.00	5,519,000.00	13,520,000.00	15,608,000.00
Weighted avarage number of issued ordinary shares	32,913,416	32,913,416	16,456,708	16,456,708
Basic and diluted earnings per share	0.29	0.17	0.82	0.95

Statement of Consolidated Comprehensive Income for the Period from 1 January to 30 September 2010 of KHD Humboldt Wedag International AG

	1 Jan to 30 Sep 2010	1 Jul to 30 Sep 2010	1 Jan to 30 Sep 2009	1 Jul to 30 Sep 2009
	€'000	€'000	€'000	€'000
Net profit for the period	9,481	5,534	13,558	15,655
Accumulated translation difference	(323)	(1,559)	-	-
Comprehensive income	**9,158**	**3,975**	**13,558**	**15,655**
Of which related to:				
Shareholders of parent company	9,102	3,960	13,520	15,608
Minority shareholders	56	15	38	47
	9,158	**3,975**	**13,558**	**15,655**

Group Balance Sheet as at 30 September 2010
of KHD Humboldt Wedag International AG

	30 Sep 2010	31 Dec 2009
	€'000	€'000
ASSETS		
Non-current assets		
Property and equipment	2,544	1,526
Goodwill	2,127	2,127
Other intangible assets	833	316
Deferred tax assets	880	237
Non-current financial assets	851	51,741
Total non-current assets	**7,235**	**55,947**
Current assets		
Inventories	12,325	13,663
Gross amount due from customers for contract work	19,187	38,413
Trade and other receivables	74,730	49,387
Intercompany receivables	-	3,678
Payments made in advance	32,377	26,235
Other financial assets	1,553	5,260
Income tax assets	2,724	11,461
Cash and cash equivalents	259,484	225,844
Total current assets	**402,380**	**373,941**
Total assets	**409,615**	**429,888**

	30 Sep 2010	31 Dec 2009
	€'000	€'000
EQUITY AND LIABILITIES		
Equity		
Issued capital	33,142	33,142
Capital reserves	1,776	1,776
Treasury shares	(221)	(221)
Currency differences	(376)	(53)
Undistributed profit carryforward	106,321	134,428
	140,642	169,072
Minority interest	688	659
Total equity	**141,330**	**169,731**
Non-current liabilities		
Other liabilities	9,753	7,558
Pension benefit obligations	21,461	21,159
Deferred tax liabilities	12,073	9,755
Provisions	20,308	7,748
Total non-current liabilities	**63,595**	**46,220**
Current liabilities		
Trade and other payables	87,963	100,791
Intercompany liabilities	-	4,914
Financial liabilities	-	3,552
Gross amount due to customers for contract work	80,182	51,136
Income tax liabilities	16,681	10,970
Provisions	19,864	42,574
Total current liabilities	**204,690**	**213,937**
Total equity and liabilities	**409,615**	**429,888**

Statement of Consolidated Cash Flows for the Period from 1 January to 30 September 2010 of KHD Humboldt Wedag International AG

	1 Jan to 30 Sep 2010	1 Jan to 30 Sep 2009
	€'000	€'000
Cash flows from operating activities		
Net profit for the period	9,481	13,558
Income tax expense recognized in the income statement	10,206	6,651
Net finance cost recognized in the income statement	(1,864)	(3,427)
Earnings before tax and interest	**17,823**	**16,782**
Amortisation, depreciation and write-downs of non-current assets	840	874
Decrease/increase (-) in trade receivables and financial assets	21,287	7,302
Decrease/increase (-) in inventories and gross amount due from customers for contract work	26,127	1,423
Increase/decrease (-) in payments made in advance and other financial assets	10,500	3,582
Increase/decrease (-) in trade and other payables and in gross amount due to customers for contract work	(38,574)	(30,803)
Increase/decrease (-) in pension provisions	(231)	(101)
Increase/decrease (-) in provisions and non-current liabilities	(15,883)	(9,042)
Cash inflow/outflow from operating activities	**21,889**	**(9,983)**
Other non-cash transactions	1,729	608
Dividends received	14	-
Income tax received	11,226	-
Income tax paid	(3,969)	(5,975)
Net cash inflow/outflow from operating activities	**30,889**	**(15,350)**
Cash flows from investing activities		
Interest received on advances to affiliated enterprises	68	544
Cash outflows for intangible assets	(740)	(62)
Cash outflows for property, plant and equipment	(647)	(515)
Gain on disposal of property, plant and equipment	38	134
Cash outflows from addition of consolidated companies and other business units less funds received, less funds transferred	20,881	-
Cash inflows from repayment of non-current receivables	34,708	4,706
Net cash inflow from investing activities	**54,308**	**4,807**

Cash flows from financing activities	1 Jan to 30 Sep 2010	1 Jan to 30 Sep 2009
	€'000	€'000
Interest received	1,710	2,815
Payment for share repurchase from minority shareholders	(29)	(14)
Net amount of loans raised and repaid	(3,552)	(1,167)
Dividends paid to shareholders of parent company	(49,370)	-
Net cash outflow/inflow from financing activities	**(51,241)**	**1,634**
Increase in cash and cash equivalents	33,956	(8,909)
Opening balance of cash and cash equivalents	225,183	202,969
Exchange rate effects	(323)	-
Closing balance of cash and cash equivalents	**258,816**	**194,060**

	30 Sept 2010	30 Sept 2009
	€'000	€'000
Analysis of cash and cash equivalents		
Cash and Bank balances	71,977	30,744
Short-term and restricted bank deposits	187,507	163,977
Total cash and cash equivalents	259,484	194,721
Cash with restriction on disposal, encumbrance and/or alienation for collaterals and guarantees	(668)	(661)
Closing balance of cash and cash equivalents	**258,816**	**194,060**

Statement of Changes in Consolidated Equity as at 30 September 2010

	Issued capital	Capital reserves	Treasury shares	Currency differences	Undistributed profit carryforward	Of which related to: Shareholders of parent company	Minority shareholders	Total
	€'000	**€'000**	**€'000**	**€'000**	**€'000**		**€'000**	**€'000**
31 Dec 2008	**33,142**	**1,776**	**(221)**	**(53)**	**97,319**	**131,963**	**638**	**132,601**
Net income for the period	-	-	-	-	13,520	13,520	38	**13,558**
Consolidated comprehensive income	-	-	-	-	13,520	13,520	38	13,558
Successive acquisition					-		(24)	**(24)**
30 Sep 2009	33,142	1,776	(221)	(53)	110,839	145,483	652	**146,135**
31 Dec 2009	**33,142**	**1,776**	**(221)**	**(53)**	**134,428**	**169,072**	**659**	**169,731**
Net income for the period	-	-	-	-	9,425	9,425	56	**9,481**
Accumulated translation difference	-	-	-	(323)	-	(323)		**(323)**
Consolidated comprehensive income	-	-	-	(323)	9,425	9,102	56	**9,158**
Other changes		-			6	6		**6**
Dividends paid					(49,370)	(49,370)		**(49,370)**
Change in equity due to acquisition					11,832	11,832		**11,832**
Successive acquisition					-		(27)	**(27)**
30 Sep 2010	**33,142**	**1,776**	**(221)**	**(376)**	**106,321**	**140,642**	**688**	**141,330**

Selected Notes to the Interim Consolidated Financial Statements as at 30 September 2010 of KHD Humboldt Wedag International AG

1. Bases of Reporting

The interim financial statements of KHD Humboldt Wedag International AG, Cologne/Germany ("KHD AG" or "the Group") and the sets of interim financial statements of the subsidiaries included in the consolidated financial statements have been prepared in compliance with the International Financial Reporting Standards (IFRS) and the related Interpretations of the International Accounting Standards Board (IASB), as applicable to interim reporting in the EU in accordance with Regulation No. 1606/2002 of the European Parliament and of the Council on the application of International Accounting Standards. In compliance with IAS 34, the interim financial report does not include all information and notes to the financial statements that are necessary for consolidated financial statements as at the end of the financial year under IFRS.

The accounting and measurement methods applied to the interim financial statements on hand are consistent with those applied as at 31 December 2009, unless changes are described, and are described in detail on pp. 25 of the annual report on the consolidated financial statements under IFRS of KHD AG.

Bidding expenses incurred in the financial year in the amount of € 3,739 thousand (prior year: € 5,438 thousand) are included in distribution costs; in the financial year 2009, these were disclosed under cost of sales. To improve the presentation of the results of operation, management fees in the amount of € 886 thousand disclosed under other expenses in the prior year are disclosed for the first time under general and administrative expenses in the financial year 2010. The prior year's figures have been adjusted accordingly.

The interim financial statements convey a true and fair view of the net assets, financial position and results of operation in the reporting period.

The preparation of interim financial statements requires that estimates are used and assumptions are made that have an influence on the assets, liabilities, provisions, deferred tax assets and liabilities as well as the income and expenses. Although these estimates and assumptions are carefully and diligently made, it can not be excluded that actual amounts deviate from the estimates used in the interim financial statements.

The interim financial statements have been prepared in euro. All amounts, including comparative figures, are stated in €'000. All amounts have been commercially rounded.

2. Applying New or Revised International Financial Reporting Standards

In the reporting period, the Group applied all new and revised standards and interpretations that were published by the International Accounting Standards Board (IASB) and by the International Financial Reporting Interpretations Committee (IFRIC) of the IASB to the extent that these had taken effect for the reporting period beginning on 1 January 2010. The adoption of these revised standards and interpretations had no major impact on the results of operation and financial position of the Group.

- Revision of IFRS 1, additional exceptions concerning retroactive application of the IFRSs (applicable for financial years beginning on or after 1 July 2009);

- Revision of IFRS 3 as well as change to IAS 27 concerning the changed presentation of given aspects of business combinations in consolidated financial statements (applicable for financial years beginning on or after 1 July 2009). As, from today's point of view, there will be no business combinations at the level of the Group in the financial year of adoption, the application of this Standard is not expected to impact the consolidated financial statements;

- Change to IAS 39 concerning qualifying hedged items (applicable for financial years beginning on or after 1 July 2009);

- IFRIC 12, Service License Agreements (applicable for financial years beginning on or after 29 March 2009);

- IFRIC 15, Agreements on Establishment of Properties (applicable for financial years beginning on or after 1 January 2010);

- IFRIC 16, Hedging Net Investments in Foreign Operations (applicable for financial years beginning on or after 1 October 2008);

- IFRIC 17, Distributions in Kind to Owners (applicable for financial years beginning on or after 1 July 2009);

- IFRIC 18, Transfer of Assets by Customers (applicable for financial years beginning on or after 1 July 2009);

- Change standard within the framework of the annual IFRS improvement process (April 2009), minor changes to various IFRSs (mostly applicable for financial years beginning on or after 1 January 2010);

- Change to IFRS 1 concerning additional exceptions regarding retroactive application of the IFRSs (applicable for financial years beginning on or after 1 January 2010). This change introduces additional exceptions regarding mandatory retroactive application of all standards and interpretations applicable as at the balance sheet date of the first set of financial statements under IFRS;

- Change to IFRS 2 concerning intragroup share-based payments (applicable for financial years beginning on or after 1 January 2010). This change clarifies the accounting for share-based payments with cash compensation at group level, especially in cases where the enterprise that receives goods and services deviates from the enterprise that has granted the commitment.

3. Group of Consolidated Entities

Besides KHD AG, the group of entities consolidated as at 30 September 2010 includes five (31 Dec. 2009: five) domestic and five foreign subsidiaries (31 Dec. 2009: one foreign subsidiary). Effective 29 March 2010, five companies were fully consolidated for the first time due to the acquisition of the international investments and two joint ventures were for the first time included in consolidation within the scope of proportionate consolidation. One company was liquidated.

One subsidiary and one joint venture were not included in the interim consolidated financial statements because their influence on the Group's results of operation and, financial position is immaterial.

Besides KHD AG, the group companies include:

Name of entity	Registered office	Share in %		Primary activity		Capital stock/ share capital
<u>Subsidiaries</u>						
KHD Humboldt Wedag GmbH	Cologne/ Germany	100.00	D	Holding company	EUR	15,339,300
Humboldt Wedag GmbH	Cologne/ Germany	100.00	I	Cement plant engineering	EUR	7,000,000
ZAB Zementanlagenbau GmbH Dessau	Dessau/ Germany	100.00	I	Cement plant engineering	EUR	2,000,000
Blake International Ltd.	Tortola/ British Virgin Islands	100.00	I	Holding company	USD	1,000
KHD Humboldt Wedag Industrial Services AG	Cologne/ Germany	88.82	I	Cement plant engineering	EUR	3,600,000
EKOF Flotation GmbH	Bochum/ Germany	100.00	I	Cement plant engineering	EUR	51,129
Humboldt Wedag Australia Pty Ltd.	Victoria/ Australia	100.00	I	Cement plant engineering	AUS	200,002
Humboldt Wedag Inc.	Norcross, Georgia/U.S.	100.00	I	Cement plant engineering	USD	1,000
Humboldt Wedag India Private Ltd.	New Delhi/India	100.00	I	Cement plant engineering	INR	19,200,000
KHD Humboldt Wedag Machinery Equipment (Beijing) Co. Ltd.	Beijing/China	100.00	I	Cement plant engineering	USD	780,000
<u>Joint ventures</u>						
KHD Engineering Holding GmbH	Vienna/ Austria	50.00	I	Holding company	EUR	100,000
KHD Humboldt Engineering OOO	Moscow/ Russia	50.00	I	Cement plant engineering	Rouble	3,350,000

D = directly owned

I = indirectly owned

4. Acquisitions

In connection with the legal separation of KHD Humboldt Wedag International Ltd. ("KHD Ltd."), Vancouver/Canada, into two separate groups in the first quarter of 2010, as part of which KHD AG became the holding company of the entire plant engineering operations including related services, KHD AG acquired several companies from KHD Humboldt Wedag International GmbH ("KIA"), Vienna/Austria, for a purchase consideration totalling € 12,621 thousand with effect from 29 March 2010. These are exclusively companies operating in the segment of plant engineering including related services, namely 100% shares in Humboldt Wedag Australia Pty. Ltd. (Australia), Humboldt Wedag Inc. (U.S.), Humboldt Wedag India Private Ltd. (India), Humboldt Wedag Machinery Equipment (Beijing) Co. Ltd. (China) as well as 50% shares in KHD Engineering Holding GmbH (Austria) and its subsidiary KHD Humboldt Engineering OOO. Furthermore, EKOF Flotation GmbH (Germany) was acquired.

The following assets, liabilities and equity relate to the companies newly acquired as at 29 March 2010:

ASSETS	€'000
Current assets	81,350
Non-current assets	1,595
Total assets	82,945
EQUITY & LIABILITIES	
Current liabilities	57,224
Non-current liabilities	1,268
Equity	24,453
Total equity & liabilities	82,945

The revenues and the results for the period of the companies acquired as part of the business combination can be analysed as follows:

	1 Jan to 31 March 2010	1 Jan to 30 Sep 2010
	€'000	€'000
Revenue	21,494	69,664
Net profit for the period	1,149	2,705

The acquisition costs paid in cash amounted to € 12,621 thousand. They are matched by net assets in the amount of € 24,453 thousand. The acquisition constituted a transaction under common control, with negative goodwill in the amount of € 11,832 thousand being allocated to the undistributed profit carryforward.

5. Construction Contracts

Claims and commitments under construction contracts are accounted for by disclosing the recognized profits and costs after netting progress billing and onerous contracts.

	30 Sep 2010	**31 Dec 2009**
	in €'000	in €'000

Costs previously incurred for work in progress	294,931	127,644
Proportionate profits under these contracts previously recognized	58,716	41,702
Total costs incurred and profits disclosed	353,647	169,346
Less allocated onerous contracts and provisions	(1,601)	(1,772)
Less progress billing and payments received on account	(405,853)	(176,574)
Balance of construction contracts	(53,807)	(9,000)

This amount is disclosed in the balance sheet as follows:

Gross amount due from customers for construction work	19,187	38,413
Gross amount due to customers for construction work with service provision	(72,994)	(47,413)
	(53,807)	(9,000)

Gross amount due to customers for construction work with service provision	(72,994)	(47,413)
Advances received under construction contracts without service provision	(7,187)	(3,723)
Commitments under construction contracts	(80,182)	(51,136)

Like in the prior year, all sales revenues of the first three quarters of 2010 result from construction contracts and services provided in the after sales segment.

6. Cash and Cash Equivalents

The Group discloses cash and cash equivalents in the amount of € 259,484 thousand (prior year: € 225,844 thousand), of which € 668 thousand (prior year: € 661 thousand) were deposited as a collateral for furnishing guarantees at banks.

	30 Sep 2010	**31 Dec 2009**
	in €'000	in €'000
Bank balances and cash on hand	71,977	91,210
Current bank deposits	186,839	133,973
Cash with restriction on disposal, encumbrance and/or alienation for collaterals or guarantees	668	661
	259,484	225,844

7. Taxes on Income

The government tax audit covering the fiscal years 2005, 2006 and 2007 at the level of the German KHD AG Group companies, which had already been opened in the prior year, was terminated in the first half year 2010. This tax audit will result in payment of taxes for prior years totalling roughly € 2.3 million, which have already been taken into account in the first-half financial statements of the Group. No deferred taxes have been capitalized on losses of the reporting period.

The adjusted tax rate for the Group was 33.6% in the interim reporting period (prior year: 32.9%).

The income tax expense in the amount of € 10,206 thousand booked in the current financial year 2010 (prior year: € 6,651 thousand) can be analysed as follows:

	1 Jan to 30 Sep 2010	1 Jan to 30 Sep 2009
	in €'000	in €'000
Current tax expense	(7,573)	(2,444)
Deferred tax expense	(2,633)	(4,207)
Annual tax expense	**(10,206)**	**(6,651)**

8. Related Party Disclosures

On 27 March 2010, KGC Strategische Dienstleistungen UG ("KGC") and the previous parent company Terra Nova Ltd., Vancouver/Canada, (formerly: KHD Ltd.) entered into a voting commitment agreement under which Terra Nova Ltd. will exercise its voting rights in the shares only in accordance with the instructions of KGC. As a consequence, the shares held by Terra Nova Ltd. are attributable to KGC and vice versa.

Based on the notifications under the German Securities Trading Act (WpHG), the share of voting rights held by KGC Strategische Dienstleistungen UG as at 19 November 2010 decreased to 21.86%. Consequently, the freefloat of KHD AG rose to significantly above 70%.

As at the end of March 2010, the following contracts existing between KHD AG Group companies and subsidiaries of Terra Nova Group were terminated:

- Treasury agreements / service and cost allocation agreements;
- Loan offer agreements;
- Asset and portfolio management agreement;
- Framework agency agreement;
- Technology licence agreement.

The bond arrangement agreement, which had been concluded with original effect from 1 December 2006 and provides for detailed regulations governing the services provided by KIA, a direct subsidiary of Terra Nova, with respect to the provision and collateralisation of a guarantee line for all industrial plant engineering companies of KHD AG Group under the lead management of Raiffeisen Zentralbank, Vienna/Austria, is expected to continue to exist until the end of November 2010.

Acquisitions

For details, see the related statements under Item 3.

Revenue

The revenue from related parties amounts to € 158 thousand (prior year from 1 January to 30 September 2009: € 5,218 thousand). It relates exclusively to revenue generated with Terra Nova Group companies, of which € 22 thousand related to the period from 1 July to 30 September 2010 (prior year: 1 July to 30 September 2009: € 307 thousand).

Costs

The costs of transactions with related parties can be analysed as follows:

	1 Jan to 30 Sep 2010	1 Jul to 30 Sep 2010	1 Jan to 30 Sep 2009	1 Jul to 30 Sep 2009
	in €'000		in €'000	
Terra Nova Group companies	2,857	342	32,607	1,199
	2,857	**342**	**32,607**	**1,199**

The revenue and costs are basically related to industrial plant engineering orders and the selling, marketing and financing activities within KHD AG Group.

Receivables

The Group discloses the following receivables from related enterprises as at 30 September 2010:

	30 Sep 2010	31 Dec 2009
	in €'000	in €'000
Terra Nova Group companies	13,041	51,354
	13,041	51,354

Like in the prior year, the receivables from Terra Nova Group companies basically relate to advances to KIA.

Liabilities

The liabilities include the following current items:

	30 Sep 2010	31 Dec 2009
	in €'000	in €'000
Terra Nova Group companies	742	8,314
	742	8,314

9. Other Disclosures

A dividend of € 3.00 per share (totalling € 49.4 million) was distributed to the Company's shareholders as at the end of the first quarter.

Through a resolution adopted by the General Meeting of Shareholders held of 23 March 2010, the capital stock of 16,571,276 no par value shares with a par value of € 2.00 was divided in 33,142,552 no par value shares with a par value of € 1.00, raising the number of treasury shares from 114,568 to 229,136 shares.

Through a resolution adopted by the General Meeting of Shareholders held of 23 March 2010, the Board of Directors were authorized, with the approval of the Supervisory Board, to increase the Company's capital stock by up to € 16,571,276.00 against cash contributions and/or contributions in kind, by issuing up to 16,571,276.00 new no par value shares made out to bearer.

Within the scope of its normal business transactions, the Group has contingent liabilities due to advance guarantees, performance bonds and guarantees for warranty obligations. The Group does not anticipate any material liabilities due to these commitments. Within the scope of its normal business activities, the Group has furnished guarantees in the amount of € 104.7 million (prior year 2009: € 83.5 million), especially via guarantees furnished by KIA. The increase by € 21.2 million is basically due to the described acquisition of the international investments.

10. Post-balance-sheet-date Events

As of December 21 th 2010 KHD AG has concluded a strategic partnership with Beijing (Peoples Republic of China) based CATIC Beijing Co., Ltd. ('CATIC'), a subsidiary of China's state-owned AVIC International Holding Corporation. Together, KHD and CATIC aim to become a market-leading force for the construction of cement plants by bidding on a wider range of projects. This includes especially turnkey projects.

To strengthen the relation with KHD, and as a condition for the effectiveness of the Co-operation Agreement, the Parties agreed that Max Glory Industries Ltd. ('MGI'), a Hong Kong based indirect wholly owned subsidiary of CATIC shall make a capital investment in KHD and, thereafter, shall hold 20% in the share capital of KHD.

The capital investment shall be implemented by way of a capital increase of up to 16,571,276 new no par value ordinary bearer shares from the existing authorized capital of KHD with statutory subscription rights of the existing shareholders.

Our principle credit line for bank guarantees amounting to € 150 Mio. with the previous consortium of banks was finally settled in November 2010.

There were no further major events after the end of the third quarter of 2010.

The Board of Directors

Cologne/Germany, 29 December 2010

Jouni Salo Manfred Weinandy

CONSOLIDATED FINANCIAL STATEMENTS OF KHD HUMBOLDT WEDAG INTERNATIONAL (DEUTSCHLAND) AG FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2009 IN ACCORDANCE WITH IFRS

Group Statement of Comprehensive Income for the Financial Year Ended 31 December 2009

	Note	2009	2008
		€'000	€'000
Revenue	3	360,295	339,099
Cost of sales		-300,635	-283,804
Gross profit		**59,660**	**55,295**
Other operating income	21	9,038	1,917
Distribution costs		-5,307	-7,082
General and administrative expenses		-8,455	-8,447
Other expenses	22	-8,996	-8,544
Restructuring income/expense	15	3,773	-9,755
Net finance income	23	3,952	1,978
Profit before tax		**53,665**	**25,362**
Income tax expense	24	-16,497	-10,134
Net profit for the year		**37,168**	**15,228**
Of which related to:			
Shareholders of parent company		37,102	15,276
Minority shareholders		66	-48
		37,168	**15,228**

Statement of Consolidated Comprehensive Income for the Financial Year 2009

	2009	2008
	€'000	€'000
Net profit for the year....................	37,168	15,228
Foreign exchange translation differences....................................	0	-53
Comprehensive income..............	**37,168**	**15,175**
Of which related to:		
Shareholders of parent company...	37,102	15,223
Minority shareholders	66	-48
	37,168	**15,175**

Like in the prior year, no income taxes were payable on foreign exchange translation differences.

Group Balance Sheet as at 31 December 2009

	Note	31 Dec. 2009 €'000	31 Dec. 2008 €'000
ASSETS			
Non-current assets			
Property and equipment	4	1,526	2,624
Goodwill	5	2,127	2,127
Other intangible assets	5	316	445
Deferred tax assets	7	237	701
Non-current financial assets	6	51,741	70,332
Total non-current assets		**55,947**	**76,229**
Current assets			
Inventories	8	13,663	6,241
Gross amount due from customers for contract work	9	38,413	47,863
Trade and other receivables	6	49,387	43,482
Intercompany receivables	6	3,678	19,085
Payments made in advance		26,235	29,052
Other financial assets	10	5,260	3,565
Income tax assets		11,461	—
Cash and cash equivalents	11	225,844	204,636
Total current assets		**373,941**	**353,924**
Total assets		**429,888**	**430,153**
EQUITY AND LIABILITIES			
Equity			
Issued capital		33,142	33,142
Capital reserves		1,776	1,776
Treasury shares		-221	-221
Currency differences		-53	-53
Undistributed profit carryforward		134,428	97,319
		169,072	131,963
Minority interest		659	638
Total equity	12	**169,731**	**132,601**
Non-current liabilities			
Other liabilities	16	7,558	5,994
Pension benefit obligations	14	21,159	21,926
Deferred tax liabilities	7	9,755	5,446
Provisions	15	7,748	5,405
Total non-current liabilities		**46,220**	**38,771**
Current liabilities			
Trade and other payables	16	100,791	95,001
Intercompany liabilities	16	4,914	6,107
Financial liabilities	13	3,552	1,167
Gross amount due to customers for contract work	17, 9	51,136	117,466
Income tax liabilities		10,970	6,592
Provisions	15	42,574	32,448
Total current liabilities		**213,937**	**258,781**
Total equity and liabilities		**429,888**	**430,153**

Consolidated Cash Flow Statement for the Financial Year Ended 31 December 2009

	2009 €'000	2008 €'000
Cash flows from operating activities		
Net profit for the year	37,168	15,228
Income tax expense recognised in the income statement	16,497	10,134
Net finance cost recognised in the income statement	-3,952	-1,978
Profit before tax and interest	**49,713**	**23,384**
Amortisation, depreciation and write-downs of non-current assets	1,087	1,104
Book gain on disposal of fixed assets	-2,029	—
Decrease/increase in trade receivables and financial assets	7,102	-14,798
Decrease/increase in inventories and gross amount due from customers for contract work	-883	1,822
Increase in payments made in advance and other financial assets	944	-3,154
Increase/decrease in trade and other payables and in gross amount due to customers for contract work	-55,979	26,983
Decrease in pension provisions	55	-177
Increase in provisions	12,597	19,975
Cash inflows from operating activities	**12,607**	**55,139**
Other non-cash transactions	67	-2,562
Dividends received	68	106
Interest paid	—	-82
Income tax paid	-17,200	-7,404
Cash flows from operating activities	**-4,458**	**45,197**
Cash flows from investing activities		
Interest received	650	2,108
Cash outflows for intangible assets	-112	-351
Cash outflows for property, plant and equipment	-616	-934
Gain on disposal of property, plant and equipment	132	9
Gain on disposal of consolidated companies and other business units less funds transferred	2,642	—
Cash inflows from repayment of non-current receivables	18,591	-14,763
Cash flows from investing activities	**21,287**	**-13,931**
Cash flows from financing activities		
Interest received	3,092	7,578
Payment for share repurchase from minority shareholders	-45	-704
Net amount of loans raised and repaid	2,385	-238
Increase in long term payables	-1,053	—
Variance in non-available funds	1,006	704
Cash flows from financing activities	**5,385**	**7,340**
Increase in cash and cash equivalents	22,214	38,606
Opening balance of cash and cash equivalents	202,969	164,310

Exchange rate effects	—	53
Closing balance of cash and cash equivalents	**225,183**	**202,969**

	31 Dec. 2009 €'000	**31 Dec. 2008 €'000**
Analysis of cash and cash equivalents		
Bank balances and cash	91,210	18,770
Short-term bank deposits	134,634	185,866
Total cash and cash equivalents	**225,844**	**204,636**
Cash with restriction on disposal, encumbrance and/or alienation for collaterals and guarantees	-661	-1,667
Closing balance of cash and cash equivalents	**225,183**	**202,969**

In 2009, the statement of consolidated cash flows showed cash and cash equivalents which increased by € 22.2 million to € 225 million. This increase in cash and cash equivalents is basically due to repayment of loans extended to KIA and to collaterals for furnished guarantees.

Consolidated Statement on Changes in Equity for the Financial Year Ended 31 December 2009

	Issued capital €'000	Capital reserves €'000	Treasury shares €'000	Currency differences €'000	Undistributed profit carryforward €'000	Minority interest €'000	Total €'000
31 Dec. 2007	**33,142**	**1,776**	**-221**	**—**	**81,874**	**1,439**	**118,010**
Net profit for the year	—	—	—	—	15,276	-48	15,228
Accumulated translation difference	—	—	—	-53	—	—	-53
Consolidated comprehensive income	—	—	—	-53	15,276	-48	15,175
Successive acquisition	—	—	—	—	169	-753	-584
31 Dec. 2008	**33,142**	**1,776**	**-221**	**-53**	**97,319**	**638**	**132,601**
Net profit for the year	—	—	—	—	37,102	66	37,168
Consolidated comprehensive income	—	—	—	—	37,102	66	37,168
Successive acquisition	—	—	—	—	7	-45	-38
31 Dec. 2009	**33,142**	**1,776**	**-221**	**-53**	**134,428**	**659**	**169,731**

Notes to the Consolidated Financial Statements for the Financial Year Ended 31 December 2009

1. Summary of Major Accounting and Measurement Rules

A. Basis of Preparation and Other Notes

The parent company of the Group is KHD ID,[1] with registered office in Colonia-Allee 3, 51067 Cologne/Germany, entered with the number 36688 in the Cologne Commercial Register, Department B. The Group is hereafter referred to as "the Group" or "KHD ID Group".

The majority shareholder of the Company is KHD Ltd., which held a direct investment of 74% in the Company as at 31 December 2009. The sets of annual financial statements of KHD ID and its subsidiaries have been included in the consolidated financial statements of KHD Ltd. The consolidated financial statements are filed with the United States Securities and Exchange Commission (SEC).

The shares of the Company are traded in the open stock market. The Company is, hence, not listed within the meaning of § 3 (2) German Stock Corporation Act (AktG), though not a publicly listed firm as defined under IFRS 8.2.

The financial year of KHD ID and its subsidiaries included in the consolidated financial statements corresponds to the calendar year.

The consolidated financial statements have been prepared according to the International Financial Reporting Standards (IFRS) as applicable in the European Union, that are required to be applied as at the balance sheet date. The IFRS comprise the IFRSs newly adopted by the International Accounting Standards Board (IASB), the International Accounting Standards (IAS) as well as the Interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and of the Standing Interpretations Committee (SIC). The Group is in compliance with the supplementary provisions under § 315 a German Commercial Code (HGB) regarding supplementary disclosures in the notes to the financial statements as well as under § 315 German Commercial Code (HGB) regarding the discussion and analysis by management.

The consolidated financial statements are prepared in euro. All amounts are, as a general rule, stated in thousands of euros (€'000).

The group income statement is prepared according to the cost of sales format.

To the extent that affiliated companies are mentioned in the notes to the consolidated financial statements under receivables or liabilities, these are KHD Ltd. Group companies which are not part of the group of entities consolidated by KHD ID Group.

B. Consolidation

Subsidiaries are companies where KHD ID 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 ID and are no longer consolidated from the date when control is discontinued. All intercompany transactions, balances and unrealised profits or losses on intragroup transactions are eliminated. The accounting and valuation methods applicable to subsidiaries under local law are adjusted in order to ensure consistency with the accounting rules of KHD ID. Minority interest is addressed separately.

The subsidiaries of the Group are listed in Note 2.

C. Foreign Currency Translation

Monetary items denominated in foreign currencies are translated at the rate in effect at the date of acquisition in the sets of individual financial statements and adjusted to the respective rate in effect at the balance sheet date at each balance sheet date. Resulting translation differences are recognised in the income statement.

Sets of individual financial statements prepared by the foreign subsidiaries are translated into euro according to the functional currency concept. The equity is translated at historical rates, assets and liabilities are translated at the rate in effect at the balance sheet date, income and expenses at average rates. The functional currency of the Group is the euro.

[1] It should be noted that throughout the financial statements the Company is defined as “KHD ID”.

D. Intangible Assets

Goodwill

In the first-time consolidated financial statements under IFRS, goodwill was taken over, on account of the reduced disclosure rules under IFRS 1, at the carrying amounts that have been computed according to previously applied accounting principles (§ 301 German Commercial Code (HGB)).

The goodwill corresponds to the positive difference between the acquisition cost of a business combination and the acquired remeasured assets and liabilities, which remains after allocating a purchase consideration, especially after identifying intangible assets. Goodwill is disclosed under intangible assets. It is subject to impairment tests, which are carried out at annual intervals and on specific occasions, and is accounted for at cost less write-downs to the lower fair value.

Licenses

Licenses are accounted for at amortised costs. Software licenses are amortised on a straight-line basis over a useful life of three years. No development costs required to be capitalised were incurred in the reporting year.

E. Property, Plant and Equipment

Property, plant and equipment are measured at cost less straight-line depreciation. The useful life of operating and office equipment and of other equipment is normally 3 to 10 years. Leasehold improvements are depreciated over the term of the lease. Gains on, and losses from, disposal of property, plant and equipment are determined with reference to their carrying amount and accounted for in the income statement.

Cost of repair of property, plant and equipment is, as a general rule, recognised as an expense. Expenses are regularly expensed as incurred. All major expenses for renewals and improvements are capitalised if it is probable that future economic benefit will flow to the Group in addition to the performance standard of the existing property, plant or equipment. Every following expense for repair and maintenance is expensed as incurred.

Property, plant and equipment is not remeasured according to the option under IAS 16. Under the leases concluded, the major risks and benefits from the leased asset remain at the level of the lessor. All leases constitute, hence, so called “operating leases”. Therefore, payments made within the scope of operating leases are recognised as an expense in the income statement.

F. Borrowing Costs

Borrowing costs are capitalised by KHD ID Group if they relate to acquisition or production of qualifying assets. Otherwise, these costs are recognised under net finance income/cost in the income statement.

G. Impairment Test of Long-lived Assets

Long-lived assets and 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 realisable. If the carrying amount is higher than the estimated realisable amount, an asset is written down to its realisable amount.

H. Investments and Other Financial Assets

Financial assets within the meaning of IAS 39 at the level of KHD ID Group relate either

- to financial assets that are measured at fair value and recognised as income, or to
- loans and receivables

and are classified accordingly. Financial assets are measured at fair value at the time of initial recognition. In the case of investments other than those classified as measured at fair value and recognised as income, this item includes also transaction costs that are directly attributable to the acquisition of the asset concerned.

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

Financial Assets Measured at Fair Value and Recognised as Income

At the level of KHD ID Group, the category of financial assets measured at fair value and recognised as income includes the financial assets held for trading. KHD ID Group has not taken advantage so far of the option to designate financial assets as financial assets to be measured at fair value and to be recognised as income at the time of initial recognition.

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

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or identifiable payments that are not listed in an active market. This category includes trade receivables as well as other receivables and assets. They arise if money, goods or services are directly provided to a debtor by KHD ID Group. They are classified as current assets, except for those that are due only after 12 months from the balance sheet date or that are classified as non-current on account of their economic nature. The latter are disclosed as non-current assets. After initial recognition, loans and receivables are measured at amortised cost by application of the effective interest method less impairments, if any. Gains and losses are recognised in accounting income if loans and receivables have been derecognised or impaired as well as within the framework of amortisation.

Impairment of Financial Assets

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

If there are objective indications that an asset accounted for at amortised cost has been impaired, the amount of the impairment loss is the difference between the carrying amount of the asset concerned and the present value of the anticipated future cash flows (except for anticipated future loan default), discounted at the original effective interest rate of the financial asset, i.e. at the effective interest rate determined at the time of initial recognition. The impairment loss is recognised as an expense as incurred.

If the amount of the write-down decreases in the following reporting periods and if this decrease can be objectively ascribed to an item that arose after the impairment had been recognised, the write-down previously recognised is reversed. The new carrying amount of the asset concerned must, however, not exceed amortised cost at the time of the reversal. The reversal is recognised in the income statement.

If there are objective indications with respect to trade receivables that not all amounts due will be received in accordance with the originally agreed terms stated on the invoice (such as, for example, an insufficient credit rating of a debtor, disagreement on the existence or amount of an account receivable, lack of enforceability of an account receivable for legal reasons, etc.), the impairment is made by use of an allowance account. Receivables are derecognised if they are classified as irrecoverable.

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

Cash and Cash Equivalents

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

Financial Liabilities

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

The financial liabilities at the level of KHD ID Group basically relate to

- financial liabilities (liabilities to banks and intercompany liabilities); and
- trade payables and other liabilities.

Financial liabilities are classified as current if KHD ID Group is not entitled to settle the financial liability concerned within 12 months from the balance sheet date.

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

Derivative Financial Instruments and Hedges

At the level of KHD ID, derivative financial instruments are regularly used for mitigating the foreign currency risk of recognised assets and liabilities or of planned transactions denominated in foreign currency. All contracts concluded are foreign exchange contracts.

These are initially recognised at fair value at the date the contract is concluded and carried forward at fair value subsequent to initial recognition in the following periods. The fair value of derivatives is measured based on listed prices. If no such prices are available, advantage is taken of discounted cash flow analyses, using corresponding yield curves for the term to maturity of the instruments concerned.

As the derivative financial instruments concluded do not meet the strict hedge accounting requirements, changes in value are recognised in the income statement as incurred.

I. Inventories

Inventories have been recognised at the lower of cost or net realisable value. Cost is determined on a case-by-case basis. The net realisable value is composed of the estimated selling price in the course of ordinary transactions less estimated cost of completion and costs to sell.

J. Construction Contracts

Revenue and profits under long-term construction contracts are realised according to the stage of completion under IAS 11. The stage of completion depends on the relation of contract costs incurred already as at the end of the financial year to the estimated total contract cost as at the end of the financial year. Losses under long-term contracts are fully recognised as incurred irrespective of the stage of completion reached in the financial year in which the losses become identifiable. Long-term contracts which are measured according to the percentage-of-completion method are disclosed under gross amounts due from or to customers for contract work depending on the amount of requested payments in advance. They have been measured at cost plus a proportionate profit depending on the reached stage of completion. To the extent that the accumulated asset (contract cost and contract revenue) exceeds the specific payments in advance invoiced, construction contracts are disclosed on the asset side under gross amount due from customers for contract work. If there is a negative balance after deducting payments in advance, this balance is disclosed as gross amount due to customers for contract work on the liability side. Anticipated contract losses are covered through write-downs or provisions. In determining these losses, identifiable risks are taken into account.

K. Pension Commitments and Retirement Benefit Plans

The provisions for pensions disclosed in the balance sheet constitute the present value of the defined-benefit commitment as at the balance sheet date. The present value of the defined-benefit commitment is determined annually by independent actuaries according to the projected unit credit method. The present value of the defined-benefit commitment is determined by discounting the estimated future cash outflows by means of interest rates of high-grade industrial bonds. The Group takes advantage of the so called corridor method under IAS 19. According to this method, profits or losses from measurement of a pension commitment are not required to be recognised if they are due only to a change in actuarial parameters and the change varies within a corridor of 10% above or below the scope of the commitment recognised in the prior year. Excessive amounts are realised over the anticipated average working life of the employees under the respective pension plan. Since 1996, the Group has no longer entered into new pension commitments.

For the individual, defined-benefit pension commitments, the Group pays contributions out of the salaries of the employees concerned to public or private pension insurers on a contractual basis.

L. Provisions

Provisions are made if the Group has legal or factual commitments towards third parties as a result of past events and the amount of the commitment can be reliably estimated.

The scope of liability for all products covered by warranty agreements is estimated by the Group as at the balance sheet date. The provision is made on the basis of services provided in the past. The enterprise is party to various legal disputes. The Board of Directors expect that the outcome of these legal disputes will not have a material effect on the financial position, results or cash flows.

M. Deferred Income Tax

Deferred tax is accounted for and measured under IAS 12. Deferred tax assets and liabilities are shown as separate balance sheet items in order to take into account the future tax effect of timing differences between the amount of assets and liabilities recognised in the balance sheet and the amount to be recognised for tax purposes.

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

N. Realisation of Income and Expenses

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

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

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

The cost of sales include primarily cost of purchased merchandise and services, transport costs, wages and salaries, overheads, commission and customs duties.

O. Estimates and Assumptions

The assumptions made and estimates used in preparing the consolidated financial statements have had an influence on the recognition and amount of the assets, liabilities, income, expenses and contingent liabilities recognised. These assumptions and estimates basically refer to uniform determination of economic useful lives at group level, to the determination of the stage of completion for construction contracts, the assumption concerning the recoverability of goodwill and investments, the measurement of provisions and the recoverability of future tax benefits. In specific cases, actual amounts can deviate from the underlying assumptions and estimates. Changes are normally taken into account in the income statement at the time of better knowledge.

P. Applying New or Revised International Financial Reporting Standards

P.1 Standards and Interpretations Required to Be Applied in the Reporting Period

In the reporting period, the Group applied all new and revised standards and interpretations that were published by the International Accounting Standards Board (IASB) and by the International Financial Reporting Interpretations Committee (IFRIC) of the IASB to the extent that these had taken effect for reporting periods beginning on 1 January 2009. Except for IAS 23, the adoption of these revised standards and interpretations had no impact on the consolidated financial statements. They led, however, to changes in the presentation of financial information as well as partly to changes in accounting and measurement methods.

- Change to IFRS 1 and IAS 27 concerning the determination of the cost of a subsidiary in individual financial statements (applicable for financial years beginning on or after 1 January 2009);

- Change to IFRS 2 concerning vesting conditions and cancellations (applicable for financial years beginning on or after 1 January 2009);

- Change to IFRS 7 concerning the improvement of disclosures on financial instruments (applicable for financial years beginning on or after 1 January 2009);

- IFRS 8, Business Segments (applicable for financial years beginning on or after 1 January 2009). The clarifications concerning IFRS 8 made within the framework of improving the IFRSs (2007 to 2009) that the amount of accumulated assets per reportable segment is not a minimum disclosure within the scope of segment reporting and that these disclosures are only required to be made to the extent that disclosures concerning the amount of the segment assets are regularly the subject of internal reporting to the primary decision-taker of the undertaking will have no impact on the presentation of the segment reporting because this had already been interpreted accordingly by the Group in adopting IFRS 8;

- Change to IAS 1 concerning the revised requirements for presentation of some sets of financial statements and revised wording (applicable for financial years beginning on or after 1 January 2009);

- Revision of IAS 23, Borrowing Costs (applicable for financial years beginning on or after 1 January 2009);

- Changes to IAS 32 and IAS 1 concerning terminable financial instruments and obligations arising upon liquidation (applicable for financial years beginning on or after 1 January 2009);

- Change standard within the framework of the annual IFRS improvement process (May 2008), minor changes to various IFRSs (mostly applicable for financial years beginning on or after 1 January 2009);

- Change to IAS 39 and IFRIC 9 concerning embedded derivatives (applicable for financial years ending on or after 31 December 2008);

- IFRIC 13, Customer Loyalty Programmes (applicable for financial years beginning on or after 1 July 2008).

The application of these changed requirements had no impact on the Group's results of operation and financial position.

P.2 Published Standards and Interpretations That Are Not Yet Applicable

The following standards or changes to, and revisions of, standards as well as interpretations had not yet been mandatory applicable:

- Revision of IFRS 1, additional exceptions concerning retroactive application of the IFRSs (applicable for financial years beginning on or after 1 July 2009);

- Revision of IFRS 3 as well as change to IAS 27 concerning the changed presentation of given aspects of business combinations in consolidated financial statements (applicable for financial years beginning on or after 1 July 2009). As, from today's point of view, there will be no business combinations at the level of the Group in the financial year of adoption, the application of this Standard is not expected to impact the consolidated financial statements;

- Change to IAS 39 concerning qualifying hedged items (applicable for financial years beginning on or after 1 July 2009);

- IFRIC 12, Service License Agreements (applicable for financial years beginning on or after 29 March 2009);

- Changes to IFRIC 14, Advance Contributions under Minimum Funding Requirements (applicable for financial years beginning on or after 1 January 2011);

- IFRIC 15, Agreements on Establishment of Properties (applicable for financial years beginning on or after 1 January 2010);

- IFRIC 16, Hedging Net Investments in Foreign Operations (applicable for financial years beginning on or after 30 June 2010);

- IFRIC 17, Distributions in Kind to Owners (applicable for financial years beginning on or after 1 July 2009);

- IFRIC 18, Transfer of Assets by Customers (applicable for financial years beginning on or after 1 July 2009).

In addition, the following standards or changes to, and revisions of, standards as well as interpretations that also had not yet been mandatorily applicable were issued in 2009:

- Change standard within the framework of the annual IFRS improvement process (April 2009), minor changes to various IFRSs (mostly applicable for financial years beginning on or after 1 January 2010);

- Change to IFRS 1 concerning additional exceptions regarding retroactive application of the IFRSs (applicable for financial years beginning on or after 1 January 2010). This change introduces additional exceptions regarding mandatory retroactive application of all standards and interpretations applicable as at the balance sheet date of the first set of financial statements under IFRS;

- Change to IFRS 2 concerning intragroup share-based payments (applicable for financial years beginning on or after 1 January 2010). This change clarifies the accounting for share-based payments at group level, especially in cases where the enterprise that receives goods and services deviates from the enterprise that has granted the commitment;

- Change to IAS 32, Financial Instruments: Presentation — Accounting for Subscription Rights (applicable for financial years beginning on or after 1 February 2010). If an enterprise grants subscription rights, options or warrants for a given number of treasury shares in a currency other than its functional currency, these are required to be disclosed as equity instruments as long as these are proportionately granted to all existing shareholders of the same class;

- Change to IAS 24, Related Party Disclosures — Government Enterprises and Definition of a Related Party (applicable for financial years beginning on or after 1 January 2011). Especially the definition of related parties under IAS 24.9 was fundamentally revised. Another major focus of the revision is the introduction of a reduced disclosure requirement for enterprises that are under the control, joint control or significant influence of the government;

- IFRS 9, Financial Instruments (applicable for financial years beginning on or after 1 January 2013). This Standard fundamentally changes the requirements with respect to classification and measurement of financial instruments, with its scope being initially restricted to financial assets. Financial liabilities are excluded from the scope of application for the time being.

- IFRIC 19, Repayment of Financial Liabilities through Equity Instruments (applicable for financial years beginning on or after 1 July 2009). This interpretation is applicable if the newly negotiated contractual conditions of a financial liability permit the debtor to, fully or partly, repay a financial liability by issuing own equity instruments (so-called debt for equity swaps). This interpretation addresses exclusively the accounting at the level of the debtor, i.e. of the issuer of the equity instruments, and furthermore assumes that the creditor is an unrelated third party. Anticipated effects on the consolidated financial statements depend on whether financial liabilities are repaid through equity instruments.

- Changes to IFRIC 14 and IAS 19 concerning the limitation of a defined-benefit asset, minimum funding requirements and their interaction (applicable for financial years beginning on or after 1 January 2011). The purpose of the changes is to permit enterprises under given circumstances to recognise as an asset given types of advances within the scope of minimum funding contributions.

The Group anticipates that, except for additional disclosure requirements, the application of the publications referred to above, to the extent that these are applicable to the Group's business activities, will have no major impact on the consolidated financial statements in the period of adoption.

2. Subsidiaries of KHD Humboldt Wedag International (Deutschland) AG as at 31 December 2009

The group companies include:

Name of Company	Based in	Shareholding in %		Major activity	Capital stock/ share capital	
KHD Humboldt Wedag GmbH...	Cologne	100.00	D	Holding company	€	15,339,300
Humboldt Wedag GmbH	Cologne	100.00	I	Construction of cement plants	€	7,000,000
ZAB Zementanlagenbau .... GmbH Dessau	Dessau	100.00	I	Holding company	€	2,000,000
ZAB-Industrietechnik .... und Service GmbH......................	Dessau	100.00	I	Construction of cement plants	€	80,000
Blake International Ltd.	Tortola/BVI	100.00	I	Holding company		USD 1,000
KHD Humboldt Wedag .... Industrial Services AG................	Cologne	88.35	I	Construction of cement plants	€	3,600,000
HIT Paper Trading GmbH	Vienna	88.35	I	In liquidation	€	35,000
Paper Space GmbH	Cologne	88.35	I	Inactive	€	25,000

D = directly owned
I = indirectly owned

Except for Paper Space GmbH, which is insignificant for the Group's results of operation and financial position, all Companies are fully consolidated.

Effective 7 October 2009, KHD ID sold its investment in HUMBOLDT WEDAG Coal & Minerals Technology GmbH, Cologne/Germany, (CMT) to an Indian acquirer.

As reported in previous years, the group sister company KIA acquired from KHD as at 31 December 2005 the shares in HW U.S., Humboldt Wedag (S.A.) (Pty) Ltd., South Africa, Humboldt Wedag India Private Limited, India, Humboldt Wedag Australia Pty Ltd., Australia, and EKOF Flotation GmbH, Bochum/Germany.

The contractually agreed measurement at fair market value had already been carried out by a professionally qualified auditor engaged as an external expert as at 31 December 2006. The shares in the Companies sold were measured in compliance with the regulations of the Institut der Wirtschaftsprüfer (IDW S1). Based on the expert opinion on hand, the parties agreed on a purchase consideration of € 12,200 thousand under the purchase settlement agreement dated 21 December 2006.

In the financial year 2007, another expert opinion including complementary statement of an audit firm engaged as an external expert was obtained in order to secure the purchase consideration. The Companies were measured within the scope of this expert opinion also in compliance with the regulations of the Standard IDW S1. Based on the above-mentioned expert opinions, the purchase consideration of € 12,200 thousand agreed between the parties was confirmed.

In addition, as agreed in the purchase agreement, KHD is paid a 30% share in the profits of the years 2006 to 2010 realised by the Companies sold to the extent that these profits exceed a return on investment of 18.75% in relation to the consolidated equity of KHD Ltd. The necessary return on investment was not reached for the financial years from 2006 to 2008. KHD's claim for the financial year 2009 will be computed, and possibly accounted for, in 2010.

3. Segment Reporting

External segment reporting is based on intragroup management control as well as internal financial reporting depending on the nature of the products and services offered. The Group is a one-segment enterprise because it almost exclusively operates in the industrial plant engineering sector. The activities, which are comprised of asset management and holding activities, are not separately analysed in the internal financial reporting and are therefore not used for assessing segment performance and for the purpose of resource allocation. Management control is especially based on the variables of the balance sheet and income statement. The sales variable analysed is comprised of revenue under construction contracts and from services in the after sales segment. These are not separately analysed.

The major business activity of the Group is development, production and distribution of industrial facilities, especially cement plants. The range of the services offered by the Group includes the following components:

- Process engineering;
- Engineering (delivery, assembly and commissioning of plants, mechanical systems and components in the cement plant engineering sector);
- After sales services.

These components are not analysed in detail within the internal financial reporting. The measurement rules applied to the segment reporting of the Group are based on the IFRS rules applied in the consolidated financial statements.

The Board of Directors in its capacity as the senior decision-taking body assesses the earning capacity of the segment by means of the result from operations (profit/loss before tax).

The following table provides an overview of the Group's segment for the financial years 2009 and 2008:

	2009	2008
	€ million	€ million
Order intake	58	374
Orders on hand*	213	530
Revenue	360	339
Cost of sales	301	284
Gross profit	59	55
Expenses	23	34
Profit before tax	54	25
Increase in cash and cash equivalents**	22	39
Total assets*	430	430
Liquidity*	226	205
Liabilities*	260	298

* Figures refer to respective values as at 31 December of the financial years stated

** Excluding cash restricted

Notes on Geographical Segments

The Group operates worldwide. The sales revenues of the Group from transactions with external customers as well as information about the segment assets (non-current assets excluding deferred tax assets and financial assets) can be classified by geographical segments as follows:

	Revenue		Non-current assets	
	2009	2008	2009	2008
	in €'000		in €'000	
Europe	29,157	33,716	3,969	5,196
Of which Germany	19,935	14,173	3,969	5,196
Eastern Europe and Russia	162,687	97,198		
North America/Canada	2,188	14,986	—	—
Middle East	99,192	110,030	—	—
India	28,179	31,609	—	—
Asia	32,980	48,984	—	—
Other	5,912	2,576	—	—
	360,295	339,099	3,969	5,196

The revenues were allocated to the different geographical segments according to the contract site of the deliveries and services.

Notes to Key Accounts

The key accounts of the Group account for around € 197 million (prior year: € 140 million) of consolidated revenue, which amounts to € 360 million (2008: € 339 million). An analysis is as follows:

	2009	2008
	€ million	€ million
Customer 1	62	46
Customer 2	41	39
Customer 3	39	25
Customer 4	28	17
Customer 5	27	13

The above table shows the biggest customers in the respective years stated.

4. Property, Plant and Equipment

Cost	Leasehold improvements/ re-establishment of previous structural conditions	Plant & equipment	Total
	in €'000	in €'000	in €'000
31 Dec. 2007	**717**	**17,999**	**18,716**
Additions	—	934	934
Disposals	—	-303	-303
31 Dec. 2008	**717**	**18,630**	**19,347**
Additions	—	627	627
Disposals	**-657**	-12,887	-13,544
31 Dec. 2009	**60**	**6,370**	**6,430**
Accumulated depreciation and write-downs			
31 Dec. 2007	**449**	**15,659**	**16,108**
Additions	56	853	909
Disposals	—	-294	-294
31 Dec. 2008	**505**	**16,218**	**16,723**
Additions	42	804	846
Disposals	-520	-12,145	-12,665
31 Dec. 2009	**27**	**4,877**	**4,904**
Net carrying amount			
31 Dec. 2008	**212**	**2,412**	**2,624**
31 Dec. 2009	**33**	**1,493**	**1,526**

The disposals of the financial year 2009 include net carrying amounts that relate to the disposals of CMT and of the production operations in the amount of € 159 thousand and € 577 thousand, respectively.

5. Goodwill and Other Intangible Assets

Cost	Goodwill €'000	Licenses €'000	Total €'000
31 Dec. 2007	**2,127**	**1,890**	**4,017**
Additions	—	351	351
Disposals	—	—	—
31 Dec. 2008	**2,127**	**2,241**	**4,368**
Additions	—	106	106
Disposals	—	-90	-90
31 Dec. 2009	**2,127**	**2,257**	**4,384**
Accumulated amortisation and write-downs			
31 Dec. 2007	**—**	**1,601**	**1,601**
Additions	—	195	195
Disposals	—	—	—
31 Dec. 2008	**—**	**1,796**	**1,796**
Additions	—	241	241
Disposals	—	-96	-96
31 Dec. 2009	**—**	**1,941**	**1,941**
Net carrying amount			
31 Dec. 2008	**2,127**	**445**	**2,572**
31 Dec. 2009	**2,127**	**316**	**2,443**

The licenses have basically been accounted for at the level of HW. The predominant portion of amortisation and write-downs are included in cost.

Goodwill

Like in the prior year, the goodwill disclosed as at 31 December 2009 results from the acquisition of HW. The carrying amount is regularly examined for impairment through comparison with its value in use. This calculation is based on the medium-term planning approved by management, which covers a 5-year period. To determine the value contributed by perpetuity (value contributed after expiration of the detailed planning period), operative, sustained cash flows are extrapolated, using a growth rate of 2.0% p.a. This growth rate reflects management's long-term expectation. The discounting factor was developed on the basis of market data and amounts to 12.01% before tax (prior year: 14.05%). As the value in use exceeded the carrying amount, no write-downs had to be made under IAS 36.

A respective reduction of the cash flows and a respective increase in the discounting rate and, hence, the major measurement parameters of 1.0% do not lead to a material reduction that would cause a write-down requirement.

6. Receivables and Financial Assets

	31 Dec. 2009 in €'000	31 Dec. 2008 in €'000
Current financial assets		
Trade receivables	42,264	33,909
Less allowances for impairment of receivables	-652	-762
Trade receivables, net	41,612	33,147
Intercompany receivables	3,678	19,085
Other financial assets	5,260	3,565
Other receivables	7,775	10,335
Current receivables	**58,325**	**66,132**
Non-current financial assets		
Long-term borrowings to affiliates	47,676	69,736
Other non-current financial assets	4,065	596
Non-current financial assets	**51,741**	**70,332**

The current and non-current loans and intercompany receivables fell by € 37,467 thousand from € 88,821 thousand in the prior year to € 51,354 thousand. The free liquidity transferred by the Group to the group sister company KIA, which performs the treasury function for all operative Companies of KHD ID Group, amounted to € 47,676 thousand (prior year: € 69,736 thousand). Although all underlying contracts have a short term, the amounts are disclosed under non-current financial assets on account of their economic use. They include deposits in the amount of € 16,750 thousand (prior year: € 17,866 thousand) within the framework of drawings on the guarantee line granted by Raiffeisen Zentralbank, Vienna/Austria, (RZB) that exists at the level of KIA. The related receivables have been secured by KHD Ltd. in its capacity as the parent company of the Group as a whole.

The other receivables include assets that result from input tax claims in the amount of € 4,929 thousand (prior year: € 2,504 thousand). The increase in other non-current financial assets results from deferral of an account receivable from a customer in the amount of € 3,251 thousand until 30 August 2011, which accrues interest at a rate of 4% p.a. The interest is payable on each 31 December /30 June in a year.

No allowances were made for trade receivables in the amount of € 1,492 thousand (prior year: € 2,451 thousand) which had been overdue at the repayment date because no material change in the credit standing of these debtors was identified and the outstanding amounts are expected to be settled on a timely basis.

Age Structure of Overdue, But Non-impaired Receivables

	31 Dec. 2009 in €'000	31 Dec. 2008 in €'000
60 to 90 days	241	708
90 to 120 days	20	674
More than 120 days	1,231	1,069
Total	1,492	2,451

Overdue receivables are monitored at monthly intervals. Specific allowances are made on the basis of this monitoring if there are corresponding objective indications.

Movements in Allowances

	2009 in €'000	2008 in €'000
Allowances at the beginning of the year	762	1,012
Addition	405	452
Utilisation	-377	-554
Reversal	-138	-148
Allowances at the end of the year	652	762

7. Deferred Tax Assets and Liabilities

The Company has recognised deferred taxes from temporary differences between the IFRS and tax balance sheets. As in the prior year, the underlying tax rate is 31.6%. This basically corresponds to the German income tax rates.

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

The total amount of the non-forfeitable loss carryforwards at group level is € 57.4 million (prior year: € 97.9 million) for corporate income tax and € 62.4 million (prior year: € 75.6 million) for municipal trade tax, with corresponding corporate income tax loss carryforwards of € 8.9 million (prior year: € 47.2 million) being used for determining deferred taxes. No deferred taxes were capitalised for corporate income and trade tax loss carryforwards in the amount of € 48.5 million (prior year: € 50.7 million) and € 62.4 million (prior year: € 54.6 million), respectively.

The significant decrease in deferred tax assets from the prior year is primarily due to tax loss carryforwards realised in the financial year.

Deferred tax assets and liabilities arise from the following items:

	31 Dec. 2009 in €'000	31 Dec. 2008 in €'000
Deferred tax assets		
Provisions	1,143	1,194
Tax loss carryforwards	2,155	10,810
Netted with deferred tax assets	-3,061	-11,303
	237	701
Deferred tax liabilities		
Work in progress /POC method	-12,816	-16,749
Netted with deferred tax liabilities	3,061	11,303
	-9,755	-5,446

8. Inventories

	31 Dec. 2009 in €'000	31 Dec. 2008 in €'000
Raw materials, consumables and supplies	9,056	9,140
Work in progress	7,609	40
Write-downs to net selling price	-3,002	-2,939
	13,663	6,241

In the financial year, inventories in the amount of € 5,893 thousand (prior year: € 4,669 thousand) were expensed. The write-downs to net selling amounts in the financial year amounted to € 1,923 thousand (prior year: € 181 thousand). These write-downs exclusively relate to raw materials, consumables and supplies, whose carrying amount is € 6,624 thousand (prior year: € 2,939 thousand). The increase in work in progress results from the measurement of components of cancelled orders that are suitable for disposal. These components are measured at the expected selling price realisable in the market.

9. Construction Contracts

In accounting for claims or commitments under construction contracts, the profits and costs recognised are disclosed after netting progress billing, advances and loss-making contracts.

	31 Dec. 2009 in €'000	31 Dec. 2008 in €'000
Cost previously incurred for work in progress	127,644	164,811
Proportionate profits under these contracts previously recognised	41,702	43,378
Total costs incurred and profits disclosed	169,346	208,189
Less netted contract losses and provisions	-1,772	-1,329
Less process billing and advances received	-176,574	-272,326
Balance of construction contracts	-9,000	-65,466
This amount is disclosed in the balance sheet as follows:		
Gross amount due from customers for contract work	38,413	47,863
Gross amount due to customers for contract work	-47,413	-113,329
	-9,000	-65,466
Gross amount due to customers for contract work	-47,413	-113,329
Advances received under construction		

contracts without services rendered	-3,723	-4,137
Commitments under construction contracts	-51,136	-117,466

Like in the prior year, all sales revenues of the financial year 2009 result from construction contracts and service provision in the after sales segment.

10. Other Financial Assets

The increase in other financial assets from € 3,565 thousand to € 5,260 thousand is due to exchange gains as at 31 December 2009.

11. Cash and Cash Equivalents

The Group discloses cash and cash equivalents of € 225,844 thousand (prior year: € 204,636 thousand), of which € 661 thousand (prior year: € 1,667 thousand) were deposited with banks as collaterals for furnishing guarantees.

	31 Dec.	
	2009 in €'000	2008 in €'000
Bank balances and cash	91,210	18,770
Short-term bank deposits	133,973	184,199
Cash with restraint on disposal, encumbrance or alienation for collateralisation or guarantees	661	1,667
	225,844	204,636

12. Equity

Given an unchanged capital stock of KHD ID of € 33,142,552.00, the number of ordinary shares subscribed for and fully paid up totals 16,571,276 shares with a par value of € 2.00 per share. The shares are made out to bearer. KHD Ltd. advised that it owned more than one fourth of the shares of KHD ID and additionally a majority shareholding under § 16 (1) German Stock Corporation Act (AktG). As in the prior year, the total capital share of KHD Ltd. is roughly 74%.

During the last few years, KHD ID acquired 114,568 of its treasury shares through purchase. The historical cost of the treasury shares amounts to € 221 thousand. These shares are carried as "treasury shares". The Company can reissue these shares at a later date.

The minority interest relates to the minority shareholders of KIS as at 31 December 2009 (11.65%; prior year: 12.34%). The prior year's minority interest in Blake of 0.01% was acquired in the reporting year.

Successive acquisitions are presented according to the partial remeasurement method.

Approved Capital

The Ordinary Meeting of Shareholders held on 29 September 2004 authorised the Board of Directors, with the approval of the Supervisory Board, to increase the Company's capital stock once or repeatedly by a total amount of up to € 14,400,000 until 31 May 2009 inclusive by issuing up to 7,200,000 new no par value shares made out to bearer against cash contributions. After the 2004 and 2006 capital increases, the approved capital decreased to € 10,079,392 through issue of up to 5,039,696 shares made out to bearer.

The deadline referred to above expired as at the time the consolidated financial statements were prepared, without any new shares being issued.

13. Financial Liabilities

	2009 in €'000	2008 in €'000

Current financial liabilities

Loans granted by banks or third parties	152	1,167
Loans granted by affiliated companies	3,400	—
	3,552	1,167

14. Pension Commitments

The retirement benefits paid at group level relate exclusively to the domestic territory. They are paid under defined-benefit pension plans, which are funded by making pension provisions. After the pension plans had been frozen in 1996, it is no longer possible for the employees to acquire additional vested rights to future pensions. The claims to promised and vested benefits under the pension plans arise upon application of the beneficiaries, providing supporting evidence of receipt of legal pensions.

Interest expenses of € 1,219 thousand (prior year: € 1,142 thousand) are disclosed in the income statement of the financial year. The employer's proportionate pension insurance contributions amount to € 2,408 thousand (prior year: € 2,470 thousand).

Both in 2009 and in the prior year, the Group took advantage of the so called corridor method under IAS 19. According to this method, profits or losses from measurement of the pension commitment are not required to be recognised if they are due only to a change in actuarial parameters and the change varies within a corridor of 10% above or below the amount previously recognised (DBO). The equivalent amount of the pension commitments has not been deposited in a fund or in the form of plan assets.

The major actuarial assumptions made are as follows:

	31 Dec.		31 Dec.		31 Dec.
	2009	2008	2007	2006	2005
Discounting rate	5.30%	6.00%	5.34%	4.75%	4.75%
Variance in pensions due to linkage with earnings	2.00%	2.00%	1.50%	1.50%	1.50%
Employee turnover	0%	0%	0%	0%	0%

	31 Dec.		31 Dec.		31 Dec.
	2009	2008	2007	2006	2005
	in €'000	in €'000	in €'000	in €'000	in €'000
Defined benefit obligation	21,656	21,374	22,080	23,073	23,222
Empirical adjustments	-197	-81	—	—	—

No empirical adjustments were determined for the years from 2005 to 2007.

Defined Benefit Obligation

Amount Required to Be Disclosed in the Balance Sheet

	31 Dec. 2009 € '000	31 Dec. 2008 € '000
Defined benefit obligation (unfunded)	21,656	21,374
Less unrecognised actuarial (gains)/losses	1,311	44
Amount required to be disclosed in the balance sheet	20,345	21,330
Deferred compensation	814	596
Amount carried on the balance sheet	21,159	21,926

Reconciliation of Present Value of Commitment (Beginning/End of Year)

	2009 € '000	2008 € '000
Defined benefit obligation as at 1 Jan.	21,374	22,080
Current service cost	0	0
Interest cost	1,219	1,142
Benefits actually paid (total)	-1,377	-1,367
Transfer	-777	—
Gains due to empirical adjustments	-197	-81
Actuarial gains due to variances in parameters	1,414	-400
Defined benefit obligation as at 31 Dec.	21,656	21,374

Future Benefits

	€'000
Expected pension payments	
in 2010	1,444
in 2011	1,505
in 2012	1,540
in 2013	1,570
in 2014	1,594
2015 to 2019	7,975

15. Provisions

	Guarantee €'000	Risk of litigation €'000	Restruc-turing €'000	Potential loss €'000	Total €'000
Provisions as at 1 Jan. 2009	17,798	407	9,755	9,893	37,853
Provisions made	20,903	0	239	5,090	26,232
Provisions released	-1,932	-288	-4,012	-3,934	-10,166
Provisions utilised/reclassified	1,467	-17	-532	-4,366	-3,448
Retirement from group of consolidated entities	-149	0	0	0	-149
Provisions as at 31 Dec. 2009	38,087	102	5,450	6,683	50,322

	31 Dec. 2009 €'000	2008 €'000
Non-current (guarantee)	7,748	5,405
Current	42,574	32,448
	50,322	37,853

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

The increase in non-current provisions is primarily due to accounting-related additions to warranty provisions in the amount of € 20.9 million.

The calculation of the restructuring provision in the amount of € 9.7 million made in 2008 was based on an assumed workforce reduction in the engineering segments and administrative as well as production functions. Due to the disposal of the production operations, the portion of the provision that had been made for staff of the production operations was no longer necessary. In addition, lower provisions were necessary in the other areas due to employee turnover.

The recalculation of the restructuring provision disclosed a total amount of € 5.5 million. The amount of € 3.8 million released has been separately disclosed as restructuring income. The provision for restructuring and staff termination cost is based on best estimates of the Board of Directors with respect to the expenses directly related to the restructuring. These were calculated on the basis of the social plan adopted in the financial year 2009. The expenses solely include post-employment benefits.

16. Liabilities

	31 Dec. 2009 in €'000	2008 in €'000
Trade payables	96,622	90,290
Intercompany liabilities	4,914	6,107
Tax and social insurance contributions	58	—
Non-current other liabilities	7,558	5,994
Current other liabilities	4,111	4,711
	113,263	107,102

The non-current other liabilities include commitments due to warranties already acknowledged in the amount of € 7,558 thousand (prior year: € 5,994 thousand).

The trade payables disclosed as at the balance sheet date are subject to the usual retentions of title. The intercompany liabilities exclusively relate to net trade payables to KIA. The item current other liabilities includes a liability of € 1,976 thousand for the reimbursement claim of MFC Corporate Services AG in the amount of the expenses it incurred for services provided to KHD ID.

The carrying amounts disclosed as at the balance sheet date basically correspond to fair values.

17. Commitments under Construction Contracts

This item includes the commitments under construction contracts which are disclosed by application of IAS 11. This commitment constitutes the liability-side balance of the amounts analysed in Note 9. In addition, this item includes received advances required to be recognised under IAS 11 which are paid by customers at the time orders are accepted and which are not yet matched by work performed by KHD ID Group.

18. Staff Costs

	2009 in €'000	2008 in €'000
Wages and salaries	34,742	36,054
Social security contributions and costs	5,460	5,884
Pension cost included in staff costs	—	—
	40,202	41,938

In the financial year, the number of employees fell from 600 to 391.

	as at 31 Mar. 2009	as at 30 Jun. 2009	as at 30 Sept. 2009	as at 31 Dec. 2009
Administrative.	471	458	461	391
Industrial	103	103	103	0
Total	574	561	564	391

In the financial year, the average number of employees was 522, of whom 73 industrial employees (prior year: 583 employees, of whom industrial: 100 employees).

19. Total Emoluments Paid to Supervisory Board

The members of the Supervisory Board are paid no emoluments for their activity. All emoluments for the activities performed by the Supervisory Board members are paid under the service and cost allocation agreement. In the reporting year, the Group was charged expenses totalling around € 1.4 million (prior year: € 1.2 million).

There are no pension commitments towards former members of the Supervisory Board and their surviving dependants. Furthermore, no contingent liabilities were incurred for this circle of persons. There were no receivables due to loans or advances to members of the Supervisory Board as at 31 December 2009.

20. Total Emoluments Paid to Directors and Former Directors

As in the prior year, the Board of Directors of KHD ID were paid no direct emoluments. All emoluments for the activities performed by the Directors are paid under the service and cost allocation agreement. In the reporting year, the Group was charged expenses totalling around € 1.4 million (prior year: € 1.2 million).

There are no pension commitments towards former members of the Board of Directors and their surviving dependants. No emoluments were paid to former Directors.

21. Other Operating Income

	2009 in €'000	2008 in €'000
Exchange gains	67	421
Gains on disposal of fixed assets	2,029	—
Income from cancelled orders	5,366	—
Other income	1,576	1,496
	9,038	1,917

The gains on disposal of fixed assets relate to the disposals of the production operations and of CMT.

22. Other Expenses

	2009 in €'000	2008 in €'000
Research and development	3,090	2,928
Exchange loss	—	135
Charged by affiliated companies	3,758	4,890
Other expenses	2,149	591
	8,997	8,544

The item "charged by affiliated companies" includes, among other things, charges in connection with the functions taken over and charged by the group sister company KIA, especially for the function as the treasurer for all operative Companies of KHD ID Group.

23. Net Finance Income

The net finance income can be analysed as follows:

	2009 in €'000	2008 in €'000
Interest income	3,092	7,578
Interest received from affiliated companies	650	2,108
Total interest income	**3,742**	**9,686**
Exchange gains from securities	1,695	—
Dividend income	68	106
Income from foreign currency translation	—	1,400
Other	—	368
Finance income	**5,505**	**11,560**
Exchange loss from securities	—	-8,358
Other finance cost	-332	—
Interest cost	-1,221	-1,224
Finance cost	**-1.553**	**-9,582**
Net finance income	**3,952**	**1,978**

The interest income basically includes interest income from loans, bank balances and cash equivalents. A partial amount of € 1,715 thousand relates to term deposit investments. The decrease in interest income by € 5,944 thousand to € 3,742 thousand is basically due to a strong decrease in capital market yields. Like in the prior year, the interest income exclusively relates to financial assets which are not measured at fair value with profit and loss impact.

The interest cost includes the accumulation of the pension provisions in the amount of € 1,219 thousand (prior year: € 1,142 thousand). The interest cost includes financial liabilities in the amount of € 2 thousand (prior year: € 82 thousand) which are not measured at fair value with profit and loss impact.

24. Taxes on Income

The income tax expense in the amount of € 16,497 thousand booked in the financial year 2009 (prior year: € 10,134 thousand) can be analysed as follows:

	2009 in €'000	2008 in €'000
Current tax expense	-11,724	-2,396
Deferred tax expense	-4,773	-7,738
Tax expense of the year	**-16,497**	**-10,134**

The anticipated tax expense is reconciled to the current tax expense as follows:

	2009 in €'000	2008 in €'000
Profit before taxes on income	53,665	25,362
Average tax rate	31.60%	31.60%
Anticipated tax expense	-16,958	-8,014
Variance in deferred tax on loss carryforwards	—	-3,047
Other amounts allocated and deducted without tax impact	461	927
Tax expense of the year	**-16,497**	**-10,134**

The effective tax rate at group level is 30.74% (prior year: 39.96%).

25. Earnings and Dividend per Share

Earnings per Share

The basic and diluted earnings per share amount to € 2.25 (prior year: € 0.93) per share.

	2009	2008
Net earnings attributable to shareholders (in €)	37,102,000	15,276,000
Weighted average number of issued ordinary shares	16,456,708	16,456,708
Basic and diluted earnings per share (in €)	2.25	0.93

Dividend per Share

According to the Statutes, the decision on the appropriation of an accumulated profit is taken by KHD ID's General Meeting of Shareholders.

25a. Total Fees Charged by the Auditors for the Financial Year

The auditors of the consolidated financial statements charged total fees for costs of the audit of the 2009 financial statements in the amount of € 409 thousand (prior year: € 284 thousand). In addition, an amount of € 73 thousand was charged for current tax advise to the group companies by the auditors of the consolidated financial statements in the financial year 2009 (prior year: € 107 thousand).

Like in the prior year, the auditors of individual subsidiaries included which were not audited by the auditors of the consolidated financial statements were charged to the respective group companies cost of the audit of the financial statements in the amount of € 20 thousand as well as costs for tax advise of € 15 thousand (prior year: € 10 thousand).

The subsidiaries included in the consolidated financial statements did not make the corresponding disclosure concerning the audit fees in the notes to the sets of individual financial statements, to the extent that this was required under the law.

26. Commitments and Contingent Liabilities/Assets

Commitments in the Area of Operating Leasing

The total amount of future minimum payments for non-cancellable operating and other leases basically results from leases for buildings.

	31 Dec.	
	2009	2008
	in €'000	in €'000
Within 1 year......................	1,435	2,108
Within 2 to 5 years............	1,425	3,014
After 5 years.......................	—	—
Total rental commitments ..	2,860	5,122

The expense for leased and rented office space and office equipment in the financial year that was booked in the income statement amounts to € 2,554 thousand (prior year: € 1,745 thousand).

Contingent Liabilities

Through orders dated 7 July 2009, the Cologne tax office for the audit of large-scale enterprises and groups opened the government tax audits covering the fiscal years 2005, 2006 and 2007 (hereafter referred to as "tax audit") of

- KHD Humboldt Wedag International (Deutschland) AG, Cologne/Germany (KHD ID);
- Humboldt Wedag GmbH, Cologne/Germany (HW);
- KHD Humboldt Wedag GmbH, Cologne/Germany (KHD);
- Humboldt Wedag Coal and Minerals Technology GmbH, Cologne/Germany (CMT); and
- KHD Humboldt Wedag Industrial Services AG, Cologne/Germany (KIS AG).

Through a letter dated 14 December 2009, the Cologne tax office for the audit of large-scale enterprises and groups requested the Companies referred to above to submit transfer pricing documentation under § 90 (3) German General Tax Code (AO) as well as the German regulations governing the documentation of profit allocation (GAufzV) for the fiscal years from 2005 to 2007 regarding cross-border legal relationships with companies affiliated under German company law. Furthermore, the tax audit covering the fiscal years from 2005 to 2007 was opened by the Dessau-Roßlau tax office with respect to ZAB Zementanlagenbau Dessau GmbH, Dessau-Roßlau/Germany (ZAB) and ZAB Industrietechnik & Service GmbH, Dessau-Roßlau/Germany (ZABIS), according to a letter dated 9 October 2009. Within the scope of this tax audit, the tax auditors forwarded to ZABIS a general questionnaire appended to the letter dated 20 November 2009 regarding the preparation of a function and risk analysis for auditing the income segregation between related parties, requesting a reply of the Company.

Transfer Pricing Concept of the Group

In comparison with the prior year, the transfer pricing system of the group companies covered by the on going tax audit as at 31 December 2009 for netting cross-border services provided within KHD ID Group has not changed materially on the merits. Solely the amount of the transactions realised varies depending on the services provided or received. Basically, the related-party transactions are service and financing relationships. For details, see Note 29.

Tax Risk Assessment

There is an on going tax audit covering the years from 2005 to 2007. The subjects of this audit are, among other things, the transfer prices in intercompany trade between HW and its affiliated companies as well as the tax assessment of the international investments of KHD sold to KIA as at 31 December 2005 and the merchant banking fee. See the related statements in Item 1.2 of the discussion and analysis by management.

According to the current state of the tax audit, it is not possible at present to reliably estimate the tax risk both in terms of amount and due date and with respect to the effect on the net assets, financial position and results of operations.

Within the framework of the tax audit, there is, among other things, a request to submit transfer pricing documentation under § 90 (3) German General Tax Code (AO) as well as the German regulations governing the documentation of profit allocation (GAufzV) for the fiscal years from 2005 to 2007 regarding cross-border legal relationships with companies affiliated under German company law. According to the current state of the planning, this request will not be complied with until the end of February 2010.

Contingent Assets

As part of the disposal of HW's production facility in the suburb Kalk of Cologne/Germany to an Indian acquirer as at 7 October 2009, a contingent maximum purchase consideration of € 2,850 thousand was agreed beyond the purchase consideration paid. This contingent purchase consideration depends on given utilisation-related criteria. The potential maximum purchase consideration, which is due after four years from the time of disposal, was not taken into account on the basis of the measurement in the group balance sheet as at 31 December 2009.

27. Additional Notes on Financial Instruments

a) Financial Risk Factors

The Group is exposed to the specific risks of the industrial plant engineering sector. These especially relate to complex technical and logistic difficulties in the fields of planning, production and commissioning within the scope of production of specific facilities, but also to specific commercial conditions of foreign markets and the respective country-related risks.

In order to identify strategic risks at an early stage, all available internal and external sources of information are evaluated. In addition, the risk analysis and strategic development of the Companies are intensively supported through the resources of KHD Ltd.

The group companies use a large number of controlling instruments in order to comprehensively monitor the contracts during the entire phase of operative processing. This includes both technical and commercial aspects of the contracts.

Since the shares of KHD Ltd. are listed on the New York Stock Exchange, all major group companies are required to comply with the U.S. regulations under the Sarbanes Oxley Act (SOX). The target of these regulations is to ensure the reliability of the entire financial reporting through strict internal controls. The KHD ID Group companies ensure compliance with these regulations through internal and external audits. SOX compliance was audited within the framework of the audit of KHD Ltd. Group in 2009.

Through its business activities, the Group is exposed to a large number of financial risks, which are addressed below.

b) Capital Management

The primary goal of the capital management of KHD ID Group is to ensure that the ability to pay debts and the financial substance are maintained also in the future.

Financial security is basically measured by means of the equity ratio. The components of this ratio are the total assets disclosed in the consolidated balance sheet as well as the equity disclosed in the group balance sheet, which constitutes also the capital within the meaning of IAS 1 at the level of KHD ID Group. The equity ratio is used as a key ratio towards investors, analysts, banks and rating agencies.

The capital structure can, as a general rule, be controlled by KHD ID by distributing dividends, reducing the capital or issuing new shares as well as by issuing financial instruments, which are classified as equity under IFRS. The Group seeks to reach a capital structure that is appropriate to the business risk.

KHD ID comes under the minimum capital requirements applicable to stock corporations. Compliance with these requirements is continuously monitored. In 2009, the Group was in compliance with these requirements.

	31 Dec.	
	2009	2008
Equity in €'000	169,731	132,601
Total assets in €'000 ...	429,888	430,153
Equity ratio in%	39.48	30.83

The equity ratio of the Group increased on account of the net profit for the year.

KHD ID intends to distribute around € 45.0 million to the shareholders in the first quarter 2010. The equity ratio would be at 32.41% after the distribution.

c) Market Risk

Currency Risk

The Group operates internationally and is, hence, exposed to currency risks in connection with performing its contracts. Currency risks arise from future business transactions and from recognised assets and liabilities. These are minimised by using derivative financial instruments. The derivative financial instruments used are exclusively foreign exchange contracts. Currency risks are mitigated at group level by performing major transactions in euro.

Price Risk

The securities disclosed in the Group's balance sheet are exposed to the market price risk. As performance and price are laid down in individual contracts, the Group is not exposed to a commodity price risk.

d) Credit and Non-payment Risks

The Group is not exposed to significant credit risks. Internal guidelines ensure that products are sold to customers with an appropriate credit history or that export insurance, letters of credit or sufficient bank guarantees are available (€ 10,503 thousand; prior year: € 11,740 thousand).

The Group has fixed-interest assets, which are influenced by changes in market interest rates in the course of time.

The non-payment risk arising from financial assets consists in the risk of default of a counterparty and is, hence, limited to the maximum amount of positive carrying amounts.

This risk is addressed through allowances made for loss of receivables outstanding. The credit risk with respect to trade receivables is generally geographically diversified worldwide on account of the structure of the Group's clientele. Furthermore, credit concentration is avoided by the terms of payment, especially advances, agreed by the Group with its customers that avoid a high level of receivables.

e) Liquidity Risk

Besides the liabilities of the Group, liquidity risk management covers also the holding of sufficient liquidity. Given the dynamic nature of the underlying business activities, the Group seeks to remain flexible with respect to financing through sufficient available credit lines held at the level of KIA. To avoid financial risks of the plant engineering business, the contracts are settled through customer payments made in advance, which led to a cash inflow as at the balance sheet date. Most of the current liabilities and debts disclosed as at the balance sheet date are payable within 60 days.

Within the scope of its normal business transactions, KHD ID Group has commitments due to advance guarantees, performance bonds and guarantees for warranty obligations. The Group does not anticipate any material liabilities due to these commitments. Within the scope of its normal business activities, the Group has furnished guarantees in the amount of € 83.5 million (prior year: € 171.9 million), especially via guarantees furnished by KIA. Within the scope of a total facility of € 228 million (prior year: € 340 million), KIA provides KHD ID Group with the necessary credits by way of bank guarantee.

f) Cash Flow and Fair Value Interest Rate Risk

Since the major loans and assets of the Group accrue interest at variable rates, changes in market interest rates impact net interest income/cost. An increase or reduction in the market interest rate level as at 31 December 2009 by 50 base points would have increased or decreased, respectively, the net interest income by € 947 thousand (prior year: € 940 thousand).

g) Net Earnings per Category

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

2009	Financial assets: recognised as income at fair value	Financial assets: at amortised cost	Financial liabilities: recognised as income at fair value	Financial liabilities: at amortised cost	Total
	in EUR'000				
Net earnings ..	1,431	3,542	0	-2	4,971

2008	Financial assets: recognised as income at fair value	Financial assets: at amortised cost	Financial liabilities: recognised as income at fair value	Financial liabilities: at amortised cost	Total
	in EUR'000				
Net earnings ..	-13,645	11,364	0	-10	-2,291

The net earnings especially include interest income, interest cost, income and expenses from translating monetary foreign currency items, fair value changes of securities as well as impairment losses of financial assets.

h) Listing of Financial Assets and Liabilities Classified by Categories

31 Dec. 2009	Financial assets: recognised as income at fair value	Financial assets: at amortised cost	Financial assets: not within the scope of IAS 39	Financial liabilities: at amortised cost	Financial liabilities: not within the scope of IAS 39	Carrying amount	Fair value
	in EUR'000						
Non-current financial assets		51,741				51,741	
Trade receivables............................		41,612				41,612	
Intercompany receivables		3,678				3,678	
Other financial assets.......................	5,260	0				5,260	5,260
Derivatives......................................	176					176	176
Other receivables		2,670	4,929			7,599	
Cash and cash equivalents		225,844				225,844	
Non-current financial liabilities....				0		0	
Other liabilities				4,111	7,558	11,669	
Trade payables.................................				96,622		96,622	
Intercompany liabilities				4,914		4,914	
Current financial liabilities						0	
	5,436	325,545	4,929	105,647	7,558	449,115	5,436

31 Dec. 2008	Financial assets: recognised as income at fair value	Financial assets: at amortised cost	Financial assets: not within the scope of IAS 39	Financial liabilities: at amortised cost	Financial liabilities: not within the scope of IAS 39	Carrying amount	Fair value
	in EUR'000						
Non-current financial assets		70,332				70,332	
Trade receivables		33,147				33,147	
Intercompany receivables		19,085				19,085	
Other financial assets	3,565					3,565	3,565
Derivatives	793					793	793
Other receivables		5,325	4,217			9,542	
Cash and cash equivalents		204,636				204,636	
Non-current financial liabilities				0		0	
Other liabilities				4,711	5,994	10,705	
Trade payables				90,290		90,290	
Intercompany liabilities				6,107		6,107	
Current financial liabilities				1,167		1,167	
	4,358	**332,525**	**4,217**	**102,275**	**5,994**	**449,369**	**4,358**

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

- The fair values of the listed shares that are held for trading are determined by reference to listed market prices.

- The fair value of derivative instruments is calculated at listed prices. If such prices are not available, the calculation is based on discounted cash flow analyses, using corresponding yield curves for the term to maturity of the derivative instruments.

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

i) Securities Held for Trading

The securities held for trading amount to € 5,260 thousand (prior year: € 3,565 thousand). A variance in the market price by 10% would lead to a variance of € 526 thousand (prior year: € 356 thousand) in the Group's profit before and after tax.

j) Receivables

The overdue receivables, including receivables on which allowances were made, (amounts due for more than 60 days) account for € 1,978 thousand (prior year: € 3,171 thousand) of the Group's total receivables. After deducting collaterals (letters of credit and Hermes cover), the resulting risks are estimated by the Group at € 485 thousand (prior year: € 762 thousand). A variance in the risk amount of 10% is insignificant for the Group. The receivables on which allowances were made are overdue for more than 90 days.

k) Derivatives

The derivative financial instruments used are exclusively foreign exchange contracts. They have been recognised at fair value in the balance sheet in accordance with IAS 39.

Foreign exchange contracts have been measured at the forward exchange rate and by means of the yield curves which have been derived from the listed interest rates of corresponding terms to maturity. The fair value of the derivatives amounts to € 176 thousand (prior year: € 793 thousand). A variance in the fair value by 10% would influence the net profit after tax by € 12 thousand (prior year: € 64 thousand).

28. Litigation

Action Brought by Shareholders ("Return of Contributions")

Shareholders have brought actions against the Company for the approved sets of annual financial statements as at 31 December 2002 and 31 December 2003 of the Company to be declared null and void, alternatively to be declared ineffective, as well as for the resolutions according to which the Directors and three Supervisory Board members were to be released from their responsibilities for the business year 2003, which were adopted by the Company's General Meeting of Shareholders held on 29 September 2004, to be declared null and void, alternatively to be set aside.

The subject matters of the actions were fees in the amount of € 1,206 thousand ("placement fee") and in the amount of € 1,914 thousand ("merchant banking fee"), which had been paid by KHD ID to MFC Corporate Services AG (formerly MFC Merchant Bank S.A.), Herisau/Switzerland, at the end of 2002 for placement of the capital increase in December 2002 and for provision of merchant bank services. In the plaintiffs' opinion, these payments had been inadmissible because they constituted a return of contributions. Said sets of annual financial statements had been understated due to failure to book a corresponding repayment claim.

Based on the regional court ruling, the Company had already booked with profit and loss impact in its sets of financial statements for prior years, an account receivable from MFC Corporate Services AG in the amount of the merchant banking fee (€ 1,914 thousand) and asserted this claim against MFC Corporate Services AG in its letter dated 16 February 2006. The court ruling does not address the placement fee.

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

The regional court allowed the complaints through court ruling dated 4 November 2005. KHD ID has lodged an appeal from this court ruling in due time and due form.

Meanwhile, one of the complaints has been withdrawn. In respect of the complaint still pending, the Company anticipates that there are still good reasons to assume that its appeal will succeed. A corresponding ruling is still outstanding on account of a large number of postponements.

Action Brought by Shareholders ("Valuation of Companies Sold")

In connection with the valuation of the companies sold (see the corresponding statements above), KHD ID was served the complaint of a shareholder on 27 February 2007. The subject matter of this complaint is assertion of nullity of the approved annual financial statements as at 31 December 2005 and of the resolutions according to which the members of the Board of Directors and of the Supervisory Board were released from their responsibilities.

The hearing, which has meanwhile taken place, also did not lead to any changes to the underlying facts and the matter in dispute. Through decision of the regional court dated 27 October 2008, the litigation was suspended pending final decision in parallel proceedings.

In these parallel proceedings, KHD ID has, after it had lost its case before the Cologne regional court, fully won the action according to the ruling of the Cologne higher regional court dated 9 July 2009. In the meantime, the plaintiff and appellee has lodged a corresponding appeal to the Federal Supreme Court. KHD ID still anticipates that it will win the action in the proceedings on appeal that have meanwhile been opened. Therefore, the Company maintains its motion for dismissal because it still anticipates that the complaints are unfounded because they are non-substantiated.

Application Filed by Shareholders for Appointment of Special Auditor

In connection with establishing the fair present value of the five Companies sold in 2005/2006, an investment fund has, in its capacity as a shareholder of KHD ID, filed an application for the appointment of the special auditor Dr Klaus Lippmann to be ordered in order to examine the transactions in the area of the conduct of affairs of the Board of Directors and the Supervisory Board in connection with the disposal of the Companies in 2005/2006.

Through ruling of the Cologne regional court dated 6 November 2009, the regional court granted the application. Addressing the immediate appeal of KHD ID dated 23 November 2009, the Cologne higher regional court decided through ruling dated 7 December 2009 to suspend execution of the ruling of the Cologne regional court dated 6 November 2009 pending a decision on KHD ID's immediate appeal.

29. Disclosure of Related Party Transactions

KHD Ltd. holds a direct majority interest in KHD ID. Besides KHD Ltd., the major related parties are its subsidiaries not included in the consolidated financial statements of KHD ID. The income and expenses are basically related to orders of the industrial plant engineering segment, the distribution, marketing and financing activities within KHD Ltd. Group.

Treasury Agreements/Service and Cost Allocation Agreements

The agreements concluded relate to all tasks of KHD Humboldt Wedag International GmbH, Vienna/Austria, (KIA) in connection with treasury and risk control in its widest sense. These include, among others, consulting in all issues of financing and credit procurement, consulting and support for potential acquisitions as well as commercial risk control and minimisation.

In addition, KIA provides central services for the companies of the German Group. Besides general management services, these include above all also support in the areas of finance and accounting as well as general administration. Effective 1 January 2008 the treasury agreements were terminated and replaced by corresponding service and cost allocation agreements.

The figures stated in the following tables are amounts in €'000.

Company	Agreement	2009	2008	2007
	Treasury agreement/service and costs allocation agreements			
HW................		1,280	1,213	936
KHD ID..........		0	69	71
ZAB		0	29	144
ZABIS...........		425	237	571
KIS		11	30	0
Total expense .		1,716	1,578	1,722

Loan Offer Agreements

Under these agreements, KIA offers to raise as loans excessive liquidity of HW and ZAB. As at 31 December 2009, HW and ZAB provided amounts of € 25.0 million (prior year: € 35.0 million) and € 12.9 million (prior year: € 12.9 million), respectively, as loans to KIA. In the first quarter of 2009, these amounts had accrued interest at an effective interest rate of minus 1%. On account of the marked decrease in market interest rates, interest calculation was changed to an effective interest rate of minus 15% of the effective interest rate from the second quarter 2009. The repayment of the loans is guaranteed through KHD Ltd. The loan of € 4.0 million existing between KHD Humboldt Wedag GmbH (KHD) and KIA since the prior year was fully repaid with effect from 23 December 2009.

Company	Agreement	2009	2008	2007
	Loan offer agreement			
HW................		37	40	207
KHD HW		466	1,450	1,508
ZAB		13	13	11
Total income .		516	1,503	1,726

Asset and Portfolio Management Agreement

This goal of this asset management agreement is to reach a higher return on longer-term excessive liquidity. For this purpose, KIA has been authorised as the treasurer to enter into a higher risk level by using various types of capital investments. The so-called management fee amounts to 0.0625 (prior year: 0.125) percent per month. For an increase in the value of the portfolio potentially reached in the calendar year, the agreement provides for an additional charge ("performance fee") in the amount of 15% (prior year: 20%) on the increase in value reached.

Company	Agreement	2009	2008	2007
	Asset and portfolio management agreement			
HW.................		885	1,565	690
ZABIS		739	994	524
Total expense .		1,624	2,559	1,214

Bond Arrangement Agreement

With original effect from 1 December 2006, this agreement provides for comprehensive regulations that are applicable to the services of KIA in respect of provision and collateralisation of a guarantee line. All Companies of the industrial plant engineering segment of KHD Ltd. Group have entered into this agreement.

Under the lead management of Raiffeisen Zentralbank, Vienna/Austria (RZB), there is a guarantee facility with a group of banks in the amount of € 195 million as at 31 December 2009 (prior year: € 300 million). This facility is available for various hedging instruments, such as guarantees, letters of credit or sureties.

For the guarantee of the facility through KHD Ltd., the participating Companies pay to KIA a so-called guarantee fee in the amount of 1.0% on the respective drawings on the line. In addition, the guarantee fees that are charged by RZB to KIA as the other party to the agreement are recharged by KIA to the participating Companies via a so-called bond arrangement fee with a mark-up of 50% for covering their own administrative expense.

Company	Agreement	2009	2008	2007
	Bond arrangement agreement			
HW.................		1,846	1,950	1,005
ZABIS		244	614	238
CMT...............		86	112	37
Total expense .		2,176	2,676	1,280

Framework Agency Agreement

The sales and marketing activities of the industrial plant engineering segment of KHD Ltd. Group have been put on a new basis from the beginning of the financial year 2006.

KHD Humboldt Wedag International FZE with registered office in Ras Al Khaimah, United Arab Emirates (KHD UAE; until 21 October 2007 KHD Sales and Marketing Ltd. (KHD SM), Hong Kong), coordinates and strengthens the worldwide sales and marketing activities of the cement plant engineering companies.

The local agents account for their services to KHD UAE, which charges in turn the corresponding services received to the plant engineering companies.

Company	Agreement	2009	2008	2007
	Framework agency agreement			
HW................		1,848	7,705	9,845
Total expense .		1,848	7,705	9,845

Technology Licence Agreement

HW granted to KIA a worldwide license for using the technology of HW for a 7 year period.

Company	Agreement	2009	2008	2007
	Technology licence agreement			
HW................		250	250	250
Total income .		250	250	250

Revenue

The revenue from related parties amounts to € 7,535 thousand (prior year: € 15,438 thousand) and solely relates to revenue realised with the KIA Subgroup. This revenue is comprised of sales revenue as well as income from loans granted to KIA, which amounted to € 650 thousand in 2009 (prior year: € 2,108 thousand). For the contractually agreed interest payment, we refer to Note 29 (Loan Offer Agreements).

Expenses

The expenses incurred due to related party transactions can be analysed as follows:

	2009 in €'000	2008 in €'000
KIA Subgroup.....................................	35,139	23,598
KHD Ltd. and associated companies ...	0	195
	35,139	23,793

Shares in KHD Ltd.

Like in the prior year, KHD ID holds 295,490 shares in KHD Ltd. for trading purposes. The value quoted of the shares as at 31 December 2009 was € 2,782 thousand.

Receivables

As at 31 December 2009, the Group disclosed the following intercompany receivables:

	31 Dec.	
	2009 in €'000	2008 in €'000
KIA Subgroup..	51,137	88,821
KHD Ltd.	217	—
	51,354	88,821

Like in the prior year, the accounts receivable from KIA Group basically relate to the loans granted to KIA.

The liabilities include the following current items:

	31 Dec.	
	2009 in €'000	2008 in €'000
KIA Subgroup..	8,314	5,956
KHD Ltd.	0	86
	8,314	6,042

30. Post-balance-sheet-date Events

In a press release of the Board of KHD Ltd. dated 6 January 2010, it was announced that KHD Ltd. Group was intended to be split into two legally separate subgroups. One of these subgroups is intended to perform all cement activities of today's Group. These are intended to be combined under the senior parent company of the previous German Subgroup, KHD ID.

In this context, the shares in the Companies HWIN, HWUS and HWAUS are intended, among other things, to be sold by KIA to a KHD ID Group company. The related negotiations have not been terminated to date. The services previously provided by KIA are expected to be provided by KHD ID Group in the future, whereas the sales and marketing activities are expected to remain at the level of KHD UAE.

The planned change in the circle of shareholders constitutes a risk threatening the deferred tax assets in the amount of € 2.2 million recognised for loss carryforwards.

The shares of the parent company of the newly established group are intended to be listed in the regulated market of the stock exchange in Frankfurt/Germany. Based on the current planning, the listing is due no sooner than in March 2010.

There were no further major post-balance-sheet-date events.

31. Release for Disclosure through the Board of Directors

The set of consolidated financial statements on hand was released for disclosure through resolution of the Board of Directors dated 5 February 2010.

The Board of Directors

Cologne, 5 February 2010

Alan Hartslief Jouni Salo

The following auditors' report (Bestätigungsvermerk) has been issued in accordance with Section 322 German Commercial Code (Handelsgesetzbuch) in the German language on the German version of the consolidated financial statements of KHD Humboldt Wedag International (Deutschland) AG for the financial year ended 31 December 2009.

Auditors' Report

We have audited the consolidated financial statements prepared by KHD Humboldt Wedag International (Deutschland) AG, Cologne, — comprising the income statement and the statement of consolidated comprehensive income, the balance sheet, the cash flow statement, the statement of changes in equity and the notes to the financial statements - and the discussion and analysis by the management of the parent company for the business year 2009. The preparation of the consolidated financial statements and the discussion and analysis by the management of the parent company in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a (1) HGB are the responsibility of the parent company's Board of Directors. Our responsibility is to express an opinion on the consolidated financial statements and on the discussion and analysis by the management of the parent company based on our audit.

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

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements of KHD Humboldt Wedag International (Deutschland) AG, Cologne, comply with IFRS, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a (1) HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The discussion and analysis by the management of the parent company are consistent with the consolidated financial statements and as a whole provide a suitable view of the Group's position and suitably present the opportunities and risks of future development.

Düsseldorf, 5 February 2010

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

Signed: Graetz	Signed: Rosenfeld
Wirtschaftsprüfer	Wirtschaftsprüfer
German Public Auditor	German Public Auditor

CONSOLIDATED FINANCIAL STATEMENTS OF KHD HUMBOLDT WEDAG INTERNATIONAL (DEUTSCHLAND) AG FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008 IN ACCORDANCE WITH IFRS

Group Statement of Comprehensive Income for the Financial Year Ended 31 December 2008

	Note	2008 €'000	2007 €'000
Continued operations			
Revenue	3	339,099	262,345
Cost of sales		-283,804	-211,638
Gross profit		**55,295**	**50,707**
Other operating income	21	1,917	2,074
Distribution costs		-7,082	-5,636
General and administrative expenses		-8,447	-9,561
Other expenses*	22	-8,544	-9,858
Restructuring expense	15	-9,755	—
Net finance income	23	1,978	4,357
Profit before tax		**25,362**	**32,083**
Income tax expense	24	-10,134	-4,133
Profit after tax from continued operations		**15,228**	**27,950**
Discontinued operations			
Loss from discontinued operations	3	—	-5,366
Net profit for the financial year		**15,228**	**22,584**
Of which related to:			
Shareholders of parent company		15,276	22,584
Minority shareholders		-48	—
		15,228	**22,584**

* The rental expenses disclosed separately in 2007, which are not included in cost of sales (€ 688 thousand), were allocated to other expenses in the reporting period.

Group Balance Sheet as at 31 December 2008

	Note	31 Dec. 2008 €'000	31 Dec. 2007 €'000
ASSETS			
Non-current assets			
Property and equipment	4	2,624	2,608
Goodwill	5	2,127	2,127
Other intangible assets	5	445	289
Deferred tax assets	7	701	4,565
Non-current financial assets	6	70,332	55,569
Total non-current assets		**76,229**	**65,158**
Current assets			
Inventories	8	6,241	3,997
Gross amount due from customers for contract work	9	47,863	51,929
Trade and other receivables	6	43,482	39,591
Intercompany receivables	6	19,085	8,178
Payments made in advance	6	29,052	13,117
Other financial assets	10	3,565	16,346
Cash and cash equivalents	11	204,636	166,681
Total current assets		**353,924**	**299,839**
Total assets		**430,153**	**364,997**
EQUITY AND LIABILITIES			
Equity			
Issued capital		33,142	33,142
Capital reserves		1,776	1,776
Treasury shares		-221	-221
Currency differences		-53	0
Undistributed profit carryforward		97,319	81,874
		131,963	116,571
Minority interest		638	1,439
Total equity	12	**132,601**	**118,010**
Non-current liabilities			
Financial liabilities	15	—	1,405
Other liabilities	16	5,994	3,377
Pension benefit obligations	14	21,926	22,103
Deferred tax liabilities	8	5,446	1,572
Provisions	15	5,405	8,080
Total non-current liabilities		**38,771**	**36,537**
Current liabilities			
Trade and other payables	16	95,001	63,413
Intercompany liabilities	16	6,107	7,104
Financial liabilities	16	1,167	—
Gross amount due to customers for contract work	17,	117,466	118,535
Income tax liabilities	16	6,592	11,600
Provisions	15	32,448	9,798
Total current liabilities		**258,781**	**210,450**
Total equity and liabilities		**430,153**	**364,997**

Consolidated Cash Flow Statement for the Financial Year Ended 31 December 2008

	2008 €'000	2007 €'000
Cash flows from operating activities		
Net profit for the financial year	15,228	22,584
Income tax expense recognised in the income statement	10,134	10,602
Net finance loss recognised in the income statement	-1,978	-4,357
Profit before tax and interest	23,384	28,829
Impairments recognised for trade receivables	-250	-1,071
Amortisation, depreciation and write-downs of non-current assets	1,104	1,930
Net foreign currency loss/profit	-286	822
Changes in net current assets	**23,952**	**30,510**
Increase/decrease in trade receivables and financial assets	-14,548	15,994
Decrease/increase (-) in inventories and gross amount due from customers for contract work	1,822	-14,943
Decrease in available-for-sale assets	—	36,295
Increase in payments made in advance and other financial assets	-3,154	-5,403
Increase in trade and other payables and in gross amount due to customers for contract work	26,983	69,124
Decrease in pension provisions	-177	-166
Increase in provisions	19,975	1,416
Cash inflows from operating activities	**54,853**	**132,827**
Other non-cash transactions	-2,276	2,587
Dividends received	106	220
Interest paid	-82	-514
Income tax paid	-7,404	-1,651
Cash flows from operating activities	**45,197**	**133,469**
Cash flows from investing activities		
Interest received	2,108	2,065
Payments for intangible assets	-351	-281
Payments for property, plant and equipment	-934	-1,872
Gain on disposal of property, plant and equipment	9	428
Decrease in non-current receivables	-14,763	-28,694
Cash outflows from acquisition of subsidiaries	—	-4,180
Cash flows from investing activities	**-13,931**	**-32,534**
Cash flows from financing activities		
Interest received	7,578	4,065
Payment for share repurchase from minority shareholders	-704	-1,098
Repayment of borrowings	-238	-5,448
Change in non-available funds	704	1,359
Cash flows from financing activities	**7,340**	**-1,122**
Increase in cash and cash equivalents	38,606	99,813

Opening balance of cash and cash equivalents	164,310	64,457
Exchange rate effects	53	40

	31 Dec. 2008	**31 Dec. 2007**
	€'000	**€'000**
Analysis of cash and cash equivalents		
Bank balances and cash on hand	18,770	29,215
Short-term bank deposits	185,866	137,466
Cash on hand with restriction on disposal, encumbrance and/or alienation for collaterals and guarantees	-1,667	-2,371
Closing balance of cash and cash equivalents	**202,969**	**164,310**

In 2008, the statement of consolidated cash flows showed cash and cash equivalents which increased by € 38.7 million to € 203 million. This increase in cash and cash equivalents is basically due to higher payments received in advance from customers as well as cash inflows from trade receivables.

The cash and cash equivalents available as at 31 December 2008 are in any case sufficient for fulfilling the anticipated financial commitments during the year 2009 and partly in 2010.

Consolidated Statement on Changes in Equity for the Financial Year Ended 31 December 2008

	Issued capital	Capital reserves	Treasury shares	Currency differences	Undistributed profits	Minority interest	Total
	€'000	€'000	€'000	€'000	€'000	€'000	€'000
31 Dec. 2006	**33,142**	**1,776**	**-221**	**-40**	**58,964**	**1,482**	**95,103**
Changes due to net profit for the financial year	—	—	—	—	22,584	—	**22,584**
Other changes	—	—	—	—	326	-43	**283**
Accumulated translation difference	—	—	—	40	—	—	**40**
31 Dec. 2007	**33,142**	**1,776**	**-221**	**—**	**81,874**	**1,439**	**118,010**
Changes due to net profit for the financial year	—	—	—	—	15,276	-48	**15,228**
Other changes	—	—	—	—	169	-753	**-584**
Accumulated translation difference	—	—	—	-53	—	—	**-53**
31 Dec. 2008	**33,142**	**1,776**	**-221**	**-53**	**97,319**	**638**	**132,601**

Notes to the Consolidated Financial Statements for the Financial Year Ended 31 December 2008

1. Summary of Major Accounting and Measurement Rules

A. Basis of Preparation and Other Explanations

The parent company of the Group is KHD ID, Colonia-Allee 3, 51067 Cologne/Germany, entered with the number 36688 in the Cologne Commercial Register, Department B.

The majority shareholder of the Company is KHD Ltd., which held a direct equity investment of 74% in the Company as at 31 December 2008. In addition, KHD Ltd. holds an indirect equity investment in the Company (shareholding of 20%) via MFC Corporate Services AG, in which KHD Ltd. holds an equity investment of 9.9%. The sets of annual financial statements of KHD ID and its subsidiaries have been included in the consolidated financial statements of KHD Ltd. The consolidated financial statements are filed with the United States Securities and Exchange Commission (SEC).

The shares of the Company are traded in the open stock market. The Company is, hence, not listed within the meaning of § 3 (2) German Stock Corporation Act (AktG).

The financial year of KHD ID and its subsidiaries included in the consolidated financial statements corresponds to the calendar year.

The consolidated financial statements of KHD ID have been prepared according to the International Financial Reporting Standards (IFRS) as applicable in the European Union, that are required to be applied as at the balance sheet date. The IFRS comprise the IFRS newly adopted by the International Accounting Standards Board (IASB), the International Accounting Standards (IAS) as well as the Interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and of the Standing Interpretations Committee (SIC). The parent company is in compliance with the supplementary provisions under § 315 a German Commercial Code (HGB) regarding supplementary disclosures in the notes to the financial statements as well as under § 315 German Commercial Code (HGB) regarding the discussion and analysis by management.

The consolidated financial statements are prepared in euro. All amounts are, as a general rule, stated in thousands of euros (€'000).

The group income statement is prepared according to the cost of sales format.

To the extent that affiliated companies are mentioned in the notes to the consolidated financial statements under receivables or payables, these relate to KHD Ltd. Group companies which are not part of the group of entities consolidated by KHD ID.

B. Consolidation

Subsidiaries are companies where KHD ID 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 ID and are no longer consolidated from the date when control is discontinued. All intercompany transactions, balances and unrealised profits or losses on intragroup transactions have been eliminated. The accounting and valuation methods applicable to subsidiaries under local law have been adjusted in order to ensure consistency with the accounting rules of KHD ID. Minority interest is addressed separately.

The subsidiaries of the Group are listed in Note 2.

C. Foreign Currency Translation

Assets and liabilities denominated in foreign currency are translated at the rate in effect at the date of acquisition in the sets of individual financial statements and adjusted to the respective rate in effect at the balance sheet date at each balance sheet date. Resulting translation differences are recognised in the income statement.

Foreign subsidiaries are translated into euro according to the functional currency concept. The equity is translated at historical rates, assets and liabilities are translated at the rate in effect at the balance sheet date, income and expenses at average rates. The functional currency of the Group is the Euro.

D. Intangible Assets

Goodwill

In the first-time consolidated financial statements under IFRS, goodwill was taken over, on account of the reduced disclosure rules under IFRS 1, at the carrying amounts that have been computed according to previously applied accounting principles (§ 301 German Commercial Code (HGB)).

The goodwill corresponds to the positive difference between the acquisition cost of a business combination and the acquired newly measured assets and liabilities, which remains after allocating a purchase consideration and, hence, identifying intangible assets. Goodwill is disclosed under intangible assets. It is subject to impairment tests, which are carried out at annual intervals and on specific occasions, and is accounted for at cost less write-downs to the lower fair value.

Licences

Licences are accounted for at amortised costs. Software licences are amortised on a straight-line basis over a useful life of three years. No development costs required to be capitalised were incurred in the reporting year.

E. Property, Plant and Equipment

Property, plant and equipment are measured at cost less straight-line depreciation. The useful life of operating and office equipment and of other equipment is normally 3 to 10 years and 20 years for buildings. Leasehold improvements are depreciated over the term of the lease. Gains on, and losses from, disposal of property, plant and equipment are determined with reference to their carrying amount and accounted for in the income statement.

Cost of repair of property, plant and equipment is, as a general rule, recognised as an expense. Expenses are regularly expensed as incurred. All major expenses for renewals and improvements are capitalised if it is probable that future economic benefit will flow to the enterprise in addition to the performance standard of the existing property, plant or equipment. Every following expense is expensed as incurred.

Property, plant and equipment have not been remeasured according to the option under IAS 16. Borrowing costs are expensed as incurred under IAS 23.

Under the leases concluded, the major risks and benefits from the leased asset remain at the level of the lessor. They constitute, hence, so called “operating leases”. Therefore, payments made within the scope of operating leases are recognised as an expense in the income statement.

F. Impairment Test of Long-lived Assets

Long-lived assets and given identifiable intangible assets 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 realisable. If the carrying amount is higher than the estimated realisable amount, the asset is written down to its realisable amount.

G. Investments and Other Financial Assets

Financial assets within the meaning of IAS 39 at the level of KHD ID Group relate either

- to financial assets that are measured at fair value and recognised as income, or to
- loans and receivables

and are classified accordingly. Financial assets are measured at fair value at the time of initial recognition. In the case of investments other than those classified as measured at fair value and recognised as income, this item includes also transaction costs that are directly attributable to the acquisition of the asset concerned.

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

Financial Assets Measured at Fair Value and Recognised as Income

At the level of KHD ID Group, the category of financial assets measured at fair value and recognised as income includes the financial assets held for trading. KHD ID Group has not taken advantage so far of the option to designate financial assets as financial assets to be measured at fair value and to be recognised as income at the time of initial recognition.

Financial assets are classified as held for trading if they are acquired for the purpose of disposal in the near future. Derivatives are also classified as held for trading. Gains on, and losses from, financial assets that are held for trading are recognised as incurred.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or identifiable payments that are not listed in an active market. This category includes trade receivables as well as other receivables and assets. They arise if money, goods or services are directly provided to a debtor by KHD ID Group. They are classified as current assets, except for those that are due only after 12 months after the balance sheet date or that are classified as non-current on account of their economic nature. The latter are disclosed as non-current assets. After initial recognition, loans and receivables are measured at amortised cost by application of the effective interest method less impairments, if any. Gains and losses are recognised in accounting income if loans and receivables have been derecognised or impaired as well as within the framework of amortisation.

Impairment of Financial Assets

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

Assets Accounted for at Amortised Cost

If there are objective indications that an asset accounted for at amortised cost has been impaired, the amount of the impairment is the difference between the carrying amount of the asset concerned and the present value of the anticipated future cash flows (except for anticipated future loan default), discounted at the original effective interest rate of the financial asset, i.e. at the effective interest rate determined at the time of initial recognition. The impairment loss is recognised as an expense as incurred.

If the amount of the write-down decreases in the following reporting periods and if this decrease can be objectively ascribed to an item that arose after the impairment had been recognised, the write-down previously recognised is reversed. The new carrying amount of the asset concerned must, however, not exceed amortised cost at the time of the reversal. The reversal is recognised in the income statement.

If there are objective indications with respect to trade receivables that not all amounts due will be received in accordance with the original terms stated on the invoice (such as, for example, an insufficient credit rating of a debtor, disagreement on the existence or amount of an account receivable, lack of enforceability of an account receivable for legal reasons, etc.), the impairment is made by use of an allowance account. Receivables are derecognised if they are classified as irrecoverable.

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

Cash and Cash Equivalents

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

Financial Liabilities

Financial liabilities within the meaning of IAS 39 at the level of KHD ID Group relate either

- to financial liabilities that are measured at fair value and recognised as an expense, or to
- other financial liabilities.

Financial Liabilities Measured at Fair Value and Recognised as an Expense

At the level of KHD ID Group, the category of financial liabilities measured at fair value and recognised as an expense includes the financial liabilities held for trading. KHD ID Group has not taken advantage so far of the option to designate financial liabilities as financial liabilities to be measured at fair value and to be recognised as an expense at the time of initial recognition.

Financial liabilities are classified as held for trading if they are acquired for the purpose of disposal in the near future. Derivatives are also classified as held for trading. If the fair values of these derivatives are negative, this leads to recognition under financial liabilities. Gains on, and losses from, financial liabilities that are held for trading are recognised as incurred.

The **financial liabilities** at the level of KHD ID Group basically include

- financial liabilities (liabilities to banks), and
- trade payables and other liabilities.

Other financial liabilities are classified as current if KHD ID Group is not entitled to settle the financial liability concerned within 12 months after the balance sheet date.

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

Derivative Financial Instruments and Hedging Relationships

At the level of KHD ID, derivative financial instruments are regularly used for mitigating the foreign currency risk of recognised assets and liabilities or of planned transactions denominated in foreign currency. All contracts concluded are foreign exchange contracts.

They are initially recognised at fair value at the date the contract is concluded and carried forward at fair value subsequent to initial recognition in the following periods. The fair value of derivatives corresponds to the present value of the estimated future cash flows. The fair value of foreign exchange contracts is determined at the forward exchange rate in effect at the balance sheet date.

As the derivative financial instruments concluded do not meet the strict hedge accounting requirements, changes in value are recognised in the income statement as incurred.

H. Inventories

Inventories have been recognised at the lower of cost of net realisable value. Cost is determined on a case-by-case basis. The net realisable value is composed of the estimated selling price in the course of ordinary transactions less estimated cost of completion and costs to sell.

I. Long-term Construction Contracts

Revenue and profits from long-term construction contracts are accounted for according to the stage of completion under IAS 11. The stage of completion depends on the relation of contract costs incurred already as at the end of the financial year and estimated total contract cost as at the end of the financial year. Losses from long-term contracts are fully recognised as incurred irrespective of the stage of completion reached in the financial year when the losses become identifiable. Long-term contracts which are measured according to the percentage-of-completion method are disclosed under receivables or liabilities from long-term construction contracts depending on the amount of requested payments in advance. They have been measured at cost plus a proportionate profit depending on the reached stage of completion. To the extent that the accumulated asset (contract cost and contract revenue) exceeds the specific payments in advance, construction contracts are disclosed on the asset side under gross amount due from customers for contract work. If there is a negative balance after deducting payments in advance, this balance is disclosed as gross amount due to customers for contract work on the liability side. Anticipated contract losses are covered through write-downs or provisions. In determining these losses, identifiable risks are taken into account.

J. Pension Commitments and Retirement Benefit Plans

The provisions for pensions disclosed in the balance sheet constitute the present value of the defined-benefit commitment as at the balance sheet date. The present value of the defined-benefit commitment is determined annually by independent actuaries according to the projected unit credit method. The present value of the defined-benefit commitment is determined by discounting the estimated future cash outflows by means of interest rates of high-grade industrial bonds.

In 2008, the Group took advantage of the so called corridor method under IAS 19. According to this Standard, profits or losses from measurement of the pension commitment are not required to be disclosed if they are due only to a change in actuarial parameters and the change varies within a corridor of 10% above or below the value previously recognised.

Since 1996, the Company with the highest pension commitments, HW, has not entered into any new pension commitments.

For the individual, defined-benefit pension commitments, the Group pays contributions out of the salaries of the employees concerned to public or private pension insurers on a contractual basis.

K. Provisions

Provisions are made if the Group has legal or factual commitments towards third parties as a result of past events and the amount of the commitment can be reliably estimated.

The scope of liability for all products covered by warranty agreements is estimated by the Group as at the balance sheet date. The provision is made on the basis of services provided in the past. The Company is party to various legal disputes. The Board of Directors expect that the outcome of the litigation will not have a material effect on the financial position, results or cash flows.

L. Deferred Income Tax

Deferred tax is accounted for and measured under IAS 12. Deferred tax assets and liabilities are shown as separate balance sheet items in order to take into account the future tax effect of timing differences between the amount of assets and liabilities recognised in the balance sheet and the amount to be recognised for tax purposes.

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

M. Realisation of Income and Expenses

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

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

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

The cost of sales include primarily cost of purchased merchandise and services, transport costs, wages and salaries, overheads, commission and customs duties.

N. Estimates and Assumptions

The assumptions made and estimates used in preparing the consolidated financial statements have had an influence on the recognition and amount of the assets, liabilities, income, expenses and contingent liabilities recognised. These assumptions and estimates basically refer to uniform determination of economic useful lives at group level, the assumption concerning the recoverability of land, buildings, goodwill and equity investments, the measurement of provisions and the recoverability of future tax benefits. In specific cases, actual amounts can deviate from the underlying assumptions and estimates. Changes are taken into account in the income statement at the time of better knowledge.

O. Applying New or Revised International Financial Reporting Standards

Standards and Interpretations Required to Be Applied in the Reporting Period

In the reporting period, KHD ID Group applied all new and revised standards and interpretations that were published by the International Accounting Standards Board (IASB) and by the International Financial Reporting Interpretations Committee (IFRIC) of the IASB to the extent that these were relevant to the Group's business activities and became effective for the reporting period that began on 1 January 2008.

The changes to IAS 39 and IFRS 7 adopted by the IASB in October 2008 relate to the reclassification of financial instruments. These changes were permitted to be retroactively applied for the first time from 1 July 2008 and are prospectively applicable for all reclassifications from 1 November 2008. On account of the change, financial assets are permitted under rare circumstances to be reclassified from the category "held for trading" to another category if they are no longer intended to be sold shortly. In addition, financial assets that were allocated to the categories "held for trading" or "available-for-sale" and meet the requirements for being defined as "loans and receivables" can also be reclassified if the enterprise intends and is able to hold the asset concerned for a foreseeable time or to maturity. The changes to IFRS 7 relate to disclosures that are required to be made in the event of such reclassifications. As no reclassifications were made at KHD ID Group level, these changes had no impact on the consolidated financial statements.

The International Financial Reporting Interpretations Committee (IFRIC) adopted IFRIC 11/IFRS 2 — Group and Treasury Share Transactions, which is applicable for financial years beginning on or after 1 March 2007. The application of this interpretation has not led to any changes to accounting and measurement methods at the level of KHD ID Group.

Furthermore, IFRIC 14/IAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction, was adopted and is applicable for financial years beginning on or after 1 January 2008.

This interpretation includes guidance on the determination of the maximum amount of the surplus of a defined benefit plan that is permitted to be capitalised as an asset under IAS 19. As none of the defined benefit plans of KHD ID Group show a surplus of accumulated plan assets over the value of the defined benefit obligation, the adoption of this interpretation is not expected to have an impact on the consolidated financial statements.

Published Standards and Interpretations That Are Not Yet Applicable

At the time this set of financial statements was released for disclosure, the following standards and revisions of standards and interpretations had already been published, though not yet mandatory applicable:

- IFRS 8, Business Segments (applicable to financial years beginning on or after 1 January 2009);
- Revision of IFRS 1 (applicable to financial years beginning on or after 1 July 2009);
- Revision of IFRS 3 as well as change to IAS 27 concerning the changed presentation of given aspects of business combinations in consolidated financial statements (applicable to financial years beginning on or after 1 July 2009);
- Revision of IAS 23, Borrowing Costs (applicable to financial years beginning on or after 1 January 2009);
- Changes to IFRS 1 and IAS 27 concerning the determination of the acquisition cost of a subsidiary in individual financial statements (applicable to financial years beginning on or after 1 January 2009);
- Change to IFRS 2 concerning vesting conditions and cancellations (applicable to financial years beginning on or after 1 January 2009) as well as changes concerning intragroup share-based payments settled in cash (applicable to financial years beginning on or after 1 January 2010);
- Change to IFRS 7 concerning the improvement of disclosures on financial instruments (applicable to financial years beginning on or after 1 January 2009);
- Change to IAS 1 concerning the revised requirements for presentation of some sets of financial statements and revised wording (applicable to financial years beginning on or after 1 January 2009);
- Changes to IAS 32 and IAS 1 concerning terminable financial instruments and obligations arising upon liquidation (applicable to financial years beginning on or after 1 January 2009);
- Change to IAS 39 concerning qualifying hedged items (applicable to financial years beginning on or after 1 July 2009);
- Changes to IAS 39 and IFRIC 9 concerning embedded derivatives (applicable to financial years ending on or after 30 June 2009);

- Change standards within the framework of the annual IFRS improvement process, minor changes to various IFRSs (mostly applicable to financial years beginning on or after 1 January 2009 or 2010);

- IFRIC 12, Service License Agreements (applicable to financial years beginning on or after 29 March 2009);

- IFRIC 13, Customer Loyalty Programmes (applicable to financial years beginning on or after 1 July 2008);

- IFRIC 15, Agreements on Establishment of Properties (applicable to financial years beginning on or after 1 January 2009);

- IFRIC 16, Hedging Net Investments in Foreign Operations (applicable to financial years beginning on or after 1 October 2008);

- IFRIC 17, Distributions in Kind to Owners (applicable to financial years beginning on or after 1 July 2009);

- IFRIC 18, Transfer of Assets by Customers (applicable to financial years beginning on or after 1 July 2009).

IFRS 8, Business Segments

IFRS 8 provides for mandatory segment reporting according to the so-called management approach, according to which the segments are analysed, and the disclosures are presented, on the basis that is used internally at the highest management level for assessing segment performance and for the purpose of resource allocation. KHD ID Group expects that the adoption of IFRS 8 will have no major impact on the consolidated financial statements.

Revision of IFRS 1

The revision of IFRS 1 is limited to a restructuring of its content. As the content of IFRS 1 was not changed by this restructuring, the adoption of this standard will have no impact on the consolidated financial statements.

Revision of IFRS 3 and Change of IAS 27 Concerning Changed Presentation of Given Aspects of Business Combinations in Consolidated Financial Statements

The application of IFRS 3 (revised in 2008) and of the changed IAS 27 will lead to major changes with respect to the treatment of incidental acquisition cost within the framework of business combinations, the treatment of contingent purchase consideration payments, the presentation of acquisitions and disposals in stages as well as the presentation of transactions with minority shareholders (non-controlling interests). The transitional provisions provide for prospective application of the new regulation. No changes will arise for assets and liabilities that result from business combinations prior to adoption of the new standard.

Revision of IAS 23, Borrowing Costs

The major change to this standard relates to the cancellation of optional recognition of all borrowing costs as an expense as incurred. According to the transitional provisions, this standard will be applied prospectively by the Group. The revision of IAS 23 is not expected to have a major impact on the consolidated financial statements.

Changes of IFRS 1 and IAS 27 Concerning the Determination of the Acquisition Cost of a Subsidiary in Individual Financial Statements

These changes relate to the measurement of long-term equity investments at the time of IFRS conversion as well as to the recognition of dividends from long-term equity investments in individual financial statements. As the changes relate to IFRS adoption or to accounting and measurement in individual financial statements, they will not have any impact on the consolidated financial statements.

Change of IFRS 2 Concerning Vesting Conditions and Cancellations

This change relates, on the one hand, to the clarification that the term vesting conditions includes solely service and performance conditions. On the other hand, the provisions applicable to accounting for early termination of share-based compensation plans are extended to cases of termination through employees. The first-time application of this new provision is not expected to have any future effects on the consolidated financial statements.

Change of IFRS 7 Concerning the Improvement of Disclosures on Financial Instruments

This change will lead to extended disclosures concerning the measurement at fair value and the liquidity risk. In the first year of application, no comparative figures are, however, required to be stated.

Change of IAS 1 Concerning the Revised Requirements for Presentation of Some Sets of Financial Statements and Revised Wording

The revision of this standard includes major changes to the presentation and disclosure of financial instruments in financial statements. The new provisions include especially the introduction of a statement of income and accumulated earnings, which covers both the earnings realised in a period and unrealised gains and losses that have previously been disclosed under equity and replaces the previous income statement format. In addition, it will now be necessary to prepare additionally a balance sheet as at the beginning of the comparative period, in addition to the balance sheet as at the balance sheet date and the balance sheet as at the previous balance sheet date, if an enterprise applies accounting and measurement rules retroactively, adjusts an error or reclassifies an item of the financial statements. The new standard will influence the nature and way in which financial information of KHD ID Group is disclosed, rather than the recognition and measurement of assets and liabilities in the consolidated financial statements.

Changes to IAS 32 and IAS 1 Concerning Terminable Financial Instruments and Obligations Arising upon Liquidation

These changes relate to the classification of terminable shareholder contributions as equity or borrowings. According to the previous provision, enterprises had partly been forced to disclose the capital under company law as a financial liability on account of shareholders' legal rights of termination. In the future, these shareholder contributions will normally be required to be classified as equity if a compensation at fair value is agreed and the contributions made constitute the most subordinated claim to the net assets of the enterprise. The revision will lead neither to a changed disclosure nor to a changed measurement of shareholder contributions in the consolidated financial statements in the future.

Change of IAS 39 Concerning Qualifying Hedged Items

This change clarifies, on the one hand, the hedging against inflation risks of given items and, on the other, the designation of options at intrinsic or fair value. This change of IAS 39 is not expected to have a major impact on the consolidated financial statements.

Changes of IAS 39 and IFRIC 9 Concerning Embedded Derivatives

These changes relate to the clarification of the accounting treatment of embedded derivatives for enterprises that take advantage of the reclassification of financial instruments (changes to IAS 39 and IFRS 7 published by the IASB in October 2008). As no reclassifications were made at the level of KHD ID Group, these changes will have no impact on the consolidated financial statements.

Change Standards within the Framework of the Annual IFRS Improvement Process, Minor Changes to Various IFRSs

Besides editorial changes, these changes relate to changes concerning presentation, recognition and measurement under various standards. As KHD ID Group is only partly affected by these changes, they are not expected to have a major impact on the consolidated financial statements.

IFRIC 12, Service License Agreements

This interpretation governs the accounting treatment in the financial statements of the licensee of obligations taken over, and rights granted, within the framework of service licenses. IFRIC 12 was implemented into European law by the EU in March 2009. As part of this implementation, the effective date of adoption was changed from reporting periods beginning on or after 1 January 2008 to the first financial year of an enterprise that begins after 29 March 2009. As KHD ID Group is not a licensee within the meaning of IFRIC 12, the adoption of this interpretation will have no impact on the consolidated financial statements.

IFRIC 13, Customer Loyalty Programmes

According to this interpretation, award credits granted to customers are required to be accounted for as own revenues separately from the transaction as part of which they have been granted. Therefore, a part of the fair value of the consideration received is allocated to the customer award credits granted and deferred. The revenues are realised in the period when the customer award credits granted are exercised or expire. As KHD ID Group has no customer loyalty programmes, the adoption of this interpretation will have no impact on the consolidated financial statements.

IFRIC 15, Agreements on Establishment of Properties

This interpretation addresses sales agreements that are concluded before buildings or parts of buildings are completed or even before construction has begun. The interpretation clarifies when IAS 11 (providing for successive revenue realisation according to the stage of completion) or IAS 18 (providing for revenue realisation regularly at a corresponding later date) is applicable. As this interpretation applies to real property management, it is not expected to have any impact on KHD ID Group.

IFRIC 16, Hedging Net Investments in Foreign Operations

This interpretation specifies the regulations governing the qualification of hedged net investments in foreign operations. Presently, KHD ID Group does not hedge any net investments in foreign operations. Therefore, the adoption of this interpretation is not expected to have any impact on the consolidated financial statements.

IFRIC 17, Distributions in Kind to Owners

This interpretation governs the accounting treatment of distributions in kind. According to this interpretation, the dividend to be distributed is required to be measured at fair value of the assets to be distributed and the difference between the dividend and the carrying amount of the assets distributed is required to be recognised in the income statement. As no distributions in kind are expected to be made to owners in the financial year of adoption, the adoption of this interpretation is not expected to have any impact on the consolidated financial statements.

IFRIC 18, Transfer of Assets by Customers

This interpretation includes clarifying provisions concerning the recognition and measurement of assets as well as revenue recognition issues in connection with transfers of assets by customers. As such transfers are presently not relevant to the business activities of KHD ID, the adoption of this standard is not expected to have an impact on the consolidated financial statements.

2. Subsidiaries of KHD Humboldt Wedag International (Deutschland) AG as at 31 December 2008

The group companies including the non-consolidated group companies include:

Name of Company	Based in	Shareholding in %		Major activity	Capital stock / share capital	
KHD Humboldt Wedag GmbH	Cologne	100.00	D	Holding company	€	15,339,300
Humboldt Wedag GmbH	Cologne	100.00	I	Construction of cement plants	€	7,000,000
ZAB Zementanlagenbau GmbH Dessau	Dessau	100.00	I	Holding company	€	2,000,000
ZAB- Industrietechnik und Service GmbH	Dessau	100.00	I	Construction of cement plants	€	80,000
HUMBOLDT WEDAG Coal & Minerals Technology GmbH	Cologne	100.00	D	Construction of coal preparation plants	€	300,000
Blake International Ltd.	Tortola/BVI	99.99	I	Holding company		USD1,000
KHD Humboldt Wedag Industrial Services AG	Cologne	87.66	I	Construction of cement plants	€	3,600,000
HIT Paper Trading GmbH	Vienna	87.66	I	Inactive	€	35,000
Paper Space GmbH	Cologne	87.66	I	Inactive	€	25,000

D = directly owned
I = indirectly owned

Except for Paper Space GmbH, all Companies are fully consolidated.

Through resolution of the General Meeting of Shareholders held on 16 December 2008, the registered office of HIT International Trading AG was relocated from Berlin to Cologne and the Company was renamed KHD Humboldt Wedag Industrial Services AG. In addition, the Statutes of the Company were revised. The corresponding entry in the responsible Commercial Register HRB 64938 of the Cologne local court was made on 21 January 2009.

By taking over the assembly supervision and commissioning operations from HW, KIS reassumed its active business again as of the 2008 year end. Within the scope of taking over these operations, 20 employees (basically assembly and commissioning experts) were taken over from HW.

According to the current state of corporate planning, this Company is intended to become active additionally in further cement plant engineering segments still to be defined.

Through resolution of the Meeting of Shareholders held on 11 September 2008, the registered office of Paper Space GmbH was relocated from Ismaning to Cologne.

As reported in previous years, the group sister company KIA acquired from KHD as at 31 December 2005 HW U.S., Humboldt Wedag (S.A.) (Pty) Ltd., South Africa, Humboldt Wedag India Private Limited, India, Humboldt Wedag Australia Pty Ltd., Australia, and EKOF Flotation GmbH, Bochum/Germany.

The agreed valuation at fair market value had already been carried out by a professionally qualified auditor engaged as an external expert in the annual financial statements as at 31 December 2006 of the Company. The Companies were valued in compliance with the regulations of the Institut der Wirtschaftsprüfer (IDW S1). Based on the expert opinion on hand, the parties agreed on a purchase consideration of € 12,200 thousand under the purchase settlement agreement dated 21 December 2006.

In the financial year 2007, another expert opinion including complementary statement of an audit firm engaged as an external expert was obtained in order to secure the purchase consideration. The Companies were valued within the scope of this expert opinion in compliance with the regulations of the Institut der Wirtschaftsprüfer (IDW S1). Based on the above-mentioned expert opinions, the purchase or sales consideration of € 12,200 thousand agreed between the parties was confirmed.

In addition, as agreed in the purchase agreement, KHD is paid a 30% share in the profits of the years 2006 to 2010 realised by the Companies sold to the extent that these profits exceed a return on investment of 18.75% in relation to the consolidated equity of KHD Ltd. The necessary return on investment was not reached for the financial year 2007. KHD's claim for the financial year 2008 will be computed, and possibly accounted for, in 2009.

3. Notes to Individual Segments

The segments are classified by business segments.

In the financial year 2008, the sole segment of the Group was industrial plant engineering. This segment includes the activities of the Group that relate to the construction of cement and mineral/coal preparation plants.

In the prior year, the Company had discontinued the real property sales segment. For the financial year 2007, the discontinued operations had been separately reported on in the income statement for the last time.

The recognition is based on the internal organisation and management structures as well as the internal reporting to the Board of Directors and the Supervisory Board, according to which the primary and secondary reporting formats are reporting by business segments and by regions, respectively.

	Industrial plant engineering €'000	Real property sale €'000	KHD ID Group €'000
31 Dec. 2008			
Revenue	339,099	—	339,099
Segment result before finance cost and tax	23,384	—	23,384
Net finance income	1,978	—	1,978
Profit before tax	25,362	—	25,362
Income taxes	-10,134	—	-10,134
Net profit/loss for the financial year	15,228	—	15,228
Assets of individual segments	430,153	—	430,153
Liabilities of individual segments	297,552	—	297,552
Other segment items			
Capital investments	1,285	—	1,285
Depreciation & write-downs of property, plant & equipment	909	—	909
Amortization & write-downs of intangible assets	195	—	195
Interest cost	-1,152	—	-1,152
31 Dec. 2007			
Revenue	262,345	38,659	301,004
Segment result before finance cost and tax	27,726	1,060	28,786
Net finance income	4,357	43	4,400
Profit before tax	32,083	1,103	33,186
Income taxes	-4,133	-6,469	-10,602
Profit/loss from ordinary activities after tax	27,950	-5,366	22,584
Minority interest	—	—	—
Net profit/loss for the financial year	27,950	-5,366	22,584
Assets of individual segments	364,977	—	364,977
Liabilities of segments	246,987	—	246,987
Other segment items			
Capital investments	2,146	7	2,153
Depreciation & write-downs of property, plant & equipment	1,618	9	1,627
Amortization & write-downs of intangible assets	303	0	303

Interest cost	-1,229	-206	-1,435

The industrial plant engineering segment includes production and distribution of all kinds of industrial facilities and machinery as well as provision of other related technical and commercial services. The range of services covers process engineering, engineering, delivery, assembly and commissioning of plants, mechanical systems and components in the sectors of cement plant engineering and mineral preparation as well as coal preparation technology. In addition, the Companies provide comprehensive after-sales services.

The major component of the real property sale segment, which had been discontinued in the prior year, had been sale of land and buildings at the Stendhal location. Rental income realised in Stendhal and Dessau had also been allocated to this segment.

The capital investments include additions to property, plant and equipment (Note 4) and intangible assets (Note 5).

In the reporting year, the non-cash expenses incurred for capacity adjustments and cost savings and the expenses for risk provision of terminated or postponed orders amounted to € 9.8 million and € 9.9 million, respectively. In the prior year, no major non-cash expenses had been incurred.

Analysis of Sales Revenues, Capital Investments and Business Activity

In the financial year, KHD ID operated solely in the business segment industrial plant engineering. The worldwide organisation of the Group is divided in six geographical segments. The parent company has its registered office in Germany.

Classification of Sales Revenues, Assets and Capital Investments by Geographical Segments

	Revenue		Total assets		Capital investments	
	2008	2007	2008	2007	2008	2007
	in €'000		in €'000		in €'000	
Europe	143,746	122,292	288,692	290,157	1,284	2,153
North America	14,986	12,706	4,057	470	—	—
CIS	97,198	24,519	137,212	73,904	—	—
India	31,609	34,614	192	466	—	—
Other Asian countries	48,984	84,295	—	—	—	—
Other	2,576	22,578	—	—	—	—
	339,099	301,004	430,153	364,997	1,284	2,153

Classification of Sales Revenues by Business Segments

	2008	2007
	€'000	
Revenue from continued operations	339,099	262,345
Rental income from discontinued operations	—	1,707
Real property sale	—	36,952
	339,099	301,004

4. Property, Plant and Equipment

	Leasehold improvements / re-establishment of previous structural conditions in €'000	Equipment in €'000	Total in €'000
Acquisition cost			
31 Dec. 2006	**1,404**	**21,884**	**23,288**
Additions	**29**	1,843	1,872
Disposals	**-716**	-5,728	-6,444
31 Dec. 2007	**717**	**17,999**	**18,716**
Additions	**—**	934	934
Disposals	**—**	-303	-303
31 Dec. 2008	**717**	**18,630**	**19,347**
Accumulated depreciation and write-downs			
31 Dec. 2006	**784**	**19,713**	**20,497**
Additions	100	1,527	1,627
Disposals	-435	-5,581	-6,016
31 Dec. 2007	**449**	**15,659**	**16,108**
Additions	56	853	909
Disposals	—	-294	-294
31 Dec. 2008	**505**	**16,218**	**16,723**
Net carrying amount			
31 Dec. 2007	**268**	**2,340**	**2,608**
31 Dec. 2008	**212**	**2,412**	**2,624**

The leasehold improvements and re-establishment of previous structural conditions are accounted for at the level of HW.

5. Goodwill and Other Intangible Assets

	Goodwill €'000	Licenses €'000	Total €'000
Acquisition cost			
31 Dec. 2006	**2,127**	**2,173**	**4,300**
Additions	—	281	281
Disposals	—	-564	-564
31 Dec. 2007	**2,127**	**1,890**	**4,017**
Additions	—	351	351
Disposals	—	—	—
31 Dec. 2008	**2,127**	**2,241**	**4,368**
Accumulated amortisation and write-downs			
31 Dec. 2006	**—**	**1,862**	**1,862**
Additions	—	303	303
Disposals	—	-564	-564
31 Dec. 2007	**—**	**1,601**	**1,601**
Additions	—	195	195
Disposals	—	—	—
31 Dec. 2008	**—**	**1,796**	**1,796**
Net carrying amount			
31 Dec. 2007	**2,127**	**289**	**2,416**
31 Dec. 2008	**2,127**	**445**	**2,572**

The licenses recognised in the balance sheet have basically been accounted for at the level of HW. The predominant portion of amortisation and write-downs are included in cost.

Goodwill

The goodwill accounted for as at 31 December 2008 results from the acquisition of HW. Both the financial position and the results of operations of this Company are regularly verified by means of an impairment test, with the carrying amount being compared to the value in use. The determination was primarily based on the present equity as well as the anticipated future revenue from industrial plant contracts of the industrial plant engineering Companies. The discounting rate used in computing the earning capacity value was 4.00% (prior year: 5.34%) on the basis of a planning horizon of 5 years.

The impairment test disclosed no requirement to write down the goodwill.

As in the prior year, the goodwill in the amount of € 2,127 thousand (prior year: € 2,127 thousand) fully relates to the industrial plant engineering segment in Germany.

6. Non-Current and Current Assets

	31 Dec.	
	2008	**2007**
	in €'000	**in €'000**
Trade receivables	33,909	33,690
Less allowances for impairment of receivables	-762	-1,012
Trade receivables, net	33,147	32,678
Intercompany receivables	19,085	8,178
Payments made in advance	29,052	13,117
Other receivables	10,335	6,913
Current receivables	**91,619**	**60,886**
Non-current financial assets		
Long-term borrowings to affiliates	69,736	54,365
Other non-current financial assets	596	1,204
Non-current receivables and non-current financial assets	**70,332**	**55,569**

The current and non-current borrowings and intercompany receivables rose by € 15,259 thousand from € 62,543 thousand to € 88,821 thousand.

The free liquidity transferred by the Group to the group sister company KIA, which performs the treasury function for all operative Companies of KHD ID Group, amounted to € 69,736 thousand (prior year: € 54,365 thousand). All underlying contracts have a short term and are disclosed under non-current financial assets on account of their economic use.

The free liquidity transferred to KIA accrues interest at 1 month EURIBOR minus 100 base points. € 17,866 thousand of this liquidity (prior year: € 10,600 thousand) were deposited at the level of KIA within the scope of drawings on the guarantee line granted by Raiffeisen Zentralbank, Vienna/Austria (RZB). The guarantee deposit accrues interest at the respective current interest rate minus 100 base points. These receivables have been secured by KHD Ltd. in its capacity as the parent company of the Group as a whole.

The increase in payments made in advance is due to a higher stage of completion of the orders concerned. The increase in other receivables is basically due to input tax claims in the amount of € 4,217 thousand which are much higher than in the prior year.

No allowances were made for trade receivables in the amount of € 2,451 thousand which had been overdue at the repayment date because no material change in the credit standing of these debtors was identified and the outstanding amounts are expected to be settled on a timely basis.

Age Structure of Overdue, But Non-impaired Receivables

	31 Dec. 2008 in €'000	31 Dec. 2007 in €'000
60 to 90 days	708	638
90 to 120 days	674	715
More than 120 days	1,069	1,247
Total	2,451	2,600

Movements in Allowances

	2008 in €'000	2007 in €'000
Allowance at the beginning of the year	1,012	2,083
Addition	452	41
Utilisation	-554	-1,112
Reversal	-148	0
Allowance at the end of the year	762	1,012

7. Deferred Tax Assets and Liabilities

The Company has recognised deferred income tax from temporary differences between the IFRS and tax balance sheets. As in the prior year, the underlying tax rate is 31.6%. This basically corresponds to the German income tax rates.

Deferred income tax assets are recognised for tax loss carryforwards only to the extent that the corresponding tax benefit is likely to be capitalised.

The total amount of the non-forfeitable loss carryforwards at group level is € 97.9 million (prior year: € 108.8 million) for corporate income tax and € 75.6 million (prior year: € 96.0 million) for municipal trade tax, with corresponding corporate income and trade tax loss carryforwards of € 47.2 million (prior year: € 57.8 million) and € 21,0 million (prior year: € 31.1 million), respectively, being used for determining deferred taxes. No deferred taxes were capitalised for corporate income and trade tax loss carryforwards in the amount of € 50.7 million (prior year: € 51.0 million) and € 54.6 million (prior year: € 64.9 million), respectively.

The significant decrease in deferred tax assets from the prior year is primarily due to tax loss carryforwards realised in the financial year.

The increase in deferred tax liabilities is mainly due to a higher stage of completion of orders.

Deferred tax assets as well as deferred tax liabilities arise from the following items:

	31 Dec.	
	2008 in €'000	2007 in €'000
Deferred tax assets		
Provisions	1,194	1,266
Tax loss carryforwards capitalised	10,810	13,857
Netted with deferred tax liabilities	-11,303	-10,558
	701	4,565
Deferred tax liabilities		
Work in progress /POC method	-16,749	-12,130
Netted with deferred tax assets	11,303	10,558
	-5,446	-1,572

8. Inventories

	31 Dec. 2008 in €'000	2007 in €'000
Raw materials, consumables and supplies	9,140	7,052
Work in progress	40	—
Write-downs to net selling price	-2,939	-3,055
	6,241	3,997

9. Construction Contracts

In accounting for claims or commitments under construction contracts, the profits and costs recognised are disclosed after netting progress billing, advances and loss-making contracts.

	31 Dec. 2008 in €'000	2007 in €'000
Cost previously incurred for work in progress	164,811	99,655
Proportionate profits under these contracts previously recognised	43,378	36,260
Total costs incurred and profits disclosed	208,189	135,915
Less netted contract losses and provisions	-1,329	-2,501
Less process billing and advances received	-272,326	-196,886
Balance of construction contracts	-65,466	-63,472
This amount is disclosed in the balance sheet as follows:		
Gross amount due from customers for contract work	47,863	51,929
Gross amount due to customers for contract work	-113,329	-115,401
	-65,466	-63,472
Gross amount due to customers for contract work	-113,329	-115,401
Advances received under construction contracts without services rendered	-4,137	-3,134
Commitments under construction contracts	-117,466	-118,535

All sales revenues of the financial year 2008 result from construction contracts.

10. Other Financial Assets

The decrease in other financial assets from € 16,346 thousand to € 3,565 thousand is mainly due to the impairment charges determined as at 31 December 2008, which mainly relate to the shares in KHD Ltd. and to other securities. The unrealised losses from the difference between the carrying amount and the fair value which were booked in the income statement in the financial year 2008 amounted to € 8,358 thousand.

11. Cash and Cash Equivalents

The Group discloses cash and cash equivalents of € 204,636 thousand (prior year: € 166,681 thousand), of which € 1,667 thousand (prior year: € 2,371 thousand) were deposited with banks as collaterals for furnishing guarantees.

	31 Dec. 2008 in €'000	31 Dec. 2007 in €'000
Bank balances and cash	18,770	29,215
Short-term bank deposits	184,199	135,095
Cash with restraint on disposal, encumbrance or alienation for collateralisation or guarantees	1,667	2,371
	204,636	166,681

12. Equity

Given a capital stock of KHD ID of € 33,142,552.00, the number of ordinary shares subscribed for totals 16,571,276 shares with a par value of € 2.00 per share. The shares are made out to bearer. Presently, 16,571,276 shares have been issued and fully paid up.

KHD Ltd. advised that it owned more than one fourth of the shares of our Company and additionally a majority shareholding under § 16 (1) German Stock Corporation Act (AktG). As in the prior year, the total capital share of KHD Ltd. is roughly 74%.

The issued capital of KHD ID remained unchanged from the prior year, amounting to € 33,142 thousand. The capital reserves remained also unchanged from the prior year, amounting to € 1,776 thousand.

During the last few years, the Company acquired 114,568 treasury shares through purchase. The historical cost of the treasury shares amounts to € 221,116. These shares are carried as "treasury shares". The Company can reissue these shares at a later date.

The minority interest relates to the minority shareholders KIS and Blake (12.34% and 0.01%, respectively).

Approved Capital

The Ordinary Meeting of Shareholders held on 29 September 2004 authorised the Board of Directors, with the approval of the Supervisory Board, to increase the Company's capital stock once or repeatedly by a total amount of up to € 14,400,000 until 31 May 2009 inclusive by issuing up to 7,200,000 new no par value shares made out to bearer against cash contributions. After the 2004 and 2006 capital increases, the approved capital decreased to € 10,079,392 through issue of up to 5,039,696 shares made out to bearer. The deadline referred to above expired, hence, as at the time the consolidated financial statements were prepared, without any new shares being issued.

13. Financial Liabilities

The Group discloses loan commitments in the amount of € 1,167 thousand (prior year: € 1,405 thousand), which are fully due as at 31 December 2009 (prior year: due as at 31 December 2009). As in the prior year, the interest rate is 6%.

14. Pension Commitments

The following amounts have been recognised in the balance sheet of the financial year:

	31 Dec. 2008 in €'000	2007 in €'000	2006 in €'000	2005 in €'000	2004 in €'000
Provision at beginning of year	22,103	22,269	22,287	22,583	22,554
Expense booked	1,142	1,531	1,095	1,312	1,171
Pensions paid	-1,319	-1,697	-1,113	-1,031	-1,142
Disposal due to restructuring	—	—	—	-577	—
Year end	21,926	22,103	22,269	22,287	22,583

The following amounts have been recognised in the income statement of the financial year:

	2008 in €'000	2007 in €'000	2006 in €'000	2005 in €'000	2004 in €'000
Current pension cost included in staff costs	—	492	49	253	25
Interest cost	1,142	1,039	1,046	1,059	1,146
Total	1,142	1,531	1,095	1,312	1,171

In 2008 and in the prior year, the Group took advantage of the so called corridor method under IAS 19. According to this method, profits or losses from measurement of the pension commitment are not required to be disclosed if they are due only to a change in actuarial parameters and the change varies within a corridor of 10% above or below the value previously recognised. The equivalent amount of the pension commitments has not been deposited in a fund or plan assets.

The major actuarial assumptions made are as follows:

	31 Dec.		31 Dec.		31 Dec.
	2008	2007	2006	2005	2004
Discounting rate	6.00%	5.34%	4.75%	4.75%	5.50%
Variance in pensions due to linkage with earnings	1.50%	1.50%	1.50%	1.50%	1.50%
Employee turnover	0%	0%	0%	0%	0%

Defined Benefit Obligation

Amount Required to Be Disclosed in the Balance Sheet

	31 Dec.	
	2008 €'000	2007 €'000
Defined benefit obligation (unfunded)	21,374	22,080
Less actuarial (gains)/losses not repaid	44	524
Amount required to be disclosed in the balance sheet	21,330	21,556
Deferred compensation	596	547
Amount carried in the balance sheet	21,926	22,103

Reconciliation of Present Value of Commitment (Beginning/End of Year)

	2008 €'000	2007 €'000
Defined benefit obligation as at 1 Jan.	22,080	23,073
Current service cost	0	0
Interest cost	1,142	1,039
Benefits actually paid (total)	-1,367	-1,748
Transfer	—	313
Empirical adjustments (gains)/losses	-81	907
Actuarial gains due to variances in parameters	-400	-1,504
Defined benefit obligation as at 31 Dec.	21,374	22,080

Future Benefits

	€'000
Foreseeable pension payments	
in 2009	1,447
in 2010	1,484
in 2011	1,518
in 2012	1,562
in 2013	1,598

15. Provisions

	Guarantee	Risk of litigation	Restructuring	Potential loss	Total
	€'000	€'000	€'000	€'000	€'000
Provisions as at 1 Jan. 2008	17,323	555	—	—	17,878
Provisions made	10,507	211	9,755	9,893	30,366
Provisions released	-6,386	-342	—	—	-6,728
Utilised/reclassified	-3,646	-17	—	—	-3,663
Provisions as at 31 Dec. 2008	17,798	407	9,755	9,893	37,853

Classification of provisions by maturity:

	2008	2007
	€'000	€'000
Non-current (guarantee)	5,405	8,080
Current	32,448	9,798
	37,853	17,878

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

The increase in the non-current provision is primarily due to risk provision with respect to existing orders in the amount of € 9.9 million as well as to expenses in connection with restructurings initiated in the financial year for capacity adjustment and cost saving purposes at the level of HW (€ 9.7 million).

The provision for restructuring and staff termination cost is based on best estimates of the Board of Directors with respect to the expenses directly related to the restructuring according to a general individual value method that are not attributable to the Group's current business activities. This also includes benefits to employees on the occasion of termination of employment relationships.

The provisions for risks of litigation relate primarily to provisions for litigation in connection with contracts concluded in the industrial plant engineering segment.

16. Liabilities

	31 Dec.	
	2008	2007
	in €'000	in €'000
Trade payables	90,290	56,844
Intercompany liabilities	6,107	7,104
Tax and social insurance contributions	—	39
Non-current other liabilities	5,994	3,377
Current other liabilities	4,711	6,530
	107,102	73,894

The other non-current liabilities include commitments due to warranties already recognised in the amount of € 5,994 thousand (prior year: € 3,377 thousand).

The trade payables disclosed as at the balance sheet date are subject to the usual retentions of title.

The reduction of current tax liabilities is basically due to payment of the tax liabilities for the fiscal year 2006.

The other liabilities include a liability of € 1,976 thousand for the reimbursement claim of MFC Corporate Services AG in the amount of the expenses it incurred for services provided to KHD ID.

The carrying amounts disclosed as at the balance sheet date basically correspond to the fair values.

17. Commitments under Construction Contracts

This item includes the commitments under construction contracts which are disclosed by application of IAS 11. This commitment constitutes the balance of the amounts analysed in Note 12. In addition, this item includes advances received which are paid by the customers at the time the order is accepted and which are required to be recognised under IAS 11.

18. Staff Costs

	2008 in €'000	2007 in €'000
Wages and salaries	36,054	33,185
Social security contributions and costs	5,884	5,525
Pension cost included in staff costs	—	492
	41,938	39,202

In the financial year, the number of employees rose from 530 to 600.

as at 31 Mar. 2008	as at 30 Jun. 2008	as at 30 Sept. 2008	as at 31 Dec. 2008
558	583	593	600

In the financial year, the average number of employees was 583 (of whom industrial: 100 employees; prior year, total: 518, of whom industrial: 97 employees).

19. Total Emoluments Paid to Supervisory Board

The members of the Supervisory Board are paid no emoluments for their activity. There are no pension commitments towards former members of the Supervisory Board and their surviving dependants. Furthermore, no contingent liabilities were incurred for this circle of persons. There were no receivables due to loans or advances to members of the Supervisory Board as at 31 December 2008.

20. Total Emoluments Paid to Directors and Former Directors

As in the prior year, the Board of Directors of KHD ID were paid no emoluments. There are no pension commitments towards former members of the Board of Directors and their surviving dependants.

No emoluments were paid to former Directors.

21. Other Operating Income

	2008 in €'000	2007 in €'000
Exchange gains .	421	103
Scrap revenue....	—	2
Other income.....	1,496	1,969
	1,917	2,074

The other income basically results from recharges and a licence agreement with affiliated companies.

22. Other Expenses

	2008 in €'000	2007 in €'000
Research and development............	2,928	2,086
Exchange loss................................	135	925
Charged by affiliated companies...	4,890	5,536
Other expenses	591	1,329
Other expenses of discontinued operations....................................	—	-18
Other expenses of continued operations....................................	8,544	9,858

The item "charged by affiliated companies" includes, among other things, charges in connection with the functions taken over and charged by the group sister company KIA, especially for the function as the treasurer for all operative Companies of KHD ID Group.

23. Net Finance Income

The net finance income can be analysed as follows:

	2008 in €'000	2007 in €'000
Interest income...	7,578	4,065
Interest received from affiliated companies	2,108	2,065
Total interest income......................................	9,686	6,130
Dividend income	106	220
Income from currency translation	1,400	166
Other	368	—
Finance income..	**11,560**	**6,516**
Variance in fair value of securities.................	8,358	220
Other interest expenses	1,224	1,533
Interest paid to affiliated companies	—	197
Total interest cost...	1,224	1,730
Finance cost	**9,582**	**1,950**
Net finance income taking into account discontinued operations.............................	**1,978**	**4,566**
Of which related to discontinued operations..	—	-209
Net finance income of continued operations...	**1,978**	**4,357**

The interest income basically includes interest income from loans, bank balances and cash equivalents. A partial amount of € 6,663 thousand relates to term deposit investments. The increase in interest income by € 3,602 thousand to € 9,614 thousand is basically due to an increase in bank balances.

The interest expenses include interest added on the pension provisions in the amount of € 1,142 thousand (prior year: € 1,039 thousand).

The interest income disclosed relates exclusively to financial instruments which are not measured at fair value with profit and loss impact. The interest cost disclosed includes interest of € 76 thousand (prior year: € 691 thousand) that relates to such financial instruments.

24. Taxes on Income

The income tax expense in the amount of € 10,134 thousand booked in the financial year 2008 (prior year: € 10,602 thousand) can be analysed as follows:

	2008 in €'000	2007 in €'000
Actual tax expense of continued operations	-2,396	-4,747
Deferred tax expense/income (+)	-7,738	614
Tax expense of continued operations	**-10,134**	**-4,133**
Tax expense allocable to discontinued operations	—	-6,469
Tax expense of the year	**-10,134**	**-10,602**

The anticipated tax expense is reconciled to the actual tax expense as follows:

	2008 in €'000	2007 in €'000
Profit before taxes on income	25,362	33,186
Average tax rate	31.60%	40.00%
Anticipated tax expense	-8,014	-13,274
Deferred tax on loss carryforwards realised/capitalised	-3,047	6,931
Impact on deferred tax due to		
- variance in tax rate in Germany	—	-3,738
- other amounts allocated and deducted without tax impact	927	-521
Tax expense of the year	**-10,134**	**-10,602**

The effective tax rate at group level of continued operations is 39.96% (prior year: 31.90%).

25. Earnings and Dividend per Share

Earnings per Share

The basic and diluted earnings per share from continued and discontinued operations amount to € 0.93 per share (prior year: € 1.37).

From continued and discontinued operations:	2008	2007
Net earnings attributable to shareholders (in EUR)	15,276,000	22,584,090
Weighted average number of issued ordinary shares	16,456,708	16,456,708
Basic and diluted earnings per share (in EUR)	0.93	1.37

The basic and diluted earnings per share from continued operations amount to € 0.93 (prior year: € 1.70).

From continued operations:	2008	2007
Net earnings attributable to shareholders (in EUR)	15,276,000	27,950,090
Weighted average number of issued ordinary shares	16,456,708	16,456,708
Basic and diluted earnings per share (in EUR)	0.93	1.70

The basic and diluted earnings per share from discontinued operations amount to € 0.00 (prior year: € -0.33).

From discontinued operations:	2008	2007
Net earnings attributable to shareholders (in EUR)	0	-5,366,000
Weighted average number of issued ordinary shares	16,456,708	16,456,708
Basic and diluted earnings per share (in EUR)	0.00	-0.33

Dividend per Share

According to the Statutes, the appropriation of the KHD ID's accumulated profit is at the free disposal of the General Meeting of Shareholders.

26. Commitments and Contingent Liabilities

Commitments in the Area of Operating Leasing

The total amount of future minimum payments for non-cancellable operating and other leases relates basically to leases for buildings.

	31 Dec. 2008 in €'000	31 Dec. 2007 in €'000
Within one year	2,108	1,928
Within 2 to 5 years	3,014	3,341
After 5 years	—	—
Total rental commitments	5,122	5,269

The expense for leased and rented office space and equipment in the financial year which was booked in the income statement amounts to € 1,745 thousand (prior year 2007: € 2,079 thousand).

Contingent Liabilities

Within the framework of its normal business transactions, the Group has contingent liabilities due to performance guarantees, performance bonds and warranties. The Company does not anticipate any material liabilities from these commitments. Within the scope of its ordinary activities, the Group has furnished guarantees in the amount of € 171.9 million (prior year 2007: € 99.5 million), especially via the guarantees furnished by KIA. Within the scope of a total facility of € 340 million, KIA extends to KHD ID Group the necessary guarantee credits.

The accounts payable to suppliers as at 31 December 2008 amount to € 186.8 million (prior year: € 155.8 million).

27. Additional Notes on Financial Instruments

a) Financial Risk Factors

The industrial plant engineering Companies are exposed to the specific risks of their industry. These especially relate to complex technical and logistic difficulties in the fields of planning, production and commissioning within the scope of production of specific facilities, but also to specific commercial conditions of foreign markets and the respective country-related risks.

In order to identify strategic risks at an early stage, all available internal and external sources of information are evaluated. In addition, the risk analysis and strategic development of the Companies are intensively supported through the resources of KHD Ltd.

The Companies use a large number of controlling instruments in order to comprehensively monitor the contracts during the entire phase of operative processing. This includes both technical and commercial aspects of the contracts.

Since the shares of KHD Ltd. are listed on the New York Stock Exchange, all major group companies are required to comply with the U.S. regulations under the Sarbanes Oxley Act (SOX). The target of these regulations is to ensure the reliability of the entire financial reporting through strict internal controls. The KHD ID Group companies ensure compliance with these regulations through internal and external audits. SOX compliance was audited within the framework of the audit of KHD Ltd. Group in 2008.

In the light of the very difficult economic environment of the plant engineering companies as a result of the financial crisis associated with its massive impact on the real economy, it is necessary to maintain the technological leadership and to further pursue the low-cost strategy within the Group in order to maintain competitiveness.

Through its business activities, the Group is exposed to a large number of financial risks, which are addressed below.

b) Capital Management

The primary goal of the capital management of KHD ID Group is to ensure that the ability to pay debts and the financial substance are maintained also in the future.

Financial security is basically measured by means of the equity ratio. The components of this ratio are the total assets disclosed in the consolidated balance sheet as well as the equity disclosed in the consolidated balance sheet, which constitutes also the capital within the meaning of IAS 1 at the level of KHD ID Group. The equity ratio is used as a key ratio towards investors, analysts, banks and rating agencies.

The capital structure can, as a general rule, be controlled by KHD ID by adjusting dividends, reducing the capital or issuing new shares as well as by issuing financial instruments, which are classified as equity under IFRS. The Group seeks to reach a capital structure that is appropriate to the business risk.

KHD ID comes under the minimum capital requirements applicable to stock corporations. Compliance with these requirements is continuously monitored. In 2008, the Group was in compliance with the requirements.

	2008	2007
Equity in €'000	132,601	118,010
Total assets in €'000 ...	430,153	364,997
Equity ratio in%	30.83	32.33

In spite of the capital increase by € 14,591 thousand, the equity ratio went down by 1.5% points on account of the variance in total assets.

c) Market Risk

Currency Risk

The Group operates internationally and is, hence, exposed to currency risks in connection with performing its contracts. Currency risks arise from future business transactions and from recognised assets and liabilities. These are minimised by using derivative financial instruments. The derivative financial instruments used are exclusively foreign exchange contracts. Currency risks are mitigated at group level by performing major transactions in euro.

Price Risk

The securities disclosed in the Group's balance sheet are exposed to the market price risk. As performance and price are laid down in individual contracts, the Group is not exposed to a commodity price risk.

d) Credit and Non-payment Risks

The Group is not exposed to significant credit risks. Internal guidelines ensure that products are sold to customers with an appropriate credit history or that export insurance, letters of credit or sufficient bank guarantees are available.

The Group has fixed-interest assets, which are influenced by changes in market interest rates in the course of time.

The non-payment risk arising from financial assets consists in the risk of default of a counterparty and is, hence, limited to the maximum amount of positive carrying amounts.

This risk is addressed through allowances made for loss of receivables outstanding. There is no credit risk concentration with respect to trade receivables because the customers of the Group are located in all regions of the world.

e) Liquidity Risk

Liquidity risk management covers all liabilities of the Group. Given the dynamic nature of the underlying business activities, the Group seeks to remain flexible with respect to financing by holding sufficient credit lines available at the level of KIA. To avoid financial risks of the plant engineering business, the contracts are settled through customer payments made in advance, which led to a cash inflow as at the balance sheet date.

f) Cash Flow and Fair Value Interest Rate Risk

Since the major fixed-interest assets of the Group are of a current nature, they are subject to market interest rates if they are reinvested. The revenues and operating cash flows of the Group are largely independent of market interest rate fluctuations.

g) Net Earnings per Category

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

	Financial assets		Financial liabilities		
2008	**recognised as income at fair value**	**at amortised cost**	**recognised as income at fair value**	**at amortised cost**	**Total**
			in EUR'000		
Net earnings .	-13,645.0	11,364.0	0.0	-10.0	-2,291

	Financial assets		Financial liabilities		
2007	**recognised as income at fair value**	**at amortised cost**	**recognised as income at fair value**	**at amortised cost**	**Total**
			in EUR'000		
Net earnings .	79.0	5,192.0	0.0	-616.0	4,655

The net earnings especially include interest income, interest cost, income and expenses from translating monetary foreign currency items, fair value changes of securities as well as expenses due to impairment of financial assets.

h) Listing of Financial Assets and Liabilities Classified by Categories

31 Dec. 2008	Financial assets: recognised as income at fair value	Financial assets: at amortised cost	Financial assets: not within the scope of IAS 39	Financial liabilities: at amortised cost	Financial liabilities: not within the scope of IAS 39	Carrying amount	Fair value
				in EUR'000			
Non-current financial assets		70,332					
Trade receivables................................		33,147				70,332	70,332
Intercompany receivables		19,085				33,147	33,147
Other financial assets..........................	3,565					19,085	19,085
Derivatives not in hedge accounting....	793					3,565	3,565
Other receivables		5,325	4,217			793	793
Cash and cash equivalents		204,636				9,542	9,542
						204,636	204,636
Non-current financial liabilities........				0		0	0
Other liabilities				4,711	5,994	10,705	10,705
Trade payables....................................				90,290		90,290	90,290
Intercompany liabilities				6,107		6,107	6,107
Derivatives not in hedge accounting....						0	0
Current financial liabilities				1,167		1,167	1,167
	4,358	**332,525**	**4,217**	**102,275**	**5,994**	**449,369**	**449,369**

31 Dec. 2007	Financial assets: recognised as income at fair value	Financial assets: at amortised cost	Financial assets: not within the scope of IAS 39	Financial liabilities: at amortised cost	Financial liabilities: not within the scope of IAS 39	Carrying amount	Fair value
				in EUR'000			
Non-current financial assets		55,569				55,569	55,569
Trade receivables................................		32,678				32,678	32,678
Intercompany receivables		8,178				8,178	8,178
Other financial assets..........................	12,966	3,380				16,346	16,346
Derivatives not in hedge accounting....	74					74	74
Other receivables		3,721	3,118			6,839	6,839
Cash and cash equivalents		166,681				166,681	166,681
Non-current financial liabilities........				1,405		0	0
Other liabilities				6,530	3,377	9,907	6,530
Trade payables....................................				56,844		0	0
Intercompany liabilities				7,104		0	0
Derivatives not in hedge accounting....						0	0
Current financial liabilities						0	0
	13,040	**270,207**	**3,118**	**71,883**	**3,377**	**296,272**	**292,895**

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

- The fair value of financial assets and financial liabilities with standard terms and conditions that are traded in active liquid markets is determined with reference to the listed current price;

- The fair value of other financial assets and financial liabilities (excluding derivative instruments) is determined on the basis of discounted cash flow analyses and using prices for observable current market transactions and dealer listings for similar instruments according to generally accepted measurement models;

- The fair value of derivative instruments is calculated at listed prices. If such prices are not available, the calculation is based on discounted cash flow analyses, using corresponding yield curves for the term to maturity of the instruments for derivatives without optional components as well as using option price models for derivatives with optional components.

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

i) Securities Held for Trading

The securities held for trading amount to € 3,565 thousand (prior year: € 16,346 thousand). A variance in the market price by 10% would lead to a variance of € 244 thousand in the Group's profit after tax (prior year: € 1,118 thousand).

j) Receivables

The overdue receivables, including receivables on which allowances were made, (amounts due for more than 60 days) account for € 3,171 thousand (prior year: € 3,612 thousand) of the Group's total receivables. After deducting collaterals (letters of credit and Hermes cover), the resulting risks are estimated by the Group at € 762 thousand. A variance in the risk amount of 10% is insignificant for the Group. The receivables on which allowances were made are overdue for more than 90 days.

k) Derivatives

The derivative financial instruments used are exclusively foreign exchange contracts. They have been recognised at fair value in the balance sheet in accordance with IAS 39.

Foreign exchange contracts have been measured at the forward exchange rate and by means of the yield curves which have been derived from the listed interest rates of corresponding terms to maturity. The fair value of the derivatives amounts to € 793 thousand (prior year: € 78 thousand). A variance in the fair value by 10% would influence the net profit after tax by € 64 thousand (prior year: € 5 thousand). The nominal volume of the foreign exchange contracts, which relate exclusively to selling of Canadian dollars (CAD), amounts to CAD 8,873 thousand as at 31 December 2008 (prior year: CAD 7,883 thousand).

28. Litigation

Action Brought by Shareholders ("Return of Contributions")

Shareholders have brought actions against the Company for the approved sets of annual financial statements as at 31 December 2002 and 31 December 2003 of the Company to be declared null and void, alternatively to be declared ineffective, as well as for the resolutions according to which the Directors and three Supervisory Board members were to be released from their responsibilities for the business year 2003, which were adopted by the Company's General Meeting of Shareholders held on 29 September 2004, to be declared null and void, alternatively to be set aside.

The subject matters of the actions were fees in the amount of EUR 1,206 thousand ("placement fee") and in the amount of EUR 1,914 thousand ("merchant banking fee"), which had been paid by KHD ID to MFC Corporate Services AG (formerly MFC Merchant Bank S.A.) at the end of 2002 for placement of the capital increase in December 2002 and for provision of merchant bank services. In the plaintiffs' opinion, these payments had been inadmissible because they constituted a return of contributions. Said sets of annual financial statements had been understated due to failure to book a corresponding repayment claim.

Based on the regional court ruling, the Company had already booked with profit and loss impact in its sets of financial statements for prior years, an account receivable from MFC Corporate Services AG, Herisau/Switzerland, in the amount of the merchant banking fee (€ 1,914 thousand) and asserted this claim against MFC Corporate Services AG in its letter dated 16 February 2006. The court ruling does not address the placement fee.

In view of the actual expenses in the amount of € 1,976 thousand in connection with the services provided for KHD ID under the merchant banking agreement, which have been substantiated in detail by MFC Corporate Services AG, the Company had also already made a corresponding provision in the prior year's financial statements for the event that, should eventually a claim be asserted by KHD ID, MFC Corporate Services AG asserts on its part a reimbursement claim for the expenses incurred.

The regional court allowed the complaints through court ruling dated 4 November 2005. KHD ID has lodged an appeal from this court ruling in due time and due form.

Meanwhile, one of the complaints has been withdrawn. In respect of the complaint still pending, the Company anticipates that its appeal is still likely to succeed. A corresponding ruling is still outstanding on account of a large number of postponements.

Action Brought by Shareholders ("Valuation of Companies Sold")

In connection with the valuation of the companies disposed of to KIA in 2005, KHD ID was served the complaint of one shareholder on 23 February 2007. The cause of this complaint is that the approved annual financial statements as at 31 December 2005 and the resolutions concerning the release of the Directors and of the Supervisory Board members be declared null and void.

The hearing, which has meanwhile taken place, did also not lead to any changes to the underlying facts and the matter in dispute. Although the Company lost its case before the Cologne regional court of first instance, it expects to win the action in the proceedings on appeal that have been opened in the meantime. Therefore, the Company maintains its motion for dismissal because it still anticipates that the complaints are unfounded because they are non-substantiated.

29. Disclosure of Related Party Transactions

KHD Ltd. holds an direct majority interest in KHD ID. Besides KHD Ltd., the major related parties are its subsidiaries included in this set of consolidated financial statements. The income and expenses are basically related to orders of the industrial plant engineering segment, the distribution and marketing functions and the finance activities within KHD Ltd. Group.

Income

The income from related parties amounts to € 15,438 thousand (prior year: € 17,199 thousand) and solely relates to income realised with the KIA Subgroup. The income from loans granted to KIA amounted to € 2,108 thousand in 2008 (prior year: € 2,065 thousand). The free liquidity transferred to KIA accrues interest at 1 month EURIBOR minus 100 base points.

Expenses

The expenses incurred with Companies of KHD Ltd. Group include:

	2008 in €'000	2007 in €'000
KIA Subgroup	23,598	28,323
KHD Ltd. and associated companies	195	197
	23,793	28,520

Receivables

As at 31 December 2008, the Group disclosed the following intercompany receivables:

	31 Dec. 2008 in €'000	 2007 in €'000
KIA Subgroup	88,821	62,486
KHD Ltd.	—	57
	88,821	62,543

The liabilities include the following items:

Short-term Liabilities

	31 Dec. 2008	31 Dec. 2007
	in €’000	in €’000
KIA Subgroup	5,956	7,048
KHD Ltd.	86	56
	6,042	7,104

30. Post-balance-sheet-date Events

Complementing the restructurings already initiated for cost reduction purposes at the end of the financial year 2008, HW intends to close down its production facility in Köln-Kalk, a suburb of Cologne, as of the end of the financial year 2009.

As an alternative to a closure, negotiations on a disposal of the production facility had been started in parallel and led to the signing of a Memorandum of Understanding with an Indian interested party in May 2009. There are no concrete results of these negotiations to date.

In addition, the ultimate group parent company KHD Ltd. intends to part with the entire worldwide coal & mineral operations within the scope of a strategic realignment. Besides the long-term equity investment held by KHD ID in CMT, these operations cover also business activities mainly in India and South Africa.

There were no further major post-balance-sheet-date events.

31. Release for Disclosure through Board of Directors

The set of consolidated financial statements on hand was released for disclosure through resolution of the Board of Directors dated 30 June 2009.

The Board of Directors

Cologne, 30 June 2009

Alan Hartslief Jouni Salo

The following auditors' report (Bestätigungsvermerk) has been issued in accordance with Section 322 German Commercial Code (Handelsgesetzbuch) in the German language on the German version of the consolidated financial statements of KHD Humboldt Wedag International (Deutschland) AG for the financial year ended 31 December 2008.

Auditors' Report

We have audited the consolidated financial statements prepared by KHD Humboldt Wedag International (Deutschland) AG, Cologne, — comprising the income statement, the balance sheet, the cash flow statement, the statement of changes in equity and the notes to the financial statements - and the discussion and analysis by the management of the parent company for the business year 2008. The preparation of the consolidated financial statements and the discussion and analysis by the management of the parent company in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a (1) HGB are the responsibility of the parent company's Board of Directors. Our responsibility is to express an opinion on the consolidated financial statements and on the discussion and analysis by the management of the parent company based on our audit.

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

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements of KHD Humboldt Wedag International (Deutschland) AG, Cologne, comply with IFRS, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a (1) HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The discussion and analysis by the management of the parent company are consistent with the consolidated financial statements and as a whole provide a suitable view of the Group's position and suitably present the opportunities and risks of future development.

Düsseldorf, 30 June 2009

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

Signed: Crampton	Signed: Graetz
Wirtschaftsprüfer	Wirtschaftsprüfer
German Public Auditor	German Public Auditor

CONSOLIDATED FINANCIAL STATEMENTS OF
KHD HUMBOLDT WEDAG INTERNATIONAL (DEUTSCHLAND) AG
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2007 IN ACCORDANCE WITH IFRS

Group Income Statement for the Financial Year 2007

	Note	2007 €'000	2006 €'000
Continued operations			
Revenue	3	262,345	203,766
Cost of sales		-211,638	-158,388
Gross profit		**50,707**	**45,378**
Other operating income	24	2,074	1,700
Distribution costs		-5,636	-5,184
Rental expenses not included in cost of sales		-688	-914
General and administrative expenses		-9,561	-6,666
Net finance income	26	4,357	1,377
Other expenses	25	-9,170	-4,984
Profit before tax		**32,083**	**30,707**
Income tax expense	27	-4,133	-7,470
Profit after tax from continued operations		**27,950**	**23,237**
Discontinued operations			
Loss from discontinued operations	3	-5,366	-661
Net profit for the financial year		**22,584**	**22,576**
Of which related to:			
Shareholders of parent company		22,584	22,659
Minority shareholders		0	-83
		22,584	**22,576**

Group Balance Sheet as at 31 December 2007

	Note	31 Dec. 2007 €'000	31 Dec. 2006 €'000
ASSETS			
Non-current assets			
Property and equipment	4	2,608	2,791
Goodwill	5	2,127	2,127
Other intangible assets	5	289	311
Investments in associates	6	0	372
Deferred tax assets	8	4,565	13,933
Non-current financial assets	7	55,569	33,603
Total non-current assets		**65,158**	**53,137**
Current assets			
Inventories	9	3,997	4,202
Gross amount due from customers for contract work	11	51,929	36,781
Trade and other receivables	7	39,591	42,547
Intercompany receivables	7	8,178	20,319
Payments made in advance	7	13,117	11,422
Other financial assets	12	16,346	1,895
Cash and bank balances	13	166,681	68,187
		299,839	185,353
Available-for-sale assets	10	0	36,295
Total current assets		**299,839**	**221,648**
Total assets		**364,997**	**274,785**
EQUITY AND LIABILITIES			
Equity			
Issued capital		33,142	33,142
Capital reserves		1,776	1,776
Treasury shares		-221	-221
Currency differences		0	-40
Undistributed profit carryforward		81,874	58,964
		116,571	93,621
Minority interest		1,439	1,482
Total equity	14	**118,010**	**95,103**
Non-current liabilities			
Financial liabilities	15	1,405	4,392
Other financial liabilities	19	3,377	2,171
Employee benefit obligations	17	22,103	22,269
Deferred tax liabilities	8	1,572	6,813
Provisions	18	8,080	3,842
Total non-current liabilities		**36,537**	**39,487**
Current liabilities			
Trade and other payables	19	70,517	61,918
Financial liabilities	19	0	2,461
Gross amount due to customers for contract work	20, 11	118,535	55,126
Current tax liabilities	19	11,600	8,070
Provisions	18	9,798	12,620
Total current liabilities		**210,450**	**140,195**
Total equity and liabilities		**364,997**	**274,785**

Statement of Consolidated Cash Flows for the Financial Year 2007

	2007 €'000	2006 €'000
Cash flows from operating activities		
Net profit for the financial year	22,584	22,659
Income tax expense recognised in the income statement	10,602	5,655
Net finance income recognised in the income statement	-4,357	-1,586
Profit before tax and interest	28,829	26,728
Impairments recognised for trade receivables	-1,071	256
Amortisation, depreciation and write-downs of non-current assets	1,930	1,597
Net foreign currency loss	822	161
Development costs recognised as an expense	2,086	2,379
Changes in net current assets	**32,596**	**31,121**
Increase/decrease in trade receivables and financial assets	15,994	-26,980
Increase in inventories and gross amount due from customers for contract work	-14,943	-12,224
Decrease in available-for-sale assets	36,295	0
Increase in payments made in advance and other financial assets	-5,403	-1,895
Increase in trade and other payables and in gross amount due to customers for contract work	69,124	30,473
Decrease in pension provisions	-166	-18
Increase/(decrease) in provisions	1,416	-2,433
Cash inflows /(outflows) from operating activities	**134,913**	**18,044**
Other non-cash transactions	721	687
Interest paid	-396	-607
Interest received	2,037	791
Income tax paid	-1,651	-6,319
Net cash inflows/outflows from operating activities	**135,624**	**12,596**
Cash flows from investing activities		
Interest received	3,975	795
Payments for intangible assets	-281	-65
Payments for property, plant and equipment	-1,872	-538
Gain on disposal of property, plant and equipment	428	0
Increase/decrease in non-current receivables	-28,694	-27,613
Acquisition of subsidiaries	-4,180	0
Change in capital investment funds	0	-10,177
Investment in /disinvestment of real properties	0	-36
Cash flows from investing activities	**-30,624**	**-37,634**
Cash flows from financing activities		
Cash inflows from issue of shares	0	3,454
Payment for share repurchase from		

minority shareholders	-1,098	-83
Repayment of borrowings	-5,448	0
Increase in non-current liabilities	0	4,511
Change in non-available funds	1,359	14,313
CASH FLOWS FROM FINANCING ACTIVITIES	**-5,187**	**22,195**
INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS	99,813	-2,843
Opening balance of cash and cash equivalents	64,457	67,307
Exchange rate effects	40	-7
Closing balance of cash and cash equivalents	**164,310**	**64,457**
INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS INCLUDING CAPITAL INVESTMENT FUNDS		
Bank balances and cash on hand	29,215	27,684
Short-term bank deposits	137,466	30,326
Capital investment funds	0	10,177
Cash on hand with restriction on disposal, encumbrance and/or alienation for collaterals and guarantees	-2,371	-3,730
Closing balance of cash and cash equivalents	**164,310**	**64,457**

The increase in cash and cash equivalents that is attributable to discontinued operations amounts to € 34,979 thousand (prior year: decrease of € 1,408 thousand), of which € 38,754 thousand (prior year: decrease of € 895 thousand) and a decrease of € 3,818 thousand (prior year: decrease of € 519 thousand) relate to the cash flows from operating and financing activities, respectively. There were no significant cash flows from investing activities.

Statement of Changes in Consolidated Equity in the Financial Year 2007

	Issued capital	Capital reserves	Treasury shares	Currency translation differences	Undistributed profit carry-forward	Minority interest	Total
	€'000	€'000	€'000	€'000	€'000	€'000	€'000
31 Dec. 2005	**29,688**	**1,776**	**-221**	**-47**	**36,305**	**1,565**	**69,066**
Changes due to net profit for the financial year					22,659	-83	**22,576**
Capital increase	3,454						**3,454**
Accumulated translation difference				7			**7**
31 Dec. 2006	**33,142**	**1,776**	**-221**	**-40**	**58,964**	**1,482**	**95,103**
Changes due to net profit for the financial year					22,584		**22,584**
Other changes					326	-43	**283**
Accumulated translation difference				40			**40**
31 Dec. 2007	**33,142**	**1,776**	**-221**	**0**	**81,874**	**1,439**	**118,010**

Notes to the Consolidated Financial Statements for the Financial Year 2007

1. Summary of Major Accounting and Valuation Rules

A. Basis of Preparation and Other Explanations

The parent company of the Group is KHD ID, entered with the number 36688 in the Cologne Commercial Register, Department B.

The majority shareholder of the Company is KHD Ltd., which held a direct equity investment of 74% in the Company as at 31 December 2007. In addition, KHD Ltd. holds an indirect equity investment in the Company (shareholding of 20%) via MFC Corporate Services, in which KHD Ltd. holds an equity investment of 9.9%.

The shares of the Company are traded in the open stock market. The Company is, hence, not listed within the meaning of § 3 (2) German Stock Corporation Act (AktG).

The financial year of KHD ID and its subsidiaries included in the consolidated financial statements corresponds to the calendar year.

The consolidated financial statements of KHD ID have been prepared according to the International Financial Reporting Standards (IFRS) as applicable in the European Union, that are required to be applied as at the balance sheet date. The IFRS comprise the IFRS newly adopted by the International Accounting Standards Board (IASB), the International Accounting Standards (IAS) as well as the Interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and of the Standing Interpretations Committee (SIC). The parent company is in compliance with the supplementary provisions under § 315 a German Commercial Code (HGB) regarding supplementary disclosures in the notes to the financial statements as well as under § 315 German Commercial Code (HGB) regarding the discussion and analysis by the management of the parent company.

The consolidated financial statements are prepared in euro. All amounts are, as a general rule, stated in thousands of euros (€'000).

The group income statement is prepared according to the cost of sales format.

To the extent that affiliated companies are mentioned in the notes to the consolidated financial statements under receivables or payables, these relate to KHD Ltd. Group companies which are not part of the group of entities consolidated by KHD ID.

B. Consolidation

Subsidiaries are companies where KHD ID holds, directly or indirectly, more than 50% of the voting rights or controls the business activities in another manner. These companies have been consolidated. Subsidiaries are consolidated from the date when actual control is transferred to KHD ID and are no longer consolidated from the date when control is discontinued. All intercompany transactions, balances and unrealised profits or losses on intragroup transactions have been eliminated. The accounting and valuation methods applicable to subsidiaries under local law have been adjusted in order to ensure consistency with the accounting rules of KHD ID. Minority interest is addressed separately.

The subsidiaries of the Group are listed in Note 2.

C. Foreign Currency Translation

Assets and liabilities denominated in foreign currency are translated at the rate in effect at the date of acquisition in the financial statements under local law and adjusted to the respective rate in effect at the balance sheet date at each balance sheet date. Resulting translation differences are recognised in the income statement.

The assets and liabilities are translated at the rate in effect at the balance sheet date, income and expenses at average rates. The functional currency used by the Group for accounting purposes is the euro.

D. Risks and Risk Management in Connection with Financial Instruments

Financial Risk Factors

The industrial plant engineering Companies are exposed to the specific risks of their industry. These relate especially to complex technical and logistic difficulties in the fields of planning, production and commissioning within the scope of production of specific facilities, but also to specific commercial conditions of foreign markets and the respective country-related risks.

In order to identify strategic risks at an early stage, all available internal and external sources of information are evaluated. In addition, the risk analysis and strategic development of the Companies are intensively supported through the resources of KHD Ltd.

The Companies use a large number of controlling instruments in order to comprehensively monitor the contracts during the entire phase of operative processing. This includes both technical and commercial aspects of the contracts.

Since KHD Ltd. Group is listed on the New York Stock Exchange, all major group companies are required to comply with the U.S. regulations under the Sarbanes Oxley Act (SOX). The target of these regulations is to ensure the reliability of the entire financial reporting through strict internal controls. The KHD ID Group companies ensure compliance with these regulations through internal and external audits. SOX compliance was audited within the framework of the audit of KHD Ltd. Group in 2007.

The worldwide boom of the industry facilitates the entry of competitors into the market. To maintain the competitiveness of KHD, it is necessary to maintain the technological leadership and to further pursue the low-cost strategy at group level.

Through its business activities, the Group is exposed to a large number of financial risks, which are mentioned below.

Market Risk

Currency Risk

The Group operates internationally and is, hence, exposed to currency risks in connection with performing its contracts, especially in view of the U.S. dollar. Currency risks arise from future business transactions and from recognised assets and liabilities. These are minimised by using derivative financial instruments. The derivative financial instruments used are exclusively foreign exchange contracts.

Price Risk

The securities disclosed in the Group’s balance sheet are exposed to the market price risk. As performance and price are laid down in individual contracts, the Group is not exposed to a commodity price risk.

Credit and Non-payment Risk

The Group is not exposed to significant credit risks. Internal guidelines ensure that products are sold to customers with an appropriate credit history or that export insurance, letters of credit or sufficient bank guarantees are available.

The Group has fixed-interest assets, which are influenced by changes in market interest rates in the course of time.

The non-payment risk arising from financial assets consists in the risk of default of a counterparty and is, hence, limited to the maximum amount of positive carrying amounts.

This risk is addressed through the allowances made for loss of receivables outstanding. There is no credit risk concentration with respect to trade receivables because the customers of the Group are located in all regions of the world.

Liquidity Risk

Liquidity risk management covers all liquid funds of the Group. Given the dynamic nature of the underlying business activities, the Group seeks to remain flexible with respect to financing by holding sufficient credit lines available. To avoid financial risks of the plant engineering business, the contracts are settled through customer payments made in advance, which led to a cash inflow as at the balance sheet date.

Cash Flow and Fair Value Interest Rate Risk

Since the major fixed-interest assets of the Group are of a current nature, they are subject to market interest rates if they are reinvested. The revenues and operating cash flows of the Group are largely independent of market interest rate fluctuations.

E. Intangible Assets

Goodwill

In the first-time consolidated financial statements under IFRS, goodwill is taken over, on account of the reduced disclosure rules under IFRS 1, at the carrying amounts that have been computed according to the previously applied accounting principles (§ 301 German Commercial Code (HGB)).

The goodwill corresponds to the positive difference between the acquisition cost of a business combination and the acquired newly measured assets and liabilities, which remains after allocating a purchase consideration and, hence, identifying intangible assets. Goodwill is disclosed under intangible assets. It is subject to annual impairment tests and is accounted for at cost less amortisation to the lower fair value.

Licenses

Licenses are accounted for at amortised cost. Software licenses are amortised on a straight-line basis over a useful life of three years. Development costs have been booked as an expense in the income statement.

F. Property, Plant and Equipment

Property, plant and equipment are measured at cost less scheduled depreciation. The useful life of operating and office equipment and of other equipment is normally 3 to 10 years and 20 years for buildings. Leasehold improvements are depreciated over the term of the lease. Gains on, and losses from, disposal of property, plant and equipment are determined with reference to their carrying amount and accounted for in the income statement.

Cost of repair of property, plant and equipment is, as a general rule, recognised as an expense. Expenses are regularly expensed as incurred.

However, the Group provides for capitalisation of all major expenses for renewals and improvements if it is probable that future economic benefit will flow to the enterprise in addition to the performance standard of the existing property, plant or equipment. Every following expense is expensed as incurred.

Property, plant and equipment have not been remeasured according to the option under IAS 16. Borrowing costs are expensed as incurred under IAS 23.

Under the leases concluded, the major risks and benefits from the leased asset remain at the level of the lessor. They constitute, hence, so-called “operating leases”. Therefore, payments made within the scope of operating leases are recognised as an expense in the income statement.

G. Shares in Affiliated Companies and Equity Investments

This item includes interests in companies that are not included in the consolidated financial statements. They are measured initially and subsequent to initial recognition at cost or at amortised cost, respectively.

Shares in affiliated companies are recognised as non-current assets unless the Group intends to dispose of shares within 12 months after the balance sheet date.

H. Non-current Receivables

The non-current receivables include borrowings that have a term of more than 12 months after the balance sheet date. They are measured at cost. Appropriate allowances are made for impairment.

I. Impairment Test of Long-lived Assets

Long-lived assets and given identifiable intangible assets 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 realisable. If the carrying amount is higher than the estimated realisable amount, the asset is written down to its realisable amount.

J. Inventories

Inventories have been recognised at the lower of cost of net realisable value. Cost is determined on a case-by-case basis. The net realisable value is composed of the estimated selling price in the course of ordinary transactions less estimated cost of completion and selling cost.

K. Current Receivables

Current receivables are accounted for at amortised cost. Appropriate allowances are made for doubtful accounts on the basis of an audit all amounts outstanding as at the year end. Irrecoverable receivables are written off in the period when they are identified as uncollectible.

L. Long-term Construction Contracts

Revenue and profits from long-term construction contracts are accounted for according to the stage of completion under IAS 11. The stage of completion depends on the relation of contract costs incurred already as at the end of the financial year and estimated total contract cost as at the end of the financial year. Losses from long-term contracts are fully recognised as incurred irrespective of the stage of completion reached in the financial year when the losses become identifiable. Long-term contracts which are measured according to the percentage-of-completion method are disclosed under receivables or liabilities from long-term construction contracts depending on the amount of requested payments in advance. They have been measured at cost plus a proportionate profit depending on the reached stage of completion. To the extent that the accumulated asset (contract cost and contract revenue) exceeds the specific payments in advance, construction contracts are disclosed on the asset side under receivables from long-term construction contracts. If there is a negative balance after deducting payments in advance, this balance is disclosed as a commitment under construction contracts on the liability side under liabilities from long-term construction contracts. Anticipated contract losses are covered through write-downs or provisions.

In determining these losses, identifiable risks are taken into account.

M. Other Financial Assets

The other financial assets include securities which are held for trading. Changes in value on the basis of market prices are recognised as income or expense in the income statement.

N. Cash on Hand, Bank Balances

Cash and cash equivalents are cash on hand and bank balances available on demand, call deposits at banks and money market investments, without overdraft facilities, which have an original term of up to three months and are accounted for a nominal value. Cash that is not freely available is separately stated. Cash on hand and bank balances are measured at fair value.

O. Pension Commitments and Retirement Benefit Plans

The provisions for pensions disclosed in the balance sheet constitute the present value of the defined-benefit commitment as at the balance sheet date. The present value of the defined-benefit commitment is determined annually by independent actuaries according to the projected unit credit method. The present value of the defined-benefit commitment is determined by discounting the estimated future cash outflows by means of interest rates of high-grade industrial bonds.

In 2007, the Group took advantage of the so-called corridor method under IAS Standard No. 19. According to this Standard, profits or losses from measurement of the pension commitment are not required to be disclosed if they are due only to the change in actuarial parameters and the change varies within a corridor of 10% above or below the value previously recognised. The underlying interest rate is 5.34% (prior year: 4.75%).

The anticipated future pay rises were based on an assumed rate of 1.5%.

Since 1996, the Company with the highest pension commitments, HW, has not entered into any new pension commitments.

For the individual, defined-benefit pension commitments, the Group pays contributions out of the salaries of the employees concerned to public or private pension insurers on a contractual basis.

P. Provisions

Provisions are made if the Group has legal or factual commitments towards third parties as a result of past events and the amount of the commitment can be reliably estimated.

The scope of liability for all products covered by warranty agreements is estimated by the Group as at the balance sheet date. The provision is made on the basis of services provided in the past. The Company is party to various legal disputes. The Board of Directors expects that the outcome of the litigation will not have a material effect on the financial position, results or cash flow.

Q. Liabilities

Financial liabilities are recognised at the respective amounts that will be repaid. Liabilities have been carried as liabilities at amortised cost under IAS 39.

R. Derivative Financial Instruments

The Group concludes a number of derivative financial instruments for controlling is exchange risks. These include foreign exchange contracts. Derivates are initially recognised at fair value at the time the contract is concluded and carried forward at fair value subsequent to initial recognition as at every balance sheet date. The profit or loss resulting from the measurement is recognised as incurred. The Group designs individual derivatives in order to hedge the fair value of recognised assets or liabilities or to hedge against the foreign currency risk of fixed commitments. A derivative is disclosed as a non-current asset if the remaining term to maturity of the instrument is longer than 12 months and the derivative is not expected to be realised or settled within 12 months. The other derivatives have been disclosed as current assets or current liabilities.

S. Deferred Income Tax

Deferred tax is accounted for and measured under IAS 12. Deferred tax assets and liabilities are shown as separate balance sheet items in order to take into account the future tax effect of timing differences between the amount of assets and liabilities recognised in the balance sheet and the amount to be recognised for tax purposes.

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

T. Realisation of Income and Expenses

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

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

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

The cost of sales include primarily cost of purchased merchandise and services, transport costs, wages and salaries, overheads, commission and customs duties.

U. Estimates and Assumptions

The assumptions made and estimates used in preparing the consolidated financial statements have had an influence on the recognition and amount of the assets, liabilities, income, expenses and contingent liabilities recognised. These assumptions and estimates refer basically to uniform determination of economic useful lives at group level, the assumption concerning the recoverability of land, buildings, goodwill and equity investments, the measurement of provisions and the recoverability of future tax benefits. In specific cases, actual amounts can deviate from the underlying assumptions and estimates. Changes are taken into account in the income statement at the time of better knowledge.

V. Applying New or Revised International Financial Reporting Standards

All standards and interpretations that are required to be applied for the financial year 2007 have been applied.

The accounting and measurement methods applied are, as a general rule, consistent with the methods applied in the prior year, with the following exceptions:

In the financial year, KHD ID applied the new and revised IFRS Standards and Interpretations which are listed below. The application of these new or revised IFRS Standards and Interpretations did not impact the results of operations and financial position of the Group. However, they partly led to supplementary disclosures.

- IFRS 7 Financial Instruments: Disclosures;

- Change to lAS 1 Presentation of Financial Statements.

The following publications have become effective; they have though not had any effects on the accounting and measurement in the consolidated financial statements.

- IFRIC 7 Application of Restatement Approach under lAS 29 Financial Reporting in Hyperinflationary Economies;

- IFRIC 8 Scope of Application of IFRS 2;

- IFRIC 9 Re-measurement of Embedded Derivatives;
- IFRIC 10 Interim Reporting and Impairment.

IFRS 7 Financial Instruments: Disclosures

This Standard requires disclosures that enable the user of the financial statements to assess the importance of financial instruments for the financial position and the earning capacity of the Group as well as the nature and scope of the risks resulting from these financial instruments. The resulting new disclosures (including the related comparative information for the prior year) are included in the notes to the consolidated financial statements on hand. The application did not impact the results of operations and financial position of the KHD ID consolidated financial statements.

lAS 1 Presentation of Financial Statements

This change results in new disclosures that enable the user of the financial statements to assess the capital management goals, methods and processes of the Group.

Until the time the consolidated financial statements on hand have been released for disclosure, the IASB and the IFRIC published the Standards and Interpretations listed below that had already been implemented into EU law within the scope of the comitology procedure, but had not yet been required to be applied in the financial year 2007.

- IFRS 8 Business Segments;
- IFRIC 11 IFRS 2 — Transactions with Treasury Shares and Shares of Group Companies.

KHD ID does not apply these Standards and Interpretations prematurely.

The IASB and the IFRIC published the Standards and Interpretations listed below that had not yet been required to be applied in the financial year 2007. These Standards and Interpretations have not been recognised by the EU to date and are not applied by KHD ID.

- Change to IFRS 2 Share-based Payment;
- IFRS 3 Business Combinations;
- IAS 1 Presentation of Financial Statements;
- IAS 23 Borrowing Costs;
- IAS 27 Consolidated and Separate Financial Year under IFRS;
- Change to lAS 32 Financial instruments: Presentation; and lAS 1 Presentation of Financial Statements;
- IFRIC 12 Service Concession Agreements;
- IFRIC 13 Customer Bonus Plans;
- IFRIC 14 lAS 19 — Restriction of a Defined-benefit Asset, Minimum Financing Regulations and their Interaction.

On account of the existing business structure, binding application of IFRS 3, IAS 1, IAS 27 and IAS 32 would presently not have a material impact.

2. Subsidiaries of KHD Humboldt Wedag International (Deutschland) AG as at 31 December 2007

The group companies including the non-consolidated group companies include:

Name of Company	Based in	Share-holding in %		Major activity		Capital stock/ share capital
KHD Humboldt Wedag GmbH	Cologne	100.00	D	Construction of cement plants	€	15,339,300
Humboldt Wedag GmbH (formerly Altmark Industriepark AG, Arneburg)	Cologne	100.00	I	Construction of cement plants	€	7,000,000
ZAB Zementanlagenbau GmbH Dessau	Dessau	100.00	I	Rental	€	2,000,000
ZAB- Industrietechnik und Service GmbH	Dessau	100.00	I	Construction of cement plants	€	80,000
HUMBOLDT WEDAG Coal & Minerals Technology GmbH	Cologne	100.00	D	Construction of coal preparation plants	€	300,000
Blake International Ltd.	Tortola/BVI	99.99	I	Holding company		USD 1,000
HIT International Trading AG	Berlin	75.04	I	Trading of paper	€	3,600,000
HIT Paper Trading GmbH	Vienna	75.04	I	Trading of paper	€	35,000
Paper Space GmbH	Ismaning	75.04	I	Inactive	€	25,000

D = directly owned

I = indirectly owned

Except for Paper Space GmbH, all Companies are fully consolidated.

Under a spin-off agreement dated 18 October 2007, KHD spun off to HW its cement and production segments at book value in accordance with the German Transformation Act.

The equity investments of KHD are now limited to the equity investments in the subsidiaries ZAB and HW.

Until 30 June 2007, HW had performed operative activities in the sector of managing and marketing own real properties. After the real properties were disposed of, this Company was renamed Humboldt Wedag GmbH through change of legal form. The Company relocated its registered office from Arneburg to Cologne.

The contractually agreed spin-off as of 28 February 2007 (effective date of spin-off) was entered with the number HRB 61524 in the Commercial Register of the Company at the Cologne local court on 30 October 2007.

Under a purchase agreement dated 18 September 2007, KHD acquired the remaining minority share in the former AIP (5.37%) in the amount of € 1,098 thousand.

On 28 December 2007, HW acquired 999 of the 1,000 voting shares of Blake at a total consideration of € 3,167 thousand.

Blake’s assets as at 31 December 2007 relate basically to a 75.04% equity investment in HIT. The main purpose of business of HIT is management of its own assets including two wholly-owned subsidiaries, which do not perform any operative activities.

In accordance with the regulations of the German Security Acquisition and Takeover Act, HW has made a mandatory offer to the minority shareholders dated 3 February 2008 to acquire the sundry shares at a price of € 13.59 per share. As at the time the term for acceptance expired on 5 March 2008, this mandatory offer had been accepted for a total number of 25,663 HIT shares. This corresponds to a 6.05% share in the share capital and the voting rights of HIT.

According to the current state of the corporate planning, HIT is to operate in a plant engineering segment that relates to planning and production of component parts for cement plants.

The necessary resolutions concerning the purpose of business, the name of the Company and the relocation of the registered office to Cologne are intended to be passed at a Meeting of Shareholders of HIT due to be called soon.

Under an agreement dated 18 October 2006, KHD ID had sold to Stendal Pulp Holding GmbH, Berlin/Germany, at a purchase consideration totalling € 8,166 thousand its equity investment in ZSG, including the loans granted to this Company. As at 31 December 2006, a proportionate amount of the purchase consideration receivable of € 1,438 thousand had already been settled. As at 30 March 2007, the residual purchase consideration claim was settled by the buyer, by transferring 742,185 shares in Mercer International Inc. (Mercer shares) with a corresponding market price (USD 8,877 thousand).

Under an agreement dated 24 September /11 November 2007, MASS acquired the Mercer shares against transfer of 295,490 shares of KHD Ltd. with a then market price of USD 8,877 thousand. The shares in KHD Ltd. of € 6,067 thousand are included in the balance sheet as at 31 December 2007.

Under an agreement dated 24 August 2007, the Company sold to SWA Reit Ltd., Barbados, all 2,000 bearer shares of KHD S.A. which it held at a purchase consideration of € 562,000, which corresponds to the book value as at the time of disposal. This Company was deconsolidated with an effect of € 52 thousand.

As already reported in previous years, the group sister company KIA acquired from KHD as at 31 December 2005 Humboldt Wedag Inc., U.S., Humboldt Wedag (S.A.) (Pty) Ltd., South Africa, Humboldt Wedag India Private Limited, India, Humboldt Wedag Australia Pty Ltd., Australia, and EKOF Flotation GmbH, Bochum/Germany.

The agreed valuation at fair market value had already been carried out by a professionally qualified auditor engaged as an external expert in the annual financial statements as at 31 December 2006 of the Company. The Companies were valued in compliance with the regulations of the Institut der Wirtschaftsprüfer (IDW S1). Based on the expert opinion on hand, the parties agreed on a purchase consideration of € 12,200 thousand under the purchase settlement agreement dated 21 December 2006.

In the financial year 2007, another expert opinion including complementary statement of an audit firm engaged as an external expert was obtained in order to secure the purchase consideration. The Companies were valued within the scope of this expert opinion in compliance with the regulations of the Institut der Wirtschaftsprüfer (IDW S1). Based on the above-mentioned expert opinions, the purchase or sales consideration of € 12,200 thousand agreed between the parties was confirmed.

In addition, as agreed in the purchase agreement, KHD is paid a 30% share in the profits of the years 2006 to 2010 realised by the Companies sold to the extent that these profits exceed a return on equity of 18.75% in relation to the total equity of KHD Ltd. Group. The necessary return on equity was not reached for the financial year 2006. The KHD’s claim for the financial year 2007 will be computed in 2008.

3. Notes to Individual Segments

The segments are classified by business segments.

In the financial year, the Company discontinued the real property sales segment.

For the financial year 2007, the discontinued operations are separately reported on in the income statement.

A major segment of the Group as at 31 December 2007 was industrial plant engineering. This segment includes all activities of the Group that relate to the construction of cement and mineral/coal preparation plants. The segment other had included the holding activities in the prior year. The recognition is based on the internal organisation and management structures as well as the internal reporting to the Board of Directors and the Supervisory Board, according to which the primary and secondary reporting formats are reporting by business segments and by regions, respectively.

Industrial	Real

31 Dec. 2007	plant engineering €'000	property sale €'000	KHD ID Group €'000
Revenue	262,345	38,659	301,004
Segment result before finance cost and tax	27,726	1,060	28,786
Net finance income	4,357	43	4,400
Profit before tax	32,083	1,103	33,186
Income taxes	-4,133	-6,469	-10,602
Net profit/loss for the financial year	27,950	-5,366	22,584
Assets of individual segments	364,997	0	364,997
Liabilities of individual segments	246,987	0	246,987
Other segment items			
Capital investments	2,146	7	2,153
Amortization, depreciation, write-downs	1,618	9	1,627
Amortization of intangible assets	303	0	303
Interest cost	-1,229	-206	-1,435
31 Dec. 2006			
Revenue	203,512	3,121	206,633
Segment result before finance cost and tax	28,026	-1,381	26,645
Net finance income	1,440	146	1,586
Profit before tax	29,466	-1,235	28,231
Income taxes	-7,802	2,147	-5,655
Profit/loss from ordinary activities after tax	21,664	912	22,576
Minority interest	0	83	83
Net profit/loss for the financial year	21,664	995	22,659
Assets of individual segments	232,111	42,674	274,785
Liabilities of segments	167,228	12,454	179,682
Other segment items			
Capital investments	603	36	639
Amortization, depreciation, write-downs	880	335	1,215
Amortization of intangible assets	382		382
Interest cost	-1,447	-206	-1,653

The industrial plant engineering segment includes production and distribution of all kinds of industrial facilities and machinery as well as provision of other related technical and commercial services. The range of services covers process engineering, engineering, delivery, assembly and commissioning of plants, mechanical systems and components in the sectors of cement plant engineering and mineral preparation as well as coal preparation technology. In addition, the Companies provide comprehensive after-sales services.

The major component of the real property sale segment had been sale of land and buildings at the Stendal location. Rental income realised in Stendal and Dessau had been allocated also to this segment.

Based on the resolution, which had been adopted already in the prior year and according to which the real property sales activities performed by the subsidiaries HW, ZAB and KHD S.A. are no longer part of the core business, HW sold its entire real properties including related buildings at carrying value in the financial year 2007.

On 28 August 2007, HW sold to SWA Reit Altmark land and buildings at a total purchase consideration of € 29.4 million with effect from 30 June 2007. Also as of 28 August 2007 and with effect from 30 June 2007, ZAB sold to SWA Reit Dessau land and buildings at a purchase consideration of € 6.9 million.

The assets of the segments include primarily property, plant and equipment, intangible assets, inventories, receivables and operating cash on hand. Deferred tax and shares in affiliated companies are not allocated to the segments.

The liabilities of the segments include operating liabilities. Current tax liabilities, deferred tax and borrowings of the Group are not allocated to the segments.

The capital investments include additions to property, plant and equipment (Note 4) and intangible assets (Note 5).

Analysis of Sales Revenues, Capital Investments and Business Activity

In the financial year, KHD ID operated in the business segments industrial plant engineering and real property sale. The worldwide organisation of the Group is divided in six geographical segments. The parent company has its registered office in Germany.

Classification of Sales Revenues, Assets and Capital Investments by Geographical Segments

	Revenue		Total assets		Capital investments	
	2007	2006	2007	2006	2007	2006
	in €'000		in €'000		in €'000	
Europe	122,292	85,450	364,997	274,785	2,153	639
North America/Canada	12,706	2,914	0	0	0	0
Africa	721	7,251	0	0	0	0
India	34,614	25,769	0	0	0	0
Australia/Asia	126,694	81,378	0	0	0	0
Other	3,977	3,871	0	0	0	0
	301,004	206,633	364,997	274,785	2,153	639

Classification of Sales Revenues, Assets and Capital Investments by Business Segments

	2007	2006
	€'000	
Revenue from continued operations	262,345	203,766
Rental income from discontinued operations	1,707	2,755
Real property sale	36,952	112
	301,004	206,633

4. Property, Plant and Equipment

	Leasehold improvements/ re-establishment of previous structural conditions	Equipment	Total
		in €'000	
Acquisition cost			
31 Dec. 2005	**1,404**	**21,893**	**23,297**
Additions	**0**	538	538
Disposals	**0**	-547	-547
Currency fluctuations	**0**	**0**	0
31 Dec. 2006	**1,404**	**21,884**	**23,288**
Additions	**29**	1,843	1,872
Disposals	**-716**	-5,728	-6,444
Currency fluctuations	**0**	**0**	0
31 Dec. 2007	**717**	**17,999**	**18,716**
Accumulated depreciation and write-downs			
31 Dec. 2005	**670**	**19,492**	**20,162**
Additions	114	766	880
Disposals	0	-545	-545
Currency fluctuations	0	0	0
31 Dec. 2006	**784**	**19,713**	**20,497**
Additions	100	1,527	1,627
Disposals	-435	-5,581	-6,016

Currency fluctuations	0	0	0
31 Dec. 2007	**449**	**15,659**	**16,108**
Net carrying amount			
31 Dec. 2006	**620**	**2,171**	**2,791**
31 Dec. 2007	**268**	**2,340**	**2,608**

The leasehold improvements and re-establishment of previous structural conditions are accounted for at the level of HW.

5. Goodwill and Other Intangible Assets

The licenses recognised in the balance sheet are accounted for basically at the level of HW.

	Goodwill €'000	Licenses €'000	Total €'000
Acquisition cost			
31 Dec. 2005	**2,127**	**2,108**	**4,235**
Additions		65	65
Disposals	0	0	0
Currency fluctuations	0	0	0
31 Dec. 2006	**2,127**	**2,173**	**4,300**
Additions	0	281	281
Disposals	0	-564	-564
Currency fluctuations	0	0	0
31 Dec. 2007	**2,127**	**1,890**	**4,017**
Accumulated amortisation and write-downs			
31 Dec. 2005	**0**	**1,480**	**1,480**
Additions		382	382
Disposals	0	0	0
Currency fluctuations	0	0	0
31 Dec. 2006	**0**	**1,862**	**1,862**
Additions	0	303	303
Disposals	0	-564	-564
Currency fluctuations	0	0	0
31 Dec. 2007	**0**	**1,601**	**1,601**
Net carrying amount			
31 Dec. 2006	**2,127**	**311**	**2,438**
31 Dec. 2007	**2,127**	**289**	**2,416**

Goodwill

The goodwill accounted for as at 31 December 2007 results from the acquisition of KHD. Both the financial position and the results of operations of this Company are regularly verified by means of an impairment test, with the carrying amount being compared to the value in use. The determination was primarily based on the present equity as well as the anticipated future revenue from industrial plant contracts of the industrial plant engineering Companies. The discounting rate used in computing the earning capacity value was 5.34% (prior year: 4.75%) on the basis of a planning horizon of 5 years.

In the final analysis, no requirement to write down the goodwill was determined.

The following table shows a summary of goodwill allocation at segment level in comparison with the prior year:

	31 Dec. 2007			31 Dec. 2006		
	Industrial plant engineering	Real property sale	Total	Industrial plant engineering	Real property sale	Total
	(in €'000)			(in	€'000)	
Germany.	2,127	—	2,127	2,127	—	2,127

6. Investments in Associates

	31 Dec. 2007	31 Dec. 2006
	in €'000	in €'000
At beginning of year ..	372	1,447
Additions....................	0	0
Disposals....................	-372	-1,075
At end of year............	0	372

The equity investment in GbR Akazienweg which had been recognised in the prior year was also sold within the scope of the disposal of the entire real properties of HW.

7. Non-current and Current Receivables

	31 Dec. 2007	31 Dec. 2006
	in €'000	in €'000
Trade receivables	33,690	36,551
Less allowances for impairment of receivables..	-1,012	-2,083
Trade receivables, net	32,678	34,468
Receivables from affiliated companies	8,178	20,319
Payments made in advance	13,117	11,422
Other receivables..................................	6,913	8,079
Current receivables.............................	**60,886**	**74,288**
Non-current financial assets		
Long-term borrowings to affiliates	54,365	26,875
Other non-current financial assets..........	1,204	6,728
Non-current receivables	**55,569**	**33,603**
Fair values of trade and other receivables		
Trade receivables, net	32,678	34,468
Receivables from affiliated companies	62,543	47,194
Payments made in advance	13,117	11,422
Other receivables..................................	6,913	8,079
Other non-current financial assets..........	1,204	6,728
Total fair value of trade and other receivables...	**116,455**	**107,891**

The long-term borrowings and receivables from affiliated companies rose by € 15,259 thousand from € 47,194 thousand to € 62,543 thousand. The free liquidity transferred by the Group to the group sister company KIA, which performs the treasury function for all operative Companies of KHD ID Group, amounted to € 54,365 thousand (prior year: € 26,875 thousand), of which € 7,700 thousand (prior year: € 8,000 thousand) were deposited also at the level of KIA within the scope of drawings on the guarantee line granted by RZB Cash. These receivables have been secured by KHD Ltd. in its capacity as the parent company of the Group as a whole.

The non-current financial assets include a loan extended to SWA Reit Altmark in the amount of € 1,204 thousand. This loan is repayable on 31 December 2009.

The item other receivables includes, among other things, claims due to prepaid value added tax, suppliers with debit balances and other recharged costs. In addition, this item includes a claim against MFC Corporate Services.

No allowances were made for trade receivables in the amount of € 2,600 thousand which had been overdue at the repayment date because no material change in the credit standing of these debtors was identified and the outstanding amounts are expected to be settled on a timely basis.

Age Structure of Overdue, But Non-impaired Receivables

	31 Dec. 2007 in €'000
60 to 90 days	638
90 to 120 days	715
More than 120 days	1,247
Total	2,600

8. Deferred Tax Assets and Liabilities

The Company has recognised deferred income tax from temporary differences between the IFRS and tax balance sheets. The underlying tax rate is 31.5% (prior year: 40%). This corresponds basically to the German income tax rates which are eligible for application to the deferred tax accounted for. The variance in the average tax rate from 40% to 31.5% is due to the corporate tax reform in Germany.

Deferred income tax assets are recognised for tax loss carryforwards only to the extent that the corresponding tax benefit is likely to be capitalised. Like in the prior year, this analysis was based on a period of up to 5 years.

The tax loss carryforwards capitalised went down by € 3,361 thousand from the prior year.

Deferred tax assets as well as deferred tax liabilities arise from the following items:

	31 Dec. 2007 in €'000	31 Dec. 2006 in €'000
Deferred tax assets		
Pension provision	1,124	1,676
Other provisions	142	64
Tax loss carryforwards capitalised	13,857	17,218
Netted with deferred tax liabilities	-10,558	-5,025
	4,565	13,933
Deferred tax liabilities		
Work in progress /POC method	-12,130	-11,838
Netted with deferred tax assets	10,558	5,025
	-1,572	-6,813

9. Inventories

	31 Dec. 2007 in €'000	31 Dec. 2006 in €'000
Raw materials, consumables and supplies	7,052	5,290
Finished goods	0	0
Work in progress	0	1,800
Write-downs to capitalisable net amount	-3,055	-2,888
	3,997	4,202

This item includes the raw materials, consumables and supplies of HW in the amount of € 3,242 thousand (prior year: € 1,665 thousand). Slow-moving allowances of € 3,055 thousand were made on raw materials, consumables and supplies.

10. Available-for-sale Assets

All land and buildings in Germany and Switzerland which had been included in this item in the prior year were sold. The land and buildings that relate to HW and to ZAB were sold at a purchase consideration of € 29.4 million and € 6.9 million, respectively. The sales prices correspond to the carrying amounts of land and buildings recognised in the balance sheet.

11. Construction Contracts

In accounting for claims or commitments under construction contracts, the profits and costs recognised are disclosed after netting progress billing, advances and loss-making contracts.

	31 Dec. 2007 in €'000	31 Dec. 2006 in €'000
Cost previously incurred for work in progress	99,655	94,006
Proportionate profits under these contracts previously recognised	36,260	22,951
Total costs incurred and profits disclosed	135,915	116,957
Less netted contract losses and provisions	-2,501	-3,659
Less process billing and advances received	-196,886	-129,254
Balance of construction contracts	-63,472	-15,956
This amount is disclosed in the balance sheet as follows:		
Gross amount due from customers for contract work	51,929	36,781
Gross amount due to customers for contract work	-115,401	-52,737
	-63,472	-15,956

The accumulated sales revenues (= total costs incurred and profits disclosed) which were recognised as at 31 December 2007 at group level according to the percentage of completion method rose by € 18,958 thousand to €135,915 thousand from the prior year.

12. Other Financial Assets

The other financial assets, which relate to securities, rose by € 14,451 thousand from € 1,895 thousand to € 16,346 thousand. This is basically due to the addition of securities as a result of the acquisition of the HIT interests and to the acquisition of the interests in KHD Ltd. The interests in KHD Ltd. in the amount of € 6,067 thousand are included in the balance sheet of the Company. The unrealised losses from the difference between the carrying amount and the fair value which were booked in the income statement in the financial year amounted to € 762 thousand. The income statement includes gains on the disposal of securities in the amount of € 420 thousand.

13. Cash on Hand and Bank Balances

The Group discloses liquid funds of € 166,681 thousand (prior year: € 68,187 thousand), of which € 2,371 thousand were deposited with banks as collaterals for furnishing guarantees. Within the scope of the treasury function, free liquidity was additionally transmitted to KIA.

	31 Dec. 2007 in €'000	31 Dec. 2006 in €'000
Bank balances and cash on hand...	29,215	23,954
Short-term bank deposits	135,095	30,326
Capital investment funds..............	0	10,177
Cash with restraint on disposal, encumbrance or alienation for collateralisation or guarantees......	2,371	3,730
	166,681	68,187

14. Equity

Given a capital stock of KHD ID of € 33,142,552.00, the number of ordinary shares subscribed for totals 16,571,276 shares with a par value of € 2.00 per share. The shares are made out to bearer. Presently, 16,571,276 shares have been issued and fully paid up.

Sasamat Capital Corporation, Vancouver/Canada, was merged into KHD Ltd. last financial year. Previously, this Company had held more than 25% of KHD ID's capital.

KHD Ltd. advised that it owned more than one fourth of the shares of our Company and additionally a majority shareholding under § 16 (1) German Stock Corporation Act (AktG). The total capital share of KHD Ltd. as at 31 December 2007 after the merger referred to above is, hence, roughly 74%.

The issued capital of KHD ID remained unchanged from the prior year, amounting to € 33,142 thousand. The capital reserves remained also unchanged from the prior year, amounting to €1,776 thousand.

During the last few years, the Company acquired 114,568 treasury shares through purchase. The historical cost of the treasury shares amounts to € 221,116 and was deducted from equity. These shares are carried as "treasury shares". The Company can re-issue these shares at a later date.

The minority interest constitutes a 24.06% interest in the subsidiary HIT and a 0.01% interest in Blake. These interests were acquired as at the end of the financial year. Therefore, they are not allocated to the results of minorities. The consolidated net profit for the financial year amounts, hence, to € 22,584 thousand (prior year: € 22,576 thousand).

In the financial year, KHD acquired the existing minority interest in the former AIP in the amount of € 1,098 thousand.

Approved Capital

The Ordinary Meeting of Shareholders held on 29 September 2004 authorised the Board of Directors, with the approval of the Supervisory Board, to increase the Company's capital stock once or repeatedly by a total amount of up to € 14,400,000 until 31 May 2009 inclusive by issuing up to 7,200,000 new no par value shares made out to bearer against cash contributions. After the 2004 and 2006 capital increases, the approved capital decreased to € 10,079,392 through issue of up to 5,039,696 shares made out to bearer.

15. Financial Liabilities

	31 Dec. 2007 in €'000	31 Dec. 2006 in €'000
Non-current financial liabilities		
Bank loans.......................................	1,405	2,309
Loans granted by affiliated companies	0	2,083
	1,405	4,392
Current financial liabilities		
Loans granted by banks or third		

parties	0	411
Loans granted by affiliated companies	0	2,050
	0	2,461
Financial liabilities	1,405	6,853

The Group discloses loan commitments in the amount of € 1,405 thousand (prior year: € 6,853 thousand). In the financial year, the loans granted by affiliated companies were fully repaid. The total loan commitments which are collateralised through real properties amount to € 0 (prior year: € 2,660 thousand). The measurement at cost corresponds basically to the fair value.

The terms of the long-term loans are as follows:

	31 Dec.	
	2007	**2006**
	in €'000	**in €'000**
Between 1 and 2 years	1,405	933
Between 2 and 5 years	0	1,376
More than 5 years	0	2,083
	1,405	4,392

The average interest rates of the loans concluded as at the balance sheet date are as follows:

	31 Dec.	
	2007	**2006**
	in €'000	**in €'000**
Long-term loans	6.00%	4.82%
Short-term loans	—	6.97%

16. Financial Instruments

Securities Held for Trading

The securities held for trading amount to € 10,279 thousand. A variance in the market price by 5% would lead to a variance of € 514 thousand in the profit after tax of the Group. This corresponds to 2.3% of the consolidated net profit or 0.4% of consolidated equity.

Receivables

The overdue receivables account for € 3,612 thousand of the Group's total receivables. After deducting collaterals, the resulting risks is estimated by the Group at € 1,012 thousand. A variance in the risk amount of 10% is insignificant for the Group. The receivables on which allowances were made are overdue for more than 90 days.

Derivatives

The derivative financial instruments used are exclusively foreign exchange contracts. They have been recognised at fair value in the balance sheet in accordance with IAS 39. Resulting immaterial unrealised differences to the carrying amount are included in the income statement.

The fair value of the derivatives amounts to € 5,715 thousand. A variance in the fair value by 10% would influence the net profit by € 572 thousand. This corresponds to 2.5% of the consolidated net profit or 0.5% of consolidated equity.

17. Pension Commitments

The following amounts have been recognised in the balance sheet of the financial year:

	31 Dec.		31 Dec.		
	2007	**2006**	**2005**	**2004**	**2003**
	in €'000	**in €'000**	**in €'000**	**in €'000**	**in €'000**

Provision at beginning of year	22,269	22,287	22,583	22,554	22,435
Expense booked	1,531	1,095	1,312	1,171	1,177
Pensions paid	-1,748	-1,208	-1,150	-1,142	-1,058
Other contributions	51	95	119	0	0
Disposal due to restructuring			-577		
Year end	22,103	22,269	22,287	22,583	22,554

The following amounts have been recognised in the income statement of the financial year:

	31 Dec.		31 Dec.		
	2007	2006	2005	2004	2003
	in €'000	in €'000	in €'000	in €'000	in €'000
Current pension cost included in staff costs	492	49	253	25	29
Interest cost	1,039	1,046	1,059	1,146	1,148
Total	1,531	1,095	1,312	1,171	1,177

The pension provision includes commitments due to salary portions which were withheld and paid over to the insurers in the amount of € 547 thousand (prior year: € 495 thousand). The related contributions in the financial year amounted to € 51 thousand (prior year: € 95 thousand). In 2007 and in the prior year, the Group took advantage of the so-called corridor method under IAS 19. According to this method, profits or losses from measurement of the pension commitment are not required to be disclosed if they are due only to the change in actuarial parameters and the change varies within a corridor of 10% above or below the value previously recognised. The equivalent of the pension commitments has not been deposited in a fund or plan assets.

The major actuarial assumptions made are as follows:

	31 Dec.		31 Dec.		
	2007	2006	2005	2004	2003
Discounting rate	5.34%	4.75%	4.75%	5.50%	5.50%
Variance in pensions due to linkage with earnings	1.50%	1.50%	1.50%	1.50%	1.50%
Employee turnover	0%	0%	0%	0%	0%

Defined Benefit Obligation

Amount Required to Be Disclosed in the Balance Sheet

	31 Dec.	
	2007	2006
	€'000	€'000
Defined benefit obligation (unfunded)	22,080	23,073
Defined benefit obligation (funded)		
Defined benefit obligation	22,080	23,073
less actuarial (profits)/losses not repaid	524	1,300
Amount required to be disclosed in the balance sheet	21,556	21,773
Deferred compensation	547	496
Amount carried in the balance sheet	22,103	22,269

Reconciliation of Present Value of Commitment (Beginning/End of Year)

	31 Dec. 2007 €'000	31 Dec. 2006 €'000
Defined benefit obligation at beginning of the year	23,073	23,222
Current service cost	0	0
Interest cost	1,039	1,046
Benefits actually paid (total)	-1,748	-1,208
Transfer	313	0
Empirical adjustments (profits)/losses	907	-23,060
Actuarial (profits)/losses due to variances in parameters	-1,504	23,073
DBO at end of financial year	22,080	23,073

Future Benefits

Pension payments	
in 2008	1,405
in 2009	1,454
in 2010	1,479
in 2011	1,513
in 2012	1,558

18. Provisions

	Guarantee €'000	Risk of litigation €'000	Total €'000
Provisions as at 1 January 2007	15,572	890	16,462
Provisions made	7,828	25	7,853
Provisions released	-4,057	-335	-4,392
Utilized/reclassified	-2,020	-25	-2,045
Provisions as at 31 Dec. 2007	17,323	555	17,878

Classification of provisions by maturity:

	2007 €'000	2006 €'000
Non-current (guarantee)	8,080	3,842
Current	9,798	12,620
	17,878	16,462

The provisions for guarantees cover all risks identifiable as at the balance sheet date that relate to guarantee and warranty commitments.

For specific projects, the warranty provisions were released on account of extraordinary facts.

The provisions are measured on a contract-by-contract basis according to best estimate.

The amounts disclosed as non-current include warranty commitments of more than one year. The discounting of the warranty provisions disclosed as non-current amounts to € 956 thousand (prior year: € 458 thousand). The anticipated maturities range between one and four years.

The provisions for risks of litigation relate primarily to provisions for litigation in connection with contracts concluded in the industrial plant engineering segment.

19. Liabilities

	31 Dec. 2007 in €'000	31 Dec. 2006 in €'000
Trade payables	56,844	53,415
Liabilities to affiliated companies and investees	7,104	1,991
Tax and social insurance contributions	39	1,291
Current tax liabilities	11,600	6,779
Liabilities due to borrowings	0	2,461
Other liabilities and deferred income	6,530	6,512
	82,117	72,449

The non-current liabilities include non-current commitments under construction contracts in the amount of € 3,377 thousand (prior year: € 2,171 thousand).

The trade payables are basically attributable to the operative business of the industrial plant engineering segment, with the usual retentions of title existing.

The other liabilities include a liability of € 1,976 thousand for the reimbursement claim of MFC Corporate Services in the amount of the expenses it incurred for services provided to KHD ID.

In addition, the item other liabilities includes basically liabilities in the payroll area. The measurement at cost corresponds basically to the fair value.

20. Advances Received and Commitments under Construction Contracts

This item includes the commitments under construction contracts of the industrial plant engineering segment which are disclosed by application of IAS 11. This commitment constitutes the balance of the amounts analysed in Note 12. In addition, this item includes advances received which are paid by the customers at the time the order is accepted and which are required to be recognised under IAS 11.

	31 Dec. 2007 €'000	31 Dec. 2006 €'000
Commitments under construction contracts	115,401	52,737
Advances received	3,134	2,389
	118,535	55,126

21. Staff Costs

	2007 in €'000	2006 in €'000
Wages and salaries	33,185	30,612
Social security contributions and costs	5,525	5,465
Pension cost included in staff costs	492	49
	39,202	**36,126**

In the financial year, the number of employees rose from 495 to 530.

The movement in the number of employees is as follows:

as at 31 Mar. 2007	as at 30 Jun. 2007	as at 30 Sept. 2007	as at 31 Dec. 2007
506	513	522	530

In the financial year, the average number of employees was 518 (prior year: 484).

As at 31 December 2007, the employees of the Group were employed solely in Europe.

	2007	2006
Employees per business segment:		
Construction of cement production and coal preparation plants	530	491
Real property sale segment	0	4
	530	495

22. Total Emoluments Paid to Supervisory Board

The members of the Supervisory Board are paid no emoluments for their activity. There are no pension commitments towards former members of the Supervisory Board and their surviving dependants. Furthermore, no contingent liabilities are incurred for this circle of persons. There were no receivables due to loans or advances to members of the Supervisory Board as at 31 December 2007.

23. Total Emoluments Paid to Directors and Former Directors

The Board of Directors of KHD ID were paid no emoluments in the reporting year. There are no pension commitments towards former members of the Board of Directors and their surviving dependants.

No emoluments were paid to former Directors.

24. Other Operating Income

In the prior year, this item had included the income in the amount of € 753 thousand under a purchase settlement agreement from subsequent determination of the purchase consideration of the Companies that had been sold to KIA in the prior year.

	2007 in €'000	2006 in €'000
Exchange gains	103	14
Scrap revenue	2	88
Income from purchase consideration adjustment	—	753
Other income	1,969	845
	2,074	1,700

A part amount of € 127 thousand, which had been disclosed under other income in the prior year, was allocated to the 2006 profit from discontinued operations.

25. Other Expenses

	2007 in €'000	2006 in €'000
Research and development	2,086	2,379
Exchange loss	925	175
Restructuring expense	0	0
Charged by affiliated companies	5,536	2,688
Other expenses	641	525
Other expenses of discontinued operations	-18	-783

	2007	2006
Other expenses of continued operations	9,170	4,984

This item includes research and development costs of € 2,086 thousand (prior year: € 2,379 thousand).

The item charges of affiliated companies includes, among other things, also charges in connection with the functions taken over and charged by the group sister company KIA, especially for the function as the treasurer for all operative Companies of KHD ID Group.

26. Net Finance Income

The major items included in net finance income are interest income and interest expense, which can be analysed as follows in the financial year 2007:

	2007 in €'000	2006 in €'000
Other interest income	4,019	2,538
Interest received from affiliated companies	2,036	791
Less interest income from operations spun off	-43	—
	6,012	3,329

	2007 in €'000	2006 in €'000
Other interest expenses	1,458	1,343
Interest paid to affiliated companies	197	310
	1,655	1,653

The other interest income includes basically interest income from loans, bank balances and cash equivalents. The increase in interest income by € 2,683 thousand to € 6,012 thousand is basically due to the increase in cash on hand and bank balances and to the increase in the financial investments deposited at the level of KIA.

The interest expenses include the interest that relates to pension provisions in the amount of € 1,039 thousand (prior year 2006: € 1,046 thousand).

The net finance income includes losses from disposal and measurement of securities of € 220 thousand (prior year: € 90 thousand). Related income of € 209 thousand included in the net finance income was allocated to the profit of the discontinued operations.

27. Taxes on Income

The income tax expense booked in the financial year 2007 in the amount of € 10,602 thousand (prior year: €5,655 thousand) can be analysed as follows:

	2007 in €'000	2006 in €'000
Actual tax expense of continued operations	-4,747	-6,319
Deferred tax expense/income	614	-1,151
Tax expense of continued operations	**-4,133**	**-7,470**
Tax expense allocable to discontinued operations	-6,469	1,815
Tax expense of the year	**-10,602**	**-5,655**

The tax expense allocable to the discontinued operations included the tax expense for taxes to be paid over and the expense for realisation of deferred tax from loss carryforwards.

The reconciliation at average tax rates is shown in the following table:

	2007 in €'000	2006 in €'000
Profit before tax of continued and discontinued operations	33,186	28,231
Average tax rate	40.00%	40.00%
Anticipated tax expense	-13,274	-11,292
Deferred tax on loss carryforwards capitalised	6,931	5,310
Impact on deferred tax due to		
- variance in tax rate in Germany	-3,738	0
- other amounts allocated and deducted without tax impact	-521	327
Tax expense of the year	**-10,602**	**-5,655**

The effective tax rate at group level of continued and discontinued operations is 31.9% (prior year 2006: 20.0%).

28. Earnings and Dividend per Share

Earnings per Share

The basic and diluted earnings per share from continued and discontinued operations amount to € 1.37 per share (prior year: €1.49).

From continued and discontinued operations:	31 Dec. 2007	31 Dec. 2006
Net earnings attributable to shareholders (in EUR)	22,584,090	22,576,331
Weighted average number of issued ordinary shares	16,456,708	15,161,413
Basic and diluted earnings per share (in EUR)	1.37	1.49

The basic and diluted earnings per share from continued operations amount to € 1.70 (prior year: € 1.53).

From continued operations:	31 Dec. 2007	31 Dec. 2006
Net earnings attributable to shareholders (in EUR)	27,950,090	23,237,431
Weighted average number of issued ordinary shares	16,456,708	15,161,413
Basic and diluted earnings per share (in EUR)	1.70	1.53

The basic and diluted earnings per share from discontinued operations amount to € -0.33 (prior year: € -0.04).

From discontinued operations:	31 Dec. 2007	31 Dec. 2006
Net earnings attributable to shareholders (in EUR)	-5,366,000	-661,100
Weighted average number of issued ordinary shares	16,456,708	15,161,413
Basic and diluted earnings per share (in EUR)	-0.33	-0.04

Dividend per Share

According to the Statutes, the net profit for the financial year of KHD ID is at the free disposal of the Meeting of Shareholders.

29. Commitments and Contingent Liabilities

Commitments in the Area of Operating Leasing

The total amount of future minimum payments for non-cancellable operating leases relates basically to leases for buildings. The variance from the prior year is due to the conclusion of a new lease for office space at the level of HW.

A classification of the commitments by terms is as follows:

	31 Dec.	
	2007	2006
	in €'000	in €'000
Within one year	1,928	1,542
Within 2 to 5 years	3,341	3,461
After more than 5 years	0	0
Total rental commitments	5,269	5,003

The expense for leased and rented office space and equipment in the financial year which was booked in the income statement amounts to € 2,079 thousand (prior year 2006: € 1,636 thousand).

Contingent Liabilities

Within the framework of its normal business transactions, the Group has contingent liabilities due to performance guarantees, performance bonds and warranties. The Company does not anticipate any material liabilities from these commitments. Within the scope of its ordinary activities, the Group has furnished guarantees in the amount of € 99.5 million (prior year 2006: € 69.4 million), especially via the guarantees furnished by KIA. Within the scope of a total facility of € 205 million, KIA extends to KHD ID Group the necessary guarantee credits. The total facility amounts to € 222.7 million.

The accounts payable to suppliers as at 31 December 2007 amount to € 155.8 million.

30. Litigation

Shareholders have brought actions against the Company for the approved sets of annual financial statements as at 31 December 2002 and 31 December 2003 of the Company to be declared null and void, alternatively to be declared ineffective, as well as for the resolutions according to which the Directors and three Supervisory Board members were to be released from their responsibilities for the business year 2003, which were adopted by the Company's General Meeting of Shareholders held on 29 September 2004, to be declared null and void, alternatively to be set aside.

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

Based on the regional court ruling, the Company had already booked with profit and loss impact an account receivable from MFC Corporate Services in the amount of the merchant banking fee (€ 1,914 thousand) in its prior years' sets of financial statements and asserted this claim against MFC Corporate Services in its letter dated 16 February 2006. The court ruling does not address the placement fee.

In view of the actual expenses in the amount of € 1,976 thousand in connection with the services provided for KHD ID under the merchant banking agreement, which have been substantiated in detail by MFC Corporate Services, the Company has also already made a corresponding provision in the prior year's financial statements for the event that, should eventually a claim be asserted by KHD ID, MFC Corporate Services assert on its part a reimbursement claim for the expenses incurred.

The regional court allowed the complaints through court ruling dated 4 November 2005. KHD ID has lodged an appeal from this court ruling in due time and due form.

Meanwhile, one of the complaints has been withdrawn on the basis of a settlement out of court. In respect of the complaint still pending, the Company anticipates that its appeal is still likely to succeed. A corresponding ruling is still outstanding on account of a large number of postponements.

In connection with the valuation of the Companies disposed of (see the related above statements), KHD ID was served the complaint of one shareholder on 23 February 2007. The cause of this complaint is that the approved annual financial statements as at 31 December 2005 and the resolutions concerning the release of the Directors and of the Supervisory Board members be declared null and void.

A first hearing, which has meanwhile taken place, did also not lead to any changes to the underlying facts and the matter in dispute. Therefore, the Company maintains its motion for dismissal because it still anticipates that the complaints are unfounded or non-substantiated.

31. Disclosure of Related Party Transactions

KHD Ltd. holds an indirect majority interest in KHD ID. The sets of annual financial statements of KHD ID and its subsidiaries are included in the consolidated financial statements of KHD Ltd. The consolidated financial statements are filed with the United States Securities and Exchange Commission (SEC). The transactions with the Subgroup of KIA have been summarised in the KIA Subgroup, which includes basically the subsidiaries sold to this Company in 2005. The income and expenses are basically related to contracts concluded in the industrial plant engineering segment, the reorganisation of the distribution and marketing function and the finance activities within KHD Ltd. Group.

Income

The income from related parties amounts to € 17,199 thousand and relates basically to income realised with the KIA Subgroup. These are basically sales revenues realised in the industrial plant engineering segment. The income includes also the gains on disposal of land to SWA Reit Altmark and to SWA Reit Dessau in the amount of € 29.4 million and € 6.9 million, respectively, which are addressed in Note 3. These two Companies are related parties of KHD Ltd. Group.

Expenses

The expenses incurred with Companies of KHD Ltd. Group include:

	2007 in €'000	2006 in €'000
KIA Subgroup..	28,323	5,765
KHD Ltd.	197	308
	28,520	6,073

The expenses of affiliated companies include trade payables in the amount of € 22,787 thousand, which arose in connection with the performance of industrial plant engineering contracts.

Current Receivables

As at 31 December 2007, the Group discloses the following current receivables from affiliated companies, a material component of which is the account receivable from KIA in the amount of € 55,564 thousand (prior year: € 39,411 thousand):

	31 Dec. 2007 in €'000	31 Dec. 2006 in €'000
KIA Subgroup..	62,486	47,194
KHD Ltd.	57	0
	62,543	47,194

The liabilities include the following items:

Current Liabilities

	31 Dec. 2007 in €'000	31 Dec. 2006 in €'000
KIA Subgroup..	7,048	1,862
KHD Ltd.	56	2,181
	7,104	4,043

Non-current Liabilities

The non-current liabilities to KHD Ltd. recognised in the prior year amounted to € 2,083 thousand.

On 28 August 2007, HW sold to SWA Reit Altmark land and buildings at a total purchase consideration of € 29.4 million with effect from 30 June 2007. Also as of 28 August 2007 and with effect from 30 June 2007, ZAB sold to SWA Reit Dessau land and buildings at a purchase consideration of € 6.9 million. SWA Reit Altmark and SWA Reit Dessau are related parties of KHD Ltd. Group.

32. Post-balance-sheet-date Events

At the beginning of the new financial year, funds with a nominal value of € 56.7 million were changed from euro into U.S. dollar under the treasury agreement existing between KIA and the KHD ID Group Companies in order to be prepared for potential transactions denominated in foreign currency. During the first six months of the new financial year 2008, the U.S. dollar declined in comparison with the euro.

During this period, this decline had also a negative influence on the measurement of cash on hand, bank balances and securities classified as current assets hand held by the Company that are denominated in U.S. dollar.

There were no further major post-balance-sheet-date events.

The Board of Directors

Cologne, 31 July 2008

Harinder Ahluwalia Alan Hartslief

The following auditors' report (Bestätigungsvermerk) has been issued in accordance with Section 322 German Commercial Code (Handelsgesetzbuch) in the German language on the German version of the consolidated financial statements of KHD Humboldt Wedag International (Deutschland) AG for the financial year ended 31 December 2007.

Auditors' Report

We have audited the consolidated financial statements prepared by KHD Humboldt Wedag International (Deutschland) AG, Cologne, — comprising the balance sheet, the income statement, the statement of changes in equity, the cash flow statement, the segment reporting and the notes to the financial statements — and the discussion and analysis by the management of the parent company for the business year 2007. The preparation of the consolidated financial statements and the discussion and analysis by the management of the parent company in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a (1) HGB are the responsibility of the parent company's Board of Directors. Our responsibility is to express an opinion on the consolidated financial statements and on the discussion and analysis by the management of the parent company based on our audit.

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

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements of KHD Humboldt Wedag International (Deutschland) AG, Cologne, comply with IFRS, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a (1) HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The discussion and analysis by the management of the parent company are consistent with the consolidated financial statements and as a whole provide a suitable view of the Group's position and suitably present the opportunities and risks of future development.

Düsseldorf, 31 July 2008

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

Signed: Crampton	Signed: Graetz
Wirtschaftsprüfer	Wirtschaftsprüfer
German Public Auditor	German Public Auditor

ANNUAL FINANCIAL STATEMENTS AS AT 31 DECEMBER 2009
OF KHD HUMBOLDT WEDAG INTERNATIONAL (DEUTSCHLAND) AG

Balance Sheet as at 31 December 2009

		31 Dec. 2009 €'000	31 Dec. 2008 €'000
ASSETS			
A.	**Fixed assets**		
	Long-term financial assets		
	Shares in affiliated companies	26,410	26,435
B.	**Current assets**		
I.	**Receivables and other assets**		
1.	Receivables from affiliated companies	809	898
2.	Other assets	17,600	4,466
		18,409	5,364
II.	**Securities**		
1.	Shares in affiliated companies	2,787	2,362
2.	Treasury shares	221	221
3.	Other securities	0	0
		3,008	2,583
III.	**Cash-in-hand, bank balances**	49,981	7,080
		71,398	15,027
		97,808	41,462
EQUITY AND LIABILITIES			
A.	**Equity**		
I.	**Subscribed capital**	33,143	33,143
II.	**Capital reserves**	1,776	1,776
III.	**Revenue reserves**		
1.	Legal reserve	1,538	155
2.	Reserve for treasury shares Of which from controlling companies: €2,787 thousand (prior year: € 2,362 thousand)	3,008	2,583
3.	Other revenue reserves	1,547	1,547
IV.	**Net retained profits /net accumulated losses**	49,785	-2,678
		90,797	36,526
B.	**Provisions**		
1.	Provisions for taxes	148	209
2.	Other provisions	2,345	2,188
		2,493	2,397
C.	**Liabilities**		
1.	Trade payables	9	38
2.	Liabilities to affiliated companies	4,445	2,496
3.	Other liabilities Of which tax liabilities: €6 thousand (prior year: € 5 thousand)	64	5
		4,518	2,539
		97,808	41,462

Income Statement 2009

		2009 €'000	2008 €'000
1.	Other operating income	3,759	361
2.	Personnel expenses		
a)	Wages and salaries	288	177
b)	Social security costs	37	23
		325	200
3.	Other operating expenses	475	379
4.	Income from long-term equity investments	52,388	0
	Of which from affiliated companies: €52,388 thousand (prior year: € 0)		
5.	Income under profit transfer agreements	0	842
6.	Income from long-term loans	1	51
	Of which from affiliated companies: €1 thousand (prior year: € 51 thousand)		
7.	Other interest and similar income	92	105
8.	Write-downs of long-term financial assets and securities classified as current assets	0	3,646
9.	Cost of losses assumed	929	0
10.	Interest and similar expenses	0	5
11.	Result from ordinary activities	54,511	-2,871
12.	Taxes on income	240	386
13.	Net income/loss for the financial year	54,271	-3,257
14.	Accumulated losses b/f from prior year	-2,678	-3,067
15.	Withdrawn from reserve for treasury shares disclosed under revenue reserves	0	3,646
	Of which for shares in controlling company: €0 (prior year: € 3,646 thousand)		
16.	Allocated to revenue reserves		
a)	To legal reserve	-1,383	0
b)	To reserve for treasury shares	-425	0
	Of which for shares in controlling company: €425 thousand (prior year: € 0)		
17.	Net retained profits/net accumulated losses	49,785	-2,678

Notes to the Financial Statements as at 31 December 2009

General Notes

Accounting

The major 100% investment held by KHD Humboldt Wedag International (Deutschland) AG, Cologne/Germany (KHD ID), in its capacity as the managing holding company is the investment in KHD Humboldt Wedag GmbH, Cologne/Germany (KHD). The subsidiaries of KHD, Humboldt Wedag GmbH, Cologne/Germany (HW), and the 100% investee ZAB Industrietechnik & Service GmbH, Dessau/Germany (ZABIS), which is held indirectly via ZAB Zementanlagenbau GmbH Dessau, Dessau/Germany (ZAB), focus on the business segments industrial plant engineering and primary industry. Their strategic and operative alignment focuses on planning and setting up of facilities for the cement industry.

The treasury function is performed by the group sister company KHD Humboldt Wedag International GmbH, Vienna/Austria (KIA).

The annual financial statements for the financial year 2009 of KHD Humboldt Wedag International (Deutschland) AG (KHD ID) have been prepared according to the regulations of the German Commercial Code (HGB) and the complementary provisions under the German Stock Corporation Act (AktG).

The nature of expense format has been applied to the income statement.

KHD ID is a small firm organised in a corporate form within the meaning of the regulations under German commercial law.

Accounting and Valuation Rules

Fixed Assets

Long-term financial assets have been recognised at acquisition cost.

Current Assets

Receivables and other assets have been recognised at the lower of nominal value or fair value.

Securities classified as current assets have been recognised at the lower of acquisition cost or stock exchange or market price or fair value.

Equity

The subscribed capital corresponds to the Statutes and the entry in the Commercial Register.

Other Provisions

All risks and contingent liabilities identifiable as at the balance sheet date have been taken into account by making appropriate provisions.

Liabilities

Liabilities have been recognised at the amounts at which they will be repaid.

Foreign Currency Translation

Receivables denominated in foreign currency are valued at the lower of the rate in effect at the date of transaction or the selling rate in effect at the balance sheet date. Non-rate-hedged liabilities denominated in foreign currency have been carried as a liability at the higher of the rate in effect at the date of booking or the buying rate in effect at the balance sheet date.

Notes to the Balance Sheet and Income Statement

1. Fixed Assets

For the movements in fixed assets, we refer to the statement of movements in fixed assets from 1 January to 31 December 2009 attached as Exhibit to the Notes.

Effective 7 October 2009, the Company sold its long-term equity investment in HUMBOLDT WEDAG Coal & Minerals Technology GmbH, Cologne/Germany, (CMT) to an Indian acquirer.

Company	**Book value as at 31 Dec. 2009**
	€'000
KHD Humboldt Wedag GmbH, Cologne/Germany	26,410
	26,410

2. Receivables and Other Assets

The receivables disclosed as at 31 December 2009 include receivables in the amount of € 752 thousand according to shareholder resolution on distribution made by KHD adopted on 5 February 2010. The sundry receivables relate to other receivables.

The other assets basically include a claim against the responsible tax office of the Company in the amount of € 11,035 thousand. This claim relates to a claim to refund withholding taxes on capital and solidarity surcharge withheld by KHD in connection with an advance distribution of KHD to its shareholder KHD ID as at the financial year end.

In addition, the other assets include an account receivable from MFC Corporate Services AG, Herisau/Switzerland, in the amount of € 1,914 thousand. This account receivable is due to the ruling of the Cologne regional court dated 4 November 2006.

Furthermore, the other assets include a value added tax asset of € 4,451 thousand (prior year: € 2,505 thousand), of which € 4,445 thousand (prior year: € 2,496 thousand) are attributable to Humboldt Wedag GmbH, Cologne/Germany (HW), ZAB Zementanlagenbau GmbH Dessau, Dessau/Germany (ZAB), and ZAB Industrietechnik & Service GmbH, Dessau/Germany (ZABIS), within the existing group taxation relationship for value added tax purposes. Therefore, an equivalent amount has been disclosed also under liabilities to affiliated companies.

Like in the prior year, all amounts have a residual term of less than one year.

3. Securities

Since 2002, the Company has held 114,568 treasury shares. These shares were acquired for price support purposes and as a provision for evening out potential peaks within the scope of capital increases. They have been accounted for at acquisition cost in the amount of € 1.93 per share. The market price per share as at 31 December 2009 was € 9.52. A corresponding reserve for treasury shares was recognised. The book value of the treasury shares in the amount of € 221 thousand corresponds to 0.67% of the Company's capital stock.

Like in the prior year, the shares in affiliated companies disclosed under securities relate to 295,490 shares of KHD Humboldt Wedag International Ltd., Vancouver/Canada (KHD Ltd.), which were written up by € 425 thousand as at 31 December 2009.

4. Equity

Capital Stock

The Company's capital stock amounts to € 33,142,552.00 and is divided in 16,571,276 no par value shares.

Changes in Equity in 2009

	Subscribed capital €'000	Capital reserves €'000	Legal reserve €'000	Reserve For Treasury shares €'000	Other Revenue reserves €'000	Net Retained profits /net accumu-lated losses €'000	Total €'000
Balance 31 Dec. 2008	33,143	1,776	155	2,583	1,547	-2,678	36,526
Allocated to legal reserve	0	0	1,383	0	0	-1,383	0
Allocated to reserve for shares in controlling company	0	0	0	425	0	-425	0
Net income for 2009	0	0	0	0	0	54,271	54,271
Balance 31 Dec. 2009	33,143	1,776	1,538	3,008	1,547	49,785	90,797

Due to the net income for the financial year 2009 less loss carryforward, less allocation to the legal reserve as well as less allocation to the reserve for treasury shares in a controlling company, the net retained profits amount to € 49,785 thousand.

5. Provisions

	31 Dec. 2009 €'000	31 Dec. 2008 €'000	Variance €'000
Provisions for taxes	148	209	-61
Other provisions	2,345	2,188	157
	2,493	2,397	96

The other provisions mainly include a provision in the amount of € 1,976 thousand which had already been made in previous years in connection with the action brought by shareholders addressed in Note 13. It was made for the risk that MFC Corporate Services AG asserts on its part a reimbursement claim in the amount of its expenses incurred on account of the claim asserted by KHD ID for refund of contributions. In addition, the other provisions include cost of the year-end accounts and outstanding invoices.

6. Liabilities

	31 Dec. 2009 €'000	31 Dec. 2008 €'000	Variance €'000
Trade payables	9	38	-29
Liabilities to affiliated companies	4,445	2,496	1,949
Other liabilities	64	5	59
Of which tax liabilities	6	5	1
	4,518	2,539	1,979

Like in the prior year, the liabilities disclosed as at 31 December 2009 have a residual term of less than one year.

Like in the prior year, the liabilities to affiliated companies relate to liabilities to HW, ZAB and ZABIS within the scope of the group taxation relationship for value added tax purposes.

7. Contingent Liabilities

KHD ID has furnished guarantees or group guarantees and sureties and signed letters of support in the amount of € 3.9 million (prior year: € 8.3 million) for affiliated companies.

For a secondary liability to Unterstützungsgesellschaft mbH of Maschinenfabrik Fahr AG in the amount of € 0.3 million, DEUTZ AG has signed a letter of indemnification in favour of KHD ID. For the related discharge of DEUTZ AG, there is a guarantee of HypoVereinsbank AG.

8. Other Financial Commitments

The other financial commitments of KHD ID as at the balance sheet date exclusively relate to affiliated companies. These result from a service agreement with HW for services in the field of administration in the amount of € 1 thousand per month with a residual term of up to one year.

9. Other Operating Income

The other operating income basically includes gains on the disposal of the long-term equity investment in CMT.

In addition, like in the prior year, the other operating income of KHD ID includes income from services charged to CMT, KHD and ZAB/ZABIS, exchange gains and income from release of provisions.

10. Personnel Expenses

The employees of the Company are employees of the legal function and the internal audit function for KHD ID Group. A recharge agreement with respect to legal advise/internal audit services was concluded between the Company and KHD ID Group companies (KHD/HW, ZAB/ZABIS). The related services provided by the employees are recharged to the KHD ID Group companies concerned under this agreement. The corresponding income is disclosed under other operating income.

11. Other Operating Expenses

Like in the prior year, the other operating expenses chiefly include legal and consulting costs, cost of year-end accounts and auditing, service cost, exchange losses and other administrative expenses.

12. Income from Long-term Equity Investments

Based on the resolution adopted by the shareholder of KHD, KHD Humboldt Wedag International (Deutschland) AG (KHD ID), dated 28 December 2009, KHD distributed € 7,601 thousand to KHD ID out of the profit carryforward.

Also based on the resolution adopted by the shareholder of KHD, KHD ID, dated 28 December 2009, the Company made a profit distribution in the amount of € 44,035 thousand out of the anticipated net income for the financial year /net retained profits as at 31 December 2009 by way of advance distribution.

After deducting withholding taxes on capital in the amount of € 11,028 thousand, which were paid over by the Company to the responsible tax office, € 40,608 thousand were, hence, distributed to the shareholder KHD ID out of the total distribution of € 51,636 thousand. In addition, a distribution by KHD to KID in the amount of € 752 thousand was approved and booked through resolution dated 5 February 2010.

13. Litigation

Action Brought by Shareholders (“Return of Contributions”)

Shareholders have brought actions against the Company for the approved sets of annual financial statements as at 31 December 2002 and 31 December 2003 of the Company to be declared null and void, alternatively to be declared ineffective, as well as for the resolutions according to which the Directors and three Supervisory Board members were to be released from their responsibilities for the financial year 2003, which were adopted by the Company’s General Meeting of Shareholders held on 29 September 2004, to be declared null and void, alternatively to be set aside.

The subject matters of the actions were fees in the amount of € 1,206 thousand (“placement fee”) and in the amount of € 1,914 thousand (“merchant banking fee”), which had been paid by KHD ID to MFC Corporate Services AG (formerly MFC Merchant Bank S.A.) at the end of 2002 for placement of the capital increase in December 2002 and for provision of merchant bank services. In the plaintiffs’ opinion, these payments had been inadmissible because they constituted a return of contributions; said sets of annual financial statements had been understated due to failure to book a corresponding repayment claim.

Based on the regional court ruling, the Company had already booked with profit and loss impact an account receivable from MFC Corporate Services AG, Herisau/Switzerland, in the amount of the merchant banking fee (€ 1,914 thousand) and asserted this claim against MFC Corporate Services AG in its letter dated 16 February 2006. The court ruling does not address the placement fee.

In view of the actual expenses in the amount of € 1,976 thousand in connection with the services provided for KHD ID under the merchant banking agreement, which have been substantiated in detail by MFC Corporate Services AG, the Company had also already made a corresponding provision in the prior year's financial statements for the event that, should eventually a claim be asserted by KHD ID, MFC Corporate Services AG asserts on its part a reimbursement claim for the expenses incurred.

The regional court allowed the complaints through court ruling dated 4 November 2005. KHD ID has lodged an appeal from this court ruling in due time and due form.

Meanwhile, one of the complaints has been withdrawn. In respect of the complaint still pending, the Company anticipates that there are still good reasons to assume that its appeal will succeed. A corresponding ruling is still outstanding on account of a large number of postponements.

Action Brought by Shareholders ("Valuation of Companies Sold")

In connection with the measurement of the companies disposed of (see the related above statements), KHD ID was served the complaint of one shareholder on 23 February 2007. The cause of this complaint is that the approved annual financial statements as at 31 December 2005 and the resolutions concerning the release of the Directors and of the Supervisory Board members be declared null and void.

The hearing, which has meanwhile taken place, also did not lead to any changes to the underlying facts and the matter in dispute. Through decision of the regional court dated 27 October 2008, the litigation was suspended pending final decision in parallel proceedings.

In these parallel proceedings, KHD ID has, after it had lost its case before the Cologne regional court, fully won the action according to the ruling of the Cologne higher regional court dated 9 July 2009. In the meantime, the plaintiff and appellee has lodged a corresponding appeal to the federal supreme court. KHD ID still anticipates that it will win the action in the proceedings on appeal that have meanwhile been opened. Therefore, the Company maintains its motion for dismissal because it still anticipates that the complaints are unfounded because they are non-substantiated.

Action Brought by Shareholders ("Appointment of Special Auditor")

In connection with establishing the fair present value of the five Companies sold in 2005/2006, an investment fund has, in its capacity as a shareholder of KHD ID, filed an application for the appointment of the special auditor Dr Klaus Lippmann to be ordered in order to examine the transactions in the area of the conduct of affairs of the Board of Directors and the Supervisory Board in connection with the disposal of the Companies in 2005/2006.

Through ruling of the Cologne regional court dated 6 November 2009, the regional court granted the application. Addressing the immediate appeal of KHD ID dated 23 November 2009, the Cologne higher regional court decided through ruling dated 7 December 2009 to suspend execution of the ruling of the Cologne regional court dated 6 November 2009 pending a decision on KHD ID's immediate appeal.

14. Other Disclosures

Number of Employees

The annual average number of people employed by the Company was 4 (prior year: 3) salaried employees. The Company does not employ industrial labour.

Government Tax Audit

Presently, the Company is subject to a government tax audit covering the fiscal years 2005, 2006 and 2007. The subject of this on-going tax audit is, among other things, the merchant banking fee. (For details, see the related statements in Note 13.)

Due to lack of available concrete audit conclusions, no provision has been made to date.

15. Shareholdings

Company		Capital Share in %	Equity in €'000	Net income for FY in € '000
KHD Humboldt Wedag GmbH, Cologne/ Germany	direct	100.00	26,462	32,490
Humboldt Wedag GmbH, Cologne/ Germany	indirect	100.00	37,897	30,152
ZAB Zementanlagenbau GmbH, Dessau/ Germany	indirect	100.00	34,693	21,484
ZAB- Industrietechnik und Service GmbH, Dessau/Germany	indirect	100.00	80	0
Blake International Ltd., Tortola/BVI	indirect	100.00	3,112	1
KHD Humboldt Wedag Industrial Services AG, Cologne/Germany	indirect	88.35	5,369	548
HIT Paper Trading GmbH, Vienna/Austria	indirect	88.35	78	65
Paper Space GmbH, Cologne/Germany	indirect	88.35	65	2

The equity of Blake, which is disclosed in U.S. dollar, is translated at the rate in effect at the balance sheet date.

In accordance with the resolution dated 30 September 2009, the liquidation of HIT Paper Trading GmbH, Vienna/Austria, (HPT) was initiated. The call for presentation of claims through the creditors was published in the issue dated 21 November 2009 of the newspaper "Wiener Zeitung".

Members of Supervisory Board and Board of Directors

Supervisory Board

Mr Bhagabati Prasad Misra, engineer (until 15 October 2009)

Chairman of the Supervisory Board

Vice President
of KHD Humboldt Wedag International Ltd., Vancouver/Canada (KHD Ltd.);

Mr Reimund Berner, businessman

member of the Supervisory Board/Chairman of Supervisory Board (since 10 December 2009)

Vice President Commercial and Treasurer of Humboldt Wedag Inc., Norcross/U.S.;

Mr James Busche, businessman

member of the Supervisory Board (until 16 October 2009)

CEO of KHD Ltd. (until 13 April 2009);

Mr Andrew Blythe, engineer

member of the Supervisory Board (since 6 May 2009)

Vice Chairman of Supervisory Board (since 10 December 2009)

Senior Vice President Sales and Services;

Mr Richard Kelsey, businessman

member of Supervisory Board (since 26 November 2009)

Head of Corporate Development.

Board of Directors

Mr Alan Hartslief, businessman, Vienna/Austria (since 2 October 2008)

CFO of KHD Ltd.;

Mr Jouni Salo, engineer, Vienna/Austria (since 25 October 2009)

CEO of KHD Ltd.

Total Emoluments Paid to Directors and Former Directors

The Board of Directors of KHD ID were paid no emoluments in the reporting year.

There are no pension commitments towards former Directors and their surviving dependants.

No emoluments were paid to former Directors.

Total Emoluments Paid to the Supervisory Board

The members of the Supervisory Board were paid no emoluments for their activity. There are no pension commitments towards former members of the Supervisory Board and their surviving dependants. Furthermore, no contingent liabilities were incurred for this circle of persons.

Loans and Advances to Members of the Board of Directors and the Supervisory Board

There were no receivables due to loans or advances granted to members of the Board of Directors and the Supervisory Board as at 31 December 2009.

Parent Company and Consolidated Financial Statements

In its capacity as the parent company, the Company prepares the consolidated financial statements for the smallest group of entities to be consolidated and is included in the consolidated financial statements of KHD Ltd., which prepares the consolidated financial statements for the biggest group of entities to be consolidated. This set of consolidated financial statements is filed with the United States Securities and Exchange Commission (SEC).

Reported Shareholdings

KHD Ltd. advised that it owned more than one fourth of the shares of our Company and additionally a majority investment holding under § 16 (1) German Stock Corporation Act (AktG). The total capital share of KHD Ltd. as at 31 December 2009 is roughly 74%.

Representation of Board of Directors Regarding Relationships with Affiliated Companies

In accordance with § 312 (1) German Stock Corporation Act (AktG), the Board of Directors of KHD ID prepared a report on the relationships with affiliated companies.

The corresponding representation of the Board of Directors reads:

“Our Company has received an appropriate consideration for each legal transition in respect of the specified legal transactions and measures under the circumstances we were aware of at the time the legal transactions were performed or the measures were taken and has not been placed at a disadvantage by the fact that measures were taken or were not taken.”

Cologne, 5 February 2010

The Board of Directors

Alan Hartslief Jouni Salo

Exhibit to the Notes

Movements in Fixed Assets in the Financial Year 2009

	Gross book values				Accumulated amortisation, Depreciation and write-downs				Net book values	
	Balace as at 1 Jan. 2009	**Additions**	**Disposals**	**Balance as at 31 Dec. 2009**	**Balance as at 1 Jan. 2009**	**Additions**	**Disposals**	**Balance as at 31 Dec. 2009**	**Balance as at 31 Dec. 2009**	**31 Dec. 2008**
	€'000	**€'000**	**€'000**	**€'000**	**€'000**	**€'000**	**€'000**	**€'000**	**€'000**	**€'000**
Long-term financial assets........										0
Shares in affiliated companies	26,435	0	25	26,410	0	0	0	0	26,410	26,435

The following auditors' report (Bestätigungsvermerk) has been issued in accordance with Section 322 German Commercial Code (Handelsgesetzbuch) in the German language on the German version of the annual financial statements of KHD Humboldt Wedag International (Deutschland) AG for the financial year ended 31 December 2009.

Auditors' Report

To KHD Humboldt Wedag International (Deutschland) AG, Cologne/Germany

We have audited the annual financial statements — comprising the balance sheet, the income statement and the notes to the financial statements — together with the bookkeeping system, of KHD Humboldt Wedag International (Deutschland) AG, Cologne/Germany, for the business year from 1 January to 31 December 2009. The maintenance of the books and records and the preparation of the annual financial statements in accordance with German commercial law are the responsibility of the Company's Board of Directors. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, based on our audit.

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

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the annual financial statements of KHD Humboldt Wedag International (Deutschland) AG, Cologne/Germany, comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with German principles of proper accounting.

Without qualifying this opinion, we draw attention to the fact that shareholders have brought actions against the Company for the Company's approved sets of annual financial statements as at 31 December 2002 and 31 December 2003 to be declared null and void, alternatively to be declared ineffective, as well as for the resolutions according to which the Directors and three Supervisory Board members were to be released from their responsibilities for the financial year 2003, which were adopted by the Company's General Meeting of Shareholders held on 29 September 2004, to be declared null and void, alternatively to be set aside. The subject matters of the actions were fees in the amount of EUR 1,206 thousand ("placement fee") and in the amount of EUR 1,914 thousand ("merchant banking fee"), which had been paid by the Company to MFC Corporate Services AG (formerly: MFC Merchant Bank S.A.), Herisau/Switzerland, at the end of 2002 for placement of new shares within the scope of a capital increase approved by the General Meeting of Shareholders in December 2002 and for provision of merchant bank services. The long-term equity investment held by MFC Corporate Services AG (formerly: MFC Merchant Bank S.A.), Herisau/Switzerland, in KHD Humboldt Wedag International (Deutschland) AG, Cologne/Germany, at that time has now been transferred to MFC Commodities GmbH, Vienna/Austria, and amounts today to roughly 20%.

In the plaintiffs' opinion, these payments had been inadmissible because they constituted a return of contributions. The corporate assets disclosed in the sets of annual financial statements as at 31 December 2002 and 31 December 2003 had, in the plaintiffs' opinion, been understated due to failure to book a corresponding repayment claim. The Cologne regional court allowed the complaints with respect to the payment of the merchant banking fee through court ruling dated 4 November 2005. The court ruling did not address the placement fee.

The Company has lodged an appeal from this court ruling in due time and due form. The application for proceedings on appeal was granted by the Cologne higher regional court. Meanwhile, it has been possible to reach a settlement out of court with one of the plaintiffs. In respect of the complaints still pending, the Company anticipates that there are good reasons to assume that its appeal will succeed.

Nevertheless, addressing the regional court ruling, the Company had capitalised in the annual financial statements as at 31 December 2005, and disclosed unchanged in its annual financial statements as at 31 December 2009, an account receivable from MFC Corporate Services AG (formerly: MFC Merchant Bank S.A.), Herisau/ Switzerland, in the amount of EUR 1,914 thousand. For the expenses in connection with the services substantiated in detail by MFC Corporate Services AG (formerly: MFC Merchant Bank S.A.), Herisau/Switzerland, to the Company, a provision for contingent liabilities in the amount of EUR 1,976 thousand had been made in the annual financial statements as at 31 December 2005; this provision was also disclosed unchanged as at 31 December 2009.

On account of the proceedings still pending before the Cologne higher regional court, there is still a risk that the court ruling will deviate from the Board of Directors' assessment.

Düsseldorf, 5 February 2010

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

Signed: Graetz
Wirtschaftsprüfer
German Public Auditor

Signed: Rosenfeld
Wirtschaftsprüfer
German Public Auditor

SIGNATURES

Cologne and Düsseldorf, December 2010

KHD Humboldt Wedag International AG

sign. Jouni Olavi Salo

sign. Manfred Weinandy

Lang & Schwarz Broker GmbH

sign. Peter Zahn