SMT Scharf AG
Annual financial report 2020

Contents

Management report for the 2020 fiscal year

The SMT Scharf Group (“SMT Scharf”) develops, manufactures and services transportation equipment and logistics systems for underground mining and tunnel construction. SMT Scharf’s business profile can be described on the basis of the following criteria:

- **Business areas:** SMT Scharf’s core product continues to comprise captivated railway systems that are deployed in underground mining. These systems are technically capable of transporting personnel and materials up to 45 tonnes on gradients of up to 35 degrees. As an ancillary product, SMT Scharf offers chairlifts for the mining industry. The product range also includes the development and installation of open air rail and cable management systems, including for energy supplies to machines, for example. In addition, SMT Scharf has a portfolio of rubber-tyred vehicles and is positioning itself as an integrated system provider in the area of underground logistics. The establishment of the Tunnel Logistics business segment also forms part of this process. This additional pillar promises additional sales potential in the coming years.

  SMT Scharf can draw on in-house expertise in electronics and controls via its subsidiary ser elektronik GmbH, Möhnesee. These systems, which are integrated into SMT Scharf’s transport solutions for both coal and mineral mining (formerly “non-coal” mining), are manufactured in-house. In addition, ser elektronik develops customer-specific solutions for various industries, including the food industry and medical technology. Business outside the scope of underground mining and tunnel logistics is reported within the Other Industries segment.

- **Type of business:** The production and installation of new equipment forms the core of the operating activities. SMT Scharf also concentrates on downstream services. The offerings include the provision of spare parts, maintenance, repairs or maintenance work. SMT Scharf occasionally acts as a railway operator in response to customer demand.
- **Customer groups:** SMT Scharf products are deployed mainly in hard coal mining (the Coal Mining segment), as well as increasingly in the mining of gold, platinum, copper, nickel and salts (aggregated within the Mineral mining, formerly Non-Coal Mining, segment). In the Tunnel Logistics business segment, companies from the tunnel construction sector represent a relevant customer group. Through the business of ser elektronik, companies from various sectors in the Other Industries segment also include potential customer groups that require electronic control systems for their machines.
- **Regions:** SMT Scharf sells its own products in its main markets through subsidiaries located in the world’s most important mining nations. These include especially the foreign markets in Russia, Poland, China and South Africa. In addition, SMT Scharf also operates in South America with its own sales subsidiary in Chile and in North America via RDH Mining Equipment. The Group’s subsidiary ser elektronik also supplies customers in Switzerland, some of which were not previously part of the SMT Scharf Group’s sales regions. The German domestic mining market plays only a minor role nowadays. In smaller markets, SMT Scharf works together with dealers or agents.

The International Monetary Fund (IMF) estimates that the global economy contracted by -4.4 % in 2020. The record slump in the economy is mainly due to policy measures geared to to countering the coronavirus pandemic worldwide. With its October 2020 estimates, the IMF is already more confident than it was in June 2020. The main reason for this is the faster than anticipated recovery in highly developed economies.

The outlook for developing and emerging countries, where infection rates are rising rapidly, remains critical, with the exception of China. The IMF expects that the economic output of these countries, when compared to 2019 levels, will suffer far greater losses than those of advanced economies. In addition, recent increases in Covid-19 infections, including in previously less impacted areas, are making it more difficult to return to normality.

With a forecast growth rate of 1.9 %, China recovered comparatively quickly from the consequences of the coronavirus pandemic. China's economy benefited particularly from its specialisation on the consumer goods sector and increased demand for personal and medical protective equipment. Moreover, international trade in goods increased significantly. While the gap in relation to the pre-crisis level still amounted to 17 % in May, it stood at just 2 % in September. Reports of a shortage of shipping and container capacity suggest a further upward trend. In Russia, the significant reduction in crude oil production agreed with OPEC had a particularly negative effect on production. Accordingly, industrial production remained well below the previous year's level. The manufacturing sector, by contrast, continued the previous year's performance. However, the rise in infection figures in the autumn is likely to put a damper on this.

Poland's economy was also hit by the effects of the pandemic. The restrictions imposed in the spring had a particularly negative effect on the service sector, leading to a 7.9 % slump in gross domestic product (GDP) in the second quarter of 2020. With the onset of the second wave of infections in the autumn, stringent restrictions were imposed once again, with the consequence that a significant decrease in gross domestic product is expected in the fourth quarter.

The South African economy also achieved a better than expected recovery in the third quarter. A long and highly restrictive lockdown was one of the main reasons for this. In particular, rising exports of platinum metals, iron ores, gold and manganese as well as good harvests provided new momentum for industry. In contrast, tourism and gastronomy have reported only a weak recovery. However, South Africa's economic outlook is difficult to forecast due to a pending second wave of infections combined with weak growth momentum from previous years.

The four aforementioned countries represent SMT Scharf's most important sales markets. Together, the customers that are situated there regularly account for more than 75 % of Group revenue.

GDP growth in the most important sales markets* (in %)	**2020**	**2019**
World	-3.5	2.8
China	2.3	6.0
Poland**	-3.6	4.0
Russia	-3.6	1.3
South Africa	-7.5	0.2

Quellen: *IWF World Economic Outlook Update, January 2021; **IWF World Economic Outlook, October 2020

SMT Scharf limits the impact of foreign exchange risks through partial relocation of production and purchasing processes to the company's sales markets. Most new plants are still built in Germany, however. In addition, SMT Scharf has adapted its organisation to these influences and reduced the costs incurred by exchange rate effects in the reporting period by using hedging transactions.

Given the pandemic-related economic turbulence in the countries reviewed, some very strong movements occurred in the four key currencies of SMT Scharf AG in the period under review:

Exchange rate changes in the most important sales markets* (in %)	2020	2019
Yuan Renminbi (China) / Euro	+2.6	+0.6
Zloty (Poland) / Euro	+7.1	-0.4
Rouble (Russia) / Euro	+30.7	-8.3
Rand (South Africa) / Euro	+14.2	+1.5

*Source: European Central Bank, change during the year

As in the previous year, the Euro continued to appreciate against the Chinese Renminbi. At 2.6 %, the European currency gained significantly more purchasing power than in 2019. The Polish Zloty also weakened by 7.1 % against the Euro, after appreciating in 2019. Particularly strong fluctuations occurred in the Russian Rouble and South African Rand. The Euro appreciated by 30.7 % and 14.2 % in this context.

Management and control system

SMT Scharf AG steers its business applying financial and non-financial performance indicators whose trends exert a positive influence on the company's value in different ways. Financial and non-financial performance indicators are monitored continuously, and included in monthly reporting to the Managing Board and in discussions with the Supervisory Board. Reporting is by subsidiary, and includes an analysis of actual outcomes, a budget/actual analysis, and year-on-year comparisons. SMT Scharf undertakes further specific analyses where required.

Financial and non-financial performance indicators as well as current forward planning are presented in the following tables. The medium-term targets reflect the background assumption that the market environment continues to normalise, especially on the basis of stable or a further uptrend in raw materials prices.

Financial performance indicators:

Key indicator	**Calculation method**	**Target (medium-term, 3–5 years)**
Key income statement figures		
Consolidated revenue growth (organic and inorganic)	(Consolidated revenue in reporting year / Consolidated revenue in previous year) -1	>5 %
Tunnel revenue share	Tunnel segment revenue / Consolidated revenue	>10 %
EBIT margin	Earnings before interest and tax (EBIT) / total operating revenue	>10 %
Cost of materials ratio	Cost of materials / total operating revenue	~50 %
Key balance sheet indicators		
Net working capital	Year-average current assets – year-average liquid assets – year-average current liabilities (excluding current financial liabilities)	EUR 20 million
Equity ratio (on reporting date)	Equity / total assets	>=30 %
Key efficiency figures		
Net working capital intensity	Net working capital / Consolidated revenue	<50 %
Days of sales outstanding	Number of days in reporting year * (annual average trade receivables / Consolidated revenue)	<150 days

Non-financial performance indicators:

Key indicator	**Calculation method**	**Target (medium-term, 3- 5 years)**
Employee numbers		
Employee turnover	Employees leaving the company (FTEs) / Annual average number of employees (FTEs)	<10 %
Sickness rate	Number of workdays lost due to sickness / Budgeted working days	5 %

Supervisory Board:

At the Ordinary Annual General Meeting in May 2020, which was held in virtual form, all items on the agenda were approved by a large majority. The Management and Supervisory boards were discharged for the 2019 fiscal year by a large majority at the AGM. As part of the election of the new Supervisory Board, the Annual General Meeting confirmed Univ.-Prof. Dr. Louis Velthuis, Dr. Dirk Vorsteher and Ms. Dorothea Gattineau in their positions as members of the current Supervisory Board. Prof. Dr. Louis Velthuis was reappointed Chairman of the Supervisory Board at the constitutive meeting of the Supervisory Board.

Personnel:

SMT Scharf AG does not have its own operating business. It is the management holding company for companies in SMT Scharf Group. In the year under review, the Managing Board of SMT Scharf AG had two members and one Chair. In addition to the two members of the Managing Board, five other employment relationships exist (previous year: 3).

Net assets, results of operations and financial position

Equity and particular legal relationships

On December 31, 2020, 4,570,523 ordinary bearer shares of SMT Scharf AG were issued in the form of no-par value shares with a notional value of EUR 1 per share (previous year: 4,570,523). All shares have been fully paid in and grant the holders the same rights.

The 2018 Annual General Meeting authorised the company, with the approval of the Supervisory Board, to increase the share capital in the period up to May 22, 2023, on one or more occasions by a total of up to EUR 2,310,000.00 by issuing up to 2,310,000 new no-par value bearer shares in return for cash and/or non-cash capital contributions (Authorised Capital 2018). Shareholders' subscription rights can be excluded in this context. At the same time, the company was authorised to purchase treasury shares totalling up to 10 % of the share capital existing at the time of the resolution by the Annual General Meeting. The 2019 Annual General Meeting cancelled this authorisation, but again authorised the company to purchase treasury shares totalling up to 10 % of the share capital existing at the time of the resolution by the Annual General Meeting. In this context, the resolution of the 2019 Annual General Meeting also extended the term of the authorisation, which is now valid until May 20, 2024.

The company held 49,477 treasury shares on December 31, 2020, equivalent to 1.07 % of the share capital. The treasury shares can be utilised for all of the purposes stated in the authorisation resolution.

The company is subject to general statutory restrictions on voting rights, in particular resulting from the German Stock Corporation Act (AktG) and the German Securities Trading Act (WpHG). The Managing Board is not aware of any restrictions on voting rights above and beyond the aforementioned, including any restrictions that could arise from agreements between shareholders. In addition, the Managing Board is not aware of any restrictions relating to the transfer of the company's shares, including any restrictions resulting from agreements between shareholders.

The interest of the shareholders that held shares in SMT Scharf AG before the IPO fell below the 10 % voting rights threshold in January 2010, and these shareholders left the shareholder base fully in February 2010. Since then, only the overall pool arising from Shareholder Value Beteiligungen AG / Share Value Stiftung / Christiane Weispfenning exceeds 10 % of the voting rights, whether directly or indirectly. The shareholders Shareholder Value Beteiligungen AG, Share Value Stiftung and Ms. Christiane Weispfenning have exceeded the 30 % threshold as a result of Dr. Helmut Fink joining a shareholder agreement concluded on January 11, 2021, in order to cooperate in exercising ownership rights including voting rights in relation to the bearer shares of SMT Scharf AG, and have thereby gained control of SMT Scharf AG pursuant to Sections 35 (1) and 29 (2) of the German Securities Acquisition and Takeover Act (WpÜG). Shareholder Value Beteiligungen AG and Share Value Stiftung, as bidders with discharging effect for Ms. Weispfenning and Dr. Fink, have accordingly published a public mandatory offer and delisting offer to the shareholders of SMT Scharf AG to acquire the no-par value bearer shares of SMT Scharf AG in return for payment of a consideration of EUR 8.22 per share. The total number of shares for which the offer was accepted by the reporting date of March 2, 2021, plus the shares of SMT Scharf AG held by the major shareholders on the reporting date, amounts to 1,690,230 shares. This corresponds to around 36.59 % of the share capital and voting rights of SMT Scharf AG.

No shares exist with extraordinary rights that grant the holders controlling powers. The company is not aware of any interests held by employees who do not exercise their controlling rights directly. The Supervisory Board can implement changes to the articles of incorporation that affect only their wording. Otherwise, changes to the articles of incorporation require a resolution by the Shareholders' General Meeting in the meaning of Sections 133 and 179 of the German Stock Corporation Act (AktG), whereby pursuant to article 17 of the articles of incorporation, resolutions by the Shareholders' General Meeting are to be passed with a simple majority of votes cast, unless mandatory statutory requirements exist to the contrary, and – to the extent that the law prescribes a capital majority in addition to the majority of votes cast – with a simple majority of the share capital represented when the resolution is passed; this also applies to resolutions on amendments to the articles of incorporation.

Pursuant to section 8 of the articles of incorporation, the company's Managing Board comprises one or several members, including in the event that the share capital exceeds EUR 3.0 million, whereby the Supervisory Board determines the number of members of the Managing Board, and can appoint a Chair (CEO) as well as a Deputy Chair (Deputy CEO) of the Managing Board, and also deputy Managing Board members. In all other respects, the statutory regulations apply to the appointment and discharge of Managing Board members. The company has not concluded any key agreements that are subject to the condition of a change in control as a result of an acquisition offer.

Net assets:

The subscribed share capital of SMT Scharf AG amounts to EUR 4,620 thousand. At the end of the reporting period, EUR 49 thousand was attributable to treasury shares, as a consequence of which the amount carried on the balance sheet stood at EUR 4,571 thousand. To this is added the share premium account in an amount of EUR 17,254 thousand. Equity including the net profit for the year as well as treasury shares amounts to EUR 21,879 thousand as of December 31, 2020 (previous year: EUR 26,632 thousand). This corresponds to 63 % of total assets (previous year: 75 %). Assets primarily comprise participating interests in, and receivables due from, companies in the SMT Scharf Group. On the liabilities side, liabilities to banks amount to EUR 6,048 thousand. They increased from EUR 5,680 thousand to EUR 6,048 thousand, primarily as a consequence of the loans issued to the companies in the SMT Scharf Group. The decrease in other provisions reflects lower personnel provisions owing to the lower level of personnel provisions owing to the current earnings situation.

Results of operations:

SMT Scharf AG recorded a result of EUR -4,888 thousand in 2020 (previous year: EUR 3,789 thousand), which is due to the temporary write-down of EUR 1,773 thousand and the loss assumption of EUR 2,897 thousand.

Financial position:

Cash and cash equivalents reduced to EUR 1 thousand (previous year: EUR 111 thousand). The company's financial management aims to secure financial flexibility and achieve capital cost optimisation. The company was able to meet its financial obligations at all times.

The company has assumed secondary liability to banks for EUR 26.6 million of its subsidiaries' credit lines. The risk of a claim is considered to be very low.

SMT Scharf's stable asset and financial situation means that it is well positioned to face further challenges in the coming fiscal years.

Risk report

SMT Scharf operates a **risk management system (RMS)** that is fully integrated into the company’s planning, management and control processes. As a consequence, the RMS forms a central element of value-oriented corporate management, and serves to secure existing and future success and profitability potentials in a targeted manner. The risk management system is aimed at the early identification of opportunities and risks for the purpose of initiating appropriate precautionary and securing measures without delay which are then subject to ongoing monitoring.

Risk management is based mainly on internal regulations set out in the form of guidelines and implemented in the process of corporate management and supervision. Key elements in this process include strategic and operational forecasting, the preparation of weekly, monthly and quarterly reports for the Managing Board, and preparing for investment decisions. Ongoing reporting serves the purpose of business performance management Groupwide, as well as ongoing monitoring and communication about opportunities and risks. Risks arising short-term are communicated immediately and by direct routes to those organisational units responsible for the early identification, management and communication of the respective risks. Risk management officers within these organisational units have the task of coordinating the risk measures and ensuring risk communication to the relevant higher levels.

The **Internal Controlling System** (ICS) forms an integral element of risk management at SMT Scharf. The main objective of the ICS is to ensure that all business transactions are accurately reflected in the reporting. This is intended to prevent deviations from internal or external regulations. In terms of external financial accounting and reporting, this primarily entails ensuring financial statements conform to applicable accounting standards. To this end, the internal controlling system and risk management function is organised in line with accounting units. Standard financial accounting regulations are applied within the SMT Scharf Group, and compliance with these regulations is monitored on an ongoing basis. In some cases, recourse is made to external specialists to manage specific accounting risks, such as in the case of actuarial valuations.

A **Compliance Management System (CMS)** has been successfully installed in the company. This is intended to detect and prevent potential rule violations in good time. The CMS is instrumental in uniformly defining appropriate responses to compliance issues for all group companies and of communicating these issues. SMT Scharf has appointed an external compliance officer to monitor compliance management within the Group.

The **primary risks** for SMT Scharf AG relate to changes in the underlying legal framework in the countries where it operates through its subsidiaries. Capital controls, changes in disposal rights for equity interests or tax law can negatively affect the possibility to control the companies in SMT Scharf Group. Changes of government, changes in mine ownership structures or other factors can have a major impact on subsidiaries’ earnings. The Managing Board counters these risks by constantly monitoring the markets and their underlying political conditions. SMT Scharf AG currently only deploys financial instruments to invest liquid funds on a short-term basis and to hedge against exchange-rate risks; as a result no material risks from the deployment of financial instruments exist.

SMT Scharf’s business success depends partly on the extent to which the company is able to retain highly qualified technical and managerial staff, and acquire further suitable employees – especially given further hiring in foreign markets. Wage increases and increases in incidental personnel expenses can lead to cost increases which SMT Scharf is unable to pass on through prices. SMT Scharf reduces such risks through production rationalisation measures.

SMT Scharf manages internal liquidity through central liquidity management. This system ensures that the funds required to finance its ongoing operating business and current and future investments in all of the Group companies are available on time, and in local currency. Given positive operating cash flow, no liquidity risks exist, as sufficient existing bank deposits as well as lending and guarantee lines are available. SMT Scharf invests free liquid funds so they are available short-term and generate relatively secure returns. Working together with several banks aims to limit default risks.

SMT Scharf is exposed to currency and default risks through its business activities. The Group counters such risks by deploying appropriate hedging instruments. This includes deploying forward currency transactions and options for the purpose of hedging open positions denominated in foreign currencies. The risk of higher product prices on foreign markets due to a strong Euro is weakened by a rising foreign proportion of purchased components. A total of 69 % of the workforce of SMT Scharf was employed outside the Eurozone as of the December 31, 2020 reporting date, thereby reducing the risk of higher personnel costs due to exchange rate effects (natural hedging).

Report on opportunities

Positive effects of strategic measures

The extensive list of measures contained in the three strategic action areas of “Organic Growth”, “External Growth” and “Operative Excellence” aims to make SMT Scharf even more productive and more competitive overall. It enables SMT Scharf to benefit from the growth opportunities in the mining industry. SMT Scharf is tapping new markets and customer groups through further developing the company to become a system supplier of logistics solutions in underground mining and for tunnel construction sites. In addition to its core business, SMT Scharf is also examining the extent to which the company can enter new application areas outside mining with emission-free transport solutions. As electrically powered vehicles have a significantly better net ecological impact than combustion vehicles, they are increasingly becoming the focus of local authorities. This can lead to additional revenue potential.

Global economic growth

In the medium term, the manufacturing industry in emerging economies and industrialised nations will have greater demand for raw materials energy, thereby driving continued economic growth forward. After the end of the last super-cycle and the subsequent trough, commodity prices traded at an elevated level again. However, the coronavirus crisis also caused turbulence in the prices of such assets. SMT Scharf believes that commodity prices will pick up again, leading to a resumption of better profitability for mine operators. It is also expected that mining companies will now proceed again with investments in mine infrastructure that were initially postponed or cancelled in light of the pandemic. This should be reflected in a pick-up in demand for mining equipment, which should generate a positive impetus for the SMT Scharf Group’s revenue.

Higher demand on local markets

After the imposed shutdown affected the economy at the beginning of 2020, the Chinese economy has now returned to normality. SMT Scharf believes that Chinese mines will once again increasingly extract coal and other raw materials in order to meet the local economy’s high demand for resources – including in the case of diminished growth momentum. Similarly, SMT Scharf expects that the more stringent standards for machinery in underground mining (China III), which come into force in 2021, will stimulate demand growth as Chinese mine operators are forced to convert their fleets. Although the increase in worldwide demand for coal will slow, it will continue to rise in absolute terms. China will remain the world’s largest consumer of coal in 2035 according to forecasts by BP. Around a half of global consumption is attributable to China. At the same time, the share of demand from India will almost double by this date. Along with oil and gas, coal will remain for the foreseeable future one of the most important energy sources despite the increasing use of regenerative energies. All three energy types together will cover around 75 % of global energy supplies in 2035, according to estimates.

Rising global demand for raw materials

The COVID-19 pandemic and resultant economic consequences in 2020 led to a significant reduction in the willingness to invest in the mining equipment market. SMT Scharf expects that mining groups will once again invest more heavily in modern infrastructure as a consequence of the increasing easing of restrictions in mining markets. After global economic output reported a significant contraction in 2020, it is expected to expand again in 2021. In particular, emerging markets are generating rising demand for raw materials. In turn, this is stimulating demand for coal and other raw materials, so that mine operators have incentives to invest more in new equipment.

Trend towards Mining 4.0

Against the backdrop of dynamically advancing digitalisation, operators of mines and production sites worldwide are becoming increasingly interested in innovations in all areas of mining equipment and technology, as well as in optimising the efficiency of their processes and organisational structures. Automation and data management form the focus for mining companies. One trend in underground mining is the integration of machines into mine operators' networks. Mining companies wish to have information about drivers, oil levels and underground temperatures. This direct data transfer will help to improve maintenance and work processes in underground mining in the future. SMT Scharf identifies attractive growth prospects in Mining 4.0 thanks to its expertise in electrical engineering, control, measurement technology, electrification and data management.

More complex geological locations of raw materials deposits

In the medium term, mining raw materials deposits worldwide will occur in increasingly inaccessible locations. This gives the mining industry a growing incentive to deploy SMT Scharf products. Along with greater cost-efficiency, such products offer the benefit of being especially developed for demanding underground conditions, and have already proved themselves in the German hard coal mining industry.

Diversification advanced

SMT Scharf is pursuing the objective of expanding its business in the mineral mining segment, which is to grow to form a segment equivalent to that of the coal segment in the medium to long term. Deploying rail transportation and logistics systems in platinum, gold and copper mines will increase, and consequently exert a positive effect on the sales revenue contribution from this business. SMT Scharf is moving closer to its customers in this segment by expanding its sales in new global regions such as the Andes, by setting up new subsidiaries, or by expanding its sales network in the African market via local commercial agents. Above and beyond this, salt deposits also offer opportunities to deploy SMT Scharf products.

Attractive growth opportunities in the coming years will also arise from electric-powered rubber-tyred vehicles. Electric vehicles require significantly less maintenance than vehicles with combustion engines, and thereby contribute to cost savings long-term. They are still much more expensive to buy than diesel vehicles, so mine operators are carefully considering converting to vehicles with electric drive systems. In principle, SMT Scharf has proven battery and electrical expertise and can meet demand for electrically powered drive systems. In this respect, new growth opportunities also arise from the strategic partnership concluded with Polymetal International to develop underground electric vehicles.

In the previous 2019 year, we decided to push ahead and expand the electrification of our models. As part of an order in 2021, electric-powered loaders and medium-duty underground trucks will be produced as prototypes for Polymetal. In the future, further growth potential may derive from the development of additional electric-powered commercial vehicles.

The investment in ser elektronik, which has existed since 2019, also contributes to the further diversification and development of the business. Firstly, it strengthens the company's expertise in electromobility. In electric vehicles, thanks to ser elektronik's specific expertise, SMT Scharf can also supplement its electronic controls with its own battery management systems tailored to customer requirements. SMT Scharf can thereby offer mining operators optimised batteries, and provide advice on operating concepts for the machines. On the other hand, ser elektronik implements electronic control systems for industries far removed from mining, such as the food industry. This will generate further growth opportunities for SMT Scharf in the future.

Moreover, the new tunnel logistics segment promises the potential for significant revenues in the medium term, and the opportunity of becoming less dependent on the raw materials price cycle, as demand for infrastructure is driven by other factors, such as growing population density in conurbation centres worldwide.

Summary of the opportunities and risk position

An overall assessment of the company's opportunities and risk position has shown that the identified risks, taking into consideration the measures taken and planned, do not – whether individually or in combination with each other – have any impact on the SMT Scharf Group that could jeopardise it as a going concern. No absolute certainty exists, however, that all relevant risks can be identified and controlled.

Outlook

According to the International Monetary Fund (IMF), the global economy will regain momentum in 2021 thanks to improved manufacturing activity and more dynamic global trade, following a decrease in global economic output in 2020 as a consequence of the COVID-19 pandemic. The ongoing pandemic remains a major factor for the global economy in 2021, and the final consequences are still not fully assessable. In the World Economic Outlook that it published in January 2021, the IMF forecasts growth of 5.5 %, which is then expected to slow somewhat to 4.2 % in 2022. The strength of the recovery is expected to vary considerably between countries, depending, for example, on access to medical interventions and the effectiveness of policies.

Several vaccine approvals and the start of vaccination in some countries in December give hope that the pandemic will soon draw to an end, according to the IMF. Compared to the World Economic Outlook published in October 2020, economic activity in the second half of 2020 is now expected to be stronger than forecast in all regions on average. Despite the large and increasing number of people affected by the pandemic, economic activity appears to be adjusting over time to a reduced level of contact-intensive activities. Furthermore, the IMF expects that additional policy measures announced at the end of 2020, particularly by the US and Japan, will further support the global economy in the coming years.

At the start of 2021, the IMF forecasts the following GDP growth rates in SMT Scharf's target markets:

GDP growth in the most important sales markets for SMT Scharf AG* (in %)	**2021e**	**2020**
World	5.5	-3.5
China	8.1	2.3
Poland**	4.6	-3.6
Russia	3.0	-3.6
South Africa	2.8	-7.5

Sources: *IMF World Economic Outlook Update, January 2021; **IMF World Economic Outlook, October 2020

SMT Scharf will continue to concentrate on the core markets of China, Russia, Poland and South Africa. In addition, America is also a relevant target market for the SMT Scharf Group as a consequence of its hard rock business. Apart from China, for which the IMF is forecasting growth of 2.3 % in 2020, economic output is forecast to decrease in all of SMT Scharf's other key sales markets. South Africa, in particular, has been hit particularly hard by the effects of the pandemic, with a decrease of 7.5 %. The IMF again expects economic growth for all of SMT Scharf's key sales markets in 2021.

Given the market conditions at the start of 2021, the Managing Board anticipates that a return to a higher level of activity in the mining industry may occur in the current fiscal year. However, significant risks to the Group's business remain as a consequence of the pandemic. In particular, the spread of the coronavirus could negatively affect business activities in China and further delay the approval process (China III) that has been ongoing in the Chinese market since last year. In principle, SMT Scharf expects that the final approval for the new generation of machines could be granted in the first half of 2021.

With a look to the 2021 fiscal year, the Managing Board of SMT Scharf AG is conservatively forecasting consolidated revenue in a range between EUR 65 million and EUR 70 million, with EBIT in a range between EUR 2.5 million and EUR 3.0 million. The Managing Board has made this consolidated forecast on the basis of the facts available at the time when this report was published in March 2021. This forecast is based on the assumption that no further significant restrictions are imposed due to the coronavirus pandemic. As a consequence, it still cannot be ruled out that the ongoing spread of coronavirus could exert a significant negative effect on economic growth in SMT Scharf's target markets as a whole, and on the company's own business activities. Given this, the Managing Board does not rule out the possibility that the Group forecast will have to be adjusted further over the course of the year in order to reflect an economic situation that at present is undergoing rapid and sharp changes.

In principle, the company perceives itself as generally well positioned in this niche market to implement tailor-made transport and logistics solutions for its customers worldwide. The Tunnel segment is still in the phase of being established, so that the company continues to expect that it will not yet deliver any significant revenue in 2021. For this reason, the Managing Board does not anticipate major revenue growth in this segment until the medium to long term.

Hamm, March 26, 2021

The Managing Board

Hans Joachim Theiss Wolfgang Embert

Balance sheet as of December 31, 2020

Assets (in EUR)	31/12/2020		31/12/2019	
A. Non-current assets				
I. Intangible assets		**1,568,497.00**		**488,488.00**
Advance payments rendered for intangible assets	1,568,497.00		488,488.00	
II. Property, plant and equipment		**20,497.17**		**20,358.10**
Factory and office Equipment	20,497.17		20,358.10	
III. Financial assets		**27,994,671.62**		**20,888,073.18**
1. Interests in affiliated Companies	16,270,376.80		18,043,376.80	
2. Loans to affiliated Companies	10,579,039.60		1,623,963.39	
3. Participating interests	508,675.92		508,675.92	
4. Other loans	636,579.30		712,057.07	
		29,583,665.79		**21,396,919.28**
B. Current assets				
I. Receivables and other assets		**5,127,737.75**		**13,942,147.39**
1. Receivables due from affiliated companies	4,151,871.06		13,255,102.41	
2. Other assets	975,866.69		687,044.98	
II. Cash and cash equivalents		**1,485.43**		**111,338.23**
		5,129,223.18		**14,053,485.62**
C. Prepayments and accrued income		**70,428.97**		**23,846.96**
Total assets		**34,783,317.94**		**35,474,251.86**

Equity and liabilities (in EUR)	31/12/2020		31/12/2019	
A. Equity				
I. Subscribed capital		**4,570,523.00**		**4,570,523.00**
Total nominal value	4,620,000.00		4,620,000.00	
Nominal value of treasury shares	-49,477.00		-49,477.00	
(Conditional capital: 462,000.00; previous year: 462,000.00)				
II. Share premium		**17,254,118.98**		**17,119,381.86**
III. Retained earnings		**103,093.70**		**103,093.70**
1. Statutory reserve	1,648.70		1,648.70	
2. Other retained earnings	101,445.00		101,445.00	
IV. Unappropriated net loss / profit		**-49,078.68**		**4,838,791.01**
		21,878,657.01		**26,631,789.57**
B. Provisions				
1. Pension provisions	191,452.00		189,549.00	
2. Tax provisions	106,656.16		186,581.04	
3. Other provisions	378,512.63		744,127.40	
		676,620.79		**1,120,257.44**
C. Liabilities				
1. Liabilities to banks	6,048,135.60		5,679,742.05	
2. Trade payables	90,676.37		686,835.03	
3. Liabilities to affiliated companies	3,749,073.98		587,993.25	
4. Other liabilities of which from tax: 25,818.88 (previous year: 22,996.01)	2,340,154.19		767,634.52	
		12,228,040.14		**7,722,204.85**
Total equity and liabilities		**34,783,317.94**		**35,474,251.86**

Income statement for the fiscal year from January 1 to December 31, 2020

EUR		2020	2019
1.	Revenue	697,778.95	1,226,099.94
2.	Own work capitalised	194,800.00	0.00
3.	Other operating income of which from currency translation: EUR 22,839.25 (previous year: EUR 45,539.71)	335,510.96	402,084.98
4.	Personnel expenses		
	a) Wages and salaries	-960,119.46	-1,181,571.52
	b) Social security contributions of which for pensions: EUR 39,270.00 (previous year: EUR 67,758.88)	-130,508.34	-136,405.56
5.	Depreciation, amortisation, and impairment charges	-9,917.35	-5,996.83
6.	Other operating expenses of which from currency translation: EUR 91,379.37 (previous year: EUR 29,477.00)	-1,873,346.69	-2,780,274.39
7.	Income from participating interests of which from affiliated companies: EUR 1,293,548.43 (previous year: EUR 1,581,790.28)	1,293,548.43	1,581,790.28
8.	Income from profit transfer agreements of which from affiliated companies: EUR 0.00 (previous year: 4,937,022.90)	0.00	4,937,022.90
9.	Expenses from assumption of losses of which from affiliated companies: EUR 2,896,996.05 (previous year: EUR 30,327.48)	-2,896,996.05	-30,327.48
10.	Financial assets: amortisation / impairment	-1,773,000.00	0.00
11.	Other interest and similar income of which from affiliated companies: EUR 414,515.06 (previous year: EUR 248,561.85)	451,991.61	270,770.23
12.	Other interest and similar expenses	-189,825.11	-260,193.02
13.	**Profit before tax**	**-4,860,083.05**	**4,022,999.52**
14.	Taxes on income	-26,688.64	-232,419.85
15.	**Earnings after tax**	**-4,886,771.69**	**3,790,579.67**
16.	Other taxes	-1,098.00	-1,084.00
17.	**Net loss / income for the year**	**-4,887,869.69**	**3,789,495.67**
18.	Profit / loss carried forward	4,838,791.01	1,049,295.34
19.	**Unappropriated net loss / profit**	**-49,078.68**	**4,838,791.01**

Notes to the financial statements for the 2020 fiscal year

Accounting and valuation policies

These annual financial statements have been prepared pursuant to the relevant regulations contained in Sections 242 et seq., 264 et seq. of the German Commercial Code (HGB). The company is classified as a large corporation pursuant to Section 267 (3) HGB. SMT Scharf AG has its registered offices in Hamm and is entered into the commercial register at the District Court of Hamm under Number HRB 5845.

The income statement is structured according to the nature of expense method.

Measurement is performed on the basis of German commercial law valuation regulations applicable for incorporated firms, taking into account the going concern assumption. The accounting and valuation policies applied to the previous annual financial statements were retained unchanged.

Figures in the notes to the financial statements are presented in thousands of euros, unless stated otherwise.

The following specific accounting policies are applied:

Intangible assets and property, plant and equipment are measured at cost less amortisation or depreciation based on useful lives of between 3 and 5 years. Impairment losses are applied where required. The assets' amortisation and depreciation rates are determined on the basis of their normal useful operating lives. The straight-line amortisation/depreciation method is applied to the assets in this context.

Interests in affiliated companies as well as participating interests are carried at acquisition cost including incidental acquisition costs, or at fair value, whichever is lower. Loans were recognised at the lower of nominal value or fair value.

Receivables and other assets as well as deposits at banks are recognised at nominal value. Individual valuation allowances are applied to receivables to reflect identifiable risks.

Bank balances are carried at nominal value.

Deferred taxes are calculated for temporal differences between the commercial law and fiscal valuations of assets, liabilities, and deferred and accrued items. Deferred taxes are measured on the basis of the income tax rate of SMT Scharf AG, Hamm, of currently 32.1 %, and includes trade and corporation tax. Any resultant net tax charge would be recognised on the balance sheet as a deferred tax liability. As in the previous year, in the fiscal year under review a net deferred tax asset arose that was not recognised on the balance sheet. The corresponding capitalisation option was utilised.

Prepayments recognised under prepayments and accrued income on the assets side of the balance sheet relate to expenditures before the balance sheet date representing expenses for a particular period after this date. This item is released straight-line in accordance with its consumption over time.

Business transactions denominated in foreign currencies are recognised applying the exchange rate on the origination date. Foreign currency items with a remaining term of more than one year are translated applying the mid foreign currency cash rate on the reporting date, and in accordance with the purchase cost and realisation principle. Given a shorter term, translation is applied at the cash mid rate on the balance sheet date, as a matter of principle.

Treasury shares are presented as a separate item of subscribed share capital, based on their notional interest in the nominal share capital.

Provisions are recognised at the level of the amount required to satisfy the related liability on the basis of prudent commercial judgement.

Pension provisions were measured in accordance with recognised actuarial principles applying the projected unit credit method and based on the “Richttafeln 2018G” mortality tables. Calculations applied the average market interest rate for the last ten years (the Bundesbank rate of interest), which amounts to 2.3 % per annum as of December 31, 2020, assuming a remaining 15-year term. The calculation imputes a pension increase rate of 1.0 % per annum. The difference pursuant to Section 253 (6) HGB amounts to EUR 15 thousand as of December 31, 2020, which is subject to the block on being paid out as a distribution.

The other provisions take all identifiable risks and contingent liabilities into appropriate account.

Liabilities are recognised at their settlement amount.

Notes to the balance sheet

The schedule of changes in non-current assets is presented below:

	Purchase costs	**01/01/2020**	**Additions**	**Disposals**	**31/12/2020**
I.	**Advance payments rendered for intangible assets**	**488,488.00**	**1,080,009.00**	**0.00**	**1,568,497.00**
	Other equipment, factory and office equipment	50,888.11	10,056.42	0.00	60,944.53
II.	**Property, plant and equipment**	**50,888.11**	**10,056.42**	**0.00**	**60,944.53**
1.	Interests in affiliated companies	18,123,914.60	0.00	0.00	18,123,914.60
2.	Loans to affiliated companies	1,623,963.39	9,714,979.39	759,903.18	10,579,039.60
3.	Participating interests	508,675.92	0.00	0.00	508,675.92
4.	Other loans	712,057.07	0.00	75,477.77	636,579.30
III.	**Financial assets**	**20,968,610.98**	**9,714,979.39**	**835,380.95**	**29,848,209.42**
Total		**21,507,987.09**	**10,805,044.81**	**835,380.95**	**31,477,650.95**

	Depreciation, amortisation and impairment charges	**01/01/2020**	**Additions**	**Disposals**	**31/12/2020**
I.	**Advance payments rendered for intangible assets**	**0.00**	**0.00**	**0.00**	**0.00**
	Other equipment, factory and office equipment	30,530.01	9,917.35	0.00	40,447.36
II.	**Property, plant and equipment**	**30,530.01**	**9,917.35**	**0.00**	**40,447.36**
1.	Interests in affiliated companies	80,537.80	1,773,000.00	0.00	1,853,537.80
2.	Loans to affiliated companies	0.00	0.00	0.00	0.00
3.	Participating interests	0.00	0.00	0.00	0.00
4.	Other loans	0.00	0.00	0.00	0.00
III.	**Financial assets**	**80,537.80**	**1,773,000.00**	**0.00**	**1,853,537.80**
Total		**111,067.81**	**1,782,917.35**	**0.00**	**1,893,985.16**

In the fiscal year under review, extraordinary write-downs were applied to financial assets due to temporary impairment.

Receivables from affiliated companies include, in particular, receivables from loans and from intragroup cost transfers. Other assets include VAT receivables of EUR 577 thousand (previous year: EUR 630 thousand).

SMT Scharf AG reports no deferred tax as of December 31, 2020 (previous year: EUR 0 thousand). Deferred tax assets at SMT Scharf AG derive almost exclusively from loss carryforwards and temporary differences in relation to pension provisions. Of the existing loss carryforwards (EUR 3,957 thousand or EUR 3,949 thousand for corporation tax or trade tax; previous year: EUR 1,760 thousand and EUR 1,550 thousand respectively), the calculation of deferred taxes includes loss carryforwards that the company expects to utilise in the next five years (EUR 79 thousand; previous year: EUR 1,760 thousand and EUR 1,550 thousand respectively). Deferred tax liabilities at the level of the controlled company SMT Scharf GmbH, Hamm, totalling EUR 34 thousand (previous year: EUR 404 thousand) mostly derive from temporary differences from the capitalisation of development costs, which are offset by deductible temporary differences, mostly from pension provisions. As in the previous year, measurement was applied at the 32.1 % tax rate for corporation and trade tax valid for the fiscal year under review. The notional resultant tax relief of EUR 10 thousand (previous year: EUR 143 thousand) was not capitalised by applying the option available under Section 274 of the German Commercial Code (HGB).

On December 31, 2020, 4,570,523 ordinary bearer shares of SMT Scharf AG were in issue in the form of no par value shares with a notional value of EUR 1 per share (previous year: 4,570,523). All shares have been fully paid in and grant the holders the same rights.

The Managing Board, with Supervisory Board assent, can increase the subscribed capital on one or several occasions until May 22, 2023, by up to EUR 2,310 thousand against cash or non-cash capital contributions (Authorised Capital). Shareholders' subscription rights can be excluded in this context. The Authorised Capital was extended through to May 22, 2023, through a resolution passed by the Annual General Meeting of May 23, 2018. In addition, Conditional Capital 2018 exists up to EUR 462 thousand to issue a further up to 462,000 ordinary shares.

Furthermore, the previous authorisation to purchase and sell treasury shares was revoked and a new authorisation was granted by resolution of the Annual General Meeting on May 21, 2019. The authorisation makes provision whereby the acquisition of treasury shares is limited to 10 % of the share capital existing at the time of the resolution of the Annual General Meeting. The purchase may also be realised using equity derivatives, i.e. call and/or put options. The authorisation is valid until May 20, 2024.

The company held 49,477 treasury shares on December 31, 2020, equivalent to 1.07 % of the share capital. The treasury shares can be utilised for all of the purposes stated in the authorisation resolution.

The annual financial statements of SMT Scharf AG, which are prepared in accordance with the principles of the German Commercial Code (HGB), disclose an unappropriated net loss of EUR 49 thousand. The Managing and Supervisory boards will propose to the Ordinary AGM to be held on May 27, 2021, that it carries this unappropriated net loss forward to a new account.

Provisions reported the following changes in the fiscal year:

EUR thousand	Pension provisions	Tax provisions	Other personnel provisions	Miscellaneous other provisions
Balance 01/01/2020	189	187	325	419
Reversals of discounting	5	0	0	0
Consumption	12	80	324	403
Additions	12	0	0	379
Reversals	3	0	1	16
Balance 31/12/2020	191	107	0	379

The remaining terms of the liabilities are as follows:

EUR thousand	up to 1 year	1-5 years	more than 5 years	Total
Liabilities to banks	2,824	3,224	0	6,048
Trade payables	91	0	0	91
Liabilities to affiliated companies	3,749	0	0	3,749
Other liabilities	911	1,319	110	2,340
Total	7,666	4,543	110	12,228

In the previous 2019 year, the remaining terms of the liabilities were as follows:

EUR thousand	up to 1 year	1-5 years	more than 5 years	Total
Liabilities to banks	1,294	4,183	203	5,680
Trade payables	687	0	0	687
Liabilities to affiliated companies	588	0	0	588
Other liabilities	768	0	0	768
Total	3,337	4,183	203	7,722

Liabilities to affiliated companies include current VAT from the existing tax unit and the oncharging of overheads, as well as liabilities from the profit and loss transfer agreement with SMT Scharf GmbH. Other liabilities include the share component from the acquisition price of RDH Mining Equipment Ltd., Alban / Canada. Guarantees and liens on real estate exist.

Notes to the income statement

Revenues of EUR 698 thousand arise from Group cost transfers and the oncharging of external consulting costs.

Other operating income mainly includes income from the passing on of other costs to subsidiaries in the amount of EUR 76 thousand and income of EUR 20 thousand from the reversal of provisions.

SMT Scharf AG does not have its own operating business. It is the management holding company for companies in SMT Scharf Group. During the fiscal year under review, the Managing Board of SMT Scharf AG consisted of Mr. Hans Joachim Theiss (Managing Board Chairman / CEO) and Mr. Wolfgang Embert. In addition to the two members of the Managing Board, five other employment relationships exist.

Other disclosures

The members of the Supervisory Board of SMT Scharf AG during the fiscal year under review comprised:

Period from January 1 to December 31, 2020:

Prof. Dr. Louis Velthuis, Mainz (Chairman)	Professor of Controlling at the Johannes Gutenberg University of Mainz, Germany	Intershop Communications AG, member of the Supervisory Board
Dr. Dipl.-Ing. Dirk Vorsteher, Werne (Deputy Chairman)	Management consultant	(no positions held at other companies)
Dipl. Volkswirtin Dorothea Gattineau, Wuppertal	Head of Finance	(no positions held at other companies)

The Supervisory Board members receive fixed and variable remuneration for each fiscal year plus reimbursement of their out-of-pocket expenses, as well as meeting fees of EUR 1 thousand per Supervisory Board meeting, with the Supervisory Board Chair receiving twice the meeting fee per meeting. The fixed remuneration totals EUR 18 thousand, and the Chair receives twice this amount. In addition, each member of the Supervisory Board receives variable remuneration in the form of a share in the consolidated net profit, calculated as follows: the annual performance-related remuneration corresponds to an amount calculated by multiplying a bonus factor of 0.4 % (or 0.8 % for the Supervisory Board Chair) by the residual profit. The consolidated net income of the SMT Scharf Group less interest on equity is regarded as the residual profit, whereby the interest rate corresponds to the applicable base interest rate plus 2 percentage points. The consolidated net result is determined on the basis of the IFRS consolidated financial statements for the fiscal year in question, which have been audited by the auditor and approved by the Supervisory Board. If a member of the Supervisory Board can prove on the day before the Annual General Meeting that approves the appropriation of profits that he or she holds shares in the company cumulatively in the amount of one third (the purchase price being the decisive factor to this extent) of the respective fixed remuneration per year of his or her membership in the Supervisory Board, the bonus factor for the (basic) member of the Supervisory Board providing proof of investment increases to 0.8 % and for the Supervisory Board Chair to 1.6 %. The variable remuneration amounts to a maximum of EUR 9 thousand (without personal investment) or EUR 12 thousand (with personal investment) per ordinary member of the Supervisory Board and EUR 18 thousand (without personal investment) or EUR 24 thousand (with personal investment) for the Supervisory Board Chair.

Remuneration is paid pro rata if members leave the Supervisory Board during the course of the fiscal year. For the 2020 fiscal year, EUR 100 thousand (previous year: EUR 140 thousand) in remuneration for the Supervisory Board was expensed.

No remuneration exists for former members of the Supervisory Board or their surviving dependents. No advances, loans or contingent liabilities exist in favour of members of the Supervisory Board. Prof. Dr. Louis Velthuis, Chairman of the Supervisory Board, held a total of 6,000 shares in the company as of December 31, 2020 (previous year: 4,000 shares). Dr. Vorsteher held 1,600 shares (previous year: 1,600 shares) and Mrs. Gattineau 1,760 shares (previous year: 910 shares).

Managing Board

Managing Board members receive remuneration comprising a fixed basic annual salary and an annual performance-related bonus, plus reimbursement of their out-of-pocket expenses. In addition, the members of the Management Board are entitled to a certain number of bonus shares if they meet certain conditions. Pension commitments of EUR 222 thousand exist for former Managing Board members (previous year: EUR 229 thousand). Pension commitments of EUR 3 thousand exist for current Managing Board members (previous year: EUR 3 thousand). The bonus for a fiscal year is set and becomes due in the following fiscal year in each case; a related provision is formed at the end of the fiscal year. In the 2020 fiscal year, the total remuneration granted to the Managing Board amounted to EUR 730 thousand (previous year: EUR 1,029 thousand).

In the year under review, the individual components of the variable remuneration for all members of the Managing Board of SMT Scharf AG arise from the following regulations:

1. Revenue growth: the annual bonus payable of 0.2 % (Theiss) and 0.15 % (Embert) is based on the growth in revenue in accordance with the IFRS consolidated financial statements for the respective fiscal year, as audited by the auditor and approved by the Supervisory Board.
2. Residual profit: bonus payable annually in the amount of 3 % (Theiss) and 2.25 % (Embert) of the reported residual profit. Residual profit is the SMT Scharf Group’s consolidated profit excluding OCI (other comprehensive income) less interest payments in relation to equity capital, with the interest rate being set at 1.5 %.
3. Share price performance: this is paid after three years during the five-year appointment period, and after five years. The basis for the bonus is the share price appreciation in the first three or last two years of the appointment period. This is included in the provision as of the fiscal year-end, but has not yet been paid out to the Managing Board members.
4. The members of the Managing Board are entitled to one bonus share for each share that they have acquired by February 28, 2019, and that they have held for at least five years and without interruption until December 31, 2023. In accordance with a Supervisory Board resolution, remuneration will be paid in the form of equity instruments and not in cash. The number of shares is limited; of Mr. Theiss’ share portfolio 24,496 shares are entitled, and of Mr. Embert’s share portfolio 14,000 shares. The stock market price on the grant date of September 3, 2018 was decisive for the valuation of the additional remuneration. This amounted to EUR 17.50 and remains constant for the period over which the remuneration expense is distributed. The resultant total remuneration expense of EUR 673,680 is distributed pro rata temporis over the January 1, 2019 to December 31, 2023 period. This led to expenses of EUR 134,735 in the 2020 fiscal year (Theiss: EUR 85,735, Embert: EUR 49,000). The booking is applied against the capital reserve. The market price on the balance sheet date is EUR 10. The entitlement may vary according to the number of shares held.

The figures included for basic salary, additional benefits and part of the performance-based bonus tally in terms of the provisioning and accrual amounts. As of December 31, 2020, Hans

Joachim Theiss, Management Board Chairman (CEO), held a total of 24,651 shares (previous year: 24,651), and Wolfgang Embert 14,000 shares (previous year: 14,000).

The remuneration of former members of the Managing Board or their surviving dependants includes pensions in the year under review. No advances, loans or contingent liabilities exist in favour of members of the Managing Board.

The company has assumed secondary liability to banks for EUR 26.6 million of its subsidiaries' credit lines. The Managing Board gauges the risk of utilisation as low thanks to the subsidiaries' creditworthiness.

Other financial obligations arise from lease and rental contracts in the following amount:

	31/12/2020	**31/12/2019**
up to 1 year	52	45
1 - 5 years	45	84

Information about the independent auditor is presented in the consolidated financial statements of SMT Scharf AG. For this reason, on the basis of the group exempting clause pursuant to Section 285 No. 17 HGB, the company refrains from publishing this information here. The tax consultancy services provided by the auditor are attributable to tax declaration services.

Along with SMT Scharf AG, the consolidated financial statements include all subsidiaries over which it exercises control. The interests held are as follows:

	Interest held	**Equity (IFRS) 31/12/2020**	**Profit/loss (IFRS) 2020**
SMT Scharf GmbH, Hamm, Germany	100 % ****	27,289,554.30	-928,729.55
Ser Elekronik GmbH, Möhnesee, Germany	51 %	1,071,148.43	106,085.39
SMT Scharf Polska Sp. z o. o., Tychy, Poland	100 %	6,703,294.59	272,097.72
SMT Scharf Africa (Pty.) Ltd., Gauteng, South Africa	70 %	2,584,930.17	272,543.35
SMT Scharf Sudamerica SpA, Santiago, Chile	100 %	-377,179.43	-92,315.29
RDH Mining Equipment, Alban Ontario, Canada	100 %	-3,321,625.85	-7,126,242.47
OOO SMT Scharf, Novokuznetsk, Russian Federation	100 % *	9,320,887.45	2,262,225.73
OOO SMT Scharf Service, Novokuznetsk, Russian Federation	100 % ***	276,336.24	61,510.03
Scharf Mining Machinery (Beijing) Co., Ltd., Beijing, China	100 % **	1,498,714.30	-382,812.47
Scharf Mining Machinery (Xuzhou) Ltd, Xuzhou, China	100 %	4,464,840.64	620,537.42

* of which 1.25 % indirectly through SMT Scharf GmbH
** indirectly through SMT Scharf GmbH
*** indirectly through OOO SMT Scharf
**** exemption pursuant to Section 264 (3) HGB

The main operating activity of all subsidiaries is the production, repair and marketing of machinery and equipment of any type, and trading with such assets.

The following changes to the interests held occurred in the 2020 fiscal year:

Merger of Nowilan GmbH
By way of the merger agreement dated July 10, 2020, Nowilan GmbH, Dinslaken (transferring legal entity) was merged with SMT Scharf GmbH, Hamm (acquiring legal entity) as of the January 1, 2020 merger date (merger by absorption). The merger was realised in return for the granting of shares in SMT Scharf GmbH. SMT Scharf GmbH increased its subscribed capital by EUR 1 for this purpose.

The merger was entered in the commercial register for SMT Scharf GmbH on September 1, 2020.

Events after the balance sheet date

Mandatory offer and delisting offer by major shareholders

The shareholders Shareholder Value Beteiligungen AG, Share Value Stiftung and Ms. Christiane Weispfenning have exceeded the 30 % threshold as a result of Dr. Helmut Fink joining a shareholder agreement concluded on January 11, 2021, in order to cooperate in exercising ownership rights including voting rights in relation to the bearer shares of SMT Scharf AG, and have thereby gained control of SMT Scharf AG pursuant to Sections 35 (1) and 29 (2) of the German Securities Acquisition and Takeover Act (WpÜG). Shareholder Value Beteiligungen AG and Share Value Stiftung, as bidders with discharging effect for Ms. Weispfenning and Dr. Fink, have accordingly published a public mandatory offer and delisting offer to the shareholders of SMT Scharf AG to acquire the no-par value bearer shares of SMT Scharf AG in return for payment of a consideration of EUR 8.22 per share. The total number of shares for which the offer was accepted by the reporting date of March 2, 2021, plus the shares of SMT Scharf AG held by the major shareholders on the reporting date, amounts to 1,690,230 shares. This corresponds to around 36.59 % of the share capital and voting rights of SMT Scharf AG.

With the approval of the Supervisory Board, the Managing Board of SMT Scharf AG passed a resolution on February 5, 2021 to downlist the company's shares to the m:access quality segment of the Regulated Unofficial Market (Freiverkehr) of the Munich Stock Exchange. The decision to downlist was made in connection with the mandatory offer submitted by the shareholders Shareholder Value Beteiligungen AG and Share Value Stiftung pursuant to Section 35 (2) of the German Securities Acquisition and Takeover Act (WpÜG), which also constitutes a delisting offer (Section 39 (2) and (3) of the German Stock Exchange Act [BörsG]). The shares of SMT Scharf AG have been included in the m:access quality segment of the Munich Stock Exchange's Regulated Unofficial Market since February 17, 2021.

Effects of the new approval situation in China on financing

In view of the new approval situation for underground diesel engines in China (China III) and the projects acquired in this segment, the SMT Scharf Group in cooperation with its principal banks has adequately expanded its financial scope in the form of ongoing funding lines.

Hamm, March 26, 2021

The Managing Board

Hans Joachim Theiss Wolfgang Embert

Report of the Supervisory Board for the 2020 fiscal year

In the 2020 fiscal year, the Supervisory Board of SMT Scharf AG diligently performed the tasks required of it by law and the company's articles of incorporation. It supervised and consulted with the Managing Board on an ongoing basis. The Supervisory Board received regular, prompt, comprehensive written and oral reports from the Managing Board about the business trends of SMT Scharf AG and its Group companies, the company's strategic orientation, as well as the status of strategy implementation. Between meetings, the Managing Board also informed the Supervisory Board of plans of particular importance or urgency. When resolutions were passed, approval requirements for certain transactions as defined in the Managing Board's bylaws procedure were always upheld.

The Supervisory Board convened for eight regular meetings on February 7, February 28, March 23, March 30, May 25, August 24, October 5 and on December 7, 2020. The Supervisory Board meeting on March 30 was held in the combined form of a face-to-face meeting and a meeting by video conference; the meetings in October and December were both held by video conference. All of the other meetings were held at the business premises of SMT Scharf AG in Hamm. The three Supervisory Board members Professor Dr. Louis Velthuis, Dr. Dirk Vorsteher and Dorothea Gattineau attended all meetings in full, with the exception of the first meeting, from which Dr. Dirk Vorsteher was excused. At its meetings, the Supervisory Board concerned itself with all matters of relevance for the company. In advance of such meetings, the Managing Board of SMT Scharf AG regularly informed the Supervisory Board about the current business position of the SMT Scharf Group by way of written reports.

Given a sector economy that continued to be affected by the coronavirus pandemic, the main focus in the 2020 reporting year was on trends in the core markets as well as on the implementation of the corporate strategy, which the Managing Board is continuing to drive forward. SMT Scharf AG faced a challenging market environment in the 2020 fiscal year. The pandemic impeded activity in the global mining equipment market. In addition to the temporary closure and reduced operations at numerous mines and the associated drop in demand for transport solutions, both the new equipment and after-sales business decreased. The trend was reinforced by turbulence in commodity markets in the course of 2020. Given the general economic situation, the Managing Board focused on analysing country-specific measures in order to minimise risk. In addition, the Managing and Supervisory Boards dealt, in particular, with the more stringent regulation for engines in China (China III) and the merger of Nowilan GmbH with SMT Scharf GmbH. Over the course of the year, current developments at RDH Mining Equipment and the strategic realignment of the business segment were also regular topics for intensive and constructive discussion between the Managing and the Supervisory boards.

During the past fiscal year, the Supervisory Board and Managing Board regularly discussed trends in the Group's core sales markets with the aim of further developing the structures within the SMT Scharf Group. In light of the exceptional economic developments in 2020, the Supervisory Board welcomed the Managing Board's planning in relation to earnings and liquidity, and approved the planned country-specific measures to minimise risk.

At the meeting on February 7, the Managing and Supervisory boards dealt with the amendments to the German Corporate Governance Code. Important topics also arose from current ESG issues, which were discussed between the Supervisory and Managing boards. After Rödl & Partner GmbH Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft had reported on the status of the preparation of the annual financial statements, the Managing Board presented an overview of the current business situation. The difficult situation of the Group subsidiary RDH Mining Equipment in Canada was also discussed in detail.

The Supervisory Board held its second meeting in the 2020 fiscal year together with the Managing Board on March 28. The thematic focus of the meeting was on the strategic development of RDH Mining Equipment in Canada. In this context, the Managing and Supervisory boards discussed in detail possible options for action in relation to the continuation of the company, which was approved in principle.

The Supervisory Board held its third meeting in the 2020 fiscal year on March 23. Auditors Steuerberatungsgesellschaft Rödl & Partner GmbH presented the annual and consolidated financial statements of SMT Scharf AG for the 2019 fiscal year. The final annual report was made available to the Supervisory Board by Rödl & Partner. The Managing Board then reported on current business performance. The Managing and Supervisory boards also dealt with the planning and preparation for the upcoming Annual General Meeting, which, given the coronavirus pandemic, was held for the first time in virtual form, on May 26, 2020. In connection with the current coronavirus crisis, topics such as applying for short-time working and dealing with absences due to illness were also discussed from a preventive standpoint.

The meeting on March 30, 2020 was held in a combined format of face-to-face meeting and meeting by video conference. The Managing and Supervisory boards discussed the annual and consolidated financial statements in the presence of Rödl & Partner GmbH Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft. After extensive discussion, both the annual and consolidated financial statements for the 2019 fiscal year were approved by the Supervisory Board. The Managing and Supervisory boards then consulted concerning further planning for the Annual General Meeting. After a thorough review, the Supervisory Board concurred with the proposed resolutions as submitted by the Managing Board and proposed that Rödl & Partner GmbH Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft be appointed as auditors for the 2020 fiscal year. Given the restrictions on public life, the Managing and Supervisory boards considered organising a virtual Annual General Meeting, which was to be approved in a separate resolution for final implementation.

On the occasion of the Supervisory Board meeting on May 25, the Managing and Supervisory boards convened at the business premises of SMT Scharf AG in Hamm. The Managing Board reported in detail on the current business situation under the impact of the coronavirus pandemic, and the related adjustment to the budget for 2020. With a view to minimising risks in the future, the Managing Board presented country-specific measures in detail. The Supervisory Board welcomed the Managing Board's business development plan for earnings and liquidity. In addition to the relocation of the administrative functions of SMT Scharf GmbH to the Römerstrasse location, the course of the first virtual General Meeting and Nowilan's merger with SMT Scharf AG were also discussed.

At the meeting on August 24, the Managing Board informed the Supervisory Board about the current business situation. Subsequently, the Managing and Supervisory boards again discussed strategic options and measures regarding the further restructuring of RDH Mining in Canada.

The meeting on October 5 was held by video conference as a consequence of developments surrounding a coronavirus hotspot in Hamm. With a look to the adverse effects of the rampant pandemic, the Managing Board presented current business trends and discussed its assessments of the current "coronavirus budget". In this context, the still outstanding approval of the new engines for the Chinese market (China III) and associated high order volume were also discussed. The Managing and Supervisory boards also held intensive discussions on the further development of RDH Mining in Canada, and the future manufacture of products from the RDH program.

At the last meeting of the past fiscal year, which was also held by video conference on December 7, the Managing Board informed the Supervisory Board about the current business situation. In addition to the budget planning for 2021, operational and strategic topics from the areas of personnel/production, technology/sales and market were discussed intensively. Moreover, the Managing and Supervisory boards exchanged views on the current status of the preparation of the annual financial statements for the 2020 fiscal year. Furthermore, the new provisions in the German Corporate Governance Code, as well as in connection with Act Implementing the Second Shareholders' Rights Directive (ARUG II) and resultant requirements for SMT Scharf AG, were discussed.

The separate financial statements and separate management report, as well as the IFRS consolidated financial statements and Group management report for the 2020 fiscal year, which the Managing Board prepared, were audited by Rödl & Partner GmbH

Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Cologne branch, and issued with unqualified auditors' opinions. As part of statutory requirements, SMT Scharf Group's risk management system and internal control system, as well as its data system, were also covered by the audit. At its meeting on March 26, 2021, also attended by the auditor, the Supervisory Board reviewed the separate financial statements and separate management report, as well as the IFRS consolidated financial statements and Group management report for the 2020 fiscal year. After thorough discussion and based on its own review, the Supervisory Board concurs with the results of the audit of the separate and consolidated financial statements by the auditor, and raises no reservations against either the separate or consolidated financial statements. The Supervisory Board expressly approved the separate financial statements and separate management report, as well as the consolidated financial statements and Group management report, prepared by the Managing Board for the 2020 fiscal year on March 26, 2021. The corresponding financial statements have been adopted as a consequence.

In light of the consolidated net loss recorded in the 2020 fiscal year, the continued challenging market situation, and the risks for the SMT Scharf Group that still cannot be fully assessed due to the spread of the coronavirus, as well as the strategic further development of the company, the Supervisory Board, together with the Managing Board, is waiving the proposal of a dividend for the 2020 fiscal year.

The Supervisory Board thanks all of the members of the Managing Board and all of the employees for their tireless dedication and commitment during this extraordinary 2020 fiscal year. The Supervisory Board would like to wish the new Managing Board and the employees continuing success in meeting the challenges posed in the new fiscal year.

Hamm, March 26, 2021

Certificate of the independent auditor

to SMT Scharf AG, Hamm

Short-form audit opinions

We have audited the annual financial statements of SMT Scharf AG, Hamm, comprising the balance sheet as of December 31, 2020, the income statement for the fiscal year from January 1 to December 31, 2020, and the notes to the financial statements, including the presentation of the accounting policies. We have also audited the management report of SMT Scharf AG, Hamm, for the fiscal year from January 1 to December 31, 2020.

In our assessment, and based on the knowledge gained from the audit

- the attached annual financial statements comply in all material respects with the German commercial law provisions applicable to corporations and give a true and fair view of the Company's net assets and financial position as of December 31, 2020 and of its results of operations for the fiscal year from 1 January to December 31, 2020, in accordance with German principles of proper accounting, and
- the attached management report provides a suitable understanding of the Company's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and suitably presents the opportunities and risks relating to future developments.

Pursuant to Section 322 (3) Clause 1 of the German Commercial Code (HGB), we declare that our audit has not led to any objections to the correctness of the annual financial statements and the management report.

Basis for the audit opinions

We conducted our audit of the annual financial statements and the management report in accordance with Section 317 HGB and German generally accepted standards for the audit of financial statements as promulgated by the Institute of Public Auditors in Germany (Institut der Wirtschaftsprüfer [IDW]). Our responsibility under these rules and principles is further described in the section "Auditor's responsibility for the audit of the annual financial statements and the management report" of our audit opinion. We are independent of the Company in accordance with European law and German commercial and professional regulations and have fulfilled our other German professional obligations in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the annual financial statements and the management report.

Responsibility of the legal representatives and the Supervisory Board for the annual financial statements and management report

The legal representatives are responsible for the preparation of the annual financial statements, which comply in all material respects with German commercial law applicable to corporations, and for ensuring that the annual financial statements give a true and fair view of the Company's net assets, financial position and results of operations in accordance with German generally accepted accounting principles. Furthermore, the legal representatives are responsible for the internal controls that they have deemed necessary in accordance with German generally accepted accounting principles in order to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, the legal representatives are responsible for assessing the Company's ability to continue as a going concern. They are also responsible for disclosing matters relating to the continuing operation of the entity, if relevant. Moreover, they are responsible for preparing the accounts on the basis of the going concern principle, unless factual or legal circumstances exist that prevent this.

Furthermore, the legal representatives are responsible for the preparation of the management report, which as a whole provides a suitable view of the Company's position and is consistent with the annual financial statements in all material respects, complies with German legal requirements and suitably presents the opportunities and risks pertaining to future development. Moreover, the legal representatives are responsible for the precautions and measures (systems) they have deemed necessary to prepare a management report in accordance with the applicable German legal provisions and to provide sufficient and suitable evidence for the statements in the management report.

The Supervisory Board is responsible for monitoring the Company's financial accounting process for preparing the annual financial statements and the management report.

Auditor's responsibility for the audit of the annual financial statements and management report

Our objective is to obtain reasonable assurance as to whether the annual financial statements as a whole are free of material misstatement, whether due to fraud or error, and whether the management report as a whole provides a suitable view of the Company's position and is consistent, in all material respects, with the annual financial statements and the findings of our audit, complies with German legal requirements and suitably presents the opportunities and risks of future development, and to express an opinion that includes our audit opinion on the annual financial statements and the management report.

Sufficient assurance is a high level of assurance, but not a guarantee, that an audit conducted in accordance with Section 317 HGB as well as German generally accepted standards for the audit of financial statements as promulgated by the Institut der Wirtschaftsprüfer (IDW) will always reveal a material misstatement. Misstatements can arise from violations or inaccuracies and are regarded as material if it could reasonably be expected that they will individually or collectively influence the financial decisions of users made on the basis of these annual financial statements and the management report.

During the audit, we exercise our professional judgement and maintain a critical attitude. In addition

- we identify and evaluate the risks of material misstatement, whether due to fraud or error, in the annual financial statements and the management report, plan and perform the audit procedures in response to such risks, and obtain sufficient and appropriate audit evidence to form the basis of our audit opinions. The risk that material misstatements will not be detected is greater for violations than for inaccuracies, as violations may involve fraudulent collusion, falsification, intentional incompleteness, misrepresentation, or the overriding of internal controls.
- we gain an understanding of the internal control system relevant to the audit of the annual financial statements and the precautions and measures relevant to the audit of the management report in order to plan audit procedures that are appropriate in the circumstances, although not with the aim of expressing an opinion on the effectiveness of these systems of the Company.
- we assess the appropriateness of accounting and valuation policies applied by the management and the reasonableness of accounting estimates made by management, and related disclosures.
- we draw conclusions about the appropriateness of the going-concern accounting policy applied by the legal representatives and, on the basis of the audit evidence obtained, whether any material uncertainty exists in connection with events or circumstances that could cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to express an opinion on the related annual financial statements and on the management report or, if the information is inappropriate, to modify our respective audit opinion. We draw our conclusions on the basis of the audit evidence obtained up to the date of our audit opinion. Future events or circumstances can, however, result in the Company no longer being able to continue its business activities.
- we assess the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in such a way that the annual financial statements give a true and fair view of the Company's net assets, financial position and results of operations in accordance with German generally accepted accounting principles.
- we assess the management report's consistency with the annual financial statements, its legal conformity, and the view it conveys of the Company's position.
- we perform audit procedures relating to the forward-looking statements made by management in the management report. On the basis of sufficient and suitable audit evidence, we verify, in particular, the significant assumptions on which the legal representatives' forward-looking statements are based, and assess the proper derivation of the forward-looking statements from such assumptions. We do not express an independent opinion on the forward-looking statements or the underlying assumptions. The significant unavoidable risk exists that future events will differ materially from the forward-looking statements.

Among other matters, we discuss the planned scope and timing of the audit and significant findings of the audit with those individuals responsible for monitoring, including any deficiencies in the internal control system that we identify during our audit.

Cologne, March 26, 2021

Rödl & Partner GmbH
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft