

**SMT Scharf AG**  
**Annual financial report 2013**

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# Management report for fiscal year 2013

## Economic environment

Following somewhat weak economic growth in the first half of 2013, global production gained traction over the rest of the year. Global gross domestic product growth of 2.4 % was nevertheless below the 2.5 % reported in 2012, according to International Monetary Fund (IMF) figures. The decline in production growth in emerging economies was more pronounced than in developed economies. Growth also slowed in 2013 on the most important sales markets for SMT Scharf AG. In Poland, GDP growth in 2013 amounted to 1.3 % (2012: 1.9 %), in China to 7.7 % (2012: 7.7 %), in Russia to 1.5 % (2012: 3.4 %) and in South Africa to 1.8 % (2012: 2.5 %), according to IMF statistics.

Despite its localisation strategy, most new systems and plants at SMT Scharf AG continue to be produced in Germany. For this reason, changes to the exchange rates for the company's main sales markets continue to be important. With the Polish Zloty (-2 %) and the Chinese Yuan Renminbi (-2 %), the exchange rates for two important target countries remained more or less stable in the period under review (source: European Central Bank (ECB) data). The sharp depreciation of the Russian Ruble (-12 %) and South African Rand (-30 %) nevertheless meant that SMT Scharf's products have become significantly more expensive in these countries when converted into local currency. The company also had to absorb currency losses on outstanding project and customer receivables.

Demand on the mining equipment market decreased continuously last year. This weakness reflects a significant drop in commodity prices and a new wave of investment reticence among mining operations. After some significant overinvestment in the course of the past ten years, and the fact that returns on capital have become unattractive, the focus of the mining industry has now made a strong shift towards capital efficiency.

Approximately USD 110 billion of worldwide mining investments in 2013 will be -21 % lower year-on-year, according to sector estimates from PricewaterhouseCoopers. Impairment losses amounting to USD 75 billion (Deloitte) that the mining industry has had to digest between September 2011 and September 2013 reflect the sector's weak trend. This downturn also affects German manufacturers of mining equipment. New order intake received by German mining equipment manufacturers was down sector-wide between January and September 2013, sliding by -39 % year-on-year, according to estimates produced by the mining equipment specialists association of the German Engineering Federation (VDMA). Sector companies are primarily confronted by lower export demand (-40 %), while new orders received from Germany were down by only -24 %. For this reason, and partly due to some residual orders, 2013 sales revenues will at best stagnate at their 2012 level. With regard to 2014, the German Engineering Federation even sees the sector reporting sales revenue down by a low double-digit percentage figure.

In addition, the Chinese economy continues to report strong growth, but is no longer as dynamic as in previous years. Due to the PRC's immense hunger for commodities and energy, this also affects mining equipment investments. Moreover, the Chinese government has also announced that it will reduce coal's share in its energy mix from 70 % in 2013 to 65 % in 2017, according to a study drawn up by consultants at Deloitte. A total of 44 % of global coal was produced in China in 2014, and the country is set to account for 52 % of global coal production by 2030. It is also the world's largest producer of gold, and ranks at third place in worldwide iron ore production.

Medium-term, however, especially Chinese mines need to catch up with the past decades' investment backlog, including in infrastructure investments. Directors at major mining groups assume that demand in China and emerging economies will continue over the medium term. In

their International Energy Outlook 2013, experts at the US Energy Information Administration forecast that global coal production will rise by around 1.3 % per annum between 2010 and 2040, growing from 147 billion Btu (British thermal units) to 220 billion Btu. A major shift away from industrial countries (EU, USA) towards expanding economies in Asia is clearly identifiable. Deloitte believes that mining operators will not only focus on boosting productivity through further automation, but also on further expanding safety precautions.

## **Personal**

### **Human resources**

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

### **Net assets, financial position and results of operations**

Equity and particular legal relationships: SMT Scharf AG's subscribed capital was increased from TEUR 3,000 to TEUR 4,200 against cash contributions as part of the IPO in April 2007. Since that date, it comprises 4,200,000 no-par value bearer shares, each with a notional interest of EUR 1 in the subscribed capital. 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, 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. The company still held 47,275 of these shares at the start of the year under review (1.1 % of the share capital). The company reduced this position to 45,150 shares (1.1 % of the share capital) 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 TEUR 3,000. 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 TEUR 4,200 since its IPO. At the end of the reporting period, TEUR 45 was attributable to treasury shares, as a consequence of which the amount carried in the balance sheet stood at TEUR 4,155. There is also a share premium of TEUR 12,160. Equity, including net income and after deduction of the dividend for fiscal year 2012 disbursed in April 2013 and the equity interests due to own shares, totaled TEUR 17,934 on December 31, 2013 (previous year: TEUR 21,065). This corresponds to 95 % of total assets (previous year: 91 %). Assets primarily comprise participating interests in and receivables from companies in SMT Scharf Group.

Earnings position: SMT Scharf AG recorded earnings before taxes of TEUR 922 in 2013 (previous year: TEUR 4,473). This figure includes, in particular, TEUR 1,987 in income from participating interests.

Financial position: Cash and cash equivalents including marketable securities decreased to TEUR 366 (previous year: TEUR 1,383) as a result of dividend payment for financial year 2012.

Capital expenditures: Even though a new chinese subsidiary has been founded and the minority interests in the ukrainian subsidiary have been acquired, the financial assets decreased from EUR 12.9 million to EUR 11.6 million due to the disposal of the english subsidiaries in the course of the year 2013.

## Corporate governance report

Declaration according to Section 161 Aktiengesetz: The Managing and Supervisory Boards issued their most recent declaration according to Section 161 Aktiengesetz on December 9, 2013. 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 13, 2013 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 endeavoring to achieve greater diversity in its composition over the period until 2018. 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 2011 and 2012.

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. The financial reports, the financial calendar and the ad hoc disclosures are available online at [www.smtscharf.com](http://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 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 2015 (Mr. Dreyer) and fiscal year 2016 (Dr. Fett) respectively. Mr. Dreyer has resigned from 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. Mr. Dreyer's employment contract has run until April 2013 and has been renewed for three years until April 2016 by the Supervisory Board. Both parties are entitled to terminate it early only for relevant reasons.

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 consolidated 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 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 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**

Following the end of the 2013 fiscal year, no further events occurred which have a significant effect on the results of operations, net assets or financial position.

## Forecast

As Holding of the companies of SMT Scharf group the development of SMT Scharf depends on the development of the subsidiaries. The Managing Board of SMT Scharf AG expects significant revenue and earnings growth in the medium term. This is due to the increasingly positive economic growth trend, combined with the continuous increase in demand for commodities, as well as the fact that mine operators need to unlock their current investment backlog situation in order to boost their productivity. Short-term revenue growth trends will be similarly negative as in the preceding year 2013, due to the current investment restrictions for mining equipment world wide.

Hamm, March 12, 2014

The Managing Board

Christian Dreyer

Heinrich Schulze-Buxloh



## Balance Sheet as of December 31, 2013

Assets (in EUR)	31.12.2013	31.12.2012
<b>A. Non-current assets</b>		
<b>I. Financial assets</b>	<b>11,566,394.52</b>	<b>12,854,401.15</b>
Interests in affiliated companies	11,566,394.52	12,854,401.15
	<b>11,566,394.52</b>	<b>12,854,401.15</b>
<b>B. Current assets</b>		
<b>I. Receivables and other assets</b>	<b>6,826,916.90</b>	<b>8,794,429.80</b>
1. Receivables from affiliated companies	6,476,122.82	8,415,457.20
2. Other current assets	350,794.08	378,972.60
<b>II. Cash and cash equivalents</b>	<b>366,315.58</b>	<b>1,383,419.44</b>
	<b>7,193,232.48</b>	<b>10,177,849.24</b>
<b>C. Deferred tax assets</b>	<b>22,996.00</b>	<b>12,451.62</b>
<b>Total assets</b>	<b>18,782,623.00</b>	<b>23,044,702.01</b>

Equity and liabilities (in EUR)	31.12.2013	31.12.2012
<b>A. Equity</b>		
<b>I. Subscribed capital</b>	<b>4,154,850.00</b>	<b>4,152,725.00</b>
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)	45,150.00	47,275.00
<b>II. Share premium</b>	<b>12,159,724.99</b>	<b>12,159,724.99</b>
<b>III. Retained earnings</b>	<b>103,093.70</b>	<b>103,093.70</b>
1. Statutory reserve	1,648.70	1,648.70
2. Other retained earnings	101,445.00	101,445.00
<b>IV. Net retained profits</b>	<b>1,516,193.42</b>	<b>4,649,020.08</b>
	<b>17,933,862.11</b>	<b>21,064,563.77</b>
<b>B. Provisions</b>		
1. Pension provisions	170,797.00	171,978.00
2. Other provisions	495,931.69	717,676.02
	<b>666,728.69</b>	<b>889,654.02</b>
<b>C. Liabilities</b>		
1. Trade payables	28,135.21	6,833.12
2. Liabilities to affiliated companies	143,515.56	364,007.64
3. Other liabilities	10,381.43	719,643.46
Thereof taxes 10,381.43 (previous year 10,130.90)		
	<b>182,032.20</b>	<b>1,090,484.22</b>
<b>Total equity and liabilities</b>	<b>18,782,623.00</b>	<b>23,044,702.01</b>

## Income statement for the period from January 1 to December 31, 2013

In EUR	2013	2012
1. Other operating income Thereof from currency translation: 4,794.78 (previous year 5,526.57)	1,070,492.04	1,095,771.37
2. Personnel expenses a) Wages and salaries b) Social security contributions Thereof relating to pensions 0.00 (previous year 31,776.00)	424,060.46 5,381.20	776,535.28 38,452.36
3. Depreciation and amortisation	5,000.00	3,302,954.48
4. Other operating expenses Thereof from currency translation: 79,064.99 (previous year 4,008.73)	1,900,765.61	938,330.99
5. Income from participating interests Thereof from affiliated companies: 1,986,500.00 (previous year 8,449,237.29)	1,986,500.00	8,449,237.29
6. Other interest and similar income Thereof from affiliated companies: 183,483.33 (previous year 3,500.00)	204,069.00	20,653.45
7. Other interest and similar expenses Thereof to affiliated companies: 0.00 (previous year 0.00) Thereof interest accrued on provisions: 3,967.64 (previous year 35,860.00)	3,967.64	35,903.91
<b>8. Profit before tax</b>	<b>921,886.13</b>	<b>4,473,485.09</b>
9. Income tax Thereof deferred taxes: 0.00 (previous year 383,160.50)	-61.46	380,472.93
<b>10. Net income</b>	<b>921,947.59</b>	<b>4,093,012.16</b>
11. Profit/loss carried forward	4,649,020.08	4,475,528.67
12. Sale of own shares	16,978.75	25,568.00
13. Dividend disbursement	-4,071,753.00	-3,945,088.75
<b>14. Net retained profits</b>	<b>1,516,193.42</b>	<b>4,649,020.08</b>

## Notes for fiscal year 2013

### 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 4.9 %. 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 non-current assets, which consist exclusively of shares in affiliated companies, are set out in the following statement:

	01.01.2013	Additions	Disposals	31.12.2013
Acquisition cost	16,914	872	5,458	12,328
Depreciation/amortization	4,060	5	3,303	762

Receivables from affiliated companies relate, in particular, to a dividend distribution due from SMT Scharf GmbH and from SMT Scharf Polska. Other current assets include tax receivables totaling TEUR 363 (including TEUR 363 from VAT). Receivables and other current assets are all due within one year.

As at December 31, 2012, 4,152,725 ordinary bearer shares of SMT Scharf AG have been issued in the form of no-par value shares with a notional value of EUR 1 per share. All shares have been fully paid in and grant the holders the same rights.

The Managing Board may increase the subscribed capital with the approval of the Supervisory Board by up to TEUR 2,100 until April 12, 2016 (authorized capital). 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 TEUR 2,100 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 treasury shares were acquired in the 2012 fiscal year. Of the treasury shares acquired in 2009, the company sold 3,200 to employees as part of an employee equity participation plan. The company still held 47,275 own shares on December 31, 2012, or 1.1 % 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 TEUR 12,160. It includes the premium for the cash capital increase of April 3, 2007, as part of the IPO (TEUR 10,200), and from the sale and transfer treasury shares in 2010 and 2011 (TEUR 1,960). Retained earnings include the statutory reserve formed in 2006 totaling 5 % of the net income for that fiscal year. An amount of TEUR 383 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 (HGB), disclose net retained profits of TEUR 4,649. The Managing and Supervisory Boards will propose to the ordinary General Meeting, which is to be held on April 17, 2013, to pay a dividend of EUR 0.98 per share for fiscal year 2012 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 TEUR 4,070, payable in 2013. The remaining amount of TEUR 579 will be carried forward to new account.

Provisions developed as follows during the fiscal year:

	Pension provisions	Other personnel provisions	Miscellaneous other provisions
As of 01.01.2013	173	500	217
Usage	0	500	181
Additions	0	90	400
Reversals	2	0	30

As of 31.12.2013	171	90	406
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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.

## Notes to the income statement

Other operating income mostly includes TEUR 940 from intra-group management fees, income from the transfer of costs to subsidiaries in the amount of TEUR 68. 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 and losses from the disposal of Dosco Holdings Ltd. In May 2013. The auditor's fee charged for the fiscal year is included in the notes to the IFRS consolidated financial statements as at December 31, 2013, 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, London (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 Lotus AG, Grünwald, Chairman of the Supervisory Board SKW-Stahl Metallurgie Holding AG, Unterneukirchen, Member of the Supervisory Board
Dr.-Ing. Rolf- Dieter Kempis, Waldenburg (Deputy Chairman)	Management consultant	no other mandates
Dr. Harald Fett, Monheim	Management consultant	Pflegezeit AG, Hamburg, Member of the Supervisory Board

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 TEUR 15, 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 TEUR 10 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 2013:

	Dr. Markus	Dr. Kempis	Dr. Fett
Fixed remuneration	23	15	15
Variable remuneration	10	10	10

Expenses	1	1	2
Total	34	26	27

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, 2013, the members of the Supervisory Board held 1,000 shares of the company.

During the fiscal year, SMT Scharf AG's Managing Board comprised Mr. Christian Dreyer (CEO) and Mr. Heinrich Schulze-Buxloh. Mr. Schulze-Buxloh is Chairman 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 2013:

	Dreyer	Schulze-Buxloh
Basic remuneration	120	200
Bonus	64	90
Additional payments	10	8
Total	194	298

SMT Scharf AG has pension obligations and other obligations from the conversion of salary components for previous fiscal years of TEUR 171 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. On December 31, 2013, Mr. Dreyer did not hold any 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. Pension payments in an amount of EUR 709 thousand have been executed to a former member of the Managing Board in the financial year.

There are no advances, loans, or contingent liabilities in favor of members of the Managing Board.

The company has assumed joint liability for bank lines in an amount of EUR 6.9 million towards banks.

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).

### Information on SMT Scharf AG and the SMT Scharf Group

SMT Scharf AG, Roemerstrasse 104, 59075 Hamm, Germany (hereinafter also referred to as the "company") was formed on May 31, 2000, according to German law. It is the management holding company for the companies in the SMT Scharf Group. All 4,200,000 shares of SMT Scharf AG are listed on the regulated market of the Frankfurt Stock Exchange (Prime Standard). The purpose of the companies in the SMT Scharf Group is to plan, produce, sell, install and maintain machinery and equipment to transport people, equipment and material and to hold participating interests.

The consolidated financial statements include SMT Scharf AG and the following subsidiaries:

in TEUR	Interest	Equity (IFRS) 31.12.2013	Earnings (IFRS) 2013
SMT Scharf GmbH, Hamm, Germany	100%	16,789	3,252
SMT Scharf Saar GmbH, Neunkirchen, Germany	100%	364	79
SMT Scharf Polska Sp. z o. o., Tychy, Poland	100%	6,708	2,180
Sareco Engineering (Pty.) Ltd., Brakpan, South Africa	100%	2,043	389
SMT Scharf Africa (Pty.) Ltd., Kya Sands, South Africa	100%	2,351	197
Scharf Mining Machinery (Xuzhou) Ltd., Xuzhou, China	100 %	732	-12
TOW SMT Scharf Ukraina, Donetsk, Ukraine	100 %	439	44
OOO SMT Scharf, Novokuznetsk, Russian Federation	100% *	2,670	-99
OOO SMT Scharf Service, Novokuznetsk, Russian Federation	100% ***	-149	-160
Global Mining Services GmbH, Hamm, Germany	100%	9	-6
SMT Scharf International OÜ, Tallinn, Estonia	100% **	1,402	-0.5
Scharf Mining Machinery (Beijing) Co. Ltd., Beijing, China	100% **	2,622	358
Shandong Xinsha Monorail Co. Ltd., Xintai, China	50% **	2,305	970
* of which 1.25% indirectly via SMT Scharf GmbH			
** indirectly via SMT Scharf GmbH			
** indirectly via OOO SMT Scharf			

On May 7, 2013 the English subsidiaries Dosco Holdings Ltd., Dosco Overseas Engineering Ltd., Hollybank Engineering Co. Ltd. As well as OOO Dosco have been sold and thus have no longer been fully consolidated.

The Russian company OOO SMT Scharf Service was founded as a leasing and service company on July 1, 2013. SMT Scharf Group aims to use this company as a platform to offer its customers complete packages for leased railways.

By contract of association as of October 23, 2013 SMT Scharf Mining Machinery (Xuzhou) Ltd., Xuzhou, China has been founded. The company has an initial capital of USD 3 million of which EUR 750 thousand have been placed on deposit as of December 31, 2013.

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 December 9, 2013. It has been made accessible to shareholders at [www.smtscharf.com](http://www.smtscharf.com).

Hamm, March 12, 2014

The Managing Board

Christian Dreyer

Heinrich 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, 2013, 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 2013 presents SMT Scharf'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, March 12, 2014

Christian Dreyer

Heinrich 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, 2013 to December 31, 2013. 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.

Düsseldorf, March 12, 2014

Verhülsdonk & Partner GmbH  
Wirtschaftsprüfungsgesellschaft  
Steuerberatungsgesellschaft

Dr. Michael Hüchtebrock  
Auditor

Christian Weyers  
Auditor

**Declaration by the Managing and Supervisory Boards of  
SMT Scharf AG for 2013 according to Section 161 of the  
Aktiengesetz (German Public Limited Companies Act)  
concerning the recommendations of the  
"German Corporate Governance Code Government Commission"**

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 13, 2013, 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, December 9, 2013

(Dr. Markus)

(Dr. Kempis)

(Dr. Fett)

(Dreyer)

(Schulze-Buxloh)

## **Supervisory Board report for the 2013 fiscal year**

In fiscal year 2013, 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 4 (Hamm), April 17 (Hamm), September 22 (Xuzhou/China) and December 9, 2013 (Munich), 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, which was analyzed with the help of a questionnaire on March 4, 2013 and found to be sound.

At all of its meetings, the Supervisory Board let itself be informed with in-depth information on the progression of the fiscal year. Important transactions and the trends of financial indicators were also discussed at Supervisory Board meetings. The meeting on March 4, 2012 focused on the financial statements and the IFRS consolidated financial statements for the 2012 fiscal year, together with the associated management reports. The expansion of manufacturing and development capacities in China was discussed, and the construction of a factory was approved. The intended sale of Dosco was also discussed. A further topic of discussion at this meeting was the extension of the Managing Board service contract of Mr. Dreyer by three years until 2016. At the meeting on April 17, a discussion was held as to whether it was appropriate to delay the construction of the factory in China due to slow sales. An offer for Dosco was rejected as too low. The sale of Dosco on May 7 to the local management was approved by way of telephone discussion and in the form of written resolution-taking. The meeting on October 22 in Xuzhou / China focused on a special report on activities in China. Capital of up to USD 3 million for the founding of a wholly-owned subsidiary in Xuzhou was approved, with the original plan for a new building being replaced by a rental concept. On December 9 in Munich, the Supervisory Board focused particularly on significantly reduced sales revenue prospects for the full year, the Group 2014 budget, and resultant Group structure issues. In addition, at this meeting the Supervisory Board also discussed with the Managing Board, and approved, the declaration of conformity pursuant to Section 161 of the German Stock Corporation Act (AktG).

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 sale of Dosco. The approval requirements for certain transactions as defined in the Managing Board's bylaws were upheld. This particularly related to the conclusion of the founding of new subsidiaries, and capital measures in the subsidiaries. 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 SMT Scharf Group.

No committees have existed or exist due to the small size of the Supervisory Board.

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 period from 2014 to 2018. 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 2011 and 2012. 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 December 9, 2013. This has been published in the meantime and made accessible to shareholders at [www.smtscharf.com](http://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 2013 were audited by Verhuelsdonk & Partner GmbH, Duesseldorf, and issued with an unqualified auditors' opinion. According to the statutory requirements, SMT Scharf Group's risk management system, the internal control system and the corporate management 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 preaudit 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 19, 2014, 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 2013. 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 2013. The financial statements for 2013 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 2013.

The company's Managing Board proposes to distribute a dividend of EUR 0.25 per share from the company's net retained profits totaling TEUR 1,516. In terms of shares outstanding on today's date (excluding the company's treasury shares), this corresponds to a dividend total of TEUR 1,039. The remaining amount of TEUR 477 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. 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 19, 2014

Dr. Dirk Markus

Chairman of the Supervisory Board