

SMT Scharf AG
Annual financial report 2010

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Management report for fiscal year 2010

Macroeconomic environment

SMT Scharf AG's subsidiaries develop, build and maintain transport equipment for mining and tunneling and associated products. The main product is rail-bound railway systems, which are used all over the world, primarily in hard coal mines, but also in underground mining for gold, platinum and other metals. They are used to transport material and personnel with working loads of up to 45 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. Other key products include roadheaders, equipment for tunnel support and chairlifts.

That is why the global demand for raw materials is the key factor to influence the business of companies in the SMT Scharf Group. Hard coal mining accounts for the bulk of revenues. On average in fiscal years 2008 to 2010, hard coal mines accounted for 71% of revenues, with gold and platinum mines accounting for 21%, and other mines and tunneling accounting for 8%.

While coal production on the SMT Scharf Group companies' individual markets did not develop uniformly in 2009 as a result of the economic crisis, it grew in all countries in 2010 with the exception of Germany and Poland. According to preliminary figures, growth in 2010 totaled around 8% in China (previous year: 10%) and around 7% in Russia (previous year: -10%). The downturn in Poland in 2010 was around 3% (previous year: -1%). In Germany hard coal mining is being phased out step-by-step through to 2018 as a result of the unfavourable costs compared to other countries.

Prices for hard coal increased as well during the course of 2010. The McCloskey Group's Steam Coal Marker Price was up by around 50% compared in December 2010 compared to December 2009, which corresponded to the figure one year before. In contrast, prices for Brent Crude Oil were around 15% higher in December 2010 than one year before, after having increased by around 70% during the course of 2009.

Exchange rates for the key currencies for the companies in the SMT Scharf Group also enjoyed favourable growth over the year as a whole. The Euro was weaker on the whole compared to the two home currencies of the primary competitors, Polish Zloty and Czech Crowns. In December 2010 the average exchange rate for the Euro compared to these two currencies was around 3.5% lower than the comparable figures from December 2009.

In addition, the Euro decreased in value over the course of the year compared to the currencies of the main customers' countries. Based on average exchange rates for the month of December 2010, compared with average exchange rates in December 2009, the Euro's value was around 7% lower compared to the Russian Ruble, around 12% lower compared to the Chinese Yuan, and around 17% lower compared to the South African Rand. An analysis of average annual exchange rates for 2010 and 2009 provides a similar picture. This means that SMT Scharf's equipment has become relatively more economical for customers in these countries.

From the current perspective, it is most probable that demand for raw materials and investments by mines will increase further in 2011. During the course of 2010, the general economic recovery caused the international mining sector to return to the on-track growth it had enjoyed through to 2008.

In the coming years, countries such as China, India, Russia and South Africa will continue their economic growth and have increasing demand for energy, steel and other metals. That

is why, for the companies in the SMT Scharf Group, they will continue to be the markets which will provide the main demand in coming years. At the same time, there are also notable risks that the recovery will be interrupted by a renewed recession. This could be triggered, in particular, by economic imbalances in many countries, the excessive indebtedness of some countries, and political dissonance with regard to exchange rates.

The further growth in international mining anticipated by SMT Scharf is expected to result in many mine operators continuing to invest specifically in technology that will boost their productivity. In this context, the SMT Scharf Group's products for tunneling and the supply of materials for underground mining will play a major role.

Human resources

SMT Scharf AG does not have its own operating business. It is the management holding company for companies in the SMT Scharf Group. With the exception of the two Managing Board members it does not have any employees.

A total of 24,901 shares were sold to employees of the SMT Scharf Group in March and June 2010 as part of an employee equity participation plan. The company bought these shares in fiscal year 2009 under the authorization to acquire own shares by the General Meeting on April 23, 2009.

Net assets, financial position and results of operations

Equity and particular legal relationships: SMT Scharf AG's subscribed capital was increased from 3,000 EUR'000 to 4,200 EUR'000 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 1 EUR 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 14, 2010 authorized the company's Managing Board to acquire own shares of up to 10% of the respective current share capital until April 13, 2015. In line with the previous authorization, the company acquired a total of 359,996 own shares (8.6% of the share capital) in fiscal year 2009. This amount fell to 235,095 shares (5.6% of the share capital) during the year under review as a result of the issue of shares to employees and via a placement with institutional investors.

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 that go beyond the above, 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 in SMT Scharf AG prior to the IPO still jointly held 29.1% of voting rights according to their last notifications of voting rights in 2009. Marfleet Ltd., Douglas, held 628,054 voting rights (15.0%), all via MS Mining Solutions GmbH, Augsburg. A further 590,125 voting rights (14.1%) 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
12.01.2010	417,316 (9.9%)
18.02.2010	87,797 (2.1%)

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. (previously Field Point (Luxembourg) II S.a.r.l.) changed as follows during the fiscal year:

Notification of voting rights dated	Number of voting rights
22.01.2010	419,777 (10.0%)
18.02.2010	0 (0.0%)

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 Aktiengesetz. According to Article 17 of the articles of incorporation resolutions by the General Meeting are passed with a simple majority of votes cast, unless there are 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 3,000 EUR'000. 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 4,200 EUR'000 since its IPO. There is also a share premium of 10,357 EUR'000. Equity, including net income and after deduction of the dividend for fiscal year 2009 disbursed in April 2010 and the equity interests due to own shares, totaled 18,614 EUR'000 on December 31, 2010 (previous year: 17,036 EUR'000). This corresponds to 91% of total assets (previous year: 92%). Assets

primarily comprise participating interests in and receivables from companies in the SMT Scharf Group. All loans to group companies were paid back in 2010.

Earnings position: SMT Scharf AG recorded earnings before taxes of 2,862 EUR'000 in 2010 (previous year: 5,451 EUR'000). This figure includes, in particular, 3,753 EUR'000 in income from participating interests.

Financial position: Cash and cash equivalents including marketable securities increased to 3,971 EUR'000 (previous year: 2,421 EUR'000) as a result of income from dividends and the sale of own shares. The largest expenditure item was the dividend paid for 2009 in the amount of 2,763 EUR'000.

Capital expenditure: SMT Scharf AG acquired Dosco Holdings Ltd. during the course of 2010, and as part of the acquisition it increased this company's share capital. The share premium formed in the previous year at SMT Scharf GmbH was reduced. Participating interests therefore increased from 11,900 EUR'000 to 12,745 EUR'000. There was no other capital expenditure.

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 November 30, 2010. 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 18, 2009 and May 26, 2010 with the following exceptions:

- The Supervisory Board has not formed any committees, as it comprises three members. This number of members appears reasonable given the company's 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 Board. This may also be the case in future as the Managing Board only has two 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."

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 has not formed 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 redefined by way of a resolution by the General Meeting on April 14, 2010 based on SMT Scharf AG's articles of incorporation, with effect from January 1, 2010. The members of the Supervisory Board receive fixed and variable remuneration for each fiscal year plus reimbursement of their out-of-pocket expenses. The variable remuneration is based on consolidated net income and is subject to a cap. The Supervisory Board members' periods of office run until the end of the General Meeting which resolves ratification for fiscal year 2010 (Dr. Markus and Mr. Radlmayr) and fiscal year 2014 (Mr. Dreyer) respectively.

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. 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 good 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 preventative 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 companies in the SMT Scharf Group, 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 disposal rights for equity interests or tax law can negatively effect the possibility to control the companies in the SMT Scharf Group. Changes of government, changes in mine ownership structures or other factors can have a major impact on subsidiaries' earnings. The Managing Board combats these risks by constantly monitoring the markets and their underlying political conditions. SMT Scharf AG currently only uses financial instruments to invest liquid funds on a short-term basis and to hedge against exchange-rate risks; as a result there are no material 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.

Forecast

As the management holding company for companies in the SMT Scharf Group, the anticipated growth of SMT Scharf AG depends on the growth of its subsidiaries. 2010 was another year of successful international expansion for the SMT Scharf Group. The most important single factor was the successful integration of Dosco Overseas Engineering and Hollybank Engineering after their acquisition which was concluded in May 2010. The Managing Board expects that it will be able to further increase the SMT Scharf Group's revenues and earnings on average over the coming years.

Hamm, February 18, 2011

(Dr. Trautwein)

(Schulze-Buxloh)

Balance Sheet as of December 31, 2010

Assets (in EUR)	31.12.2010	31.12.2009
A. Non-current assets		
I. Financial assets	12,745,482.16	13,449,702.67
1. Interests in affiliated companies	12,745,482.16	11,899,702.67
2. Loans to affiliated companies	0.00	1,550,000.00
	12,745,482.16	13,449,702.67
B. Current assets		
I. Receivables and other assets	3,399,976.67	2,549,451.27
1. Receivables from affiliated companies	3,052,918.16	1,035,367.22
2. Other current assets	347,058.51	1,514,084.05
II. Securities	1,000,000.00	1,000,000.00
III. Cash and cash equivalents	2,971,481.87	1,421,199.02
	7,371,458.54	4,970,650.29
C. Prepaid expenses	6,669.00	0.00
D. Deferred tax assets	265,444.98	52,117.66
Total assets	20,389,054.68	18,472,470.62

Equity and liabilities (in EUR)	31.12.2010	31.12.2009
A. Equity		
I. Subscribed capital	3,964,905.00	3,840,004.00
Total nominal value	4,200,000.00	4,200,000.00
Nominal value of own shares (Conditional capital 2,100,000.00 previous year: 2,100,000.00)	-235,095.00	-359,996.00
II. Share premium	10,357,000.00	10,200,000.00
III. Retained earnings	103,093.70	103,093.70
1. Statutory reserve	1,648.70	1,648.70
2. Other retained earnings	101,445.00	101,445.00
IV. Net retained profits	4,189,384.16	2,893,116.64
	18,614,382.86	17,036,214.34
B. Provisions		
1. Pension provisions	392,544.00	354,806.00
2. Other provisions	1,054,176.36	681,638.00
	1,446,720.36	1,036,444.00
C. Liabilities		
1. Trade payables	21,130.69	20,016.51
2. Liabilities to affiliated companies	300,578.70	371,930.35
3. Other liabilities	6,242.07	7,865.42
Thereof taxes 6,242.07 (previous year 6,064.67)		
	327,951.46	399,812.28
Total equity and liabilities	20,389,054.68	18,472,470.62

Income statement for the period from January 1 to December 31, 2010

In EUR	2010	2009
1. Other operating income Thereof from currency translation: 6,721.72 (previous year 0.00)	631,676.13	856,677.96
2. Personnel expenses a) Wages and salaries b) Social security contributions Thereof relating to pensions: 5,526.00 (previous year 0.00)	967,404.83 13,099.44	631,563.48 7,490.28
3. Other operating expenses Thereof from currency translation: 46,068.13 (previous year 0.00)	611,135.81	481,699.60
4. Income from participating interests Thereof from affiliated companies: 3,753,390.26 (previous year 5,554,120.15)	3,753,390.26	5,554,120.15
5. Income from long-term loans Thereof from affiliated companies: 35,426.00 (previous year 18,721.00)	35,426.00	18,721.00
6. Other interest and similar income Thereof from affiliated companies: 9,812.65 (previous year 47,585.19)	54,251.05	154,600.47
7. Other interest and similar expenses Thereof to affiliated companies: 500.00 (previous year 0.00) Thereof interest accrued on provisions: 20,212.00 (previous year 12,029.00)	20,714.00	12,037.02
8. Profit before tax	2,862,389.36	5,451,329.20
9. Extraordinary expenses	0.00	36,201.00
10. Income tax Thereof deferred taxes: -213,327.32 (previous year 49,327.34)	-213,327.32	49,327.34
11. Net income	3,075,716.68	5,365,800.86
12. Profit/loss carried forward	2,893,116.64	3,953,422.42
13. Sale of own shares	983,243.64	0.00
14. Appropriation of profits Thereof dividend disbursement: -2,762,692.80 (previous year: -3,570,000.00) Thereof acquisition of own shares: 0.00 (previous year: -2,856,106.64)	-2,762,692.80	-6,426,106.64
15. Net retained profits	4,189,384.16	2,893,116.64

Notes for fiscal year 2010

Accounting and valuation policies

These financial statements have been prepared pursuant to Sections 242ff, 264 ff of the Handelsgesetzbuch (German Commercial Code) 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 voluntarily 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 (nature of expense) method.

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

Marketable securities are carried at acquisition costs including ancillary acquisition costs or at the 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.

Business transactions in foreign currency are recorded using the exchange rate on the date these arise. Items denominated in foreign currency with a remaining term of more than one year are recognized using the average spot rate on the balance sheet date subject to the acquisition cost principle and the realization principle. Items with shorter maturities are always recognized at the average spot rate on the balance sheet date.

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

Provisions are carried at the requisite fulfillment 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 5.15%. The calculation is based on a rate of pension increases of 1.0% p.a.

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

Liabilities are carried at the amount repayable.

Figures in the notes are stated in thousands of Euros unless otherwise stated.

Notes to the balance sheet

The changes in non-current assets are set out in the following statement:

	01.01.2010	Additions	Disposals	31.12.2010
Acquisition cost				
1. Interests in affiliated companies	12,657	2,045	1,200	13,502
2. Loans to affiliated companies	1,550	0	1,550	0
Total financial assets	14,207	2,045	2,750	13,502
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 totaling 340 EUR'000 (including 302 EUR'000 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 1 EUR 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 2,100 EUR'000 (1,500 EUR'000 authorized capital I and 600 EUR'000 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 2,100 EUR'000 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 14, 2010 authorized the company's Managing Board to acquire own shares of up to 10% of the then current share capital until April 13, 2015. This acquisition may also be performed using equity derivatives. In addition, the resolution includes the further conditions for the purchase and sale of own shares. At the same time, the General Meeting removed the authorization to acquire own shares issued in the previous year. No own shares were acquired in fiscal year 2010 and 124,901 own shares which the company had acquired in 2009 were sold. The difference between the proceeds from the sale and the notional interest in the subscribed capital was added to the share premium in the amount of 157 EUR'000 and to retained earnings in the amount of 983 EUR'000. The company still held 235,095 own shares on December 31, 2010, or 5.6% of the share capital. The own shares can be used for all purposes set out in the authorization resolution. As part

of the acquisition of Dosco Holdings Limited and its subsidiaries, the company made an undertaking to the trustees of the Dosco Pension Scheme to put arrangements in place that will enable the transfer of 180,000 own shares of SMT Scharf AG to the Scheme. The trustees have not yet used this right.

The share premium at the end of the fiscal year totaled 10,357 EUR'000. It stems from the capital increase against cash contributions of April 3, 2007 as part of the IPO (10,200 EUR'000) and from the sale of own shares in 2010 (157 EUR'000). Retained earnings include the statutory reserve formed in 2006 totaling 5% of the net income for that fiscal year. An amount of 265 EUR'000 arising from the capitalization of deferred taxes is blocked for distributions.

SMT Scharf AG's financial statements disclose net retained profits of 4,189 EUR'000. The Managing and Supervisory Boards will propose to the ordinary General Meeting, which is to be held on April 13, 2011, to pay a dividend of 0.85 EUR per share for fiscal year 2010 from these net retained profits. This produces a dividend total of 3,370 EUR'000, payable in 2011, without the company's current own shares. The remaining amount of 819 EUR'000 will be carried forward to new account.

Provisions developed as follows during the fiscal year:

	Pension provisions	Other personnel provisions	Misc. other provisions
As of 01.01.2010	355	514	167
Interest cost	20	0	0
Usage	0	348	149
Additions	18	704	194
Reversals	0	10	18
As of 31.12.2010	393	860	194

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.

Deferred taxes arise from the following items by applying a tax rate of 32.1% (previous year: 31.6%):

	31.12.2010	31.12.2009
Pension provisions	24	20
Other assets and liabilities	13	12
Realizable tax losses carried forward	228	20
Total	265	52

Notes to the income statement

Other operating income mostly includes 568 EUR'000 from intra-group management fees and 44 EUR'000 income not relating to the period under review from the reversal of provisions and individual write-downs. 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 included in the notes to the IFRS consolidated financial statements as at December 31, 2010 in conformity with Section 285 No. 17 of the Handelsgesetzbuch.

Other disclosures

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

Dr. Dirk Markus, Feldafing (Chairman)	CEO of Aurelius AG	AUR Beteiligungsberatungs AG, Munich, Chairman of the Supervisory Board Berentzen-Gruppe AG, Haselünne, Member of the Supervisory Board Compagnie de Gestion et des Prêts S.A., Saran (France), Member of the Board ED Enterprises AG, Grünwald, Deputy Chairman of the Supervisory Board (since 10/10) Investunity AG, Munich, Chairman of the Supervisory Board (until 06/10) ISOCHEM S.A., Vert-le-Petit (France), Member of the Board (since 03/10) Lotus AG, Grünwald, Chairman of the Supervisory Board SKW-Stahl Metallurgie Holding AG, Unterneukirchen, Member of the Supervisory Board (no other mandates)
Florian Kawohl, Frankfurt, (Deputy Chairman, until April 14, 2010) Christian Dreyer, Salzburg, (Deputy Chairman, from April 14, 2010) Ulrich Radlmayr, Schondorf a. A.	Managing Director of Strategic Value Partners (Deutschland) GmbH Entrepreneur	GCI Industrie AG, Munich, Chairman of the Supervisory Board (from 07/10)
	Lawyer and member of the Managing Board of Aurelius AG	AUR Beteiligungsberatungs AG, Munich, Member of the Supervisory Board Aurelius Portfolio Management AG, Deputy Chairman of the Supervisory Board Aurelius Transaktionsberatungs AG, Munich, Deputy Chairman of the Supervisory Board Berentzen-Gruppe AG, Haselünne, Member of the Supervisory Board ED Enterprises AG, Grünwald, Member of the Supervisory Board (since 10/10) ISOCHEM S.A., Vert-le-Petit (France), Member of the Board (since 03/10)

The members of the Supervisory Board receive fixed and variable remuneration for each fiscal year plus reimbursement of their out-of-pocket expenses. The fixed remuneration totals 15 EUR'000, the Chairman receives one and a half times this amount. The variable remuneration is based on the consolidated net income for the period and is limited to 10 EUR'000 per person and year. Remuneration is paid on a pro-rata basis if members leave the Supervisory Board during the year. The following remuneration and out-of-pocket expenses were recognized as expenses for fiscal year 2010:

	Dr. Markus	Kawohl	Dreyer	Radlmayr
Fixed remuneration	23	4	11	15
Variable remuneration	10	3	7	10
Expenses	2	0	1	0
Total	35	7	19	25

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 members of the Supervisory Board. As of December 31, 2010 the members of the Supervisory Board did not hold any shares of the company.

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 2010 for the company and its subsidiaries:

	Dr. Trautwein	Schulze-Buxloh
Basic remuneration	127	137
Bonus	488	209
Additional payments	35	8
Total	650	354

SMT Scharf AG has pension obligations and other obligations from the conversion of salary components for previous fiscal years of 501 EUR'000 for Dr. Trautwein and 48 EUR'000 for Mr. Schulze-Buxloh. In addition, a subsidiary has 70 EUR'000 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 bid. As of December 31, 2010, Dr. Trautwein held 64,400 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 members of the Managing Board.

As a listed company, SMT Scharf AG has to issue a declaration within the meaning of Section 161 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 November 30, 2010. It has been made accessible to shareholders at www.smtscharf.com.

The company has assumed liabilities to banks for some of its subsidiaries' credit facilities. Translated at the exchange rates on the balance sheet date, these together totaled EUR 6.9 million. In addition, there is joint liability for subsidiaries' credit facilities in the amount of EUR 14.0 million.

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

Group companies

As the listed parent company of the companies named below, SMT Scharf AG has prepared consolidated financial statements according to IFRS, as applicable in the EU, as of December 31, 2010 and a group management report for fiscal year 2010. The consolidated financial statements include SMT Scharf AG and the following subsidiaries:

	Interest	Equity 31.12.2010	Net income 2010
SMT Scharf GmbH, Hamm, Germany	100%	6,910	3,731
SMT Scharf Polska Sp. z o. o., Tychy, Poland	100%	4,258	1,110
SMT Scharf Saar GmbH, Neunkirchen, Germany	100%	33	17
Sareco Engineering (Pty.) Ltd. Brakpan, South Africa	100%	1,716	554
SMT Scharf Africa (Pty.) Ltd., Kya Sands, South Africa	100%	3,569	861
OOO SMT Scharf, Novokuznetsk, Russian Federation	100%*	480	409
SMT Scharf Sales and Services GmbH, Hamm, Germany	100%**	20	-1
SMT Scharf International OÜ, Tallinn, Estonia	100%**	752	239
Scharf Mining Machinery (Beijing) Co. Ltd., Beijing, China	100%**	636	485
Dosco Holdings Ltd., Tuxford, United Kingdom	100%	9,034	43
Dosco Overseas Engineering Ltd, Tuxford, United Kingdom	100%***	4,839	577
Hollybank Engineering Co. Ltd., Tuxford, United Kingdom	100%***	1,355	7
OOO Dosco, Kemerovo, Russian Federation	100%***	-373	-108
Shandong Xinsha Monorail Co. Ltd., Xintai, China	50%**	1,438	243

* Of which 1.25% indirectly via SMT Scharf GmbH

** Indirectly via SMT Scharf GmbH

*** Indirectly via Dosco Holdings Ltd.

Dosco Holdings Limited and its subsidiaries were acquired on May 4, 2010. Insolvency proceedings for the assets of SMT Scharf Saar GmbH were concluded on May 26, 2010. This company has been included in the group of consolidated companies again from this date. The joint venture company Shandong Xinsha Monorail Co. Ltd. commenced its operations in June 2010.

The figures from the annual financial statements of the foreign subsidiaries have been stated in Euros translated at the exchange rate on the balance sheet date (equity) or at the average exchange rate (net income).

Hamm, February 18, 2011

(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, 2010 provide a true and fair view of the company's assets, liabilities, financial position and results of operations, and the management report for fiscal year 2010 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 18, 2011

(Dr. Trautwein)

(Schulze-Buxloh)

Auditors' report and opinion on the annual financial statements

We have audited the annual financial statements, comprising the balance sheet, income statements and the notes, together with the bookkeeping system and management report of SMT Scharf AG for the fiscal year from January 1, 2010 to December 31, 2010. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with the German Commercial Code and the 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 including the accounting and on the management report, based on our audit.

We conducted our audit in accordance with Section 317 of the HGB (German Commercial Code), observing the generally accepted German auditing principles 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 net assets, financial position and results of operations in the annual financial statements in accordance with German principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the management as well as evaluating the overall presentation of the financial statements and the 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 give a true and fair view of the net assets, financial position and results of operations of the company in line with the 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 18, 2011

Verhülsdonk & Partner GmbH
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Dr. Michael Hüchtebrock
Wirtschaftsprüfer

Rainer Grote
Wirtschaftsprüfer

Declaration by the Managing and Supervisory Boards of SMT Scharf AG for 2010 according to Section 161 Aktiengesetz concerning the recommendations of the "German Corporate Governance Code Government Commission" in the versions dated June 18, 2009 and May 26, 2010

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 18, 2009 and May 26, 2010 with the following exceptions:

- The Supervisory Board has not formed any committees, as it comprises three members. This number of members appears reasonable given the company's 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 Board. This may also be the case in future as the Managing Board only has two 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.

Hamm, November 30, 2010

(Dr. Markus)

(Dreyer)

(Radlmayr)

(Dr. Trautwein)

(Schulze-Buxloh)

Report of the Supervisory Board for fiscal year 2010

In fiscal year 2010, 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 Managing Board. 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 as well as the status of implementation of the strategy.

In its four ordinary meetings on March 3, April 14, September 27 and November 30, 2010, the Supervisory Board held in-depth discussions on 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 with corporate governance issues, 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 of financial indicators were also discussed at all of the Supervisory Board meetings. The meeting on March 3, 2010 focused on the financial statements and the IFRS consolidated financial statements for fiscal year 2009 together with the associated management reports. At this meeting the Supervisory Board also discussed the future prospects for SMT Scharf Saar GmbH and passed new bylaws for the Managing Board. The Supervisory Board elected its chairman and deputy chairman in its meeting on April 14. Dr. Dirk Markus was re-elected as Chairman, and Christian Dreyer was elected as Deputy Chairman. This meeting also dealt with ongoing acquisition projects. The meeting on September 27 focused on activities to integrate the newly acquired companies in the United Kingdom. In addition, the Supervisory Board dealt with the SMT Scharf Group's product development plans and revenue forecasts for the following year. On November 30, the Supervisory Board discussed, in particular, the Group's financing and its budget for 2011. In addition, at this meeting the Supervisory Board discussed and passed the declaration of conformity within the meaning of Section 161 of the Aktiengesetz (German Public Limited Companies Act) for 2010 with the Managing Board.

The Managing Board also informed the Supervisory Board of plans of major importance or of particular urgency 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 Dosco Holdings Limited with its subsidiaries and the conclusion of credit agreements. 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.

Mr. Florian Kawohl resigned from the Supervisory Board as of the end of the Ordinary General Meeting on April 14, 2010. The General Meeting elected Mr. Christian Dreyer as a new member of the Supervisory Board. The Supervisory Board does not have any committees.

The members of the Supervisory Board jointly have the knowledge, capabilities and experience to fulfill their responsibilities. The Supervisory Board aims at reaching a higher diversity with regard to its composition in the course of the next five years. This is intended to relate to three aspects in particular. Different professional and industry backgrounds of members shall foster different points of view in internal discussions. An international

membership shall reflect the international activity of the Group. An appropriate share of female members is particularly desirable. 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 November 30, 2010. This has been published in the meantime and made accessible to shareholders at www.smtscharf.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 2010 were audited by Verhülsdonk & Partner GmbH, Düsseldorf, and issued with an unqualified auditors' opinion. According to the statutory requirements, 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 2, 2011, 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 2010. The audit reports were available to all members of the Supervisory Board in good time prior to its meeting. 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 2010. The financial statements for 2010 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 2010.

The company's Managing Board proposes to distribute a dividend of 0.85 EUR per share from the company's net retained profits totaling 4,189 EUR'000. In terms of shares outstanding on today's date (excluding the company's treasury shares), this corresponds to a dividend total of 3,370 EUR'000. The remaining amount of 819 EUR'000 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 2011.

Hamm, March 2, 2011

(Dr. Markus)
Chairman of the Supervisory Board