KHD Humboldt Wedag International (Deutschland) AG

HUMBOLDT WEDAG
International (Deutschland) AG

Report of the Directors and Annual Financial Statements as at 31 December 2008

Report of the Directors and Annual Financial Statements as at 31 December 2008 of KHD Humboldt Wedag International (Deutschland) AG

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1 Report of the Directors of KHD Humboldt Wedag International (Deutschland) AG for the Financial Year 2008

1.1 The Company

The major 100% investments held by KHD Humboldt Wedag International (Deutschland) AG, Cologne (KHD ID), in its capacity as the managing holding company are the long-term equity investments in KHD Humboldt Wedag GmbH, Cologne (KHD), and in HUMBOLDT WEDAG Coal & Minerals Technology GmbH, Cologne (CMT). These two companies as well as especially the subsidiaries of KHD, Humboldt Wedag GmbH, Cologne (HW), and the 100% investee ZAB Industrietechnik & Service GmbH, Dessau (ZABIS), which is held indirectly via ZAB Zementanlagenbau GmbH Dessau, Dessau (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 and mineral preparation as well as coal preparation technology.

The treasury function is performed by the group sister company KHD Humboldt Wedag International GmbH, Vienna/Austria (KIA).

1.2 Major Events in the Financial Year

1. The Company

Especially the negative development in international stock markets, which is associated with the international financial crisis, has had an adverse impact on the measurement of the securities classified as current assets held by the Company.

2. Subsidiaries

Disposal/Valuation of Subsidiaries

As reported in previous years, 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 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 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 receives a 30% share in the profits of the years from 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 Humboldt Wedag International Ltd. Group, Vancouver/Canada (KHD Ltd.). The necessary return on equity was not reached for the financial years 2006 and 2007. The claim of KHD for the financial year 2008 will be computed and accounted for in 2009.

3. 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 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 (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, did 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.

1.3 State of Affairs

Net Assets

The asset-side of the Company's balance sheet is characterised by a marked reduction of receivables from affiliated companies and of other securities. The marked reduction of receivables from affiliated companies is mainly due to a much lower claim in the amount of € 842 thousand in comparison with the prior year (prior year: € 7,690 thousand) under the profit and loss transfer agreement concluded with the operative subsidiary CMT. The marked reduction of other securities is due to the unfavourable development of international stock markets, which necessitated a write-down of € 3,646 thousand as at 31 December 2008 of the shares in KHD Ltd., which had already been held in the prior year.

Given unchanged total liabilities, the equity now accounts for 88% of total liabilities (prior year: 87%).

Within provisions, the provisions for taxes went down on account of the marked decrease in earnings in comparison with the prior year, whereas the liabilities to affiliated companies, which relate to liabilities due to the group taxation relationship for value added tax purposes, increased.

Results of Operations

The Company's results of operations are largely characterized by the significant deterioration of the result form ordinary business activities in comparison with the prior year by € 9,545 thousand to € -2,871 thousand. The result from ordinary activities is characterized by the reduction of the net income transferred by CMT in comparison with the prior year in the amount of € 842 thousand (prior year: € 7,690 thousand) and by the considerable increase in write-downs of securities classified as current assets in the amount of € 3,646 thousand (prior year: € 720 thousand) on account of the unfavourable trend of international stock markets and of the market price of KHD Ltd.'s shares. The comparison of CMT's net income with the prior year is influenced by the final accounts in the prior year of a large-scale order in Latin America, which accounted for almost half of the prior year's sales and led above all to a high profit contribution.

Taking into account the taxes on income of € 386 thousand, the net loss for the financial year amounts to € 3,257 thousand, which, taking into account the profits brought forward from the prior year of € 3,096 thousand, led to net accumulated losses of € 161 thousand (prior year: net retained profits of € 3,096 thousand).

Financial Position

The increase in cash and cash equivalents from the prior year is above all due to the settlement in the financial year of the account receivable from CMT as a result of the 2007 profit and loss transfer. The significant deterioration of the result for the financial year in comparison with the prior year and the reduction of provisions were the major factors that had an opposite effect.

The financing of the Company is secured on account of the existing great liquidity as at the 2008 year end in the amount of roughly € 7.1 million as well as the other securities classified as current assets.

1.4 Business Development in the Plant Engineering Sector

Trend of the Industry

The sustained boom of the cement industry during the last few years continued initially during the first three quarters of the year 2008. In almost all regions of the world, there was unbroken strong demand for cement within the framework of strong growth through infrastructure development and residential building.

In the fourth quarter 2009, the financial crisis and its effects on the real economy triggered a negative chain reaction for the cement industry: The declining demand led to a slump of producer prices so that a large number of capital investment projects for raising capacities were no longer profitable. At the same time, many products got under pressure on the finance side due to a higher interest burden and hesitant lending through the banks. Decreasing freight rates have additionally eased long-distance transportation and, hence, the import of cement in countries with insufficient own production capacities.

As a result of this, many cement producers delayed or even cancelled processing of orders placed. In the fourth quarter 2008 and in the first quarter 2009, no contracts were awarded for major projects in the cement industry any more.

The operative business of the plant engineering companies, which covers the industrial plant engineering operations, is performed by HW (wholly-owned subsidiary of KHD), the 100% investee ZABIS, which is held indirectly via ZAB Zementanlagenbau GmbH Dessau, Dessau (ZAB), and CMT. Our wholly-owned subsidiary KHD, in its capacity as the parent company of HW and of ZAB/ZABIS, is a major equity investment.

The purpose of business of the industrial plant engineering companies is developing, producing and distributing all kinds of industrial facilities and machinery and 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 sector of cement plant engineering and mineral preparation as well as coal preparation technology. In addition, the Companies provide comprehensive after-sales services.

With sales amounting to € 199,886 thousand (prior year: € 225,323 thousand), HW realised a net loss for the financial year of € 86 thousand (prior year: net income of € 19,170 thousand). The significant reduction of the result for the year in comparison with the prior year is primarily due to risk provision with respect to orders on hand and expenses in connection with restructurings already initiated for cost reduction purposes.

Taking into account orders in progress as at 31 December 2008, approximately half of the order backlog of HW of more than half a thousand million of euros will be accounted for in 2009 so that the level of sales and total operating performance of the financial year 2008 is expected to be maintained in the current financial year 2009 provided that the orders are processed as scheduled.

For the financial year 2010, the management of HW anticipates a significantly reduced total operating performance on account of persisting poor demand.

In view of the current poor demand and due to lack of indications of a recovery in the course of the year, the management of HW expects that order intake, revenue and earnings for the financial year 2010 as a whole will be far lower than in the prior year.

Based on current planning data, there are no effects on the book value of the long-term equity investment held by KHD.

In the financial year 2008, ZABIS was able to raise its sales to € 81,864 thousand (prior year: € 39,301 thousand). Earnings before profits transferred amount to € 8,935 thousand (prior year: € 5,192 thousand). The marked sales growth with simultaneous increase in earnings is primarily due to the accounting for a Russian large-scale order in the financial year. For the financial year 2009, the trends of sales and earnings are expected to be comparable.

Realizing sales of € 19,207 thousand (prior year: € 25,853 thousand), CMT realised a net income for the financial year 2008 before profit transfer of € 842 thousand (prior year:

€ 7,690 thousand). Downward trends of sales and earnings are anticipated for the financial year 2009. During the first four months of the financial year 2009, this Company disclosed a net loss before loss transfer on the basis of unaudited figures. For the financial year 2009 as a whole, management expects an approximately balanced result based on the current budget planning.

1.5 Risks and Opportunities of Future Developments

The industrial plant engineering Companies are exposed to the specific risks of the 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. The results are discussed regularly by the management of the operative companies. In addition, the risk analysis and strategic future development of the Company are intensively supported through the resources of KHD Humboldt Wedag International Ltd., Vancouver/Canada (KHD Ltd.).

The Company uses a large number of controlling instruments in order to comprehensively monitor the orders during the entire phase of operative processing. This includes both technical and commercial aspects of the orders.

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 insure the reliability of the entire financial reporting through strict internal controls. The KHD ID Group companies insure 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, it is necessary to maintain the technological leadership and to further pursue the low-cost strategy in order to maintain competitiveness.

Due to the global financial crisis and its massive effects on the real economy, the order intake and earnings of the plant engineering companies are likely to be affected also in the current financial year 2009.

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 interest party in May 2009.

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.

1.6 Representation of the Board of Directors on 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 related representation of the Board of Directors is as follows:

"In respect of the legal transactions and measures referred to above, our Company has received for each legal transaction an appropriate compensation under the circumstances that were known to us at the time the legal transactions were performed or the measures were taken and has not been placed at a disadvantage due to the fact that measures were taken or failed to be taken."

Cologne, 30 June 2009

The Board of Directors

Alan Hartslief Jouni Salo

2 Balance Sheet as at 31 December 2008

Assets	31 Dec. 2008 €'000	31 Dec. 2007 €'000
A. Fixed assets		
I. Long-term financial assets		
Shares in affiliated companies	26,435	26,435
B. Current assets		
I. Receivables and other assets		
1. Receivables from affiliated companies	898	7,781
2. Other assets	4,466	3,620
	5,364	11,401
II. Securities		
1. Treasury shares	221	221
2. Other securities	2,362	6,008
	2,583	6,229
III. Cash-in-hand, bank balances	7,080	1,552
	15,027	19,182
	41,462	45,617

Equity and Liabilities

		31 Dec. 2008 €'000	31 Dec. 2007 €'000
A.	**Equity**		
I.	**Subscribed capital**	33,143	33,143
II.	**Capital reserves**	1,776	1,776
III.	**Revenue reserves**		
1.	Reserve for treasury shares	221	221
2.	Other revenue reserves	1,547	1,547
		1,768	1,768
IV.	**Net accumulated losses / net retained profits**	-161	3,096
		36,526	39,783
B.	**Provisions**		
1.	Provisions for taxes	209	1,539
2.	Other provisions	2,188	2,500
		2,397	4,039
C.	**Liabilities**		
1.	Trade payables	38	7
2.	Liabilities to affiliated companies	2,496	1,780
3.	Other liabilities	5	8
	Of which tax liabilities: € 5 thousand (prior year: € 7 thousand)		
		2,539	1,795
		41,462	45,617

3 Income Statement

		2008 €'000	2007 €'000
1.	Other operating income	361	386
2.	Personnel expenses		
	Wages and salaries	177	211
	Social security costs	23	26
		200	237
3.	Depreciation and write-downs of tangible fixed assets	0	1
4.	Other operating expenses	379	425
5.	Income from profit transfer	842	7,690
6.	Income from long-term loans Of which from affiliated companies: € 51 thousand (prior year: € 0)	51	0
7.	Other interest and similar income Of which from affiliated companies: € 0 (prior year: € 1 thousand)	105	143
8.	Write-downs of long-term financial assets and securities classified as current assets	3,646	720
9.	Interest and similar expenses Of which to affiliated companies: € 0 (prior year: € 161 thousand)	5	162
10.	Result from ordinary activities	-2,871	6,674
11.	Taxes on income	386	1,202
12.	Net loss/income for the financial year	-3,257	5,472
13.	Retained profits / accumulated losses b/f from prior year	3,096	-2,376
14.	Net accumulated losses / net retained profits	-161	3,096

4 Notes to the Financial Statements

4.1 General Notes

Accounting

The annual financial statements for the financial year 2008 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. The Company did not take advantage of the reduced disclosure requirements applicable to small firms organised in a corporate form.

4.2 Accounting and Valuation Rules

Fixed Assets

Long-term financial assets have been recognised at acquisition cost.

Current Assets

Receivables and other assets have been recognized at the lower of nominal value or fair value.

Securities classified as current assets have been recognized 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 recognized 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.

4.3 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 2008 attached as Exhibit to the Notes.

The shares in affiliated companies in the amount of € 26,435 thousand, which remained unchanged from the prior year, can be analysed as follows:

Company	Book value as at 31 Dec. 2008 €'000
KHD Humboldt Wedag GmbH, Cologne	26,410
HUMBOLDT WEDAG Coal & Minerals Technology GmbH, Cologne	25
	26,435

2. Receivables and Other Assets

The receivables from affiliated companies include the account receivable from HUMBOLDT WEDAG Coal & Minerals Technology GmbH, Cologne, (CMT) in the amount of € 842 thousand (prior year: € 7,690 thousand) under the profit and loss transfer agreement.

The other assets include basically 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, which is addressed in Section 1.2 of the report of the directors.

In addition, the other assets include a value added tax asset of € 2,505 thousand, of which € 2,496 thousand are attributable to Humboldt Wedag GmbH, Cologne (HW), ZAB Zementanlagenbau GmbH Dessau, Dessau (ZAB), and ZAB Industrietechnik & Service GmbH, Dessau (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 peaks within the scope of capital increases, if necessary. 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 2008 was € 9.01. A corresponding reserve for treasury shares was recognized. 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 Company's other securities relate to 295,490 shares of KHD Humboldt Wedag International Ltd., Vancouver/Canada (KHD Ltd.), which had to be written down by € 3,646 thousand as at 31 December 2008.

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.

Approved Capital

The Ordinary Meeting of Shareholders held on 29 September 2004 authorized 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.

Changes in Equity in 2008

	Sub-scribed capital	Capital reserves	Reserve for treasury shares	Other revenue reserves	Net retained profits / net accumu-lated losses	Total
	€'000	€'000	€'000	€'000	€'000	€'000
Balance 31 Dec. 2007	33,143	1,776	221	1,547	3,096	39,783
Net loss for 2008					-3,257	-3,257
Balance 31 Dec. 2008	33,143	1,776	221	1,547	-161	36,526

Due to the net loss for the financial year 2008, the net accumulated losses amount to € 161 thousand.

5. Provisions

	31 Dec. 2008	31 Dec. 2007	Variance
	€'000	€'000	€'000
Provisions for taxes	209	1,539	-1,330
Other	2,188	2,500	-312
	2,397	4,039	-1,642

The other provisions include mainly 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 referred to above. 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. 2008 €'000	31 Dec. 2007 €'000	Variance €'000
Trade payables	38	7	31
Liabilities to affiliated companies	2,496	1,780	716
Other liabilities	5	8	-3
Of which tax liabilities	5	7	-2
	2,539	1,795	744

Like in the prior year, the liabilities disclosed as at 31 December 2008 also had a residual term of less than one year.

The liabilities to affiliated companies relate to liabilities attributable 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 € 7.6 million (prior year: € 16.7 million).

For a secondary liability to Unterstützungsgesellschaft mbH of Maschinenfabrik Fahr AG in the amount of € 0.4 million, DEUTZ AG has signed a letter of indemnification in favour of KHD ID. For the discharge of DEUTZ AG due to this matter, there is a guarantee of HypoVereinsbank AG.

8. Other Financial Commitments

The other financial commitments of KHD ID as at the balance sheet date relate exclusively 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

Like in the prior year, the other operating income of KHD ID results basically from services charged to the companies CMT, KHD and ZAB/ZABIS, exchange gains and release of provisions.

10. Personnel Expenses

Like in the prior year, all employees of the Company are employees of the Company's legal function. A recharge agreement with respect to legal advice was concluded between the Company and the Companies of KHD ID Group (KHD/HW, CMT, ZAB/ZABIS). The 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 include chiefly legal and consulting costs, cost of year-end accounts and auditing, service cost, exchange losses and other administrative expenses.

12. Other Disclosures

Number of Employees

Like in the prior year, the Company had 3 salaried employees on the annual average. The Company does not employ industrial labour.

13. Shareholdings

Company	Capital share in %	Equity in €'000	Net income for FY in € '000
KHD Humboldt Wedag GmbH, Cologne	100.0	46,362	88
HUMBOLDT WEDAG Coal & Minerals Technology GmbH, Cologne (*)	100.0	317	842

(*) Before 2008 profits transferred

Members of Supervisory Board and Board of Directors

Supervisory Board

Mr Bhagabati Prasad Misra, engineer,
Chairman of the Supervisory Board

Vice President
of KHD Humboldt Wedag International Ltd., Vancouver/Canada (KHD Ltd.)

Mr John Musacchio, engineer,
Vice Chairman of the Supervisory Board (until 15 June 2008)

Vice President of KHD Ltd.

Mr Reimund Berner, businessman,
member of the Supervisory Board

Vice President Commercial and Treasurer of Humboldt Wedag Inc., Norcross/U.S.

Mr Jouni Salo, engineer,
member of the Supervisory Board (from 16 June to 4 December 2008)

COO of KHD Ltd. (from 13 April 2009)

Mr James Busche, businessman,
member of the Supervisory Board (from 11 December 2008)

CEO of KHD Ltd. (until 13 April 2009)

Board of Directors

Mr Harinder Singh Ahluwalia, engineer, Haryana/India (until 16 July 2008), Vice President of KHD Ltd.

Mr Michael J Smith, businessman, Hong Kong/China (until 7 February 2008), Chairman of the Board of Directors of KHD Ltd.

Mr Alan Hartslief, businessman, Vienna/Austria (from 28 January 2008), CFO of KHD Ltd. (from 13 April 2009)

Mr Jouni Salo, engineer, Vienna/Austria (from 11 December 2008), CEO of KHD Ltd. (from 13 April 2009)

4.4 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.

4.5 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 are incurred for this circle of persons.

4.6 Loans and Advances to Members of the Board of Directors and the Supervisory Board

There were no receivables due to loans or advances to members of the Board of Directors and the Supervisory Board as at 31 December 2008.

4.7 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).

4.8 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 2008 is roughly 74%.

Cologne, 30 June 2009

The Board of Directors

Alan Hartslief Jouni Salo

5. Exhibit to the Notes

Movements in Fixed Assets in the Financial Year 2008

	Gross book values				Accumulated amortization, depreciation and write-downs				Net book values	
	Balance as at 1 Jan. 2008 €'000	Additions €'000	Disposals €'000	Balance as at 31 Dec. 2008 €'000	Balance as at 1 Jan. 2008 €'000	Additions €'000	Disposals €'000	Balance as at 31 Dec. 2008 €'000	Balance as at 31 Dec. 2008 €'000	31 Dec. 2007 €'000
I. Long-term financial assets										0
Shares in affiliated companies	26,435	0	0	26,435	0	0	0	0	26,435	26,435
	26,435	0	0	26,435	0	0	0	0	26,435	26,435
	26,435	0	0	26,435	0	0	0	0	26,435	26,435

[Independent] Auditors' Report

We have audited the annual financial statements - comprising the balance sheet, the income statement and the notes to the financial statements - together with the bookkeeping system, and the management report of KHD Humboldt Wedag International (Deutschland) AG, Cologne, for the business year from 1 January to 31 December 2008. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Company's Board of Directors. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and on the management report based on our audit.

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

Our audit has not led to any reservations.

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

Without qualifying this opinion, we draw attention to the fact that 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 the Company to MFC Corporate Services AG (formerly: MFC Merchant Bank S.A.), which today holds an interest of roughly 20% in the Company, 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.

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 its appeal is likely to succeed.

Nevertheless, the Company has capitalised in the annual financial statements as at 31 December 2005, and disclosed unchanged in the annual financial statements as at 31 December 2008, an account receivable from MFC Corporate Services AG (formerly: MFC Merchant Bank S.A.) in the amount of EUR 1,914 thousand, addressing the regional court ruling. For the expenses in connection with the services substantiated in detail by MFC Corporate Services to the Company, a provision for contingent liabilities in the amount of EUR 1,976 thousand was made in the annual financial statements as at 31 December 2005; this provision is also disclosed unchanged as at 31 December 2008.

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 Board of Directors' assessment.

Düsseldorf, 30 June 2009

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

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

KHD Humboldt Wedag International (Deutschland) AG, Cologne

("COMPANY" OR "KHD ID")

Report of the Supervisory Board for Fiscal Year 2008

The ongoing boom in the cement industry of the past years ended abruptly in fiscal year 2008 as a result of the international financial crisis and its tremendous impact on the real economy.

The operational companies within the KHD ID Group were initially able to benefit from the industry's ongoing boom until the third quarter of 2008. The regional focus for new business was in Eastern Europe and Asia.

In the fourth quarter the global financial crisis also reached the cement manufacturers, who in turn had to struggle against financing problems as well as falling sales volumes and sales prices.

Since then order intake has declined dramatically. In several cases, volumes of stocks that had already been posted had to be withdrawn as customers cancelled their orders or else reduced the ordered volumes.

Even in 2009, the difficult business situation has remained unchanged. Order intake has not been this low in years.

According to the current planning status, it is still possible however to keep the turnover at a high level due to the still high level of orders from the previous years.

Measures have been introduced to adjust capacities to the low level of business which will probably continue for a long time.

Additional restructuring measures have been implemented through the sale of the subsidiary HUMBOLDT WEDAG Coal & Minerals Technology GmbH, Cologne as well as the production operations of Humboldt Wedag GmbH located in Cologne-Kalk.

Cooperation between Supervisory Board and Executive Board

The Supervisory Board was regularly and comprehensively informed by the Executive Board on the position of the Company, in particular the development of the business and financial situation, the staff situation, on investment plans and on general issues regarding the Company's policy and strategy.
In particular, project approvals and the adoption of resolutions were subject of the meetings.

In addition, the members of the Supervisory Board were informed in particular with regular reports on the business development as well as on the profitability and risk situation of the Company. Matters requiring approval were presented by the Executive Board in due time to the Supervisory Board for its resolution and consent. The Supervisory Board was always comprehensively informed of events of particular significance. Furthermore, the Executive Board notified the Supervisory Board of all important developments and pending decisions.
The Supervisory Board was always involved in the quarterly financial reports of the Company. The annual financial statements of the most significant group companies and their auditing in particular were closely monitored by the Supervisory Board.

Restructuring

During fiscal year 2009, further steps were taken to restructure the KHD ID Group. This included in particular the sale of HUMBOLDT WEDAG Coal & Minerals Technology GmbH as well as the other Minerals & Coal activities of the KHD Group to an Indian buyer.
As part of this transaction, the buyer will also take over the production of Humboldt Wedag GmbH at the Cologne plant.

After restructuring has been completed, the KHD Group will present itself to the market as an engineering company focussing on cement.

In addition, there has been an organisational realignment of the operational business, which plans to separate the business in centralised development and service activities on the one hand and decentralised sales and processing activities on the other hand.
This organisational realignment has been supported by corresponding personnel changes in the management of the companies.

Legal action taken by shareholders

The legal actions taken by shareholders against the annual financial statements for 2002 until 2006 is still pending.

In the past fiscal year, there were no major new aspects regarding the assessment of the outcome of the legal proceedings.
The COMPANY still considers the action unfounded and it will defend itself against the claims.

Personnel Changes in Supervisory and Executive Board

According to its statutes, the Supervisory Board of the Company consists of 3 members:

Chair of the Supervisory Board is still Mr. B.P. Misra, who is also a member of the Management Board of KHD Humboldt Wedag International Ltd., Vancouver, Canada (KHD-Ltd.).
Mr. Jouni Salo, engineer, current Chief Executive Officer of KHD Ltd., was a member of the Supervisory Board of the COMPANY from 16 June to 4 December 2008 but then joined the Executive Board of the COMPANY.

Mr. Berner, who is responsible for the Financial Department of HW Inc. in Atlanta, has been a member of the Supervisor Board since 2007.

Mr. James Busche was appointed a member of the Supervisory Board by court order on 11 Dezember 2008 and resigned from this office as of 16 April 2009.

The Executive Board is managed by Mr. Hartslief and Mr. Salo:

Mr. Hartslief has held this position since 28 Januar 2008, he has also been Chief Financial Officer of the KHD Ltd. Group since 16 Oktober 2007.

Mr. Salo has been a member of the Executive Board of the COMPANY since 11 December 2008. Since 13 April 2009 he is Chief Executive Officer of KHD Ltd. He resigned from his position in the Supervisory Board of the COMPANY when he became a member of the Executive Board at KHD ID.

Auditing of the 2008 Annual Financial Statements of the Companies and the Group

The annual financial statements and the management report of the COMPANY including the accounting system were audited by Deloitte & Touche GmbH, Wirtschaftsprüfungsgesellschaft, Düsseldorf ("Deloitte") and were awarded an unqualified audit opinion. This also applies to the annual financial statements of the group and the group management report.
Deloitte certified that the individual financial statements of the Company were prepared in accordance with the relevant provisions of the German Commercial Code and the financial statements of the group in accordance with the accounting and valuation standards of the International Financial Reporting Standards (IFRS).

The annual financial statements were presented to the members of the Supervisory Board in due time. They were reviewed in detail by the Supervisory Board and discussed in the presence of the auditor who reported on the results of his audit.

In the meeting of 25.09.2009, the Supervisory Board agreed with the audit result of the auditor and after carrying out its own audit, determined that there were no objections. The Supervisory Board approves the financial statements prepared by the Executive Board. Hence, the annual financial statements of the Company for fiscal year 2008 are approved.
The Supervisory Board consented to the Executive Board's proposal on the appropriation of the balance sheet loss, i.e. to carry it forward to new account.

The dependence report was audited by the auditor and was awarded the following unqualified audit opinion:

> "On completion of our audit and assessment in accordance with professional standards, we hereby certify that
>
> 1. the factual statements made in the report are correct,
>
> 2. the compensation paid by the COMPANY for legal transactions detailed in the report were not unreasonably high,
>
> 3. there are no circumstances that would indicate a significantly different assessment of the measures listed in the report to that given by the Executive Board"

The Supervisory Board has reviewed the dependence report. It does not raise any objections against the final declaration in the dependence report of the Executive Board and against the result of the audit carried out by the auditor.

Thus, the Supervisory Board has fulfilled the tasks conferred upon it by law, statutes and rules of procedure.

Appointment of the Auditor for Fiscal Year 2009

The auditing firm Deloitte in Düsseldorf has been proposed by the Annual General Meeting as auditor for the individual and group financial statements for fiscal year 2009 as was the case in the previous year.

The Supervisory Board would like to express its thanks to all employees of the group companies and to the Executive Board for their high level of commitment during fiscal year 2008 and asks them for their renewed commitment in 2009 to be able to successfully cope with the current difficult business situation.

Cologne, 25.09.09

The Supervisory Board

B.P. Misra
(Chairman of the Supervisory Board)