

SMT Scharf AG
Annual financial report 2009

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Management report for fiscal year 2009

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 the business of SMT Scharf Group's companies. Beginning in the fall of 2008 demand on many markets fell, as customer industries throttled back on their production as a result of the financial crisis and the developing recession. During the course of 2009, growth on the individual markets served by the SMT Scharf Group's companies was varied. According to preliminary figures, coal production in China and India grew by around 10% in each case, whereas it fell by approximately 1% in Poland and by more than 10% in the Russian Federation.

Prices for coal did not tag oil prices during most of 2009, in contrast to the previous year. The McCloskey Group's Steam Coal Marker Price fell by around 25% in the first half of the year, however it increased again in the following months. At the end of 2009 it was at around the same level as at the end of 2008, equivalent to a decrease by around 40% over two years, compared to the end of 2007. In contrast, the price for Brent crude oil was around 70% higher at the end of December 2009 than one year previously, and around 15% down on the price at the end of 2007.

It is currently very difficult to see how demand for commodities and investments in mines will develop in 2010. During 2009, the global recession has caused mine operators to throttle back their investments in many of the key markets for the SMT Scharf Group's companies. For example, global exploration spending in ore mining fell by 42% according to surveys by the Metals Economics Group, after having increased for the previous six successive years. From the current perspective, these regionally split developments as seen in the previous year will continue in 2010. It cannot yet be forecasted whether growth or stagnation trends from individual markets will dominate overall. However, in the following years mining is expected to return to the growth path it enjoyed until 2008. Countries such as China, India, Russia and South Africa will have increasing needs for energy, steel and other metals in line with their continued economic growth. That is why they remain those markets that will generate the greatest demand for the SMT Scharf Group's companies 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 have its own operating business. It is the management holding company for the companies in the SMT Scharf Group. It does not have any employees except for the two members of the Managing Board.

A total of 4,650 shares were sold to SMT Scharf Group employees in June 2009 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 from EUR 3,000 thousand to EUR 4,200 thousand against cash contributions as part of the IPO in April 2007. Since that date, 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. In addition, there is conditional capital to issue an additional up to 2,100,000 ordinary shares. The conditional capital increase will only be implemented to the extent that either the holders of convertible bonds and/or bonds with warrants and/or profit-participation certificates with conversion or subscription rights that are issued by the company prior to April 22, 2014 use their conversion or subscription rights, or if the holders that have to convert convertible bonds and/or bonds with warrants and/or profit-participation certificates with conversion or subscription rights that are issued by the company prior to April 22, 2014 fulfill their conversion obligation. At present, no such securities have been issued. The General Meeting on April 23, 2009 authorized the company's Managing Board to acquire own shares of up to 10% of the respective current share capital until October 22, 2010. In line with this authorization, the company acquired a total of 359,996 own shares between May and October 2009. This corresponds to 8.6% of the share capital. The company spent EUR 3,216 thousand on the acquisition of these shares, which it also held at the end of the fiscal year.

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. 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 shareholders who held a participating interest prior to the IPO jointly held 57.1% of voting rights directly after the IPO according to their notifications of voting rights made to SMT Scharf AG. Marfleet Ltd., Douglas accounted for 1,440,000 voting rights (34.2%), of which 1,350,000 voting rights (32.1%) were held via MS Mining Solutions GmbH, Schondorf, and the remainder was held directly. A further 960,000 voting rights (22.9 %) were due to Mr. Victor Khosla, Greenwich, all via Strategic Value Partners GP II, LLC, Greenwich, and these via Strategic Value Global Opportunities Master Fund, LP, George Town, and these via Field Point (Europe) I, LLC, Greenwich, and these in turn via Field Point (Luxembourg) II S.a.r.l., Luxembourg.

The participating interest held by Marfleet Ltd. respectively MS Mining Solutions GmbH changed as follows in the fiscal year:

Notification of voting rights dated	Number of voting rights
23.04.2009	1,252,825 (29.8%)
28.08.2009	1,025,567 (24.4%)
16.10.2009	812,770 (19.4%)
10.11.2009	628,054 (15.0%)

The participating interest held by Mr. Victor Khosla respectively Strategic Value Partners GP II, LLC respectively Strategic Value Global Opportunities Master Fund, LP respectively Field Point (Europe) I, LLC respectively Field Point II S.a.r.l. (former Field Point (Luxembourg) II S.a.r.l.) changed as follows during the fiscal year:

Notification of voting rights dated	Number of voting rights
25.08.2009	832,976 (19.8%)
09.11.2009	590,125 (14.1%)

No new participating interests have been reported to SMT Scharf AG since the IPO that directly or indirectly exceed 10% of the voting rights.

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 *Aktien-gesetz*. 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 no 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 amounted to EUR 17,036 thousand on December 31, 2009 (previous year: EUR 18,355 thousand) including net income for the year and after deduction of the dividend for fiscal year 2008 (EUR 0.85 per share) and the equity interests due to own shares. This corresponds to 92% of total assets (previous year: 93%). Assets mostly comprise participating interests in companies in the SMT Scharf Group.

Earnings position: SMT Scharf AG recorded pre-tax earnings of EUR 5,451 thousand in 2009 (previous year: EUR 3,788 thousand). This includes, in particular, income from participating interests of EUR 5,554 thousand. The participating interest in SMT Scharf Saar GmbH was already written off in the previous year.

Financial position: As a result of the expenses for share buy-backs and dividend payments, cash and cash equivalents including marketable securities fell to EUR 2,421 thousand (previous year: EUR 11,119 thousand). There are also loans of EUR 1,550 thousand to affiliated companies.

Capital expenditure: During the course of 2009, SMT Scharf AG increased the share capital of OOO SMT Scharf and made a payment into SMT Scharf GmbH's share premium. In addition, it also acquired a 100% interest in SMT Scharf Africa (Pty.) Ltd. from SMT Scharf

GmbH. Financial assets thus increased from EUR 6,800 thousand to EUR 11,900 thousand. There were no other investments.

Corporate governance report

Declaration according to Section 161 *Aktiengesetz*: The Managing and Supervisory Boards issued their most recent declaration according to Section 161 *Aktiengesetz* on December 2, 2009. It is as follows:

“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 6, 2008 and June 18, 2009 with the following exceptions:

- 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 for members of the Managing Board. It is intended to develop a longer term succession planning.
- Diversity was not a stand-alone criterion for membership of the Managing and Supervisory Boards. This may also be the case in future as both boards only have a few members.
- At present there is no upper age limit for members of the Managing and Supervisory Boards. This upholds the German law on equal opportunities.
- The company's D&O insurance policy does not yet include any agreement on a deductible. It is intended to include an appropriate deductible for the members of the Managing and Supervisory Boards upon the next renewal of the insurance policy.”

Working approach of the Managing and Supervisory Boards: SMT Scharf AG's executive bodies see their central task as managing the company in a responsible and value-oriented manner. The following principles apply in this regard:

The Supervisory Board has three members, elected by the General Meeting as shareholder representatives. The Supervisory Board does not include any former members of the Managing Board. It has not formed any committees. The Supervisory Board advises the Managing Board and supervises its management of the business. It deals with business growth, medium-term forecasts and further development of the company's strategy. It adopts the annual financial statements and the consolidated financial statements taking into account the auditors' reports. In addition it appoints and dismisses members of the Managing Board. Select transactions by the Managing Board, which are listed in its by-laws, require prior approval from the Supervisory Board. The Supervisory Board can make changes to the articles of incorporation that only affect the wording. The members of the Supervisory Board are obliged to disclose any conflicts of interest to the Supervisory Board. There were no conflicts of interest for the members of SMT Scharf AG's Supervisory Board during the year under review.

In order to ensure the auditor's independence, the Supervisory Board obtains a declaration from the auditor on any existing reasons for exclusion or bias. When issuing the audit mandate, it is agreed that the auditor would inform the Supervisory Board without delay of any possible reasons for exclusion or bias that arise during the audit, of all findings that are material for the Supervisory Board's tasks that result during the audit, and all findings that result in the Declaration on the German Corporate Governance Code issued by the

Managing and Supervisory Boards not being correct. No such facts or reasons for exclusion or bias were ascertained.

SMT Scharf AG's Managing Board comprises two members and has one Chairman. It did not form any committees. The Managing Board's members are jointly responsible for managing the company's business, based on by-laws issued by the Supervisory Board. The Managing Board determines the entrepreneurial targets, the company policy and the group's organizational structure. The Managing Board informs the Supervisory Board on a regular basis, in good time and in depth of all issues of planning, business growth and risk management that are relevant for the company. Transactions that require approval from the Supervisory Board are presented to the Supervisory Board in good time. The members of the Managing Board are obliged to disclose conflicts of interest to the Supervisory Board without delay, and to only take on additional activities, in particular supervisory board mandates in non-group companies with the Supervisory Board's permission. During the past fiscal year there were no conflicts of interest for members of SMT Scharf AG's Managing Board.

The Managing Board regularly provides shareholders, all other participants on the capital market and the media with up-to-date information on the company's business growth. The regular financial reporting dates are summarized in the financial calendar. SMT Scharf publishes an "annual document" within the meaning of Section 10 (1) of the *Wertpapierprospektgesetz* (German Securities Prospectus Act), which summarizes the publications under company and capital market law for the past twelve months. The financial reports, the financial calendar, the ad hoc disclosures and the "annual document" are available online at www.smtscharf.com.

Remuneration systems for the Managing and Supervisory Boards: 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. It was adjusted in 2009 with the changes taking effect in 2010. 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 6.0% interest on the converted salary components. The age limit has been adjusted to the annual changes in Germany's statutory 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 2011 (Mr. Schulze-Buxloh) and December 2012 (Dr. Trautwein) 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.

Details on the remuneration and shareholdings of individual members of the Supervisory and Managing Boards can be found in the notes to the annual financial statements.

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 value-oriented company management and it serves to specifically secure existing and future potential for success. The risk management system aims to identify opportunities and risks at an early stage, to estimate their impact and to start suitable preventive and security activities, including monitoring these activities.

There are internal regulations for the company's risk management system. These are set out in its risk management guidelines and implemented in its 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 the company's success. In addition, risks that arise at short notice are communicated directly to the responsible management members, irrespective of the standard reporting channels. The principle followed is that the 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 the organizational units are responsible for coordinating the respective risk management activities and ensuring that risks are communicated to the relevant higher level.

The internal control system is an integral component of risk management at SMT Scharf. Its primary objectives are to ensure that all transactions are accurately mapped in the company's reporting and to prevent any deviations from internal and external regulations. In terms of external accounting, this means that the financial statements must conform to the relevant applicable accounting standards. To this effect, the internal control system and risk management is organized in line with the accounting units. There are uniform regulations for accounting in the SMT Scharf Group's companies, e.g., guidelines on balance sheet reporting. Ongoing checks are performed to ensure that these are upheld. In order to control individual accounting risks, e.g., for actuarial valuations, external specialists are used on a case-by-case basis.

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 rights of disposal through business interests or fiscal law can impact the possibilities for controlling the companies within the SMT Scharf Group. Changes of government, changes in the ownership structure of mines or other influences can significantly hamper the earning power of subsidiaries. The Managing Board counters this by ongoing monitoring of markets and their underlying political conditions. Aside from the short-term investment of available funds, SMT Scharf AG does not currently use any financial instruments; accordingly the company faces no risks from the use of financial instruments.

An overall assessment of the company's risk position has shown that the identified 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 that could endanger its continued existence. There is, however, no absolute certainty that all relevant risks can be identified and controlled.

Report on events after the balance sheet date

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

In January 2010 SMT Scharf received approval from the Chinese authorities to form a joint venture in the province of Shandong. This joint venture, in which SMT Scharf has a 50% interest, will take charge of final assembly and service for monorail hanging railways for selected customers. SMT Scharf's partner is a company that is associated with one of the leading operators of coal mines in China.

A creditors' meeting of SMT Scharf Saar GmbH in January 2010 authorized the administrator to work out an insolvency plan to continue the company, based on the draft presented by the SMT Scharf Group.

The shareholders who had participating interests in SMT Scharf AG prior to the IPO each fell below the 10% threshold in the company's voting rights in January 2010.

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. Overall, 2009 was yet another year of successful international expansion for 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, despite the imponderables mentioned above for 2010.

Hamm, February 5, 2010

(Dr. Trautwein)

(Schulze-Buxloh)

Balance Sheet as of December 31, 2009

Assets (in EUR)	31.12.2009	31.12.2008
A. Non-current assets		
I. Financial assets	13,449,702.67	6,800,094.35
1. Interests in affiliated companies	11,899,702.67	6,800,094.35
2. Loans to affiliated companies	1,550,000.00	0.00
	13,449,702.67	6,800,094.35
B. Current assets		
I. Receivables and other assets	2,549,451.27	1,793,832.04
1. Receivables from affiliated companies	1,035,367.22	596,170.38
2. Other current assets	1,514,084.05	1,197,661.66
II. Securities	1,000,000.00	0.00
III. Cash and cash equivalents	1,421,199.02	11,119,205.91
	4,970,650.29	12,913,037.95
C. Accruals	0.00	8,354.01
D. Deferred tax assets	52,117.66	0.00
Total assets	18,472,470.62	19,721,486.31

Equity and liabilities (in EUR)	31.12.2009	31.12.2008
A. Equity		
I. Subscribed capital	3,840,004.00	4,200,000.00
Total nominal value	4,200,000.00	4,200,000.00
Nominal value of own shares	-359,996.00	0.00
Conditional capital 2,100,000.00 previous year 0.00		
II. Share premium	10,200,000.00	10,200,000.00
III. Retained earnings	103,093.70	1,648.70
1. Statutory reserve	1,648.70	1,648.70
2. Other retained earnings	101,445.00	0.00
IV. Net retained profits	2,893,116.64	3,953,422.42
	17,036,214.34	18,355,071.12
B. Provisions		
1. Pension provisions	354,806.00	192,483.00
2. Other provisions	681,638.00	639,804.69
	1,036,444.00	832,287.69
C. Liabilities		
1. Trade payables	20,016.51	50,365.14
2. Liabilities to affiliated companies	371,930.35	477,900.37
3. Other liabilities	7,865.42	5,861.99
thereof from taxes 6,064.67 (previous year 5,861.99)		
	399,812.28	534,127.50
Total equity and liabilities	18,472,470.62	19,721,486.31

Income statement for the period from January 1 to December 31, 2009

in EUR	2009	2008
1. Other operating income	856,677.96	846,792.48
2. Personnel expenses		
Wages and salaries	631,563.48	594,167.87
b) Social security contributions	7,490.28	18,997.85
thereof expenses relating to pensions: 0.00 (previous year 12,314.00)		
3. Other operating expenses	481,699.60	491,790.91
4. Income from long-term loans	18,721.00	0.00
thereof from affiliated companies 18,721.00 (previous year 0.00)		
5. Income from participating interests	5,554,120.15	4,394,468.84
thereof from affiliated companies 5,554,120.15 (previous year 4,394,468.84)		
6. Other interest and similar income	154,600.47	412,307.91
thereof from affiliated companies 47,585.19 (previous year 76,541.33)		
7. Write-downs of financial assets	0.00	757,440.85
8. Other interest and similar expenses	12,037.02	3,112.73
thereof from affiliated companies 0.00 (previous year 2,572.18) thereof from interest accrued on provisions: 12,029.00 (previous year 0.00)		
9. Profit before tax	5,451,329.20	3,788,059.02
10. Extraordinary expenses	36,201.00	
11. Income tax	49,327.34	-10,913.49
12. Net income	5,365,800.86	3,798,972.51
13. Profit/Loss carried forward	3,953,422.42	3,094,449.91
14. Appropriation of profits	-6,426,106.64	-2,940,000.00
thereof dividend disbursement: -3.570.000,00 thereof acquisition of treasury shares: -2.856.106,64		
15. Net retained profits	2,893,116.64	3,953,422.42

Notes for fiscal year 2009

Accounting and valuation policies

These financial statements have been prepared pursuant to Sections 242ff, 264ff *Handelsgesetzbuch* (German Commercial Code) n.V. and the relevant provisions of the *Aktiengesetz* (German Public Limited Companies Act). The new provisions introduced by the *Bilanzrechtsmodernisierungsgesetz* (Act on Modernization of Accounting Regulations) were already implemented as a whole in advance for the 2009 financial statements. The company classifies as a large corporation pursuant to Section 267 (3) Sentence 2 of the *Handelsgesetzbuch*.

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

Interests in affiliated companies are carried at acquisition costs including ancillary acquisition costs or at the lower fair value.

Loans to affiliated companies are carried at nominal values.

Marketable securities are carried at acquisition costs including ancillary acquisition costs or at their lower fair value.

Receivables and other assets and bank balances are carried at nominal values. Receivables are individually adjusted to the extent of identifiable risks.

There were no foreign-currency receivables and liabilities on the balance sheet date. Foreign-currency income and expenses are converted to Euros at the daily exchange rate.

Own shares were openly deducted from the subscribed capital with their notional interest in the company's subscribed capital.

Provisions are carried with an obligation amount according to prudent business judgment.

Pension provisions were determined according to recognized actuarial principles using the "projected unit credit method" based on the 2005 G mortality tables. The discount rate used is the average market interest rate for an assumed period of 15 years, which is 5.25%. The calculation is based on a rate of pension increases of 1.0% p.a. The pension provisions were revalued according to the new provisions introduced by the *Bilanzrechtsmodernisierungsgesetz* with effect from January 1, 2009.

The other provisions adequately allow for all identifiable risks and uncertain liabilities.

Liabilities are carried at the amount repayable.

Notes to the balance sheet

A statement of changes in non-current assets is set out below:

in EUR thousand	01.01.2009	Additions	Disposals	31.12.2009
Acquisition costs				
1. Interests in affiliated companies	7,557	5,100	0	12,657
2. Loans to affiliated companies	0	1,550	0	1,550
Total financial assets	7,557	6,650	0	14,207
Depreciation/amortization				
1. Interests in affiliated companies	757	0	0	757
2. Loans to affiliated companies	0	0	0	0
Total financial assets	757	0	0	757

Receivables from affiliated companies relate in particular to a dividend distribution due from SMT Scharf GmbH. Other current assets include tax receivables of EUR 1,509 thousand (thereof EUR 367 thousand from VAT). Receivables and other current assets are all due within one year.

As at December 31, 2009, 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 a resolution passed at the General Meeting on February 2, 2007 to increase the subscribed capital with the approval of the Supervisory Board by up to EUR 2,100 thousand (EUR 1,500 thousand authorized capital I and EUR 600 thousand authorized capital II) until February 1, 2012. This can be done in one or more steps and against cash and/or non-cash contributions. Shareholders' subscription rights can be excluded during this process.

In addition, there is conditional capital of up to EUR 2,100 thousand to issue additional ordinary shares. The conditional capital increase will only be implemented to the extent that either the holders of convertible bonds and/or bonds with warrants and/or profit-participation certificates with conversion or subscription rights that are issued by the company prior to April 22, 2014 use their conversion or subscription rights, or if the holders that have to convert convertible bonds and/or bonds with warrants and/or profit-participation certificates with conversion or subscription rights that are issued by the company prior to April 22, 2014, fulfill their conversion obligation. At present, no such securities have been issued.

The General Meeting on April 23, 2009 authorized the company's Managing Board to acquire own shares of up to 10% of the respective current share capital until October 22, 2010. In line with this authorization, between May and August 2009 the company acquired a total of 60,000 of its own shares on the stock exchange and a further 299,996 of its own shares in October 2009 in an off-market repurchase offer. The total of 359,996 of own shares represent 8.6% of the share capital. The company spent EUR 3,216 thousand on the acquisition of these shares, which it also held at the end of the fiscal year. Of this figure, EUR 518 thousand went towards the stock exchange repurchase and EUR 2,698 thousand towards the off-market repurchase. The difference of EUR 2,856 thousand between the acquisition costs and the notional interest in the share capital (EUR 360 thousand) was set off against net retained profits. These treasury shares can be used for all purposes set out in

the authorization resolution. In particular, SMT Scharf is currently pursuing acquisition projects for which some of the treasury shares may be used.

As at the end of the fiscal year, the capital reserve is EUR 10,200 thousand. It stems from the capital increase against cash contributions of April 3, 2007 which formed part of the IPO. Retained earnings include the statutory reserve formed in 2006 totaling 5% of the net income for that fiscal year. An amount of EUR 52 thousand arising from the capitalization of deferred taxes is blocked for distributions.

SMT Scharf AG's financial statements disclose net retained profits of EUR 2,893 thousand. The Managing and Supervisory Boards will propose to the ordinary General Meeting, which is to be held on April 14, 2010, to pay a dividend of EUR 0.70 per share for fiscal year 2009 from these net retained profits. This produces a dividend total of EUR 2,688 thousand, payable in 2010. The remaining amount of EUR 205 thousand will be carried forward to new account.

Provisions developed as follows during the fiscal year:

in EUR thousand	Provisions for pensions	Other personnel provisions	Misc. other provisions
As of January 1, 2009	193	459	181
Difference from revaluation	36	0	0
Balances brought forward	114	-114	0
Interest cost	12	0	0
Usage	0	197	166
Additions	0	370	167
Reversal	0	4	15
Discounting	0	0	0
As of December 31, 2009	355	514	167

Liabilities are all due within one year. Liabilities to affiliated companies comprise ongoing VAT from the group scheme which exists in Germany. There are no liabilities secured by liens.

There are EUR 357 thousand off-balance sheet liabilities resulting from a discharge declaration to the benefit of an affiliated company.

Deferred taxes arise from the following items by applying a tax rate of 31.6%:

in EUR thousand	31.12.2009	01.01.2009
Deferred tax assets		
Pension provisions	20	0
Other assets and liabilities	12	12
Realizable tax losses carried forward	20	89
Total	52	101

Notes to the income statement

Other operating income includes EUR 774 thousand from intra-group management fees and EUR 19 thousand income not relating to the period under review from the reversal of provisions. Personnel expenses exclusively relate to remuneration and out-of-pocket expenses for members of the Managing Board. The company does not employ any other personnel. Other operating expenses mainly comprise third party services relating to the listing of the company's shares on a regulated market and to the organization of the General Meeting. The auditor's fee charged for the fiscal year is contained in the notes to the IFRS consolidated financial statements as of December 31, 2009 in conformity with Section 285 No. 17 *Handelsgesetzbuch*. The difference from revaluing the pension provisions according to the new provisions introduced by the *Bilanzrechtsmodernisierungsgesetz* is reported as an extraordinary expense.

Other disclosures

The members of the Supervisory Board of SMT Scharf AG in fiscal year 2009 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 (until 06/09) SKW-Stahl Metallurgie Holding AG, Unterneukirchen, Member of the Supervisory Board (since 06/09) (no other mandates)
Florian Kawohl, Bad Homburg, (Deputy Chairman) Ulrich Radlmayr, Schondorf a. A.	Managing Director of Strategic Value Partners (Deutschland) GmbH 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 (until 12/09) Aurelius Portfoliomanagement AG, Deputy Chairman of the Supervisory Board Aurelius Transaktionsberatungs AG, Munich, Deputy Chairman of the Supervisory Board (since 07/09) Berentzen-Gruppe AG, Member of the Supervisory Board Quelle La Source S.A., Saran (France), Member of the Board (until 06/09)

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, 2009 the members of the Supervisory Board did not hold any shares in the company.

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, SMT Scharf AG's Managing Board 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 in fiscal year 2009 for the company and its subsidiaries:

in EUR thousand	Dr. Trautwein	Schulze- Buxloh
Basic remuneration	120	131
Bonus	294	68
Additional payments	31	11
Total	445	210

SMT Scharf AG has pension obligations and other obligations from the conversion of salary components for previous fiscal years of EUR 479 thousand for Dr. Trautwein and of EUR 35 thousand for Mr. Schulze-Buxloh. In addition, a subsidiary has EUR 66 thousand in pension obligations for Mr. Schulze-Buxloh from the conversion of salary 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. As of December 31, 2009, 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 2, 2009. It has been made available to shareholders at www.smtscharf.com.

Group companies

As the listed parent company of the companies named below, SMT Scharf AG has prepared a consolidated financial statement according to IFRS, as applicable in the EU as of December 31, 2009, and a group management report for fiscal year 2009. The consolidated financial statements include SMT Scharf AG and the following subsidiaries:

	Interest	Equity Dec. 31, 2009 in EUR thousand	Net income 2008 in EUR thousand
SMT Scharf GmbH, Hamm, Germany	100%	7,379	6,347
SMT Scharf Polska Sp. z o. o., Tychy, Poland	100%	3,796	1,574
SMT Scharf Saar GmbH, Neunkirchen, Germany	100%	n.a.	n.a.
Sareco Engineering (Pty.) Ltd., Brakpan, South Africa	100%	923	447
SMT Scharf Africa (Pty.) Ltd., Kya Sands, South Africa	100%	2,160	1,786
OOO SMT Scharf, Novokuznetsk, Russian Federation	100%*	67	-51
SMT Scharf Sales and Services GmbH, Hamm, Germany	100%**	21	-1
SMT Scharf International OÜ, Tallinn, Estonia	100%**	514	111
Scharf Mining Machinery (Beijing) Co., Ltd., Beijing, China	100%**	127	93

*of which 1.25% indirectly via SMT Scharf GmbH
**indirectly via SMT Scharf GmbH

On October 2, 2009, SMT Scharf Saar GmbH, Neunkirchen, applied to open an insolvency proceeding and left the group of consolidated companies at this time.

The figures in the annual financial statements of the foreign subsidiaries are converted to Euros using the closing rate of exchange on the balance sheet date date (equity) or the average annual rate of exchange (net income).

The management report discloses the participating interests of 10% or more in the company that have been notified to it under the *Aktiengesetz* (German Public Limited Companies Act) and the *Wertpapierhandelsgesetz* (German Securities Trading Act).

Hamm, February 5, 2010

(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, 2009 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 2009 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 5, 2010

(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, 2009 to December 31, 2009. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German Commercial law including voluntary early adoption of the provisions of the Bilanzrechtsmodernisierungsgesetz (Act on Modernization of Accounting Regulations) and with 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.

Düsseldorf, February 5, 2010

Verhülsdonk & Partner GmbH
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Dr. Michael Hüchtebrock
Wirtschaftsprüfer

Rainer Grote
Wirtschaftsprüfer

**Declaration by the Managing and Supervisory Boards of
SMT Scharf AG for 2009 according to Section 161 *Aktiengesetz*
concerning the recommendations of the
"German Corporate Governance Code Government Commission"
in the versions dated June 6, 2008 and June 18, 2009**

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 6, 2008 and June 18, 2009 with the following exceptions:

- 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 for members of the Managing Board. It is intended to develop a longer term succession planning.
- Diversity was not a stand-alone criterion for membership of the Managing and Supervisory Boards. This may also be the case in future as both boards only have a few members.
- At present there is no upper age limit for members of the Managing and Supervisory Boards. This upholds the German law on equal opportunities.
- The company's D&O insurance policy does not yet include any agreement on a deductible. It is intended to include an appropriate deductible for the members of the Managing and Supervisory Boards upon the next renewal of the insurance policy.

Hamm, December 2, 2009

(Dr. Markus)

(Kawohl)

(Radlmayr)

(Dr. Trautwein)

(Schulze-Buxloh)

Report of the Supervisory Board for fiscal year 2009

In fiscal year 2009, 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 March 5, April 23, September 23 and December 2, 2009, 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 March 5, 2009 focused on the financial statements and the IFRS consolidated financial statements for fiscal year 2008 together with the associated management reports. At this meeting the Supervisory Board also discussed the impact of the international financial and economic crisis on the SMT Scharf Group's business and Managing Board proposals on countermeasures. Measures intended to compensate the effects of the financial and economic crisis were again discussed at the meeting on April 23, 2009. The Supervisory Board approved a Managing Board concept to streamline the organization in Russia and to move the headquarters of the company there. Among other things, the meeting on September 23, 2009 discussed the unsatisfactory business situation of SMT Scharf Saar GmbH and scenarios for the company's further development. The risk and compliance management of the SMT Scharf Group was another key issue covered. On December 2, 2009 the Supervisory Board discussed in particular the company's forecast for 2010, the implications of recent changes in German legislation for SMT Scharf and current acquisition projects. In addition, this meeting dealt with the declaration of conformity within the meaning of Section 161 of the *Aktiengesetz* (German Public Limited Companies Act) for 2009, 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, for example, to the agreement on the formation of a joint venture in China, changes to the group's legal structure and repurchases of the company's own shares. 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 2009. There were no committees. By way of a resolution dated July 30, 2009, the Supervisory Board extended the appointment of Dr. Friedrich Trautwein as CEO by three years up to December 31, 2012. Mr. Florian Kawohl has announced that he will resign as a member of the Supervisory Board with effect from the upcoming General Meeting. The

Supervisory Board thanks Mr. Kawohl for the service he has rendered. Mr. Christian Dreyer will be proposed to be elected to the Supervisory Board.

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 2, 2009. This has been published in the meantime and made accessible to shareholders at www.smartscharf.com.

The 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 2009 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 and internal control system were 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 3, 2010, also attended by the auditor, the Supervisory Board reviewed the financial statements and the management report as well as the IFRS consolidated financial statements and group management report for fiscal year 2009. 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 and based on its own review, the Supervisory Board concurs with the results of the audit of the financial statements and the consolidated financial statements by the auditor. As a final result of its review, the Supervisory Board does not have any objections to the financial statements or the consolidated financial statements. The Supervisory Board expressly approves the financial statements and management report prepared by the Managing Board for fiscal year 2009. The financial statements for 2009 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 2009.

The company's Managing Board proposes to distribute a dividend of EUR 0.70 per share from the company's net retained profits totaling EUR 2,893 thousand. In terms of the shares outstanding on today's date (excluding the company's treasury shares), this corresponds to a dividend total of EUR 2,758 thousand. The remaining amount of EUR 135 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 2010.

Hamm, March 3, 2010

(Dr. Markus)
Chairman of the Supervisory Board