KHD Humboldt Wedag International (Deutschland) AG

KHD | HUMBOLDT WEDAG
International (Deutschland) AG

Report of the Directors and Annual Financial Statements as at 31 December 2007

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1 Report of the Directors of KHD Humboldt Wedag International (Deutschland) AG for the Financial Year 2007

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, KHD, Humboldt Wedag GmbH, Cologne (HW), and ZAB Industrietechnik & Service GmbH, Dessau (ZABIS), 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 has been performed by the group sister company KHD Humboldt Wedag International GmbH, Vienna/Austria, (KIA) since 1 July 2007.

The real estate marketing activities which had previously been performed as the second segment of the Group are no longer continued. The realisable net assets of the Companies of this segment were disposed of in the financial year 2007.

1.2 Major Events in the Financial Year

1. The Company

Disposal of Long-term Equity Investment KHD S.A.

Under an agreement dated 24 August 2007, the Company sold to SWA Reit Ltd., Barbados, all 2,000 bearer shares of KHD S.A., Herisau/Switzerland (KHD S.A.), which it held at a purchase consideration of € 563 thousand, which corresponds to the book value as at the time of disposal.

Disposal of Long-term Equity Investment ZSG

Under an agreement dated 18 October 2006, the Company had sold to Stendal Pulp Holding GmbH, Berlin/Germany, at a purchase consideration totalling € 8,166 thousand its long-term equity investment in Zellstoff Stendal GmbH, Stendal/Germany (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 (EUR 8,877 thousand).

Under an agreement dated 24 September / 11 November 2007, MASS Financial Corp. (MASS) acquired the Mercer shares against transfer of 295,490 shares of KHD Ltd. with a then market price of USD 8,877 thousand.

Repayment Loans Payable

The loans payable to KHD Ltd. and to HW (formerly AIP) were fully repaid or settled last financial year.

Treasury Agreement

Under an agreement dated 1 July 2007, the Company and KIA entered into a treasury agreement, under which KIA performs the treasury function for the Company. The task of the treasury function, which has now been centralized, is in particular to raise free cash inflows. The Company is, hence, financed basically via its parent company KHD Ltd.

2. Subsidiaries

Disposal of Real Properties

On account of a resolution that had already been adopted in the prior year, according to which the activities performed by the subsidiaries HW (formerly: Altmark Industriepark AG, Arneburg (AIP)), ZAB Zementanlagenbau GmbH Dessau, Dessau (ZAB), and KHD S.A. in the sector of real property marketing are no longer part of the core business, HW sold its entire real properties including the related buildings in the financial year 2007.

On 28 August 2007, HW (formerly AIP) sold to SWA Reit (Altmark) Ltd., Marshall Islands, land and buildings at a purchase consideration totalling € 29.4 million with effect from 30 June 2007. Also on 28 August 2007, ZAB sold to SWA Reit (Dessau) Ltd., Marshall Islands, land and buildings at a purchase consideration of € 6.9 million with effect from 30 June 2007.

Spin-off

Under a spin-off agreement dated 18 October 2007, KHD spun off to Humboldt Wedag GmbH (HW) its cement and production operations at book value in accordance with the German Transformation Act.

KHD now holds only the equity investments in the subsidiaries ZAB and HW (formerly AIP).

Until 30 June 2007, HW (formerly AIP) had operated in the sector of management and marketing of own real properties. After the disposal of the real properties, the Company was renamed Humboldt Wedag GmbH through change in legal form. The Company relocated its registered office from Arneburg to Cologne.

The spin-off, which was contractually effected with effect from 28 February 2007, was entered in the Commercial Register of the Company at the Cologne local court with the number HRB 61524 on 30 October 2007.

Under a purchase agreement dated 18 September 2007, KHD acquired the remaining minority share in the former AIP in the amount of € 1,098 thousand.

Acquisition of Long-term Equity Investments

On 28 December 2007, HW acquired 999 of the 1,000 voting shares of Blake International Ltd. with registered office in Road Town, Tortola/British Virgin Islands (Blake), at a total consideration of € 3,167 thousand.

Blake's assets relate basically to an equity investment in HIT International Trading AG (HIT) with registered office in Berlin/Germany. The previous main purpose of business of HIT has been management of its own assets including two wholly-owned subsidiaries, which do not perform any operative activities. As at 31 December 2007, Blake held an interest of 75.04% in HIT's shares.

In accordance with the regulations of the German Security Acquisition and Takeover Act, HW has made a mandatory offer to the minority shareholders of HIT 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.

Based on the present corporate planning, HIT is to perform activities in a plant engineering segment related 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.

The members of the HIT's Boards of Directors and HW's and management are meanwhile largely identical.

Disposal/Valuation of Subsidiaries

As already 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 had already been 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 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 year 2006. The claims of KHD for the financial year 2007 will be computed and accounted for in 2008.

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 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 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 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 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.

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.

A first hearing, which has meanwhile taken place, did 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.

1.3 State of Affairs

Net Assets

The balance sheet total of the Company rose by roughly 12% to € 45.6 million last financial year. This increase is mainly due to the claim in the amount of € 7,690 thousand under the profit and loss transfer agreement concluded with the operative subsidiary CMT in 2005, which has been accounted for under receivables from affiliated companies. The account receivable resulting from the profit and loss transfer of the prior year was fully settled at the beginning of the new financial year.

The decrease in other assets is basically due to the fact that the purchase consideration receivable from the disposal of the long-term equity investment in ZSG, which had been disclosed under other assets in the prior year, was settled. Within other assets, the increase in the value added tax credit (€ 1,693 thousand; prior year: € 234 thousand) as well as the account receivable from MFC Corporate Services AG (formerly: MFC Merchant Bank S.A.) in the amount of € 1,914 thousand, which, other than in the prior year, is no longer disclosed under receivables from affiliated companies because MFC Corporate Services AG is no longer an affiliated company, had an opposite effect.

The marked increase in other securities is related to the receipt of Mercer shares due to the disposal of the long-term equity investment in ZSG.

The residual Company's net income for the financial year in the amount of € 5.5 million after tax was carried forward onto new account, leading to net retained profits of € 3.1 million.

The equity continued to rise to € 39.8 million, which is chiefly due to the improved net income for the financial year as a result of the recognised claim towards CMT under the existing profit and loss transfer agreement, and now accounts for 87% of the balance sheet total (prior year: 84%).

Within provisions, the provisions for taxes rose significantly on account of the marked increase in earnings in comparison with the prior year, whereas the liabilities decreased on account of full repayment of loans payable in the financial year.

Results of Operations

The other operating income is slightly below the prior year's level, which is primarily due to special effects. The increase in personnel expenses in 2007 is due to the transfer of the employees of HW's legal function to KHD ID. Under the recharge agreement on legal advise, which has been concluded with the KHD ID Group companies at the same time, these costs are recharged accordingly. The corresponding income is disclosed under other operating income. The result from ordinary activities in the amount of € 6,674 thousand is characterized by the net income transferred by CMT and, on the other hand, by write-downs of securities classified as current assets in the amount of € 720 thousand on account of the unfavourable trend of the exchange rate of the U.S. dollar towards the euro. The relatively high net income of CMT is primarily due to the final accounts of a large-scale order in Latin America.

Financial Position

The marked increase in cash and cash equivalents from the prior year is above all due to the Company's clearly positive result for the financial year as a result of the prior year's result transferred by CMT under the profit and loss transfer agreement existing between the Companies. Especially the full repayment of the loans payable in the financial year has had an opposite effect.

The financing of the Company is secured on account of the positive business expectations for the Companies operating in the sector of plant engineering for the near future.

The liquidity as at the 2007 year end in the amount of roughly € 1.5 million and the other securities classified as current assets cover all anticipated expenses of the financial year 2008.

1.4 Business Development in the Plant Engineering Sector

Trend of the Industry

Since 2000, worldwide cement consumption has risen strongly year on year. This trend was driven basically by growth in China, which has more than doubled its consumption since 2000 and meanwhile consumes almost half of the worldwide output. But also countries, such as India, Russia and Saudi Arabia, continue to record enormous growth rates. In Europe, higher growth rates of consumption are, however, recorded only in Spain.

The strongly rising demand for cement meets with obsolete production facilities in these countries. Therefore, the demand for new components and performance increases is still disproportionately high.

For 2008, the Global Cement Report forecasts an increase in consumption of roughly 6.5%. In the above-mentioned booming regions and in almost all newly industrialising countries, further strong growth is anticipated also for the following years.

The operative business of the plant engineering Companies, which is now restricted to industrial plant engineering after full disposal of the real properties, is performed by HW (wholly-owned subsidiary of KHD), ZABIS and CMT. Our wholly-owned subsidiary KHD, in its capacity as the parent company of HW (formerly AIP) and of ZABIS, is a major equity investment.

The purpose of business of industrial plant engineering 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.

Realizing sales of € 225,323 thousand (prior year: € 1,240 thousand), HW realised a net income for the financial year of € 19,170 thousand (prior year: net loss for the financial year of € 7,067 thousand).

In the financial year 2007, ZABIS was able to raise its sales to € 39,301 thousand (prior year: € 38,190 thousand). The earnings before profit transfer amount to € 5,192 thousand (prior year: € 5,598 thousand).

In its second operative financial year, CMT was able to realize sales of € 25,853 thousand (prior year: € 17,963 thousand) and earnings before profit transfer of € 7,690 thousand (prior year: € 3,055 thousand).

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 management. In addition, the risk analysis and strategic development of the Company are intensively supported through the resources of KHD Ltd.

The Company use 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 2007.

The worldwide boom of the industry facilitates the entry of competitors into the market. To maintain HW's competitiveness, it is necessary to maintain the technological leadership and to further pursue the low-cost strategy at group level.

KHD ID anticipates that the boom for industrial plant engineering will continue. The high level of orders on hand, together with the long-term nature of the typical transactions in the sector of plant engineering, insures already today a far-reaching utilisation of capacities.

The international framework conditions in the different markets, the usual strong competition in our industries and investors' pressure on lowering of specific capital investment costs for plant and machinery in the capital-intensive cement and processing industry require a consequent implementation of the internationalisation strategy. On this basis, we anticipate sustained positive trends of sales and revenues for the industrial plant engineering segment.

During the first five months of the new financial year 2008, the U.S. dollar declined in comparison with the euro, which had a negative influence on the valuation of the securities classified as current assets held by the Company that are denominated in U.S. dollar.

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 May 2008

The Board of Directors

Harinder Ahluwalia

Alan Hartslief

2 Balance Sheet as at 31 December 2007

ASSETS	2007 €'000	2006 €'000
A. Fixed assets		
I. Tangible fixed assets		
1. Operating and office equipment	0	1
II. Long-term financial assets		
1. Shares in affiliated companies	26,435	26,998
Total fixed assets	**26,435**	**26,998**
B. Current assets		
I. Receivables and other assets		
1. Receivables from affiliated companies	7,781	4,978
2. Other assets	3,620	8,298
	11,401	13,276
II. Securities		
1. Treasury shares	221	221
2. Other securities	6,008	282
	6,229	503
III. Cash-in-hand, bank balances	1,552	97
Total current assets	**19,182**	**13,876**
TOTAL ASSETS	**45,617**	**40,875**

EQUITY AND LIABILITIES	2007 €'000	2006 €'000
A. Equity		
I. Subscribed capital	33,143	33,143
II. Capital reserves	1,776	1,776
III. Revenue reserve		
1. Reserve for treasury shares	221	221
2. Other revenue reserves	1,547	1,547
IV. Net retained profits / net accumulated losses	3,096	-2,376
Total equity	**39,783**	**34,311**
B. Provisions		
1. Provisions for taxes	1,539	337
2. Other provisions	2,500	2,464
Total provisions	**4,039**	**2,801**
C. Liabilities		
1. Trade payables	7	5
2. Liabilities to affiliated companies	1,780	3,757
3. Other liabilities	8	1
Of which tax liabilities	7	0
Total liabilities	**1,795**	**3,763**
TOTAL EQUITY AND LIABILITIES	**45,617**	**40,875**

3 Income Statement

			2007 €'000	2006 €'000
1.		Other operating income	386	446
2.		Personnel expenses		
	a.	Salaries	-211	-78
	b.	Social security costs	-26	-2
			-237	-80
3.		Depreciation and write-downs of tangible fixed assets	-1	-1
4.		Other operating expenses	-1,047	-401
5.		Income from profit transfer	7,690	3,055
6.		Income from other securities	0	294
7.		Other interest and similar income	143	83
		Of which from affiliated companies	1	1
8.		Write-downs of securities classified as current assets	-98	0
9.		Interest and similar expenses	-162	-439
		Of which to affiliated companies	-161	-365
10.		Result from ordinary activities	6,674	2,957
11.		Taxes on income	-1,202	-337
12.		Net income for the financial year	5,472	2,620
13.		Accumulated losses brought forward from prior year	-2,376	-4,996
14.		Net retained profits / (net accumulated losses)	3.096	-2,376

4 Notes to the Financial Statements

4.1 General Notes

Accounting

The annual financial statements for the financial year 2007 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

Tangible fixed assets have been valued at acquisition cost less, to the extent that they are depreciable, scheduled depreciation. Moveable tangible fixed assets are depreciated on a straight-line basis over the respective estimated useful life according fiscal regulations. Low-value items are fully depreciated in the year of acquisition. 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 list 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 buying 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 selling 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 2007 attached as Exhibit to the Notes.

The shares in affiliated companies in the amount of € 26,435 thousand can be analysed as follows:

Company	Book value as at 31 Dec. 2007 €'000
KHD Humboldt Wedag GmbH, Cologne	26,410
HUMBOLDT WEDAG Coal & Minerals Technology GmbH, Cologne	25
Total	**26,435**

Under an agreement dated 24 August 2007, the Company sold to SWA Reit Ltd., Barbados, all 2,000 bearer shares of KHD S.A., Herisau/Switzerland, which it held at a purchase consideration of € 563 thousand, which corresponds to the book value as at the time of disposal.

2. Receivables and Other Assets

The receivables from affiliated companies include the account receivable from CMT in the amount of € 7,690 thousand (prior year: € 3,055 thousand) under the profit and loss transfer agreement.

The other assets include basically an account receivable from MFC Corporate Services AG (formerly MFC Merchant Bank S.A.), 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. As MFC Corporate Services AG is no longer an affiliated company, the account receivable has, deviating from the prior year (receivables from affiliated companies), been disclosed under other assets.

In addition, the other assets include a value added tax asset of € 1,693 thousand. This amount is attributable to HW, ZAB and ZABIS within the group taxation relationship for value added tax purposes and therefore an equivalent amount has been disclosed also under liabilities to affiliated companies.

The purchase consideration claim in the amount of € 6,728 thousand due to the disposal of the long-term equity investment in Zellstoff Stendal GmbH, Stendal, which had been disclosed under other assets in the prior year, was settled through receipt of equivalent shares of Mercer International Inc. on 30 March 2007. See also the related following statements regarding securities (Section 3).

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 2007 was € 9.01. A corresponding reserve for treasury shares was recognized. The value of the treasury shares in the amount of € 221 thousand corresponds to 0.67% of the Company's capital stock.

Under an agreement dated 18 October 2006, the Company had disposed of its equity investment in Zellstoff Stendal GmbH, Stendal, including the loans granted to this Company, at a purchase consideration of € 8,166 thousand to Stendal Pulp Holding GmbH, Berlin. As at 30 March 2006, a proportionate amount of € 1,438 thousand had already been settled. As at 30 March 2007, the buyer settled the residual purchase consideration by transferring 742,185 Mercer International Inc. shares (Mercer shares) with a corresponding market value (USD 8,877 thousand).

Under agreements dated 24 September 2007 / 11 November 2007, MASS Financial Corp. (MASS) acquired the Mercer shares against transfer of 295,490 shares of KHD Ltd. at a then market value of USD 8,877 thousand.

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 2007

	Subscribed capital € '000	Capital reserves € '000	Reserve for treasury shares € '000	Other revenue reserves € '000	Net accumulated losses / net retained profits € '000	Total € '000
Balance 31 Dec. 2006	33.143	1,776	221	1,547	-2,376	34,311
Net income for 2007					5,472	5,472
Balance 31 Dec. 2007	**33.143**	**1,776**	**221**	**1,547**	**3,096**	**39,783**

Due to the net income for the financial year 2007, the net retained profits amount to € 3,096 thousand.

5. Provisions

	31 Dec. 2007	31 Dec. 2006
	€'000	€'000
Provisions for taxes	1,539	337
Other provisions	2,500	2,464
Total	**4,039**	**2,801**

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 addressed above. It was made for the risk that MFC Corporate Services AG assert on its part a reimbursement claim in the amount of the expenses incurred on account of the claim asserted by KHD ID. In addition, the other provisions include cost of the year-end accounts and outstanding invoices.

6. Liabilities

	Due within 1 year €'000	Due after more than 5 years €'000	Total as at 31 Dec. 2007 € '000	Total as at 31 Dec. 2006 € '000
Trade payables	7	0	7	5
Liabilities to affiliated companies	1,780	0	1,780	3,757
Other liabilities	8	0	8	1
Of which tax liabilities	7	0	7	0
Total	**1,795**	**0**	**1,795**	**3,763**

The liabilities disclosed as at 31 December 2006 also had a residual term of less than one year.

The liabilities to affiliated companies relate basically to a value added tax asset of € 1,771 thousand, which is attributable to HW, ZAB and ZABIS within the scope of the group taxation relationship for value added tax purposes.

The marked reduction of the liabilities to affiliated companies is primarily due to the fact that the loans payable were fully settled in the financial year, i.e. that the loans payable to KHD Ltd. and to HW were repaid.

7. Contingent Liabilities

KHD ID has furnished guarantees or group guarantees and sureties and signed letters of support in the amount of € 16.7 million (prior year: € 20.4 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

The other operating income of KHD ID is slightly below the prior year level, which is above all due to special effects, and results basically from services charged to the companies CMT, KHD and ZAB/ZABIS, exchange gains and release of provisions.

10. Personnel Expenses

The marked increase in personnel expenses is due to the transfer of the legal function with its staff to KHD ID with effect from 1 April 2007. On the same day, a recharge agreement with respect to legal advice was concluded with the KHD ID Group companies (KHD/HW, CMT, ZAB/ZABIS). The corresponding income is disclosed under other operating income.

11. Other Operating Expenses

The other operating expenses of KHD ID in the amount of € 461 thousand include 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

The Company employed 3 salaried employees on the annual average. The Company does not employ industrial labour.

13. Shareholdings

	Capital share in %	Equity in €'000	Net income for FY*) in € '000
Affiliated companies			
KDH Humboldt Wedag GmbH, Cologne	100.0	46,273	5,421
HUMBOLDT WEDAG Coal & Minerals Technology GmbH, Cologne	100.0	317	7,690

*) Before 2007 profits transferred

Members of Supervisory Board and Board of Directors

Supervisory Board	Membership to other Supervisory Boards
Mr Bhagabati Prasad Misra, engineer, Chairman of the Supervisory Board, Vice President of KHD Humboldt Wedag International Ltd., Canada	Altmark Industriepark AG, Arneburg, Chairman of the Supervisory Board (until 5 October 2007)
Mr John Musacchio, engineer, Vice Chairman of the Supervisory Board, Vice President of KHD Humboldt Wedag International Ltd., Canada	Altmark Industriepark AG, Arneburg, member of the Supervisory Board (until 5 October 2007)
Mr James M Carter, businessman, member of the Supervisory Board (until 29 August 2007), Vice President of KHD Humboldt Wedag International Ltd., Canada	Altmark Industriepark AG, Arneburg, member of the Supervisory Board (until 5 October 2007)
Mr Reimund Berner, businessman, member of the Supervisory Board (until 29 August 2007), Vice President Commercial and Treasurer of Humboldt Wedag Inc., U.S.	

Board of Directors

Mr Harinder Singh Ahluwalia, engineer, Haryana/India (from 17 July 2007);

Mr Michael J Smith, businessman, Hong Kong (until 7 February 2008);

Mr Alan Hartslief, businessman, Vienna/Austria (from 28 January 2008);

Mr Régis Werlé, Diplom-Kaufmann (diploma in business administration), Düsseldorf/Germany (from 1 March 2007 to 14 June 2007);

Mr Klaus-Jürgen Schweinshaupt, businessman, Bergisch-Gladbach/Germany (until 31 January 2007).

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 2007.

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

Sasamat Capital Corporation, Vancouver/Canada, was fully 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 is, hence, roughly 74%.

Cologne, 30 May 2008

The Board of Directors

Harinder Ahluwalia — Alan Hartslief

5. Exhibit to the Notes

Movements in Fixed Assets during the Period from 1 January to 31 December 2007

	Gross values				Gross values				Net values	
	Acquisition/production cost				Amortisation, depreciation and write-downs					
In €'000	1 Jan. 2007	Additions	Disposals	31 Dec. 2007	1 Jan. 2007	Additions	Disposals	31 Dec. 2007	31 Dec. 2007	31 Dec. 2006
Operating and office equipment	6	0	6	0	5	1	6	0	0	1
Tangible fixed assets	**6**	**0**	**6**	**0**	**5**	**1**	**6**	**0**	**0**	**1**
Shares in affiliated companies	26,998	0	563	26,435	0	0	0	0	26,435	26,998
FINANCIAL ASSETS	**26,998**	**0**	**563**	**26,435**	**0**	**0**	**0**	**0**	**26,435**	**26,998**
TOTAL FIXED ASSETS	**27,004**	**0**	**569**	**26,435**	**5**	**1**	**6**	**0**	**26,435**	**26,999**

[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 2007. 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 2007, an account receivable from MFC Corporate Services AG (formerly: MFC Merchant Bank S.A.) in the amount of EUR 1,914 thousand based on 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 2007.

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 management's assessment.

Düsseldorf, 30 May 2008

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 2007

The positive development of markets in the industrial plant construction segment continued in fiscal year 2007. The main growth drivers were China, India and Russia. The Company participated in this market growth due to an increased business volume and improved results.

Further restructuring of the group aimed at focussing all resources on industrial plant construction has now been concluded by the sale of the entire real estate in the past fiscal year.

The markets initially continued to make favourable progress in the first three quarters of the past fiscal year 2008. The global financial crisis and its massive effects on the real economy, however, are now influencing cement producers as well. They are being challenged by financing difficulties and declining sales volumes and prices. After 2008 the Company must expect the order intake and result to fall sharply also in the current fiscal year 2009.

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 of the Company's policy and strategy.

In particular the following topics were discussed and decided upon during the meetings of the Supervisory Board:

- Abandonment of the real estate business segment and the related sale of the entire real estate holdings
- Acquisition of Blake International Ltd., British Virgin Islands (Blake) and HIT International Trading AG, Berlin (HIT AG) respectively
- Transfer of business activities of KHD Humboldt Wedag GmbH to the former Altmark Industriepark AG, Arneburg („AIP").
- Change of legal form, change of the company name and relocation of the registered office of AIP to Humboldt Wedag GmbH, Cologne.

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

In fiscal year 2007, the real estate holdings of AIP were sold to SWA Reit (Altmark) Ltd., Marshall Islands and those of ZAB Zementanlagenbau GmbH Dessau, Dessau (ZAB) were sold to SWA Reit (Dessau) Ltd., Marshall Islands. In fiscal year 2007 the Company also sold all of its own 2,000 bearer shares of KHD S.A., Herisau, Switzerland, for their book value to SWA Reit Ltd. Barbados. The strategic orientation of the group therefore now focuses on industrial plant construction as the only business segment. This step had already been announced by our main shareholder, KHD Humboldt Wedag International Ltd., Vancouver, Canada (KHD Ltd.) in 2006.

Legal Action Taken by Shareholders

The legal actions taken by shareholders with the possible result of the nullity of the annual financial statements for 2002 until 2006 are still pending. In fiscal year 2007 there were no new aspects regarding the assessment of the outcome of the legal proceedings. The Company still considers the action unfounded and has applied for dismissal of action.

Personnel Changes in Supervisory and Executive Board

James M. Carter, Vice President of KHD Ltd, retired from the Supervisory Board of the Company with effect from 29 August 2007. Mr. Reimund Berner was appointed in his place by the General Meeting of Shareholders. Mr. Berner is responsible for the Com-

mercial and Treasury departments as Vice President of Humboldt Wedag Inc., Norcross, USA. He has many years of experience in cement plant construction and is thus a useful support to the Supervisory Board.
Chair of the Supervisory Board is still Mr. B.P. Misra, who is also a member of the Management Board of KHD Ltd. and Humboldt Wedag India Private Ltd., New Delhi, India.

There have been the following changes to the composition of the Executive Board:

As of 31 January 2007, Mr. Klaus-Jürgen Schweinshaupt retired from the Executive Board of the Company at the end of his period of office as already mentioned in the last year's report.
With effect from 14 June 2007, Mr. Régis Werlé also retired from the Executive Board.

At the end of the fiscal year 2007, Mr. Michael Smith retired from the Executive Board of the Company with effect from 7 February 2008. Mr. Alan Hartlief took over his position already on 28 January 2008. Since 11 October 2007, Alan Hartlief is Senior Vice President and Chief Financial Officer of the KHD Ltd. Group. Before taking over this position he worked successfully in different managerial functions in Accounting and Finance.
With effect from 30 June 2008, Mr. Hari Ahluwalia retired from the Executive Board of the Company.

Auditing of the 2007 Annual Financial Statements of the Companies and of the Group

The annual financial statements and the management report of the Company including the accounting records 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 4 November 2008, 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 2007 are approved. The Supervisory Board consented to the Executive Board's proposal on the appropriation of the balance sheet profit (carry forward to new account).

The auditor audited the dependence report and awarded an unqualified audit opinion:

„After auditing and evaluating the annual financial statements, taking into account the applicable legal requirements, we hereby certify that:

1. the statements of the report are true and correct,

2. the performance of the Company with respect to the legal transactions stated in the report was not disproportionately high,

3. there are no circumstances that speak in favour of a significantly different assessment to the one given by the Board of Management concerning the measures stated in the report.

The Supervisory Board has carried out its own audit of the dependence report and has no objections against the final declaration of the Board of Management and against the result of the audit carried out by the auditors.
Hence, the Supervisory Board has fulfilled its statutory obligations and the duties assigned by the Articles of Association and the Internal Rules of Procedure.

Appointment of the Auditor for Fiscal Year 2008

As in the previous year, the auditing firm Deloitte in Düsseldorf is proposed to the General Meeting of Shareholders as auditor for the individual and group financial statements for fiscal year 2008.

The Supervisory Board would like to express its thanks to all employees of the group companies and to the Executive Board for their successful performance in fiscal year 2007 and furthermore asks for this high level of commitment to continue to be able to successfully cope with the effects of the current crisis.

Cologne, 9 April 2009

The Supervisory Board

B.P. Misra
(Chairman)