

**SMT Scharf AG**  
**Annual financial report 2014**

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# Management report for fiscal year 2014

## Economic environment

The SMT Scharf Group develops, manufactures, installs and services transportation equipment for underground mining. SMT Scharf's operating activities can be categorised as follows:

- **Product areas:** The main products comprise **captivated railway systems** that are deployed worldwide primarily in hard coal mines, as well as in underground mines for gold, platinum, copper and nickel (so-called "hard rock mining"), among other metals and precious metals. A total of 93 % of the Group's revenues were attributable to monorail hanging railways ("monorails") and floor-mounted railways in the year under review. Monorail hanging railways transport material and personnel with payloads of up to 45 tons and on gradients of up to 35 degrees. The **chairlifts** product area accounted for 7 % of revenue in the reporting year.
- **Type of business:** Along with supplying new systems, SMT Scharf also offers its customers services in the area of spare parts / repairs / service / other. The **business with new plants, systems and installations** on the one hand, and the business with **spare parts and services**, on the other, have each comprised an average of around half of sales revenue over the past years. Since 2013, SMT Scharf has also acted as a **rail systems operator**.
- **Customer groups:** SMT Scharf's customers derive, firstly, from the **coal mining**, industry, with which 88 % of revenue was generated in the year under review. SMT Scharf recorded 12 % of its revenue from customers from the **hard rock mining** sector.
- **Regions:** Geographical sales markets are segmented according to the regions of Russia, Poland, China, Germany, Africa, America, Other Europe, and Australia / Asia excluding China (based on revenue contribution). A total of 86 % of revenue was generated outside Germany in the year under review. The SMT Shaft Group distributes its products through its own companies in China, Poland, Russia, South Africa and Ukraine, as well as through commercial representations worldwide. The company generates the predominant proportion of its sales revenue in growing foreign markets such as Russia, China, Poland and South Africa.

The global economy grew by 3.3 % in 2014, at the same rate as in the previous year, according to data from the International Monetary Fund (IMF). China and Russia, the most important sales markets for SMT Scharf AG, proved to be weaker than in 2013, while growth in Poland accelerated:

<b>GDP growth in the most important sales markets for SMT Scharf AG* (in %)</b>	<b>2014</b>	<b>2013</b>
World	3.3	3.3
China	7.4	7.8
Poland	3.0	1.7
Russia	0.6	1.3
South Africa	1.4	2.2

\*Source: IMF World Economic Outlook 2014/15

As SMT Scharf still produced most of its new systems in Germany in the year under review – despite the implementation of its localisation strategy – exchange rate changes continue to play an important role in the company's sales markets. Given the Ukraine crisis, the Russian Rouble suffered an unusually sharp loss in value (Euro purchasing power increase of 60 % year-on-year). The Polish Zloty also depreciated slightly. In other words, SMT Scharf's products have become significantly more expensive in these countries when valued in terms of their national currencies. The Chinese Yuan Renminbi, by contrast, appreciated against the Euro as the Euro fell. The South African Rand stabilised after its previous year's collapse.

<b>Exchange rate changes in the most important sales markets for SMT Scharf AG* (in %)</b>	<b>2014</b>	<b>2013</b>
Yuan Renminbi (China) / Euro	-10	+2
Zloty (Poland) / Euro	+3	+2
Rouble (Russia) / Euro	+60	+12
Rand (South Africa) / Euro	-4	+30

\*Source: ECB, year-on-year change

### **Sector trends**

Demand for mining equipment fell further in the year under review, given declining commodity prices and a persistent reticence to invest among mine operations due to overcapacities. After some significant overinvestment by mine operators 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. Some raw materials prices have reported sharp falls since early 2011. The coal sector, which is important for SMT Scharf, has been particularly affected. The price for coking coal delivered from Australia and the USA has fallen from 320 USD/t in 2011 to 120 USD/t by mid-2014, according to the IHS McCloskey Coal Report. For this reason, the mining industry is holding back with new capital expenditures, and preferring to concentrate on replacement investments.

The collapse in sales in the mining equipment industry due to this global reluctance to invest in mines also placed a burden on German mining machine manufacturers. The specialist mining equipment sub-group of the German Engineering Federation (VDMA) estimates that its sales fell by 33 % in the 2014 business year. The 34 % export fall proved sharper than the setback in domestic business (-20%). The throttling of production fed through to short time working at around half of the industry's companies. Job losses also proved unavoidable.

The slowdown in Chinese economic growth and consequently in demand from one of the world's largest buyers of raw materials played an important role in the lower level of investments realised by the global mining industry. In addition, the Chinese government put plans in place in 2014 to reduce coal's share of primary energy requirements to 62 %, and to give preference to both renewable and alternative fossil fuel sources.

### **Personnel**

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.

### **Financial position and performance**

#### Equity and particular legal relationships:

SMT Scharf AG's subscribed capital was increased from EUR 4,200 thousand to EUR 3,000 thousand against cash capital 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. Authorised capital also exists to issue a total of up to 2,100,000 further ordinary shares. With Supervisory Board assent, the Managing Board can utilise this authorised

capital to increase the subscribed capital of SMT Scharf AG until April 12, 2016. Shareholders' subscription rights can be excluded in this context. In addition, conditional capital exists to issue additional ordinary shares up to a total of 2,100,000. The conditional capital increase will be implemented only 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 May 6, 2019, exercise their conversion or subscription rights, or if the holders that are required 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 May 6, 2019, fulfil their conversion obligation. At present, no such securities have been issued. The General Meeting on April 14, 2010 authorised the company's Managing Board to acquire treasury shares of up to 10 % of the respective current share capital by April 13, 2015. Within the scope of the previous authorisation, the company acquired a total of 359,996 treasury shares (8.6 % of the subscribed share capital) in the 2009 fiscal year. The company still held 45,150 of these shares (equivalent to 1.1 % of the share capital) at the end of the year under review – unchanged compared with the previous year-end.

The company is subject to general statutory restrictions on voting rights, in particular resulting from the German Stock Corporation Act (AktG) and the German Securities Trading Act (WpHG). The Managing Board is not aware of any restrictions on voting rights above and beyond the aforementioned, including any restrictions that could result from agreements between shareholders. In addition, the Managing Board is not aware of any restrictions relating to the transfer of the company's shares, including any restrictions resulting from agreements between shareholders.

The interest of the shareholders that held interests in SMT Scharf AG before the IPO fell below the 10 % voting rights threshold in January 2010, and these shareholders exited the shareholder base fully in February 2010. Since then, only the overall pool arising from Shareholder Value Beteiligungen AG/Share Value Stiftung/Christiane Weispenning exceeds 10 % of the voting rights, whether directly or indirectly.

No shares exist with extraordinary rights that grant the holders controlling powers. The company is not aware of any interests held by employees who do not exercise their controlling rights directly. The Supervisory Board can implement changes to the articles of incorporation that affect only their wording. Otherwise, changes to the articles of incorporation require a resolution by the General Meeting in the meaning of Sections 133 and 179 of the German Stock Corporation Act (AktG), whereby pursuant to article 17 of the articles of incorporation, resolutions by the General Meeting are to be passed with a simple majority of votes cast, unless mandatory statutory requirements exist 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 amendments to the articles of incorporation.

Pursuant to article 8 of the articles of incorporation, the company's Managing Board comprises one or several members, including in the event that the share capital exceeds EUR 3,000 thousand, whereby the Supervisory Board determines the number of members of the Managing Board, and can appoint a Chair (CEO) as well as a Deputy Chair (Deputy CEO) of the Managing Board, and also deputy Managing Board members. In all other respects, the statutory regulations apply to the appointment and discharge of Managing Board members. 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 15,922 on December 31, 2014 (previous year: TEUR 17,934). This corresponds to 95 %

of total assets (previous year: 95 %). 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 974 in 2014 (previous year: TEUR 922).

Financial position: Cash and cash equivalents including marketable securities decreased to TEUR 88 (previous year: TEUR 366).

Capital expenditures The financial assets increased from EUR 11.6 million to EUR 13.4 million due to the payment of outstanding contributions to subscribed capital of Scharf Mining Machinery (Xuzhou) Ltd, Xuzhou, China, and the issue of loans to OOO SMT Scharf, Novokuznetsk, Russia.

Declaration according to Section 161 German securities law (Aktiengesetz): The current corporate governance declaration pursuant to Section 161 of the German Stock Corporation Act (AktG) is available on the SMT Scharf Group's website ([www.smtscharf.com](http://www.smtscharf.com)) within the "Other publications" area.

Working approach of the Managing and Supervisory Boards: SMT Scharf AG's executive bodies see their central task in 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 strives to achieve greater diversity in its composition over the period 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 composition 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 requires an annual statement from the auditor on any possible 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 arise during the audit which material for the Supervisory Board's tasks, and all findings that would conflict with the Declaration regarding the German Corporate Governance Code issued by the Managing and Supervisory Boards. No such facts or reasons for exclusion or bias were ascertained.

SMT Scharf AG's Managing Board comprises two members and has one Chairman (CEO). 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 organisational structure. The Managing Board informs the Supervisory Board on a regular basis, in due time and in depth of all issues of planning, business development and risk management that are relevant for the company. Transactions that require approval from the Supervisory Board are presented to the Supervisory Board in due 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 of the capital market and the media with up-to-date information on the company's business development. The regular financial reporting dates are summarised 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).

### **Compensation schemes for the Managing and Supervisory boards**

The Supervisory Board's compensation scheme was last supplemented by way of a resolution by the Annual General Meeting on April 17, 2013, based on SMT Scharf AG's articles of incorporation effective from January 1, 2010. The members of the Supervisory Board receive fixed and variable compensation for each fiscal year plus reimbursement of out-of-pocket expenses, as well as meeting fees of EUR 1 thousand per Supervisory Board meeting.

The Supervisory Board is responsible for decisions on the Managing Board's compensation. Managing Board members receive compensation comprising a fixed basic annual salary and an annual bonus. The basic salary is paid monthly and, in part, quarterly in arrears. Members also receive non-cash benefits from private use of company cars, life insurance cover, and reimbursement of out-of-pocket expenses. The amount of annual bonus is partially 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. The greater proportion of the bonuses is measured on the basis of consolidated net earnings for the year, however. Compensation is to be reviewed at regular intervals to ensure that it is in line with the market, and is appropriate. Pension obligations exist only for members of the Managing Board arising from the conversion of salary components for previous fiscal years. The company regulations for the conversion of salaries up to and including the 2007 fiscal year provide for a fixed upper age limit of 65 years, and 6.0 % interest on converted salary components. The age limit has been adjusted to annual changes in Germany's statutory pensionable age from 2008 on, with interest now set at 4.5 %. No agreements exist for compensation in the event of an acquisition offer. The above regulations for the compensation of members of the Managing Board have been agreed in the members' employment contracts. The contract of Mr. Schulze-Buxloh runs until December 2015, and both parties can terminate it only with significant justification. Mr. Dreyer's contract runs until April 2016. In this case, too, the contract can be terminated by either party only with significant justification.

No compensation exists for former members of the Managing or Supervisory boards or their survivors, nor do any pension obligations exist for this group of individuals.

Details on the compensation and shareholdings of individual members of the Supervisory and Managing boards can be found in the notes to the consolidated financial statements.

## Risk report

### Risk management

The SMT Scharf Group's **risk management system (RMS)** is fully integrated into the company's planning, steering and controlling processes. It forms a central component of value-oriented corporate management as a consequence, and serves the targeted securing of both existing and future success and profitability potentials. The risk management system aims to identify opportunities and risks at an early stage, gauge their impact, and launch suitable preventative and security measures, including monitoring such activities.

In-house regulations are in place for the Group'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 include strategic and operational forecasting, the preparation of weekly, monthly and quarterly reports for the Managing Board, and preparing for investment decisions. Periodic reporting is utilised throughout the Group to communicate ongoing opportunities and risks, and to manage the company's profitability. Risks that arise short-term are communicated directly and immediately to relevant departments, irrespective of normal reporting paths. In this context, the organisational units comprise the first link in the chain when it comes to assuming responsibility for risks, and these units are responsible for the early identification, management and communication of the respective risks. Risk management officers in the organisational units are responsible for coordinating the risk measures and ensuring that risks are communicated to the relevant higher level. Regular weekly and monthly reporting and quarterly reporting form the basis for the auditors' annual confirmation that the SMT Scharf Group has installed a compliant risk monitoring system.

The **internal controlling system (ICS)** forms an integral component of risk management at SMT Scharf. Its primary objectives are to ensure that all transactions are accurately recorded in the company's reporting system, and to prevent any deviations from internal and external regulations. In terms of external financial accounting and reporting, this primarily entails ensuring that financial statements conform to applicable accounting standards. To this end, the internal controlling system and risk management function are organised in line with accounting units. Standard accounting regulations are in place within the SMT Scharf Group (accounting guidelines, for example). Compliance with these guidelines is monitored constantly. In some cases, recourse is made to external specialists to manage specific accounting risks, such as in the case of actuarial valuations.

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 2014 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. The business of SMT Scharf AG is subject to sharp cyclical fluctuations that make specific forecasting difficult. The company anticipates that its 2015 sales revenue will be at a similar level to 2014.

Hamm, March 2, 2015

The Managing Board

Christian Dreyer

Heinrich Schulze-Buxloh



## Balance Sheet as of December 31, 2014

Assets (in EUR)	31.12.2014	31.12.2013
<b>A. Non-current assets</b>		
<b>I. Tangible assets</b>	<b>2,853.72</b>	<b>0.00</b>
Property, plant and equipment	2,853.72	0,00
<b>II. Financial assets</b>	<b>13,435,407.20</b>	<b>11,566,394.52</b>
1. Interests in affiliated companies	13,101,407.97	11,566,394.52
2. Loans to affiliated companies	333,999.23	0.00
	<b>13,438,260.92</b>	<b>11,566,394.42</b>
<b>B. Current assets</b>		
<b>I. Receivables and other assets</b>	<b>3,248,787.53</b>	<b>6,826,916.90</b>
1. Receivables from affiliated companies	2,950,737.43	6,476,122.82
2. Other current assets	298,050.10	350,794.08
<b>II. Cash and cash equivalents</b>	<b>88,369.12</b>	<b>366,315.58</b>
	<b>3,337,156.65</b>	<b>7,193,232.48</b>
<b>C. Deferred tax assets</b>	<b>15,185.00</b>	<b>22,996.00</b>
<b>Total assets</b>	<b>16,790,602.57</b>	<b>18,782,623.00</b>

Equity and liabilities (in EUR)	31.12.2014	31.12.2013
<b>A. Equity</b>		
<b>I. Subscribed capital</b>	<b>4,154,850.00</b>	<b>4,154,850.00</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	45,150.00
<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>-496,022.86</b>	<b>1,516,193.42</b>
	<b>15,921,645.83</b>	<b>17,933,862.11</b>
<b>B. Provisions</b>		
1. Pension provisions	172,204.00	170,797.00
2. Other provisions	543,695.70	495,931.69
	<b>715,899.70</b>	<b>666,728.69</b>
<b>C. Liabilities</b>		
1. Trade payables	20,554.32	28,135.21
2. Liabilities to affiliated companies	120,943.91	143,515.56
3. Other liabilities	11,558.81	10,381.43
Thereof taxes 10,563.71 (previous year 10,381.43)		
	<b>153,057.04</b>	<b>182,032.20</b>
<b>Total equity and liabilities</b>	<b>16,790,602.57</b>	<b>18,782,623.00</b>

## Income statement for the period from January 1 to December 31, 2014

In EUR	2014	2013
1. Other operating income Thereof from currency translation: 15,710.81 (previous year 4,794.78)	642,389.51	1,070,492.04
2. Personnel expenses a) Wages and salaries b) Social security contributions Thereof relating to pensions: 1,407.00 (previous year 0.00)	628,373.15 8,169.82	424,060.46 5,381.20
3. Depreciation of tangible assets	460.30	0.00
4. Other operating expenses Thereof from currency translation: 12,934.32 (previous year 79,064.99)	1,167,942.64	1,900,765.61
5. Amortisation of financial assets	0.00	5,000.00
6. Income from participating interests Thereof from affiliated companies: 0.00 (previous year 1,986,500.00)	0.00	1,986,500.00
7. Other interest and similar income Thereof from affiliated companies: 158,754.23 (previous year 183,483.33)	189,058.94	204,069.00
8. Other interest and similar expenses Thereof to affiliated companies: 0.00 (previous year 0.00) Thereof interest accrued on provisions: 0.00 (previous year 3,967.64)	6.32	3,967.64
<b>9. Profit before tax</b>	<b>-973,503.78</b>	<b>921,886.13</b>
10. Income tax	0.00	-61.46
<b>11. Net loss / income</b>	<b>-973,503.78</b>	<b>921,947.59</b>
12. Profit/loss carried forward	1,516,193.42	4,649,020.08
13. Sale of own shares	0.00	16,978.75
14. Dividend disbursement	-1,038,712.50	-4,071,753.00
<b>15. Net retained profits</b>	<b>-496,022.86</b>	<b>1,516,193.42</b>

## Notes for fiscal year 2014

### 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:

	Acquisition costs				31.12.2014
	01.01.2014	Additions	Disposals	Rebooking	
1. Other equipment, operating and office equipment	0.00	3,314.02	0.00	0.00	3,314.02
<b>I. Tangible assets</b>	<b>0.00</b>	<b>3,314.02</b>	<b>0.00</b>	<b>0.00</b>	<b>3,314.02</b>
1. Interest in affiliated companies	12,328,834.37	1,570,042.50	40,029.05	0.00	13,858,847.82
2. Loans to affiliated companies	0.00	333,999.23	0.00	0.00	333,999.23
<b>II. Financial assets</b>	<b>12,328,834.37</b>	<b>1,904,041.73</b>	<b>40,029.05</b>	<b>0.00</b>	<b>14,192,847.05</b>
<b>Total</b>	<b>12,328,834.37</b>	<b>1,907,355.75</b>	<b>40,029.05</b>	<b>0.00</b>	<b>14,196,161.07</b>

	Depreciation and amortisation				31.12.2014
	01.01.2014	Additions	Disposals	Rebooking	
1. Other equipment, operating and office equipment	0.00	460.30	0.00	0.00	460.30
<b>I. Tangible assets</b>	<b>0.00</b>	<b>460.30</b>	<b>0.00</b>	<b>0.00</b>	<b>460.30</b>
1. Interest in affiliated companies	762,439.85	0.00	5,000.00	0.00	757,439.85
2. Loans to affiliated companies	0.00	0.00	0.00	0.00	0.00
<b>II. Financial assets</b>	<b>762,439.85</b>	<b>0.00</b>	<b>5,000.00</b>	<b>0.00</b>	<b>757,439.85</b>
<b>Total</b>	<b>762,439.85</b>	<b>460.30</b>	<b>5,000.00</b>	<b>0.00</b>	<b>757,900.15</b>

The loans to affiliated companies include claims arising from loans to the SMT Scharf GmbH and receivables from Group allocations. Other assets include an adjusted loan to Dosco Mining Ltd. in the amount of EUR 140 thousand and tax receivables in the amount of EUR 149 thousand (including EUR 149 thousand from value added tax). The claim from the loan to Dosco Mining Ltd. has a term up to 5 years. The other receivables and other assets have a remaining maturity of less than one year.

As of December 31, 2014, 4,154,850 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, with Supervisory Board assent, can increase the subscribed capital on one or several occasions until April 12, 2016, by up to EUR 2,100 thousand against cash or non-cash capital contributions (Authorised Capital). Shareholders' subscription rights can be excluded in this context.

In addition, conditional capital existed to issue EUR 2,100 thousand of additional ordinary shares. The conditional capital increase could be implemented only 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 were issued by the company prior to April 22, 2014, exercised their conversion or subscription rights, or if the holders that were required 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, fulfilled their conversion obligation. At present, no such securities are issued.

The Shareholders' General Meeting on April 14, 2010 authorised the company's Managing Board until April 13, 2015, to acquire treasury shares equivalent to up to 10 % of the then current share capital. This purchase can also occur through deploying equity derivatives. In addition, the resolution includes the further conditions for the purchase and sale of treasury shares. Treasury shares were neither acquired nor sold in the 2014 fiscal year. The company still held 45,150 treasury shares on December 31, 2014, equivalent to 1.1 % of the share capital. The treasury shares can be utilised for all of the purposes stated in the authorisation resolution.

The annual financial statements of SMT Scharf AG, which are prepared in accordance with the principles of the German Commercial Code (HGB), include a net loss for the period of EUR -496 thousand. The Managing and Supervisory boards will propose to the Ordinary Annual General Meeting that is to be held on April 22, 2015, to carry forward this net loss to the new account.

### Shareholder structure

83.62 % of the shares of SMT Scharf AG are free float following the calculation definition of Deutsche Börse. Based on notifications of voting rights sent to the company pursuant to the Securities Trading Act (WpHG) the following shareholder structure was found:

Shareholder pool Shareholder Value Beteiligungen AG/Share Value Stiftung/Christiane Weispfenning	10.16 %
BNY Mellon Service Kapitalanlage-Gesellschaft mbH	5.14 %
Axxion S.A.	4.04 %
Overseas Asset Management (Cayman), LTD	4.01 %
First Eagle Investment Management, LLC	3.01 %
Abdiel Capital	3.00 %

Provisions developed as follows during the financial year.

	Pension provisions	Other personnel provisions	Other provisions
As of 01.01.2014	171	90	406
Consumption	0	90	260
Supply	1	240	192
Dissolvement	0	0	34
As of 31.12.2014	172	240	304

The liabilities all have a residual maturity of less than one year. The liabilities to affiliated companies include current sales tax from the existing tax group and recharges of overheads. There are no liabilities secured by liens.

### Notes to the income statement

Other operating income mostly includes TEUR 503 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. The auditor's fee charged for the fiscal year is included in the notes to the IFRS consolidated financial statements as at December 31, 2014, 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:

Period from 01.01.2014 to 07.05.2014:

Dr. Dirk Markus, London (Chairman)	CEO of Aurelius AG	Berentzen-Gruppe AG, Haselünne, Supervisory Board member Compagnie de Gestion et des Prêts S.A., Saran (France), Supervisory Board member  LOTUS AG, Grünwald, Supervisory Board member (until February 9, 2014); Managing Board member (from February 10, 2014) SKW-Stahl Metallurgie Holding AG, Unterneukirchen, Supervisory Board member
Dr.-Ing. Rolf- Dieter Kempis, Waldenburg (stellv. Vorsitzender)	Management consultant	(no positions held at other companies)
Dr. Harald Fett, Monheim	Management consultant	Pflegezeit AG, Hamburg, Supervisory Board Chairman

A new Supervisory Board was elected at the Annual General Meeting on 05.07.2014:

Dipl.-Ing. Michael Reich, Hamm (Chairman)	Management consultant	DSI International Luxemburg, S.a r.l., Supervisory Board Chairman. OOO DSI Techno, Supervisory Board Chairman (Mr. Reich holds a 10 % interest in Russian company OOO (GmbH) RocBolt Resins Pty Ltd (Sydney), Supervisory Board member BBM Mining Pty Ltd (Melbourne), Director
Dipl.-Kfm. Hans Joachim Theiss, Busek (Deputy Chairman)	Management consultant	(no positions held at other companies)
Dr. Dipl.-Ing. Dirk Vorsteher, Werne	Management consultant	(no positions held at other companies)

The members of the Supervisory Board receive fixed and variable remuneration for each fiscal year plus reimbursement of their out-of-pocket expenses and a meeting fee of EUR 1 thousand for every board meeting. The fixed remuneration totals EUR 15 thousand, and 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 EUR 10 thousand per person and year. Remuneration is paid pro rata if members leave the Supervisory Board during the course of the fiscal year. The following remuneration and out-of-pocket expenses were recognised as expenses for the 2014 fiscal year:

	Markus	Kempis	Fett	Reich	Theiß	Vorsteher
Fixed remuneration	8	5	5	15	10	10
Variable remuneration	0	0	0	0	0	0
Expenses	9	1	0	0	0	0
Meeting fees	5	5	3	7	7	7
Total	22	11	8	22	17	17

No remuneration was paid to former members of the Supervisory Board or their survivors, and no pension obligations exist for this group of individuals. No advances, loans, or contingent liabilities exist in favour of members of the Supervisory Board. As of December 31, 2014, the Supervisory Board members did not hold any shares of the company.

During the fiscal year under review, the Managing Board of SMT Scharf AG comprised Mr. Christian Dreyer (CEO) and Mr. Heinrich Schulze-Buxloh. Mr. Schulze-Buxloh is Supervisory Board Chairman at SMT Scharf Polska Sp. z o.o.

Managing Board members 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 recognised as expenses for the 2014 fiscal year:

	Dreyer	Schulze-Buxloh
Basic remuneration	120	200
Bonus	0	120
Long-term royalty	0	150
Additional benefits	11	7
Total	131	477

SMT Scharf AG has pension obligations and other obligations from the conversion of salary components for previous fiscal years of EUR 223 thousand for Mr. Schulze-Buxloh. Share-based payments, commitments to make payments in the event that the employment relationship ends, and agreements for compensation in the event of a takeover bid do not exist. On December 31, 2014, Mr. Dreyer held no shares in the company, and Mr. Schulze-Buxloh held 6,000 shares.

No remuneration exists for former members of the Managing Board or their surviving dependents.

No advances, loans or contingent liabilities exist in favour of members of the Managing Board.

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

## Group relations

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.

## Information on subsidiaries

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

	Interest	Equity (IFRS) 31.12.2014	Earnings (IFRS) 2014
SMT Scharf GmbH, Hamm, Deutschland	100 %	13,268	-281
SMT Scharf Saar GmbH, Neunkirchen, Deutschland	100 %	383	18
SMT Scharf Polska Sp. z o. o., Tychy, Polen	100 %	6,180	1,444
Sareco Engineering (Pty.) Ltd., Kya Sands, Südafrika	100 %	1,543	-60
SMT Scharf Africa (Pty.) Ltd., Kya Sands, Südafrika	100 %	1,056	-1,350
Scharf Mining Machinery (Xuzhou) Ltd, Xuzhou, China	100 %	2,400	-15
TOW SMT Scharf Ukrainia, Donetsk, Ukraine	100%	-238	-369
OOO SMT Scharf, Novokuznetsk, Russische Föderation	100 % *	1,452	-313
OOO SMT Scharf Service, Novokuznetsk, Russische Föderation	100 % ***	-92	3
SMT Scharf International OÜ, Tallinn, Estland	100 % **	1,150	-52
Scharf Mining Machinery (Beijing) Co., Ltd., Beijing, China	100 % **	3,835	857
Shandong Xinsha Monorail Co. Ltd., Xintai, China	50 % **	3,392	800

\* of which 1.25 % indirectly via SMT Scharf GmbH

\*\* indirectly via SMT Scharf GmbH

\*\*\* indirectly via OOO SMT Scharf

The Global Mining Services GmbH was liquidated on 18.09.2014.



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 October 8, 2014. It has been made accessible to shareholders at [www.smtscharf.com](http://www.smtscharf.com).

Hamm, March 2, 2015

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, 2014, 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 2014 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 2, 2015

The Management Board

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, 2014 to December 31, 2014. 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 2, 2015

RSM Verhülsdonk GmbH  
Wirtschaftsprüfungsgesellschaft  
Steuerberatungsgesellschaft

Dr. Hüchtebrock  
Auditor

Weyers  
Auditor

## Report of the Supervisory Board for the 2014 fiscal year

In the 2014 fiscal year, the Supervisory Board of SMT Scharf AG conscientiously performed the tasks required of it by law and the articles of incorporation and supervised and consulted with the Managing Board continuously. The Supervisory Board received regular, up-to-the-minute, comprehensive written and verbal reports from the Managing Board about business growth and development at SMT Scharf AG and the Group companies, the company's strategic orientation, as well as strategy implementation status. Between meetings, the Managing Board also informed the Supervisory Board of plans of particular importance or urgency. When resolutions were passed, the approval requirements for certain transactions as defined in the Managing Board's rules of business procedure were adhered to.

At the six regular meetings on March 19 (Hamm), on May 7 (Hamm), on June 11 (Hamm), on July 24 (Tychy/Poland), on October 8 (Hamm) and on December 12, 2014 (Xuzhou/China), the Supervisory Board consulted on all questions of relevance for the company. In advance of these meetings, the Managing Board of SMT Scharf AG regularly informed the Supervisory Board about the Group's current business position by way of written reports. Given the tangible downturn in business during the course of the year under review, topics in this context included the related reasons, as well as the measures forming part of the KVI ("costs + sales + innovation") program that the Managing Board had already implemented on the basis of its research into the related causes.

Given the localisation strategy, the Supervisory Board held in-depth discussions about developments on the most important sales markets of SMT Scharf AG, such as China, Russia and Poland, in particular. This included, and continues to include, analysis and discussion of the effects of political tension between Russia and Ukraine on the Group's business, although these developments have had no significant effect on business to date. In order to intensify personal contacts with the local management teams, the Supervisory Board held its regular meetings on July 24 at the Polish branch in Tychy, and on December 12 in Xuzhou/China.

- At the meeting on March 19, the Supervisory Board received a presentation and explanation of the 2013 annual financial statements from the auditors. This included detailed coverage of the management report, the report on opportunities and risks as an element of the management report, as well as the outlook for the 2014 fiscal year. Both the 2013 separate financial statements and the 2013 consolidated financial statements were approved unanimously. In addition, the Supervisory Board concurred with the Managing Board's suggestion to propose to the Annual General Meeting that it approve the payment of a dividend of EUR 0.25 per share, and to confirm RSM Verhülsdonk GmbH as the auditors of the separate and consolidated financial statements for 2014, and passed the corresponding resolutions.
- As a result of proposals and elections by the company shareholders, new appointments were made to the Supervisory Board at the Annual General Meeting on May 7. Since then, Mr. Michael Reich has acted as Supervisory Board Chairman, Mr. Hans-Joachim Theiss has acted as his Deputy, while Dr. Dirk Vorsteher comprises the Supervisory Board's third member. In line with the requirements of the German Corporate Governance Code, the Supervisory Board is structured so that its members possess the knowledge, capabilities and professional experience overall to fulfil their tasks proficiently. Michael Reich and Dr. Dirk Vorsteher have held managerial positions for many years within the mining industry – including internationally – and consequently contribute a wealth and depth of knowledge about the sector's conditions and circumstances. Hans-Joachim Theiss rounds out the Supervisory Board's expertise with his knowledge of the accounting area. Given its few members, the Supervisory Board has continued to refrain from forming committees.
- The first meeting of the newly formed Supervisory Board on June 11 consulted about the restructuring plan for the main plant in Hamm, as well as about sales initiatives to penetrate core sales markets to a greater degree, as well as the tapping of new markets as part of the KVI program.
- At the meeting held on July 24 in Tychy/Poland, this was discussed in greater detail in the light of the business situation and prospects of the Polish branch. Intensifying personal

contacts with the management levels of the national companies enables the effects of the localisation strategy on the Group's future organisational structure to be identified, and to be integrated into the strategic orientation of SMT Scharf AG.

- As part of the meeting on October 8, the Managing Board presented budget planning for the 2015 fiscal year. This planning was approved on December 12. At this meeting, the Supervisory Board also extended the Managing Board contract with Mr. Heinrich Schulze-Buxloh by a further year until December 31, 2015. In addition, the statement pursuant to Section 161 of the German Stock Corporation Act (AktG) relating to the recommendations of the "Government Commission German Corporate Governance Code" in its version of June 24, 2014, was discussed with the Managing Board, and approved. This statement has been made available to all stakeholder groups at [www.smtscharf.com](http://www.smtscharf.com). The members of the Supervisory Board fulfilled and continue to fulfil the independence criteria, excluding any conflicts of interest, as stipulated by the German Corporate Governance Code.
- The Supervisory Board's last meeting in 2014 was held on December 12 in Xuzhou/China. A report presented by the Managing Director of Scharf Mining Machinery (Beijing) Co., Ltd. allowed the Supervisory Board to gain a comprehensive insight into the market, organisation, targets, strategies, and opportunities and risks for SMT Scharf in China.

The separate financial statements and separate management report, as well as the IFRS consolidated financial statements and Group management report for the 2014 fiscal year, which were prepared by the Managing Board, were audited by RSM Verhülsdonk GmbH, Düsseldorf, and issued with unqualified auditors' opinions. As part of statutory requirements, SMT Scharf Group's risk management system and internal control system, as well as the data system, were also covered by the audit. At its meeting on March 4, 2015, also attended by the auditor, the Supervisory Board reviewed the separate financial statements and separate management report, as well as the IFRS consolidated financial statements and Group management report for the 2014 fiscal year. After a thorough discussion and based on its own review, the Supervisory Board concurs with the results of the audit of the separate financial statements and consolidated financial statements by the auditor, and raises no objections against either the separate or the consolidated financial statements. The Supervisory Board expressly approves the separate financial statements and separate management report, as well as the consolidated financial statements and Group management report, prepared by the Managing Board for the 2014 fiscal year. The corresponding financial statements have been adopted as a consequence.

On March 4, 2015, the Managing Board passed a resolution to purchase treasury shares through a stock repurchase program on the secondary market in a volume of up to EUR 2.5 million. For this reason, the Supervisory Board, together with the Managing Board, has refrained from proposing the payment of a dividend, as the cash that will accrue to shareholders by way of the share repurchase will replace the dividend.

The Supervisory Board would like to thank the members of the Managing Board, the members of the Supervisory Board who stepped down last year, and all of the company's employees for their dedication and commitment during the past fiscal year. The Supervisory Board would like to wish the new Managing Board and our employees every success in meeting the challenges of the new fiscal year.

Hamm, March 4, 2015

Michael Reich