

SMT Scharf AG
Annual financial report 2011

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Management report for fiscal year 2011

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 and gradients of up to 35 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 2009 to 2011, hard coal mines accounted for 75% of revenues, with gold and platinum mines accounting for 19%, and other mines and tunneling accounting for 6%.

Similar to the previous year, coal production was up in all of the SMT Scharf Group's national markets in 2011, with the exception of Germany and Poland. Growth amounted to around 11% in China (previous year: 8%), approximately 4% in Russia (previous year: 7%), and around 10% in the Ukraine (previous year: 4%), according to preliminary figures. In Poland, production fell by around 1%, following a 3% decline in the year before. 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.

Hard coal prices remained at a high level over the course of 2011. The Steam Coal Marker Price that is calculated by the McCloskey Group increased by around 8% between December 2010 and May 2011, before falling and settling in December 2011 at a price around 5% below the previous year's level. In contrast, prices for Brent Crude Oil were around 18% higher in December 2011 than one year before.

Exchange rates for the key currencies for the companies in the SMT Scharf Group reported differing trends over the course of the year. The Polish Zloty, which is the home currency of two competitors, depreciated by 12.0% relative to the Euro between December 2010 and December 2011. The exchange rate of the Czech Krone, which is the home currency of three further competitors, underwent only a slight change, by contrast. In this instance, the depreciation relative to the Euro was only 1.4% between December 2010 and December 2011.

Also compared to the currencies of the main customer countries, the Euro exchange rate reported differing trends, having depreciated over the course of the previous year relative to the Chinese Yuan, the Russian Ruble and the South African Rand. This trend continued relative to the Chinese Yuan over the course of 2011. Its exchange rate to the Euro in December 2011 was 4.9% higher than in the same month of the previous year. Over the same period, the Russian Ruble depreciated by 2.0%, and the South African Rand depreciated by 19.6%, compared with the Euro. On the basis of 2010 and 2011 year-average rates, these trends were less pronounced, because most of the appreciating and depreciating movements occurred in the second half of 2011.

From today's perspective, it is most probable that demand for raw materials and investments by mines will increase further in 2012 and over subsequent years. Countries such as China, Russia, Ukraine 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 still notable risks of a recession setting in, as experienced in 2008. 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 4,620 shares were sold to employees in April 2011 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 TEUR to 4,200 TEUR 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. There is also authorized capital 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 April 12, 2016. 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, fulfil 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. The company still held 235,095 of these shares at the start of the year under review (5.6% of the share capital). The company reduced this position to 50,475 shares (1.2% of the share capital) by transferring shares to the UK companies' pension fund and by issuing shares to employees.

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.

All of the shareholders that held interests in SMT Scharf AG before the IPO fell below the 10% voting rights threshold in January 2010, and withdrew fully from the shareholder base in

February 2010. No new participating interests have been reported to SMT Scharf AG since then 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 TEUR. 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 TEUR since its IPO. At the end of the reporting period, 50 TEUR was attributable to treasury shares, as a consequence of which the amount carried in the balance sheet stood at 4,150 TEUR. There is also a share premium of 12,160 TEUR. Equity including net income and after deducting the dividend for fiscal year 2010 disbursed in April 2011 and the equity interests due to own shares, totaled 20,888 TEUR on December 31, 2011 (previous year: 18,614 TEUR). This corresponds to 91% of total assets (previous year: 91%). Assets primarily comprise participating interests in and receivables from companies in the SMT Scharf Group.

Earnings position: SMT Scharf AG recorded earnings before taxes of 2,233 TEUR in 2011 (previous year: 2,862 TEUR). This figure includes, in particular, 2,999 TEUR income from participating interests.

Financial position: Cash and cash equivalents including marketable securities increased to 4,344 TEUR (previous year: 3,971 TEUR) as a result of income from dividends. The largest expenditure item was the dividend paid for 2010 in the amount of 3,527 TEUR.

Capital expenditure: Over the course of 2011, SMT Scharf AG increased the subscribed capital of Dosco Holdings Ltd. it also founded SMT Scharf Far East Holdings Ltd. in Hong Kong jointly with SMT Scharf GmbH. Participating interests therefore increased from 12,745 TEUR to 16,157 TEUR. 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 29, 2011. It is as follows:

“The Managing and Supervisory Boards of SMT Scharf AG declare that they have corresponded and will continue to correspond to the recommendations of the "German Corporate Governance Code Government Commission" in the Code's version dated 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.
- The employment contracts for the members of the Managing Board do not limit payments upon early termination to two years' remuneration. Until now, such a limit appears to be dispensable since the employment contracts only have terms of three years.”

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.

The Supervisory Board is endeavouring to achieve greater diversity in its composition over the 2010 to 2015 period. 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. Progress was made with the first two of these objectives in the new elections in 2010 and 2011.

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 last 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 the consolidated net income for the period and is limited in terms of amount. The Supervisory Board members' periods of office run until the end of the General Meeting which resolves ratification for fiscal year 2014 (Mr. Dreyer) and fiscal year 2015 (Dr. Markus and Dr. Kempis) respectively. Mr. Dreyer has announced that he will soon relinquish his office in order to be available to become the company's CEO.

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. Mr. Schulze-Buxloh's employment contract runs until December 2014. Both parties are entitled to terminate it early only for cause. Dr. Trautwein's employment contract is to be terminated at the end of March 2012 by amicable agreement.

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 affect 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

The company announced in early February that Dr. Trautwein will step down from the Managing Board at the end of March this year, in order to address new responsibilities. As a consequence, Mr. Dreyer will relinquish his office as a member of the company's Supervisory Board, in order to be subsequently available to switch to the post of the company's Chief Executive Officer once the Supervisory Board has been reconstituted.

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. 2011 was another year of successful international expansion for the SMT Scharf Group. 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 22, 2012

(Dr. Trautwein)

(Schulze-Buxloh)

Balance Sheet as of December 31, 2011

Assets (in EUR)	31.12.2011	31.12.2010
A. Non-current assets		
I. Financial assets	16,157,355.63	12,745,482.16
Interests in affiliated companies	16,157,355.63	12,745,482.16
	16,157,355.63	12,745,482.16
B. Current assets		
I. Receivables and other assets	2,077,756.40	3,399,976.67
1. Receivables from affiliated companies	952,746.65	3,052,918.16
2. Other current assets	1,125,009.75	347,058.51
II. Securities	2,000,000.00	1,000,000.00
III. Cash and cash equivalents	2,344,255.46	2,971,481.87
	6,422,011.86	7,371,458.54
C. Prepaid expenses	8,367.00	6,669.00
D. Deferred tax assets	383,160.50	265,444.98
Total assets	22,970,894.99	20,389,054.68

Equity and liabilities (in EUR)	31.12.2011	31.12.2010
A. Equity		
I. Subscribed capital	4,149,525.00	3,964,905.00
Total nominal value	4,200,000.00	4,200,000.00
Nominal value of own shares	-50,475.00	-235,095.00
(Conditional capital		
2,100,000.00 previous year:		
2,100,000.00)		
II. Share premium	12,159,724.99	10,357,000.00
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	4,475,528.67	4,189,384.16
	20,887,872.36	18,614,382.86
B. Provisions		
1. Pension provisions	697,647.00	392,544.00
2. Other provisions	1,072,440.25	1,054,176.36
	1,770,087.25	1,446,720.36
C. Liabilities		
1. Trade payables	45,414.65	21,130.69
2. Liabilities to affiliated companies	224,595.09	300,578.70
3. Other liabilities	42,925.64	6,242.07
Thereof taxes 41,969.80		
(previous year 6,242.07)		
	312,935.38	327,951.46
Total equity and liabilities	22,970,894.99	20,389,054.68

Income statement for the period from January 1 to December 31, 2011

In EUR	2011	2010
1. Other operating income Thereof from currency translation: 1,815.10 (previous year 6,721.72)	873,441.33	631,676.13
2. Personnel expenses a) Wages and salaries b) Social security contributions Thereof relating to pensions: 54,887.00 (previous year 5,526.00)	1,009,924.45 62,689.05	967,404.83 13,099.44
3. Other operating expenses Thereof from currency translation: 2,885.57 (previous year 46,068.13)	588,813.12	611,135.81
4. Income from participating interests Thereof from affiliated companies: 2,998,965.12 (previous year 3,753,390.26)	2,998,965.12	3,753,390.26
5. Income from long-term loans Thereof from affiliated companies: 0.00 (previous year 35,426.00)	0.00	35,426.00
6. Other interest and similar income Thereof from affiliated companies: 0.00 (previous year 9,812.65)	42,069.41	54,251.05
7. Other interest and similar expenses Thereof to affiliated companies: 0.00 (previous year 500.00) Thereof interest accrued on provisions: 20,216.00 (previous year 20,212.00)	20,236.92	20,714.00
8. Profit before tax	2,232,812.32	2,862,389.36
9. Income tax Thereof deferred taxes: -117,715.52 (previous year -213,327.32)	-116,391.84	-213,327.32
10. Net income	2,349,204.16	3,075,716.68
11. Profit / loss carried forward	4,189,384.16	2,893,116.64
12. Sale of own shares	1,464,036.60	983,243.64
13. Dividend disbursement	-3,527,096.25	-2,762,692.80
14. Net retained profits	4,475,528.67	4,189,384.16

Notes for fiscal year 2011

Accounting and valuation policies

These financial statements have been prepared pursuant to Sections 242ff, 264ff of the Handelsgesetzbuch (German Commercial Code) and the relevant provisions of the Aktiengesetz (German Public Limited Companies Act). The company classifies as a large corporation 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 5.14%. 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 (TEUR) unless otherwise stated.

Notes to the balance sheet

The changes in non-current assets, which consist exclusively of shares in affiliated companies, are set out in the following statement:

	01.01.2011	Additions	Disposals	31.12.2011
Acquisition cost	13,502	3,412	0	16,914
Depreciation / amortization	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 1,098 TEUR (including 767 TEUR from VAT). Receivables and other current assets are all due within one year.

As at December 31, 2011, 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 April 13, 2011, to increase the subscribed capital with the approval of the Supervisory Board by up to 2,100 TEUR until April 12, 2016. 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 TEUR 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, fulfil 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 treasury shares were acquired in the 2011 fiscal year. Of the treasury shares acquired in 2009, the company sold 4,620 to employees as part of an employee equity participation plan. It transferred a further 180,000 shares to the pension fund at the UK companies. It thereby fulfilled a commitment to the trustees of the pension fund undertaken as part of the purchase of Dosco Holdings Limited and its subsidiaries. The company still held 50,475 own shares on December 31, 2011, or 1.2% of the share capital. The own shares can be used for all purposes set out in the authorization resolution.

The share premium at the end of the fiscal year totaled 12,160 TEUR. It includes the premium for the cash capital increase of April 3, 2007, as part of the IPO (10,200 TEUR), and from the sale and transfer of treasury shares in 2010 and 2011 (1,960 TEUR). Retained earnings include the statutory reserve formed in 2006 totaling 5% of the net income for that fiscal year. An amount of 383 TEUR arising from the capitalization of deferred taxes is blocked for distributions.

SMT Scharf AG's financial statements, which are prepared according to the accounting principles of the German Commercial Code, disclose net retained profits of 4,476 TEUR. The Managing and Supervisory Boards will propose to the ordinary General Meeting, which is to be held on April 25, 2012, to pay a dividend of 0.95 EUR per share for fiscal year 2011 from these net retained profits. On the basis of the number of shares outstanding today (excluding the

company's treasury shares), this results in a dividend total of 3,942 TEUR, payable in 2012. The remaining amount of 534 TEUR 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 01.01.2011	393	860	194
Interest cost	20	0	0
Usage	0	518	179
Transfer	150	-150	0
Additions	135	718	228
Reversals	0	68	13
As of 31.12.2011	698	842	230

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: 32.1%)

	31.12.2011	31.12.2010
Pension provisions	77	24
Other assets and liabilities	-56	13
Realizable tax losses carried forward	362	228
Total	383	265

Notes to the income statement

Other operating income mostly includes 704 TEUR from intra-group management fees and 81 TEUR 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, 2011, 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	Aurelius 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 (until 12/11) Hanseyachts AG, Greifswald, Member of the Supervisory Board (since 12/11) ISOCHEM S.A., Vert-le-Petit (France), Member of the Board (until 05/11) Lotus AG, Grünwald, Chairman of the Supervisory Board SKW-Stahl Metallurgie Holding AG, Unterneukirchen, Member of the Supervisory Board GCI Industrie AG, Munich, Chairman of the Supervisory Board
Christian Dreyer, Salzburg (Deputy Chairman)	Entrepreneur	
Ulrich Radlmayr, Schondorf a. A. (until 13.04.2011)	Lawyer and Member of the Managing Board of Aurelius AG	Aurelius Beteiligungsberatungs AG, Munich, Member of the Supervisory Board Aurelius Portfoliomanagement AG, Munich, 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 (until 12/11) ISOCHEM S.A., Vert-le-Petit (France), Member of the Board (until 05/11) (no other mandates)
Dr.-Ing. Rolf- Dieter Kempis, Waldenburg (from 13.04.2011)	Management consultant	

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 TEUR, 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 TEUR 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 2011:

	Dr. Markus	Dreyer	Radlmayr	Dr. Kempis
Fixed remuneration	23	15	4	11
Variable remuneration	10	10	3	7
Expenses	2	1	0	1
Total	35	26	7	19

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 favour of members of the Supervisory Board. As of December 31, 2011, 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 2011 for the company and its subsidiaries:

	Dr. Trautwein	Schulze- Buxloh
Basic remuneration	158	136
Bonus	476	242
Additional payments	49	20
Total	683	398

SMT Scharf AG has pension obligations and other obligations from the conversion of salary components for previous fiscal years of 678 TEUR for Dr. Trautwein and 144 TEUR for Mr. Schulze-Buxloh. 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, 2011, 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 favour 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 29, 2011. 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 totaled EUR 9.2 million. In addition, there is joint liability for subsidiaries' credit facilities in the amount of EUR 12.2 million.

The management report discloses the participating interests of 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, 2011 and a group management report for fiscal year 2011. The consolidated financial statements include SMT Scharf AG and the following subsidiaries:

	Interest	Equity 31.12.2011	Net income 2011
SMT Scharf GmbH, Hamm, Germany	100%	12,383	6,723
SMT Scharf Polska Sp. z o. o., Tychy, Poland	100%	4,654	1,987
SMT Scharf Saar GmbH, Neunkirchen, Germany	100%	365	332
Sareco Engineering (Pty.) Ltd. Brakpan, South Africa	100%	1,438	234
SMT Scharf Africa (Pty.) Ltd., Kya Sands, South Africa	100%	2,573	33
OOO SMT Scharf, Novokuznetsk, Russian Federation	100%*	1,897	1,459
SMT Scharf Sales and Services GmbH, Hamm, Germany	100%**	17	-3
SMT Scharf International OÜ, Tallinn, Estonia	100%**	1,070	318
Scharf Mining Machinery (Beijing) Co. Ltd., Beijing, China	100%**	833	185
Dosco Holdings Ltd., Tuxford, United Kingdom	100%	8,896	-3,066
Dosco Overseas Engineering Ltd, Tuxford, United Kingdom	100%***	5,140	-1,623
Hollybank Engineering Co. Ltd., Tuxford, United Kingdom	100%***	1,472	72
OOO Dosco, Novokuznetsk, Russian Federation	100%***	-395	-30
SMT Scharf Far East Holdings Ltd., Hong Kong, China	100%****	1	0
Shandong Xinsha Monorail Co. Ltd., Xintai, China	50%**	2,548	1,012
TOW SMT Scharf Ukraine, Donetsk, Ukraine	50%**	204	173

* Of which 1.25% indirectly via SMT Scharf GmbH

** Indirectly via SMT Scharf GmbH

*** Indirectly via Dosco Holdings Ltd.

**** Of which 25% indirectly via SMT Scharf GmbH

SMT Scharf Far East Holdings Ltd. was founded in August 2011, and the joint venture TOW SMT Scharf Ukraine was founded in June 2011.

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 22, 2012

(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, 2011, 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 2011 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 22, 2012

(Dr. Trautwein)

(Schulze-Buxloh)

Auditors' report and opinion

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, 2011 to December 31, 2011. 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.

Duesseldorf, February 22, 2012

Verhülsdonk & Partner GmbH
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Oliver Schmitz
Wirtschaftsprüfer

Rainer Grote
Wirtschaftsprüfer

**Declaration by the Managing and Supervisory Boards of
SMT Scharf AG for 2011 according to Section 161 of the
Aktengesetz (German Public Limited Companies Act)
concerning the recommendations of the
"German Corporate Governance Code Government Commission"
in the version dated May 26, 2010**

The Managing and Supervisory Boards of SMT Scharf AG declare that they have corresponded and will continue to correspond to the recommendations of the "German Corporate Governance Code Government Commission" in the Code's version dated 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.
- The employment contracts for the members of the Managing Board do not limit payments upon early termination to two years' remuneration. Until now, such a limit appears to be dispensable since the employment contracts only have terms of three years.

Hamm, November 29, 2011

(Dr. Markus)

(Dreyer)

(Dr. Kempis)

(Dr. Trautwein)

(Schulze-Buxloh)

Report of the Supervisory Board for fiscal year 2011

In fiscal year 2011, 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 business growth for SMT Scharf AG and the Group's companies, the company's strategic orientation as well as the implementation status of its strategy.

In its four ordinary meetings on March 2, April 13, September 26 and November 29, 2011, 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 thoroughly 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 2, 2011 focused on the financial statements and the IFRS consolidated financial statements for fiscal year 2010 together with the associated management reports. The Supervisory Board also discussed the SMT Scharf Group's current external financing. The Supervisory Board elected its Chairman and Deputy Chairman in its meeting on April 13. Dr. Dirk Markus was re-elected Chairman, and Mr. Christian Dreyer was re-elected Deputy Chairman. This meeting also dealt with ongoing acquisition projects. The meeting on September 26 focused on business developments in China and measures to expand the subsidiary located there. The Supervisory Board also discussed compliance management at the SMT Scharf Group. On November 29, the Supervisory Board covered the Group's 2012 budget and questions relating to personnel development, in particular. In addition, at this meeting the Supervisory Board also discussed and passed the declaration of conformity within the meaning of Section 161 of the Aktiengesetz (German Public Limited Companies Act) for 2011 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. This included, for example, agreeing to the early stepping down of Dr. Trautwein from his office as CEO, and arranging his succession. The approval requirements for certain transactions as defined in the Managing Board's bylaws were upheld. This particularly related to the conclusion of borrowing agreements, the founding of new subsidiaries, and capital measures. 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. Ulrich Radlmayr resigned from the Supervisory Board as of the end of the Ordinary General Meeting on April 13, 2011. The General Meeting newly elected Dr.-Ing. Rolf-Dieter Kempis to the Supervisory Board. The General Meeting also re-elected Dr. Dirk Markus to 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 fulfil their responsibilities. The Supervisory Board is endeavouring to achieve a higher diversity with regard to its composition over the 2010 to 2015 period. 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. Progress was made with the first two of these objectives in the new elections in 2010 and 2011. The members of the Supervisory Board fulfilled and continue to fulfil 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 29, 2011. This has been published in the meantime and made accessible to shareholders at www.smtscharf.com.

The financial statements and management report prepared by the Managing Board, as well as the IFRS consolidated financial statements and group management report for fiscal year 2011 were audited by Verhuelsdonk & Partner GmbH, Duesseldorf, 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 5, 2012, 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 2011. 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 2011. The financial statements for 2011 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 2011.

The company's Managing Board proposes to distribute a dividend of 0.95 EUR per share from the company's net retained profits totaling 4,476 TEUR. In terms of shares outstanding on today's date (excluding the company's treasury shares), this corresponds to a dividend total of 3,942 TEUR. The remaining amount of 534 TEUR 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. Special thanks are due to Dr. Trautwein, who will leave the company at the end of the month, for the outstanding work that he has contributed over the last six years. The Supervisory Board would like to wish the new Managing Board and the employees continuing success in meeting the challenges posed by the new fiscal year.

Hamm, March 5, 2012

(Dr. Markus)
Chairman of the Supervisory Board