

SMT Scharf AG
Annual financial report 2008

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Management Report for fiscal year 2008

Macroeconomic environment

SMT Scharf AG's subsidiaries develop, build and maintain rail-bound railway systems for mining and use in tunnels. The trains are used all over the world, primarily in hard coal mines, but also in underground mining for platinum, gold and other metals. They are used to transport material and personnel with working loads of up to 35 tons. Rail-bound railways are the only means of transport that can be used on branching lines to cope with inclines of more than 13 degrees.

That is why the global demand for raw materials, in particular for hard coal, is the key factor to influence business at the SMT Scharf Group's companies. In 2008, demand enjoyed positive growth, however it fell in the fall as a result of the financial crisis and the ensuing recession on several key markets. Many coke mines whose output is used in steelmaking slashed their production from November, because demand from steel mills vanished. In contrast, coal mining for electricity generation remained at a high level, and even increased somewhat. Global hard coal production growth is estimated to be 5% to 7% in 2008 as a whole, in line with previous years.

Prices for coal mostly tagged oil prices during the year, however coal prices were more stable than oil. The Mccloskey Group's Steam Coal Marker Price lifted by around 70% in the first half of 2008, falling to around one third of this high in the second half of the year. At the start of 2009 it was thus around 35% lower than one year previously, however it was around 25% higher than at the start of 2007. In contrast, at the start of 2009 the price of Brent crude oil was around 60% lower than one year previously, and around 40% lower than the figure at the start of 2007.

It is currently difficult to see how demand for commodities will develop in 2009. The recession, which started in the US, has led to lower demand for imports which in turn perceptibly slowed economic growth in countries such as China – which had previously enjoyed double-digit growth rates over several successive years. Although sales of coal to power plants is expected to increase in the current year, sales of coke and most metals, including gold and platinum, are stagnating or even falling. As a result, many mines have announced that they will slow their investments in 2009 compared to the previous year.

However, over the coming few years mines are expected to return to the growth they have enjoyed in the past. Countries such as China, India, Russia and South Africa, which grew at above average rates in the past few years, will have increasing requirements for energy, steel and other metals in line with their continued economic growth. That is why they remain those markets which will generate the greatest demand for the companies in the SMT Scharf Group in coming years. This demand will also continue to be driven by many mine operators specifically investing in technologies to boost their productivity. The SMT Scharf Group companies' transport systems play a key role in this regard when it comes to transporting materials in underground mining operations.

Human resources

SMT Scharf AG does not conduct any operating business of its own – it is a management holding for the SMT Scharf Group companies. It does not have any staff except for the two members of the Managing Board.

A total of 11,700 shares were sold to SMT Scharf Group employees during 2008 as part of an employee equity participation plan. The company had previously acquired these shares on the stock exchange in line with the provisions of Regulation (EC) No. 2273/2003.

Net assets, financial position and results of operations

Equity and particular legal relationships: SMT Scharf AG's subscribed capital was increased against cash contributions from EUR 3,000 thousand to EUR 4,200 thousand as part of the IPO in April 2007. Since then it comprises 4,200,000 no-par value bearer shares, each with a notional interest of EUR 1 in the subscribed capital. In addition, the company also has Authorized Capital I and II to issue a total of up to 2,100,000 further ordinary shares. With the approval of the Supervisory Board, the Managing Board can use this authorized capital to increase SMT Scharf AG's subscribed capital until February 1, 2012. Shareholders' subscription rights can be excluded during this process. There is no authorization over and above the general statutory regulations to buy back SMT Scharf AG's own shares.

The company is subject to the general statutory restrictions on voting rights, in particular resulting from the *Aktiengesetz* (German Public Limited Companies Act) and the *Wertpapierhandelsgesetz* (German Securities Trading Act). The Managing Board is not aware of any restrictions on voting rights, including any restrictions that could result from agreements between shareholders.

According to the notifications of voting rights received by SMT Scharf AG, the pre-IPO shareholders held the following interests directly after the IPO:

MS Mining Solutions GmbH, Schondorf	1,350,000 voting rights (32.1%)
Marfleet Ltd., Douglas	90,000 voting rights (2.1%) directly and 1,350,000 voting rights (32.1%) via MS Mining Solutions GmbH, or a total of 1,440,000 voting rights (34.2%)
Field Point (Luxembourg) II S.a.r.l., Luxembourg	960,000 voting rights (22.9 %)
Field Point (Europe) I, LLC, Greenwich	960,000 voting rights (22.9 %) via Field Point (Luxembourg) II S.a.r.l.
Strategic Value Global Opportunities Master Fund, LP, George Town	960,000 voting rights (22.9 %) via Field Point (Luxembourg) II S.a.r.l. and Field Point (Europe) I, LLC
Strategic Value Partners GP II, LLC, Greenwich	960,000 voting rights (22.9 %) via Field Point (Luxembourg) II S.a.r.l., Field Point (Europe) I, LLC and Strategic Value Global Opportunities Master Fund, LP
Victor Khosla, Greenwich	960,000 voting rights (22.9 %) via Field Point (Luxembourg) II S.a.r.l., Field Point (Europe) I, LLC, Strategic Value Global Opportunities Master Fund, LP and Strategic Value Partners GP II, LLC.

SMT Scharf AG has not received any more recent notifications of voting rights from its pre-IPO shareholders. No new participating interests have been reported to SMT Scharf AG since the IPO that directly or indirectly exceed more than 10% of the voting rights. 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 lock-up undertaking that pre-IPO shareholders and the CEO made to Baader Wertpapierhandelsbank AG which supported the company's IPO expired on April 9, 2008.

There are no shares with extraordinary rights that grant the holders controlling powers. The company is not aware of any equity interests held by employees who do not exercise their controlling rights directly. The Supervisory Board can make changes to the articles of incorporation that only affect the wording. Otherwise, changes to the articles of incorporation require a resolution by the General Meeting within the meaning of Sections 133, 179 of the *Aktiengesetz*. According to Article 17 of the articles of incorporation resolutions by the General Meeting are passed with a simple majority of votes cast, to the extent that there are not compulsory statutory requirements 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 changes to the articles of incorporation.

According to Article 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 3,000 thousand. The Supervisory Board determines the number of members of the Managing Board and can appoint a Chairman as well as a Deputy Chairman of the Managing Board and also deputy members of the Managing Board. In all other respects, the statutory regulations apply to the appointment and discharge of members of the Managing Board. 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: SMT Scharf AG's subscribed capital has totaled EUR 4,200 thousand since its IPO in April 2007. There is also a share premium of EUR 10,200 thousand. Equity including net income and after deduction of the dividend for fiscal year 2007 paid in 2008 (EUR 0.70 per share) totaled EUR 18,355 thousand on December 31, 2008 (previous year: EUR 17,496 thousand). This equals 93% of total assets (previous year: 92%). The assets mostly comprise cash and cash equivalents and participating interests in the SMT Scharf Group's companies.

Earnings position: In 2008, SMT Scharf AG recorded pre-tax earnings of EUR 3,788 thousand (previous year: EUR 3,048 thousand). This primarily includes income from participating interests of EUR 4,394 thousand. The interest in SMT Scharf Saar GmbH was written off in full during the fiscal year as a result of the reduction in mining in Germany's Saarland region after the earthquake.

Financial position: The positive business growth caused cash and cash equivalents and marketable securities to increase to EUR 11,119 thousand (previous year: EUR 10,400 thousand). There are also loans to affiliated companies amounting to EUR 596 thousand.

Capital expenditure: During the course of 2008, SMT Scharf AG acquired a 100% interest in the South African mining supplier Sareco Engineering (Pty.) Ltd. as well as the remaining 6% interest in SMT Scharf Saar GmbH. This increased financial assets to EUR 6,800 thousand from EUR 5,610 thousand. There were no other investments.

Remuneration systems for the Managing and Supervisory Board

The Supervisory Board's remuneration was defined by way of a resolution by the General Meeting on February 1, 2007 based on SMT Scharf AG's articles of incorporation. The members of the Supervisory Board receive a fixed remuneration for each fiscal year plus reimbursement of their out-of-pocket expenses. The Supervisory Board's period of office runs until the end of the General Meeting which resolves ratification for fiscal year 2010.

The Supervisory Board is responsible for decisions on the Managing Board's remuneration. Members of the Managing Board receive remuneration comprising a fixed basic annual salary and an annual bonus. The basic salary is paid monthly and, in part, quarterly in

arrears. The members also receive non-cash remuneration from the private use of their company cars, life insurance coverage and the reimbursement of out-of-pocket expenses. The amount of the annual bonus is based on the extent to which specific personal targets have been reached. These targets are agreed at the start of each year based on the company's forecasts for the respective fiscal year. Remuneration is to be reviewed at regular intervals to ensure that it is in line with the market and is reasonable. Mr. Schulze-Buxloh's variable remuneration was increased in 2008 via an offer to acquire shares of the company. There are only pension obligations for members of the Managing Board from the conversion of salary components for previous fiscal years. The company regulations for the conversion of salaries up to and including fiscal year 2007 provide for a fixed upper age limit of 65 years and 6% interest on the converted salary components. The age limit has been adjusted to the annual changes in the pensionable age from 2008 on, with interest now set to 4.5%. There are no agreements for compensation in the event of an acquisition offer. The above regulations for the remuneration of members of the Managing Board have been agreed in the Board members' employment contracts. These contracts run until December 2009 (Dr. Trautwein) and December 2011 (Mr. Schulze-Buxloh) and can only be terminated for cause by both parties prior to this date.

There is no remuneration for former members of the Managing or Supervisory Boards or their survivors, nor are there any pension obligations for this group of people.

Risk report

SMT Scharf's risk management system is based on including risk management in the existing forecasting, management and control workflows. This means that it is a central component of our value-oriented company management and it serves to specifically secure existing and future potential for success. Our risk management system aims to identify opportunities and risks at an early stage, to estimate their impact and to start suitable preventative and security activities, including monitoring these activities.

There are internal regulations for our risk management system. These are set out in our risk management guidelines and implemented in our company's management and monitoring process. Key elements in this process are strategic and operational forecasting, preparing weekly, monthly and quarterly reports and preparing investment decisions. Periodic reporting is used throughout the group to communicate ongoing opportunities and risks and also to control our company's success. In addition, risks which arise on short notice are communicated directly to the responsible management members, irrespective of the standard reporting channels. We follow the principle that our organizational units are the first link in the chain when it comes to taking responsibility for risks, and these units are responsible for the early identification, control and communication of the respective risks. Risk management officers in our organizational units are responsible for coordinating the respective risk management activities and ensuring that risks are communicated to the next highest level.

Key risks for SMT Scharf AG stem from changes to the underlying legal conditions in the countries in which it operates via its subsidiaries. Controls on the transfer of capital, changes to property rights in equity interests or tax law changes could impact the possibilities to control the SMT Scharf Group's companies in a negative way. A change of government, a change in the ownership structure of mines or other factors could have a material impact on the subsidiaries' earnings. We counter these risks by permanently observing the markets and their underlying political conditions. At present, with the exception of the short-term investment of available funds, SMT Scharf AG does not use any financial instruments; as a result there are no risks from the use of financial instruments.

An overall assessment of our risk position has shown that the existing risks, taking into account the measures taken and planned, do not – either individually or in combination with each other – have any impact on SMT Scharf AG which could endanger the company's continued existence.

Report on events after the balance sheet date

There were no events of particular importance after the balance sheet date.

SMT Scharf AG intends to implement an employee equity participation program within the meaning of Section 71 (1) No. 2 of the *Aktiengesetz* in April. The acquisition of up to 39,000 shares will be in line with the provisions of Regulation (EC) No. 2273/2003 and will be published online at www.smtscharf.com.

Forecast

As the management holding company for the companies in the SMT Scharf Group, the anticipated growth of SMT Scharf AG depends on the subsidiaries' growth. Despite selective setbacks, 2008 was yet another year of successful international expansion for companies in the SMT Scharf Group. This reinforces the Managing Board's expectations that it will be able to further increase revenues and earnings on average over the coming years.

Hamm, February 16, 2009

(Dr. Trautwein)

(Schulze-Buxloh)

Balance sheet as of December 31, 2008

Assets (in EUR)	31.12.2008	31.12.2007
A. Non-current assets		
I. Financial assets	6,800,094.35	5,610,275.95
1. Interests in affiliated companies	6,800,094.35	5,610,275.95
	6,800,094.35	5,610,275.95
B. Current assets		
I. Receivables and other assets	1,793,832.04	3,050,351.77
1. Receivables from affiliated companies	596,170.38	1,284,750.00
2. Other current assets	1,197,661.66	1,765,601.77
II. Cash and cash equivalents	11,119,205.91	10,399,775.62
	12,913,037.95	13,450,127.39
C. Accruals	8,354.01	14,588.00
Total assets	19,721,486.31	19,074,991.34

Equity and liabilities (in EUR)	31.12.2008	31.12.2007
A. Equity		
I. Subscribed capital	4,200,000.00	4,200,000.00
II. Share premium	10,200,000.00	10,200,000.00
III. Retained earnings	1,648.70	1,648.70
IV. Net retained profits	3,953,422.42	3,094,449.91
	18,355,071.12	17,496,098.61
B. Provisions		
1. Pension provisions	192,483.00	0.00
2. Provisions for taxes	0.00	11,000.00
3. Other provisions	639,804.69	561,500.00
	832,287.69	572,500.00
C. Liabilities		
1. Trade payables	50,365.14	20,004.77
2. Liabilities to affiliated companies	477,900.37	968,464.24
3. Other liabilities	5,861.99	17,923.72
Thereof from taxes 5,861.99 (previous year 5,882.82)		
	534,127.50	1,006,392.73
Total equity and liabilities	19,721,486.31	19,074,991.34

Income statement for the period from January 1 to December 31, 2008

In EUR	2008	2007
1. Other operating income	846,792.48	813,199.90
2. Personnel expenses		
a) Wages and salaries	594,167.87	631,622.92
b) Social security contributions	18,997.85	6,556.68
Thereof expenses relating to pensions 12,314.00 (previous year 0.00)		
3. Other operating expenses	491,790.91	1,378,098.58
4. Income from participating interests	4,394,468.84	3,962,136.23
Thereof from affiliated companies: 4,394,468.84 (previous year 3,962,136.23)		
5. Interest income and similar proceeds	412,307.91	288,978.40
Thereof from affiliated companies 76,541.33 (previous year 29,562.36)		
6. Write-downs for financial assets	757,440.85	0.00
7. Other interest and similar expenses	3,112.73	0.00
Thereof from affiliated companies 2,572.18 (previous year 0.00)		
8. Profit before tax	3,788,059.02	3,048,036.35
9. Income tax	-10,913.49	-15,088.22
9. Net income	3,798,972.51	3,063,124.57
9. Profit/loss carried forward	3,094,449.91	31,325.34
10. Dividend	-2,940,000.00	0.00
11. Net retained profits	3,953,422.42	3,094,449.91

Notes for fiscal year 2008

These financial statements have been prepared within the meaning of Sections 242 et seq., 264 et seq. of the *Handelsgesetzbuch* (German Commercial Code) and the relevant provisions of the *Aktiengesetz* (German Public Limited Companies Act). The company classifies as a large corporation within the meaning of Section 267 (3) sentence 2 of the *Handelsgesetzbuch*.

The income statement is prepared using the total cost (type of expenditure) method.

Accounting and valuation policies

The following accounting and valuation methods applied for the preparation of the financial statements, as was also the case in the previous year:

Interests in affiliated companies are carried at cost including incidental acquisition cost or at their lower fair value.

Receivables and other assets are carried at their face values.

There were no receivables and liabilities denominated in foreign currencies on December 31, 2008. Income and expenses in foreign currencies are converted into Euro at the current day's market rate.

Provisions are carried in the amount deemed necessary in accordance with prudent business judgement. Pension provisions are calculated as *Teilwerte* (time value) within the meaning of Section 6a of the *Einkommensteuergesetz* (German Income Tax Act) and are based on the 2005 G mortality tables.

Liabilities are carried at their repayment amount.

Notes to the balance sheet

Non-current assets exclusively comprise the interests in subsidiaries carried under financial assets (see below). They developed in 2008 and 2007 as follows:

in EUR thousand	gross	net
As of Jan. 1, 2008	5,610	5,610
Additions 2008	1,947	1,947
Amortization/depreciation 2008		-757
As of Dec.31, 2008	7,557	6,800
As of Jan. 1, 2007	3,003	3,003
Additions 2007	2,607	2,607
As of Dec.31, 2007	5,610	5,610

The participating interest in SMT Scharf Saar GmbH was written down to EUR 0 during the fiscal year.

Receivables from affiliated companies comprise current loans (EUR 480 thousand) and trade receivables (EUR 116 thousand). Other current assets include tax receivables totaling EUR 1,172 thousand (including EUR 440 thousand VAT). Receivables and other current assets all have a residual term of less than one year.

As at December 31, 2008, 4,200,000 ordinary bearer shares of SMT Scharf AG have been issued in the form of no-par value shares with a notional value of EUR 1 per share. All shares have been fully paid in and grant the holders the same rights. The Managing Board was authorized, by way of a resolution of the General Meeting on February 2, 2007 to increase the share capital with the approval of the Supervisory Board until February 1, 2012 against cash and/or non-cash contributions on one or several occasions by a total of up to EUR 2,100 thousand (EUR 1,500 thousand Authorized Capital I and EUR 600 thousand Authorized Capital II). Shareholders' subscription rights can be excluded for such capital increases.

The share premium at the end of the fiscal year totaled EUR 10,200 thousand. This stems from the capital increase against cash contributions on April 3, 2007 which formed part of the IPO. Retained earnings comprise the statutory reserve formed in 2006 totaling 5% of the net income for that fiscal year.

SMT Scharf AG's annual financial statements include net retained profits of EUR 3,953 thousand. The Managing and Supervisory Boards will propose to the ordinary General Meeting, which is to be held on April 23, 2009, to pay a dividend of EUR 0.85 per share from these net retained profits for fiscal year 2008. This would result in a distribution of EUR 3,570 thousand, payable in 2009. The remaining amount of EUR 383 thousand will be carried forward to new account.

Other provisions mostly include the provision for the bonuses for the fiscal year to be paid in 2009 (EUR 311 thousand).

Liabilities to affiliated companies comprise ongoing VAT from the group scheme which exists in Germany.

All liabilities are due within one year. There are no liabilities secured by liens.

Notes to the income statement

Other operating income includes EUR 835 thousand from intra-group management fees.

Personnel expenses relate exclusively to remuneration and out-of-pocket expenses for members of the Managing Board. The company does not have any other employees.

Other operating expenses mostly comprise third-party services in connection with the listing of the company's shares on the regulated market and consulting services in connection with acquisition projects. They also include the auditor's fees for auditing the financial statements (EUR 51 thousand) and other services (EUR 17 thousand) which were recorded as an expense in fiscal year 2008.

Interest income stems from investing cash and cash equivalents and from loans that SMT Scharf AG granted to its subsidiaries SMT Scharf GmbH, SMT Scharf Saar GmbH and OOO SMT Scharf during the course of the year.

Other disclosures

The members of the Supervisory Board of SMT Scharf AG in fiscal year 2008 were:

Dr. Dirk Markus, Feldafing (Chairman)	CEO of Aurelius AG	AUR Beteiligungsberatungs AG, Munich, Chairman of the Supervisory Board Berentzen-Gruppe AG, Member of the Supervisory Board Compagnie de Gestion et des Prêts S.A., Saran (France), Member of the Board Investunity AG, Munich, Chairman of the Supervisory Board Lotus AG, Feldafing, Chairman of the Supervisory Board Quelle La Source S.A., Saran (France), Member of the Board (no other mandates)
Florian Kawohl, Frankfurt am Main, (Deputy Chairman)	Director Research	
Ulrich Radlmayr, Schondorf a. A.	Lawyer and member of the Managing Board of Aurelius AG	AUR Beteiligungsberatungs AG, Munich, Member of the Supervisory Board Aurelius Enterprises Holding AG, Deputy Chairman of the Supervisory Board Aurelius Portfoliomanagement AG, Deputy Chairman of the Supervisory Board Berentzen-Gruppe AG, Member of the Supervisory Board Quelle La Source S.A., Saran (France), Member of the Board

The members of the Supervisory Board receive fixed remuneration of EUR 10 thousand, the Chairman receives EUR 15 thousand for each fiscal year. In addition, their out of pocket

expenses are reimbursed. Remuneration is paid on a pro-rata basis if members leave the Supervisory Board during the year. As of December 31, 2008 the only member of the Supervisory Board who held shares of the company was Dr. Markus (4,500 shares).

There is no remuneration for former members of the Supervisory Board or their survivors, nor are there any pension obligations for this group of people. There are no advances, loans or contingent liabilities in favor of the members of the Supervisory Board.

During the fiscal year, the Managing Board of SMT Scharf AG comprised Dr. Friedrich Trautwein, Cologne, (CEO) and Mr. Heinrich Schulze-Buxloh, Werl. Dr. Trautwein is the Chairman and Mr. Schulze-Buxloh is a member of the Supervisory Board of SMT Scharf Polska Sp. z o.o..

Members of the Managing Board receive remuneration comprising a fixed basic annual salary and an annual performance-related bonus, plus reimbursement of their out-of-pocket expenses. The bonus for a fiscal year is set and becomes due in the following fiscal year in each case; a provision is formed in this regard at the end of the fiscal year. The following remuneration and out-of-pocket expenses were recognized as expenses for the company and its subsidiaries in fiscal year 2008:

in EUR thousand	Dr. Trautwein	Schulze- Buxloh
Basic remuneration	120	131
Bonus	247	91
Additional payments	21	20
Total	388	242

There were provisions at SMT Scharf AG of EUR 310 thousand for Dr. Trautwein and EUR 25 thousand for Mr. Schulze-Buxloh from the conversion of remuneration components for previous fiscal years. In addition, there were provisions at one of the subsidiaries totaling EUR 49 thousand for Mr. Schulze-Buxloh from the conversion of remuneration components for previous fiscal years. There are no share-based payments, no commitments to make payments in the event that the employment relationship ends, and no agreements for compensation in the event of a takeover offer. On December 31, 2008, Dr. Trautwein held 44,400 shares of the company, and Mr. Schulze-Buxloh held 6,000 shares.

There is no remuneration for former members of the Managing Board or their survivors, nor are there any pension obligations for this group of people. There are no advances, loans or contingent liabilities in favor of the members of the Managing Board.

As a listed company, SMT Scharf AG has to issue a declaration within the meaning of Section 161 of the *Aktiengesetz* as to the extent to which it corresponds to the recommendations of the "German Corporate Governance Code Government Commission". The Managing and Supervisory Boards issued this declaration on December 5, 2008. It has been made available to shareholders online at www.smtscharf.com.

Group companies

SMT Scharf AG, Hamm, is the listed parent company for the companies listed below and prepares consolidated financial statements according to IFRS as these are to be applied in the EU as of December 31, 2008 as well as a group management report for fiscal year 2008. The consolidated financial statements include SMT Scharf AG and the following subsidiaries:

	Interest	Equity Dec.31, 2008 in EUR thousand	Net income 2008 in EUR thousand
SMT Scharf GmbH, Hamm, Germany	100%	4,542	3,445
SMT Scharf Polska Sp. z o. o., Tychy, Poland	100%	3,315	1,671
SMT Scharf Saar GmbH, Neunkirchen, Germany	100%	191	-259
Sareco Engineering (Pty.) Ltd., Brakpan, South Africa	100%	541	296
OOO SMT Scharf, Moscow, Russian Federation	100% *	30	28
SMT Scharf Sales and Services GmbH, Hamm, Germany	100% **	22	-1
SMT Scharf Africa (Pty.) Ltd., Kya Sands, South Africa	100% **	779	850
SMT Scharf International OÜ, Tallinn, Estonia	100% **	403	129
SMT Scharf Mining Machinery (Beijing) Co., Ltd., Beijing, China	100% **	35	-39

* Of which 50 % indirectly via SMT Scharf GmbH
** Indirectly via SMT Scharf GmbH

The figures from the annual financial statements of the foreign subsidiaries are translated to Euros at the closing rate (equity) or at the average annual rate of exchange (earnings).

The management report states the participating interests of more than 10% in the company that have been communicated to the company according to the *Aktiengesetz* or the *Wertpapierhandelsgesetz* (German Securities Trading Act).

Hamm, February 16, 2009

(Dr. Trautwein)

(Schulze-Buxloh)

Responsibility statement

To the best of our knowledge, and in accordance with the applicable reporting principles, SMT Scharf AG's financial statements as of December 31, 2008 give a true and fair view of the Company's assets, liabilities, financial position and results of operations, and the management report for fiscal year 2008 presents the company's business including its results and the company's position such as to provide a true and fair view and describes the major opportunities and risks of the company's anticipated growth.

Hamm, February 16, 2009

(Dr. Trautwein)

(Schulze-Buxloh)

Auditors' report and opinion on the Annual Financial Statements

We have audited the annual financial statements, comprising the balance sheet, the income statements and the notes to the financial statements, together with the bookkeeping system, and the management report of SMT Scharf AG for the fiscal year from January 1, 2008 to December 31, 2008. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German Commercial law (and supplementary provisions of the articles of incorporation) are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with Art. 317 HGB (German Commercial Code) and German generally accepted standards for the audit of financial statements promulgated by the IDW (Institute of Public Auditors in Germany). 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 management, 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 comply with the legal requirements (and supplementary provisions of the shareholder agreement/articles of incorporation) 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.

Dusseldorf, February 16, 2009

Verhülsdonk & Partner GmbH
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Dr. Michael Hüchtebrock
Wirtschaftsprüfer

Rainer Grote
Wirtschaftsprüfer

**Declaration by the Managing and Supervisory Boards of
SMT Scharf AG for 2008 according to Section 161 *Aktiengesetz*
concerning the recommendations of the
"German Corporate Governance Code Government Commission"
in the versions dated June 14, 2007 and June 6, 2008**

The Managing and Supervisory Boards of SMT Scharf AG declare that up to and including today's date they have corresponded to the respective applicable recommendations of the "German Corporate Governance Code Government Commission" in the versions dated June 14, 2007 and June 6, 2008 with the exception of the following points:

- The Supervisory Board did not form any committees, as it comprises three members. This number of members appears reasonable given the company's size.
- The remuneration for the members of the Supervisory Board does not include a performance-related component. This is balanced by the fact that their remuneration is at the lower end of the scale when compared to other companies of a comparable size.
- At present there is no succession planning and no upper age limit for members of the Managing Board. There is also no upper age limit for the members of the Supervisory Board. It is intended to develop a longer term succession planning. Not including an upper age limit upholds the German law on equal opportunities.
- The company's D&O insurance policy does not include any agreement on a deductible. A deductible does not appear particularly pertinent to further enhance the management's risk consciousness; in addition, a deductible does not result in a significantly lower premium.

Hamm, December 5, 2008

(Dr. Markus)

(Kawohl)

(Radlmayr)

(Dr. Trautwein)

(Schulze-Buxloh)

Report of the Supervisory Board for fiscal year 2008

In fiscal year 2008, SMT Scharf AG's Supervisory Board thoroughly performed the tasks required of it by law and the articles of incorporation. It constantly monitored and advised the management. It received regular, up-to-the minute, comprehensive written and verbal reports from the Managing Board about the direction of SMT Scharf AG and the Group's companies, the company's strategic orientation and its planned acquisitions, as well as the status of implementation of the strategy.

In its four ordinary meetings on February 28, April 10, October 2 and December 5, 2008, all of which were attended by all of its members, the Supervisory Board held in-depth discussions of all issues of relevance for the company. The Supervisory Board discussed ongoing business growth, strategic concepts, short and medium-term company forecasts, capital expenditure forecasts, income and liquidity developments, actual risks and risk management as well as key organizational and staff changes with the Managing Board. The Supervisory Board also dealt thoroughly with corporate governance issues, also including a review of its own efficiency.

The Supervisory Board received in-depth information on the course of the fiscal year in all of its meetings. Key transactions and the development in financial indicators were also discussed at all of the Supervisory Board meetings. The meeting on February 28, 2008 focused on the annual financial statements and the IFRS consolidated financial statements for fiscal year 2007 together with the associated management reports. During this meeting, the Supervisory Board discussed the current situation for hard coal mining in Germany's Saarland region after the earthquake and the possible impact on SMT Scharf Saar GmbH. The meeting on April 10, 2008 again dealt with the likely development of SMT Scharf Saar GmbH. In addition, the Supervisory Board discussed activities to drive international sales. The meeting on October 2, 2008 focused on the Group's medium-term staffing plans, and its current and pending product development projects. On December 5, 2008 the Supervisory Board discussed, in particular, the company's forecast for 2009, the impact of the increasingly apparent economic crisis on SMT Scharf's business and possible countermeasures. In addition, this meeting focused on the declaration of conformity within the meaning of Section 161 of the *Aktiengesetz* (German Public Limited Companies Act) for 2008, which was then passed by the Supervisory and Managing Boards.

The Managing Board also informed the Supervisory Board of plans of major importance or particular urgency in between its meetings. If necessary, it also passed resolutions in writing. The approval requirements for certain transactions as defined in the Managing Board's bylaws were upheld. This related, in particular, to the acquisition of Sareco Engineering and changes to the group's structure. In addition, the Chairman of the Supervisory Board was in regular contact with the Managing Board, in particular the CEO, and discussed strategic issues, business growth, key staff issues and risk management with him. The CEO always informed the Chairman of the Supervisory Board without delay of extraordinary events of key importance in assessing the position and growth of the SMT Scharf Group.

There were no changes to the members of the Supervisory Board during the course of fiscal year 2008. There were no committees. By way of a resolution dated July 11, 2008, the Supervisory Board prolonged Mr. Heinrich Schulze-Buxloh's appointment as a member of the Managing Board by two years through to December 31, 2011.

The members of the Supervisory Board fulfilled and continue to fulfill the independence criteria stipulated by the German Corporate Governance Code. Conflicts of interest within the meaning of the Corporate Governance Code were avoided. The Managing and Supervisory Boards issued a declaration of conformity according to Section 161 of the *Aktiengesetz* on

December 5, 2008. This has been published in the meantime and made accessible to shareholders at www.smtscharf.com.

The annual financial statements and management report as well as the IFRS consolidated financial statements and group management report prepared by the Managing Board for fiscal year 2008 were audited by Verhülsdonk & Partner GmbH, Düsseldorf, and issued with an unqualified auditors' opinion. According to the requirements of the *Gesetz zur Kontrolle und Transparenz im Unternehmensbereich* (German Act on Control and Transparency in Business), the SMT Scharf Group's risk management system was also covered by the audit.

Prior to issuing the mandate to audit the financial statements and consolidated financial statements, the Chairman of the Supervisory Board discussed the focus of the audit, the content of the audit and the costs in detail with the auditor. The auditor reported to the Chairman of the Supervisory Board on the pre-audit results. He also made certain to report immediately on all of the findings that are material for the Supervisory Board's work that he became aware of while conducting the audit.

In its meeting on March 5, 2009, also attended by the auditor, the Supervisory Board reviewed the annual financial statements and the management report as well as the IFRS consolidated financial statements and group management report for fiscal year 2008. The audit reports were available to all members of the Supervisory Board in good time prior to its meeting to adopt the financial statements. The auditor reported in depth to the Supervisory Board and was available for extensive questions. After a thorough discussion, the Supervisory Board concurs with the results of the audit of the annual financial statements and the consolidated financial statements by the auditor as a result of its own review. As a final result of its review, the Supervisory Board does not have any objections to the annual financial statements or the consolidated financial statements. The Supervisory Board expressly approves the annual financial statements and management report prepared by the Managing Board for fiscal year 2008. The annual financial statements are thus adopted. The Supervisory Board also approves the IFRS consolidated financial statements and group management report prepared by the Managing Board for fiscal year 2008.

The company's Managing Board proposes to distribute a dividend of EUR 0.70 per share and a bonus dividend of EUR 0.15, or a total of EUR 0.85 per share from the company's net retained profits totaling EUR 3,953 thousand. This corresponds to a total disbursement of EUR 3,570 thousand. The remaining amount of EUR 383 thousand will be carried forward to new account. The Supervisory Board has reviewed and approved this proposal.

The Supervisory Board would like to thank all of the members of the Managing Board and all of the employees for their dedication and commitment during the past fiscal year, and wishes them the very best success for the challenges they will face in 2009.

Hamm, March 5, 2009

(Dr. Markus)
Chairman of the Supervisory Board