

SMT Scharf AG
Annual financial report 2016

Contents

| | |
|---------------------------------|----|
| Management report | 2 |
| Annual financial statements | |
| Balance sheet | 13 |
| Income statement | 14 |
| Notes | 15 |
| Responsibility statement | 24 |
| Auditors' report and opinion | 25 |
| Report of the Supervisory Board | 26 |

Management report for fiscal year 2016

Economic environment

The SMT Scharf Group ("SMT Scharf ") develops, manufactures and services transportation equipment and logistics systems for underground mining and tunnel construction. The business profile of SMT Scharf can be described on the basis of the following criteria:

- **Business areas:** Captivated railway systems deployed in underground mines are the company's main product. Such systems are technically capable of transporting personnel and materials up to 45 tons on gradients of up to 35 degrees. Chairlifts for mining applications comprise an ancillary product. The product range also includes the development and installation of rail and cable management systems, including for energy supplies to machines, for example. The tunnel logistics business area is currently being established. It promises further potential to generate sales over the coming years and is to be expanded to form a further business pillar.
- **Type of business:** The production and installation of new equipment forms the core of the operating activities. To these are added downstream services such as replacement parts, maintenance and repairs. The share of sales revenue has averaged around 50 percent over the past years – with a recently significantly rising trend due to mine operators' reticence to invest in new equipment. SMT Scharf occasionally acts as a railway operator in response to customer demand.
- **Customer groups:** SMT Scharf products are utilised mainly in hard coal mining (the Coal mining segment), as well as increasingly in producing gold, platinum, copper, nickel and salts, referred to as hard rock mining (aggregated within the Non-Coal mining segment). Tunnel construction companies are to be added in the future (Tunnel segment).
- **Regions:** SMT Scharf markets its products through its own subsidiaries located in the world's most important mining countries, including mainly the export markets in Russia, Poland, China and South Africa. The German domestic mining market plays only a minor role today.

The world economy grew by 3.1% in 2016, thereby a little more slowly than in the previous year (3.2%), according to preliminary data from the International Monetary Fund (IMF). Following a weak start, China's economy stabilised increasingly over the course of the year. A recovery compared with 2015 also began in Russia, although gross domestic product (GDP) continued to decline. In Poland, too, growth slowed slightly following the previous dynamic years, but still lay significantly ahead of the Eurozone level. The growth tempo accelerated again in South Africa. The four aforementioned countries represent the most important sales markets of SMT Scharf. The customers there together usually account for more than 75% of Group sales revenues.

GDP growth in the most important sales markets for SMT Scharf AG* (in %)

| | 2016 | 2015 |
|--------------|------|------|
| World | 3.1 | 3.2 |
| China | 6.7 | 6.9 |
| Poland | 3.1 | 3.6 |
| Russia | -0.6 | -3.7 |
| South Africa | 0.3 | 1.3 |

*Sources: IMF World Economic Outlook Update, January 2017; IMF World Economic Outlook, October 2016 (for Poland)

SMT Scharf limits the impact of foreign exchange risks through partial relocation of production and purchasing processes to the company's sales markets. Most new plants are still built in Germany, however. Some sharp movements nevertheless occurred in the four most important currencies of SMT Scharf AG during the reporting period: both the South African Rand and Russian Rouble appreciated against the Euro due to stabilising raw materials prices (a year-on-year reduction in the Euro's purchasing power of almost 15% and 20% respectively) In other words, SMT Scharf products have become significantly less expensive again in these countries when valued in terms of their national currencies. By contrast, the Euro appreciated 4% against the Chinese Yuan Renminbi.

Exchange rate changes in the most important sales markets for SMT Scharf AG* (in %)

| | 2016 | 2015 |
|------------------------------|------|------|
| Yuan Renminbi (China) / Euro | +4 | -6 |
| Zloty (Poland) / Euro | +3 | +/-0 |
| Rouble (Russia) / Euro | -20 | +12 |
| Rand (South Africa) / Euro | -15 | +20 |

*Source: ECB, change over course of year

Steering system

SMT Scharf steers its business applying financial and non-financial performance indicators whose trends affect the company's value positively in different ways. Financial and non-financial performance indicators are monitored continuously, and included in monthly reporting to the Managing Board. Reporting is by subsidiary, and includes an analysis of actual outcomes, a budget/actual analysis, and year-on-year comparisons. SMT Scharf undertakes further specific analyses where required.

Financial and non-financial performance indicators as well as current forward planning are presented in the following tables. The medium-term targets reflect the background assumption that the market environment continues to normalise, especially on the basis of a further increase in raw materials prices.

Financial performance indicators:

| Key indicator | Calculation method | Target (medium-term) |
|---|--|---------------------------------|
| Key income statement figures | | |
| Consolidated sales revenue growth (organic and inorganic) | $(\text{Group revenue in reporting year} / \text{Group revenue in previous year}) - 1$ | >5% |
| Tunnel revenue share | $\text{Tunnel segment revenue} / \text{Group revenue}$ | 10% |
| EBIT margin | $\text{Earnings before interest and tax (EBIT)} / \text{Total operating revenue}$ | >10% |
| Cost of materials ratio | $\text{Cost of materials} / \text{Total operating revenue}$ | <50% |
| Key balance sheet indicators | | |
| Net working capital | $\text{Year-average current assets} - \text{Year-average current liabilities}$ | EUR 20 million |
| Equity ratio (on reporting date) | $\text{Equity} / \text{total assets}$ | 35-40% |
| Key efficiency figures | | |
| Net working capital intensity | $\text{Net working capital} / \text{Group revenue}$ | <50% |
| Days of sales outstanding | $\text{Number of days in reporting year} * (\text{Year-average trade receivables} / \text{Group revenue})$ | <150 days |

Non-financial performance indicators:

| Key indicator | Calculation method | Target (medium-term) |
|-------------------------|--|---------------------------------|
| Employee numbers | | |
| Employee turnover | $\text{Employees leaving the company (FTEs)} / \text{Year-average number of employees (FTEs)}$ | <10% |
| Sickness rate | $\text{Number of work days lost due to sickness} / \text{Planned working days}$ | 5% |

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 three Managing Board members there are only two other employment relationships, unchanged from the previous year.

Financial position and performance

Equity and particular legal relationships:

The subscribed capital of SMT Scharf AG was increased from EUR 4.2 million to EUR 3.0 million 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 2016 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 19, 2021. Shareholders' subscription rights can be excluded in this context. In addition, Conditional Capital 2016 exists to issue additional ordinary shares up to a total of 2,100,000. The Managing Board was authorised to issue, with Supervisory Board approval, once or on several occasions until April 19, 2021, bearer convertible bonds and/or bonds with warrants or profit participation rights (together referred to as "bonds") with or without restriction of term in a total nominal amount of up to EUR 70 million, and to grant to the holders or creditors of bonds conversion or warrant rights (also with conversion or subscription obligations) to the company's ordinary bearer shares with a nominal amount in the share capital totalling up to EUR 2.1 million according to the more detailed specifics of the terms and conditions of the convertible bonds are bonds with warrants. At present, no such securities have been issued.

The company still held a total of 49,477 of these shares at the end of the year under review (1.18% of the share capital).

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 left 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, 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 3.0 million, 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:

The subscribed share capital of SMT Scharf AG has amounted to EUR 4,200 thousand since its IPO. At the end of the reporting period, EUR 49 thousand was attributable to treasury shares, as a consequence of which the amount carried on the balance sheet stood at EUR 4,151 thousand. To this is added the share premium account in an amount of EUR 11,987 thousand. Equity including the net profit generated for the year as well as treasury shares amounts to EUR 16,297 thousand as of December 31, 2016 (previous year: EUR 15,872 thousand). This corresponds to 91% of total assets (previous year: 94%). The assets mainly comprise interests held in, and receivables due from, SMT Scharf Group companies.

Results of operations:

SMT Scharf AG achieved earnings of EUR 307 thousand in 2016 (previous year: EUR 166 thousand).

Financial position:

Cash and cash equivalents rose to EUR 1,044 thousand (previous year: EUR 56 thousand). The company's financial management aims to secure financial flexibility and achieve capital cost optimisation.

Capital expenditure:

SMT Scharf International OÜ, Tallinn, Estonia, was liquidated during the reporting year. All of the shares in Nowilan GmbH, Dinslaken, Germany, were acquired in September 2016. Due to the liquidation of the Estonian company and the acquisition of Nowilan, financial assets reduced only slightly from EUR 15.8 million to EUR 15.7 million.

The company's financial position reported a slight improvement compared with the previous year. As a consequence, SMT Scharf remains positioned well to meet the challenges in the coming business years.

Corporate governance declaration

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) within the "Other publications" area.

Working approach of the Managing and Supervisory Boards: The boards of SMT Scharf AG 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 as shareholder representatives by the General Meeting of Shareholders. The Supervisory Board does not include any former Managing Board members. It has not formed any committees. The Supervisory Board advises and consults with the Managing Board, and supervises its management of the business. It concerns itself with business development and growth, medium-term forecasts, and the further development of the company's strategy. It adopts the annual separate and consolidated financial statements, taking the auditors' reports into account. It also appoints and dismisses the members of the Managing Board. Selected Managing Board transactions as listed in its rules of business procedure require prior Supervisory Board approval. The Supervisory Board can implement changes to the articles of incorporation that affect only their wording. The members of the Supervisory Board are obliged to disclose any conflicts of interest to the Supervisory Board. No conflicts of interest existed in relation to Supervisory Board members of SMT Scharf AG during the year under review.

The Supervisory Board is endeavouring to achieve greater diversity in its composition over the period up to 2018. This should relate to three characteristics in particular: The members' specialists and technical qualifications and sector background is to be more diversified. This should foster a diversity of points of view in internal discussion. An international makeup to the Supervisory Board should reflect the Group's global activities. Appropriate appointments of female members are expressly sought. Progress has already been achieved with the election of Mrs. Gattineau to the Supervisory Board in the last new elections. The Supervisory Board has set a 0% target for the proportion at the first management level below Managing Board level, and at 19% for the management level below that. For the Supervisory Board, the target for the proportion of women has been set at 33.3%. The target for the Managing Board was set at 0%. As in all cases these relate to the current ratios, the targets were already achieved when they were set.

In order to ensure the auditor's independence, the Supervisory Board obtains a declaration from the auditor in relation to any existing reasons for exclusion or bias. When issuing the audit mandate, it is agreed that the auditor will 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 as issued by the Managing and Supervisory boards being incorrect. No such facts or reasons for exclusion or bias were ascertained in the fiscal year elapsed.

The Managing Board of SMT Scharf AG comprises three members and has one Chairman. The board has not formed any committees. The Managing Board's members are jointly responsible for managing the company's business, based on rules of business procedure as issued by the Supervisory Board. The Managing Board determines business targets, the company's policy and the Group's organisation. The Managing Board informs the Supervisory Board regularly, promptly and comprehensively about all questions of relevance for the company relating to planning, business development and risk management. Transactions requiring Supervisory Board approval are submitted in good time to the Supervisory Board. The Managing Board members are obligated to disclose conflicts of interest to the Supervisory Board without delay, and to only assume additional activities, especially supervisory board mandates at companies

outside the Group, with Supervisory Board approval. No conflicts of interest existed in relation to the Managing Board members of SMT Scharf AG during the fiscal year elapsed.

The Managing Board regularly provides shareholders, all other capital market participants, and the media with up-to-date information on the company's business growth. The financial calendar provides a summary of current financial reporting dates. The financial calendar as well as current financial reports and ad hoc announcements are available on the Internet at www.smtscharf.com within the Investor Relations area.

Compensation schemes for the Managing and Supervisory boards

The Supervisory Board's remuneration scheme was last supplemented by way of a resolution by the Annual General Meeting on April 17, 2013, based on the articles of incorporation of SMT Scharf AG. The members of the Supervisory Board receive fixed and variable remuneration for each fiscal year plus reimbursement of their out-of-pocket expenses, as well as meeting fees of EUR 1 thousand per Supervisory Board meeting. The variable remuneration is based on the level of consolidated net profit for the year, and is limited in terms of amount.

Decisions about the compensation of the Managing Board fall within the Supervisory Board's scope of responsibility. Managing Board members receive remuneration comprising a fixed basic annual salary and an annual bonus. The fixed basic remuneration is paid monthly. The members also receive non-cash benefits from private use of company cars, life insurance cover, and reimbursement of out-of-pocket expenses. The level of annual bonus paid in individual cases is based partly on the extent to which certain individually agreed targets were reached. These targets are agreed mutually at the start of each year based on the company's forecasts for the respective fiscal year. The main proportion of the bonuses is measured on the basis of the level of consolidated net profit and/or EBIT for the year. The new Managing Board members' contracts also include variable compensation based on the share price performance and sales revenue trends. Accordingly, a share price increase of one Euro in each case is compensated with a contractually predetermined agreed amount. The sales revenue trend (taking 2015 as the basis year) is calculated based on accumulated consolidated sales revenue, with every EUR 1 million being compensated with a certain contractually agreed amount. Both the individual bonus components and total compensation are capped. The Supervisory Board reviews the compensation at regular intervals to ensure it is suitable and in line with market remuneration levels. 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 remuneration of members of the Managing Board have been agreed in the corresponding employment contracts.

No remuneration 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 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

Risk management

SMT Scharf operates a **risk management system (RMS)** that is fully integrated into the company's planning, management and control processes. As a consequence, the RMS forms a central element of value-oriented corporate management, and serves to secure existing and future success and profitability potentials in a targeted manner. Risk management is aimed at the early identification of opportunities risks to directly launch appropriate precautionary and securing measures that are then monitored constantly.

Risk management is based mainly on internal regulations set out in the form of guidelines and implemented in the corporate management and supervision 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. Ongoing reporting serves the purpose of business performance management Groupwide as well as ongoing monitoring and communication about opportunities and risks. Risks arising short-term are communicated immediately and by direct routes to those organisational units responsible for the early identification, management and communication of the respective risks. Risk management offices within these organisational units have the task of coordinating the risk measures and ensuring risk communication to the relevant higher levels.

The **internal controlling system (ICS)** forms an integral component of risk management at SMT Scharf. The main aim of the ICS is to ensure all business transactions are suitably recorded in the reporting system, thereby preventing deviations from internal and external regulations. In terms of external financial accounting and reporting, this primarily entails ensuring financial statements conform to applicable accounting standards. To this end, the internal controlling system and risk management function is organised in line with accounting units. Standard financial accounting regulations exist within the SMT Scharf Group, with related compliance controlled constantly. In some cases, recourse is made to external specialists to manage specific accounting risks, such as in the case of actuarial valuations.

A **Compliance Management System (CMS)** has been established Groupwide since the second quarter of 2016. The purpose of the CMS is to quickly identify and prevent potential breaches of regulations, communicating appropriate responses to compliance matters on the basis of standard definitions for all Group companies. The certification process for the CMS and the compliance officers had not yet been finalised as of the date when this report was published.

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.

Report on opportunities

Positive effects of strategic measures

The extensive list of measures contained in the three strategic action areas of "Organic Growth", "External Growth" and "Operative Intelligence" aims to make SMT Scharf even more productive and more competitive overall. It enables SMT Scharf to respond to the anticipated upturn in the mining industry from a stronger position. SMT Scharf is tapping new markets and customer groups through further developing the company to become a system supplier of logistics solutions. This policy is creating additional potential to generate sales revenues.

Global economic growth

In the medium term, manufacturing industry in emerging economies and industrialised nations will have a greater need for raw materials energy for continued economic growth. Commodity prices should subsequently now rebound following the end of the last supercycle, making production profitable again for mining operators. The Managing Board of SMT Scharf AG anticipates a short- to medium-term catch-up effect for postponed or cancelled mining infrastructure investments during the next upswing phase. This is expected to generate an increase in sales revenues for SMT Scharf, due to a pickup in demand for mining equipment.

Higher demand on local markets

After the current realignment of the Chinese economy and economic stabilisation, SMT Scharf assumes Chinese mines will return to producing more coal and other raw materials to serve the domestic economy's high demand for resources – including in the case of a reduced growth dynamic. Although the increase in worldwide demand for coal will slow, it will continue to rise in absolute terms. China will remain the world's largest consumer of coal in 2035 according to forecasts by BP, with around half of global consumption being attributable to the country. At the same time, the share of demand from India will almost double by this date. Along with oil and gas, coal will remain one of the most important energy sources in the future, despite the increasing use of regenerative energies. All three energy types together will cover around 75 percent of global energy supplies in 2035, according to estimates.

Reducing the investment backlog in mines

Mining groups increasingly neglected their mines' productivity during the past decade's boom phase. When the boom ended, this resulted in an investment backlog that SMT Scharf believes is now easing. In the short term, the global economy will also regain momentum, and demand for coal and other raw materials will rise, so mine operators will have greater incentives to make more investments in new plants again.

More complex geological locations of raw materials deposits

In the medium term, the mining of raw materials deposits will occur in increasingly inaccessible locations worldwide, incentivising the mining industry to deploy SMT Scharf products. Along with greater cost-efficiency, such products offer the benefit of being especially developed for demanding underground conditions, and have already proved themselves in the German hard coal mining industry.

Diversification advanced

SMT Scharf is expanding its non-coalmining segment, which is to grow to become a segment equivalent to that of coal in the medium to long term. The utilisation of rail transportation and logistics systems in platinum, gold and copper mines will increase, and consequently exert a positive effect on the sales revenue contribution from this business. SMT Scharf is positioning itself closer to its customers in this industrial segment through expanding sales activities into new regions of the world such as the Andes. Above and beyond this, salt deposits also offer opportunities to deploy SMT Scharf products.

Moreover, the new tunnel logistics segment promises the potential for significant sales revenue medium-term, and the opportunity to become less dependent on the raw materials price cycle, as demand for infrastructure is driven by other factors such as denser populations in conurbation centres worldwide.

Summary of the opportunities and risk position

An overall assessment of the company's opportunities and 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 the SMT Scharf Group that could jeopardise it as a going concern. No absolute certainty exists, however, that all relevant risks can be identified and controlled.

Outlook

In early 2017, the International Monetary Fund (IMF) forecasts the following GDP growth rates in SMT Scharf's target markets:

GDP growth in the most important sales markets for SMT Scharf AG* (in %)

| | 2017e | 2016 |
|--------------|--------------|-------------|
| World | 3.4 | 3.1 |
| China | 6.5 | 6.7 |
| Poland | 3.4 | 3.1 |
| Russia | 1.1 | -0.6 |
| South Africa | 0.8 | 0.3 |

*Sources: IMF World Economic Outlook Update, January 2016; IMF World Economic Outlook, October 2016 (for Poland)

China, Russia, Poland and South Africa will remain the SMT Scharf's core markets for the foreseeable future. For 2017, the growth of the Polish market is expected to be equivalent to that of the world economy. A further cooling growth is anticipated for China, by contrast. The forecast of a return to economic growth in Russia as well as higher growth in South Africa is pleasing. The IMF makes its forecasts on the basis of greater political risks relating to free trade.

Despite risks to the global economy, for 2017 the management assumes that a trend turnaround in the mining equipment market is underway. The Managing Board expects consolidated revenue of at least between EUR 40 million and EUR 44 million for the 2017 fiscal year and EBIT between EUR 2.2 million and over EUR 3.0 million. No significant revenues are yet expected for the newly founded Tunnel segment in 2017. In terms of the cost of materials ratio, a lower figure than 2016 is anticipated, although it will continue to lie above the medium-term target of 50.0%. For net working capital, a slight improvement compared with 2016 is expected and correspondingly a slight improvement in net working capital intensity. Days of sales outstanding are to fall to below 200 days in 2017. An equity ratio at the previous year's level is also anticipated for 2017. The medium-term target range for the equity ratio between 35% and 40% is subject to the background assumption of exploiting further opportunities in the area of external growth over the coming years, and of also financing such transactions from the company's own funds.

Despite the currently difficult sector environment, the management expects the global mining equipment market to improve medium- to long-term, and the investment backlog to unwind, especially among Chinese mine operators that have to optimise their infrastructure. Production of raw materials will grow on the basis of the long-term sustainable growth of the global economy, despite its temporary weakness. Emerging economies' growth weakness can also be seen as temporary. Prosperity in such emerging economies will continue to grow in the long term. This is accompanied by sustainable growth in demand for energy. International Energy Agency (IEA) experts nevertheless forecast for 2040 a significant increase in the share that renewable energies will contribute to achieve the international climate targets agreed in Paris. Although demand for coal remains by far the greatest in China in absolute figures in this context, it will also decline there. Coal should account for a less than 45% share of China's energy mix by 2040.

In order to diversify more and further reduce dependency on coal mine operators, SMT Scharf will endeavour to ensure that its business with hard rock mine operators as well as tunnel logistics develops into a second business pillar in the medium to long term. Beyond this, strategic measures in three areas (operational excellence, external growth, organic growth) should contribute to an improved positioning for SMT Scharf. This should enable the company to participate to an above-average extent in market opportunities in the next sector upturn.

Hamm, March 1, 2017

The Managing Board

Hans Joachim Theiss

Wolfgang Embert

Rolf Ferdinand Oberhaus

Balance sheet as of December 31, 2016

| Assets (in EUR) | 31/12/2016 | 31/12/2015 |
|--|----------------------|----------------------|
| A. Non-current assets | | |
| I. Property, plant and equipment | 11,893.42 | 15,640.43 |
| Office and operating equipment | 11,893.42 | 15,640.43 |
| II. Financial assets | 15,718,775.14 | 15,820,505.18 |
| 1. Interests in associated companies | 13,554,546.92 | 13,020,870.17 |
| 2. Loans to associated companies | 2,164,228.22 | 2,799,635.01 |
| | 15,730,668.56 | 15,836,145.61 |
| B. Current assets | | |
| I. Receivables and other assets | 1,051,058.50 | 981,971.64 |
| 1. Receivables due from associated companies | 564,095.62 | 651,406.65 |
| 2. Other assets | 486,962.88 | 330,564.99 |
| II. Bank deposits | 1,043,768.08 | 56,467.35 |
| | 2,094,826.58 | 1,038,438.99 |
| C. Prepayments and accrued income | 7,375.00 | 8,760.02 |
| Assets, total | 17,832,870.14 | 16,883,344.62 |
| | | |
| Equity and liabilities (in EUR) | 31/12/2016 | 31/12/2015 |
| A. Equity | | |
| I. Subscribed share capital | 4,150,523.00 | 4,140,523.00 |
| Total nominal amount | 4,200,000.00 | 4,200,000.00 |
| Nominal amount of treasury shares | 49,477.00 | 59,477.00 |
| (Conditional capital 2,100,000.00, previous year 2,100,000.00) | | |
| II. Share premium | 11,986,646.99 | 12,159,724.99 |
| III. Retained earnings | 103,093.70 | 103,093.70 |
| 1. Statutory reserve | 1,648.70 | 1,648.70 |
| 2. Other revenue reserves | 101,445.00 | 101,445.00 |
| IV. Unappropriated net profit/loss | 56,429.06 | -531,045.76 |
| | 16,296,692.75 | 15,872,295.93 |
| B. Provisions | | |
| 1. Pension provisions | 183,407.00 | 179,746.00 |
| 2. Other provisions | 482,500.00 | 522,894.08 |
| | 665,907.00 | 702,640.08 |
| C. Liabilities | | |
| 1. Liabilities to banks | 500,000.00 | 0.00 |
| 2. Trade payables | 111,588.69 | 20,501.43 |
| 3. Liabilities to associated companies | 227,870.52 | 260,259.99 |
| 4. Other liabilities | 29,582.71 | 27,647.19 |
| of which from tax: 25,903.74 (previous year: 27,041.05) | | |
| | 869,041.92 | 308,408.61 |
| D. Accruals and deferred income | 1,228.47 | 0.00 |
| Equity and liabilities, total | 17,832,870.14 | 16,883,344.62 |

Consolidated income statement for the period from January 1 to December 31, 2016

| EUR | 2016 | 2015 |
|---|-------------------|--------------------|
| 1. Revenue | 511,968.23 | 0.00 |
| 2. Other operating income of which from currency translation: 23,671.42 (previous year: 10,729.39) | 172,868.78 | 1,102,950.63 |
| 3. Personnel expenses | | |
| a) Wages and salaries | 1,025,657.52 | 921,901.52 |
| b) Social expenses of which for post-retirement benefits: 6,967.00 (previous year: 7,542.00) | 70,112.81 | 39,768.25 |
| 4. Depreciation, amortisation and impairment losses | 6,892.81 | 3,982.00 |
| 5. Other operating expenses of which from currency translation: 2,085.57 (previous year: 16,452.93) | 1,051,254.28 | 1,085,584.11 |
| 6. Financial assets: amortisation/impairment | 0.00 | 80,537.80 |
| 7. Income from participating interests of which from associated companies: 1,700,000.00 (previous year: 1,100,000.00) | 1,700,000.00 | 1,100,000.00 |
| 8. Interest and similar income of which from associated companies: 77,305.70 (previous year: 79,449.94) | 77,305.71 | 94,455.15 |
| 9. Interest and similar expenses | 1,228.48 | 77.00 |
| 10. Earnings after tax | 306,996.82 | 165,555.10 |
| 11. Consolidated net income | 306,996.82 | 165,555.10 |
| 12. Loss carried forward | -531,045.76 | -496,022.86 |
| 13. Sale/purchase of treasury shares | 280,478.00 | -200,578.00 |
| 14. Unappropriated net profit/loss | 56,429.06 | -531,045.76 |

Notes to the consolidated financial statements for the 2016 fiscal year

Accounting and valuation policies

These annual financial statements have been prepared pursuant to the relevant regulations contained in Sections 242 et seq., 264 et seq. of the German Commercial Code (HGB) in the version contained in the German Accounting Guidelines Implementation Act (BilRuG). The company is deemed to be a large corporation in the meaning of Section 267 (3) Clause 2 HGB. SMT Scharf AG has its corporate seat in Hamm, and is registered in the commercial register at the District Court of Hamm with commercial register sheet number 5845.

Following the coming into force of the German Accounting Guidelines Implementation Act (BilRuG), the income statement has been structured applying the nature of expense method.

Due to the new version of Section 277 (1) HGB resulting from the BilRuG, the previous year's figures for revenue and other operating income cannot be compared. Applying Section 277 (1) HGB in the version of BilRuG would have resulted in revenue of EUR 732 thousand for the previous year.

Due to the German Act to Implement the Residential Property Lending Guidelines and Amend German Commercial Law Regulations, the period to calculate the average interest rates to measure pension provisions was extended from seven to ten years.

Measurement is performed on the basis of German commercial law valuation regulations applicable for incorporated firms, taking into account the going concern assumption. Apart from adapting to the BilRuG and the Act to Implement the Residential Property Lending Guidelines, the accounting policies applied to the previous annual financial statements were retained.

Figures in the notes to the financial statements are presented in thousands of euros, unless stated otherwise.

The following specific accounting policies are applied:

Property, plant and equipment is measured at cost less depreciation based on useful lives of between 3 and 5 years. Impairment losses are applied where required. The assets' depreciation rates are determined on the basis of their normal useful operating lives. The straight-line depreciation method is applied to the assets in this context.

Interests in associated companies are measured at the lower of cost including incidental purchase costs, or fair value.

Receivables and other assets as well as deposits at banks are recognised at nominal value. Individual valuation allowances are applied to receivable to reflect identifiable risks.

Deferred taxes are calculated for temporal differences between the commercial law and fiscal valuations of assets, liabilities, and deferred and accrued items. Deferred taxes are measured on the basis of the income tax rate of SMT Scharf AG, Hamm, of currently 32.1%, and includes trade and corporation tax. Any resultant net tax charge would be recognised on the balance sheet as a deferred tax liability. No use is made of the option to capitalise any tax reliefs. As in the previous year, in the fiscal year under review a net deferred tax asset arose that was not recognised on the balance sheet.

Prepayments recognised under prepayments and accrued income on the assets side of the balance sheet relate to expenditures before the balance sheet date representing expenses for a particular period after this date. This item is released straight-line as it is consumed over time.

Business transactions denominated in foreign currencies are recognised applying the exchange rate on the origination date. Foreign currency items with a remaining term of more than one year are translated applying the mid foreign currency cash rate on the reporting date, and in accordance with the purchase cost and realisation principle. Given a shorter term, translation is applied at the cash mid rate on the balance sheet date, as a matter of principle.

Treasury shares are presented as a separate item of subscribed share capital, based on their notional interest in the nominal share capital.

Provisions are recognised at the level of the amount required to satisfy the related liability on the basis of prudent commercial judgement.

Pension provisions were measured in accordance with recognised actuarial principles applying the projected unit credit method and based on the "Richttafeln 2005 G" mortality tables. Calculations applied the average market interest rate for the last ten years (the Bundesbank rate of interest), which amounts to 4.01% per annum as of December 31, 2016, assuming a remaining 15-year term. The calculation imputes a pension increase rate of 1.0% per annum. The difference pursuant to Section 253 (6) of the German Commercial Code (HGB) amounts to EUR 17 thousand as of December 31, 2016, which is subject to the block on being paid out as a distribution.

The other provisions take into appropriate account all identifiable risks and contingent liabilities.

Liabilities are recognised at their fulfilment amount.

Notes to the balance sheet

The schedule of changes in non-current assets is presented below:

| | Cost | | | | 31/12/2016 |
|--|----------------------|-------------------|-------------------|------------------|----------------------|
| | 01/01/2016 | Additions | Disposals | Reclassification | |
| 1. Other office equipment, fixtures and fittings | 20,082.73 | 3,145.80 | | | 23,228.53 |
| I. Property, plant and equipment | 20,082.73 | 3,145.80 | | 0.00 | 23,228.53 |
| 1. Interests in associated companies | 13,858,848.82 | 533,676.75 | | | 14,392,525.57 |
| 2. Loans to associated companies | 2,799,635.01 | | 635,406.79 | | 2,164,228.22 |
| II. Financial assets | 16,658,483.83 | 533,676.75 | 635,406.79 | 0.00 | 16,556,753.79 |
| Total | 16,678,566.56 | 536,822.55 | 635,406.79 | 0.00 | 16,579,982.32 |

| | Depreciation, amortisation and impairment losses | | | | 31/12/2016 |
|--|--|-----------------|-------------|------------------|-------------------|
| | 01/01/2016 | Additions | Disposals | Reclassification | |
| 1. Other office equipment, fixtures and fittings | 4,442.30 | 6,892.81 | | | 11,335.11 |
| I. Property, plant and equipment | 4,442.30 | 6,892.81 | 0.00 | 0.00 | 11,335.11 |
| 1. Interests in associated companies | 837,978.65 | | | | 837,978.65 |
| 2. Loans to associated companies | 0.00 | | | | 0.00 |
| II. Financial assets | 837,978.65 | 0.00 | 0.00 | 0.00 | 837,978.65 |
| Total | 842,420.95 | 6,892.81 | 0.00 | 0.00 | 849,313.76 |

Receivables due from associated companies especially comprise receivables deriving from cost transfers within the Group. Other assets include VAT receivables of EUR 487 thousand (previous year: EUR 328 thousand).

SMT Scharf AG report no deferred tax as of December 31, 2016 (previous year: EUR 0 thousand). Deferred tax assets arise almost exclusively from loss carryforwards (EUR 4,337 thousand; previous year: EUR 3,059 thousand). Temporary differences are measured at the 32.1% tax rate for corporation and trade tax valid for the fiscal year under review. The notional resultant tax relief of EUR 1,081 thousand (previous year: EUR 982 thousand) was not capitalised by applying the option available under Section 274 of the German Commercial Code (HGB).

As of December 31, 2016, a total of 4,200,000 ordinary bearer shares of SMT Scharf AG have been issued in the form of no par value shares with a notional value of EUR 1 per share, of which the company itself holds 49,477 as treasury shares. 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 19, 2021, by up to EUR 2,100 thousand against cash or non-cash capital contributions (Authorised Capital 2016). Shareholders' subscription rights can be excluded in this context.

The 2016 AGM cancelled Conditional Capital 2014, creating Conditional Capital 2016 to replace it. The Managing Board was authorised to issue, with Supervisory Board approval, once or on several occasions until April 19, 2021, bearer convertible bonds and/or bonds with warrants or profit participation rights (together referred to as "bonds") with or without restriction of term in a total nominal amount of up to EUR 70,000 thousand, and to grant to the holders or creditors of bonds conversion or warrant rights (also with conversion or subscription obligations) to the company's ordinary bearer shares with a nominal amount in the share capital totalling up to EUR 2,100 thousand according to the more detailed specifics of the terms and conditions of the convertible bonds are bonds with warrants. At present, no such securities have been issued.

The company held 49,477 treasury shares on December 31, 2016, equivalent to 1.18 % 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), report an unappropriated net profit of EUR 56 thousand. The Managing and Supervisory boards will propose to the Ordinary AGM to be held on April 26, 2017 that it carries this net retained profit forward to a new account.

Shareholder structure

A total of 67.87% of the shares of SMT Scharf AG comprise its free float, according to the Deutsche Börse definition. This includes all interests below 5% except treasury shares. Based on voting rights notifications submitted to the company pursuant to the German Securities Trading Act (WpHG), the following shareholder structure was derived as of February 15, 2017:

| | | |
|---|--------|----------------|
| Shareholder pool: Shareholder Value Beteiligungen AG/Share Value Stiftung/Christiane Weispfenning Axxion S.A. | 15.09% | 633,715 shares |
| Overseas Asset Management (Cayman), Ltd. | 5.57% | 233,896 shares |
| BNY Mellon Service Kapitalanlage-Gesellschaft mbH | 5.15% | 216,460 shares |
| First Eagle Investment Management, LLC | 5.14% | 216,055 shares |
| | 3.59% | 150,749 shares |

The treasury share position amounted to 1.42% (59,477 shares) at the start of the 2016 fiscal year. In the 2016 fiscal year, the number of treasury shares reduced by 10,000 shares to 1.18% (49,477 shares). This occurred as part of the takeover of Nowilan GmbH, Dinslaken – the shares were transferred to the vendor in addition to a cash component of the acquisition price.

Managing Board Chairman (CEO) Hans Joachim Theiss held a total of 10,000 shares as of December 31, 2016. Michael Reich, Supervisory Board Chairman, held a total of 6,000 shares.

Provisions reported the following changes in the fiscal year:

| | Pension provisions | Other personnel provisions | Miscellaneous other provisions |
|---------------------------|---------------------------|-----------------------------------|---------------------------------------|
| Balance January 1, 2016 | 180 | 316 | 207 |
| Consumption | 0 | 302 | 149 |
| Additions | 7 | 250 | 232 |
| Reversals | 3 | 14 | 58 |
| Balance December 31, 2016 | 184 | 250 | 233 |

The liabilities to banks have a remaining term of up to five years. The liabilities to associated companies comprise current VAT deriving from the existing fiscal unit, as well as overheads charged on. No liabilities secured by liens exist.

Notes to the income statement

Revenue of EUR 512 thousand arises from costs charged on within the Group.

Other operating income mainly includes EUR 75 thousand of income from the release of provisions as well as income from passing costs on to subsidiaries, and the reimbursement of insurance premiums.

SMT Scharf AG does not have its own operating business, but is instead the management holding company for the SMT Scharf Group companies. Apart from the three Managing Board members, only two other employment contacts exist (previous year: two).

Other disclosures

The members of the Supervisory Board of SMT Scharf AG during the fiscal year under review comprised:

Period from January 1, 2016 to December 31, 2016:

| | | |
|---|--|--|
| Dipl.-Ing. Michael Reich, Hamm (Chairman) | CEO DSI Underground (since March 1, 2016, formerly management consultant) | DSI International Luxembourg, S.a r.l., Supervisory Board member OOO DSI Techno, Supervisory Board Chairman RocBolt Resins Pty Ltd (Sydney), Supervisory Board member RMS Australia PTY Ltd, Director REICH GROUP Pty Ltd, Director EDVIRT Australia Pty Ltd, Chairman of the Board, (since March 1, 2016) BBM Mining Pty Ltd (Melbourne), Director (until February 29, 2016) |
| Dr. Dipl.-Ing. Dirk Vorsteher, Werne (Deputy Chairman) | Management consultant | (no positions held at other companies) |
| Dipl. Volkswirtin Dorothea Gattineau, Herdecke | Business manager | (no positions held at other compa- nies) |

The Supervisory Board members receive fixed and variable remuneration for each fiscal year plus reimbursement of their out-of-pocket expenses, as well as meeting fees of EUR 1 thousand per Supervisory 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 2016 fiscal year:

| | Reich | Vorsteher | Gattineau |
|-----------------------|--------------|------------------|------------------|
| Fixed remuneration | 23 | 15 | 15 |
| Variable remuneration | 4 | 4 | 4 |
| Expenses | 0 | 0 | 0 |
| Meeting fees | 5 | 5 | 5 |
| Total | 32 | 24 | 24 |

No remuneration exists for former members of the Supervisory Board or their surviving dependents. No advances, loans, or contingent liabilities exist in favour of members of the Supervisory Board.

During the fiscal year under review, the Managing Board of SMT Scharf AG consisted of Mr. Hans Joachim Theiss (Managing Board Chairman/CEO), Mr. Wolfgang Embert and (with effects as of January 1, 2016) Mr. Rolf Ferdinand Oberhaus.

Managing Board members receive remuneration comprising a fixed basic annual salary and a performance-based annual bonus. A pension commitment of EUR 184 thousand exists for one Managing Board member. 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 2016 fiscal year:

| | Theiss | Embert | Oberhaus | Dreyer |
|-----------------------------|---------------|---------------|-----------------|---------------|
| Basic remuneration | 266 | 201 | 189 | 40 |
| | 119 | 60 | 60 | 9 |
| Bonus | | | | |
| - of which already received | 49 | 25 | 25 | 9 |
| Additional benefits | 8 | 10 | 9 | 0 |
| Total | 390 | 269 | 256 | 49 |

Share-based compensation exists for all members of the Managing Board of SMT Scharf AG. This scheme entails paying a contractually agreed bonus amount for each annual one Euro increase in the share price. As of the fiscal year-end, this is included in the provision, but has not yet been paid out to the Managing Board members. The figures in the table for basic salary, additional benefits and part of the bonus that is based on EBIT and sales revenue target attainment correspond in terms of the provisioning and accrual amounts. Managing Board Chairman (CEO) Mr. Hans Joachim Theiss held a total of 10,000 shares as of December 31, 2016.

The company has assumed secondary liability to banks for EUR 10.2 million of its subsidiaries' credit lines. The Managing Board gauges the risk of utilisation due to the subsidiaries' credit standing as low.

Other financial obligations arise from lease and rental contracts in the following amount:

| | 31/12/2016 | 31/12/2015 |
|--------------|-------------------|-------------------|
| up to 1 year | 46 | 39 |
| 1 – 5 years | 48 | 77 |

Information about the independent auditor is presented in the consolidated financial statements of SMT Scharf AG. For this reason, on the basis of the group exempting clause pursuant to Section 285 Number 17 of the German Commercial Code (HGB), the company refrains from publishing this information here.

Group relationships

SMT Scharf AG, Römerstrasse 104, 59075 Hamm, Germany was formed on May 31, 2000, under German law. SMT Scharf AG is the management holding company for the companies in SMT Scharf Group. All 4,200,000 shares of SMT Scharf AG (including treasury shares) 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 that transports people, equipment and materials. The Group companies' further purpose is to hold participating interests in other entities. As the parent company of the SMT Scharf Group, SMT Scharf AG prepares a set of consolidated financial statements on the basis of International Financial Reporting Standards (IFRS) pursuant to Section 315a (1) of the German commercial code (HGB). For this reason, the company does not prepare a set of consolidated financial statements on the basis of the accounting regulations of the German Commercial Code (HGB).

Information about subsidiaries

Along with SMT Scharf AG, the consolidated financial statements include all subsidiaries over which it exercises control:

| | Interest | Equity 31/12/2016 | Profit/loss 2016 |
|--|-----------|----------------------|---------------------|
| SMT Scharf GmbH, Hamm Germany | 100 % | 14,792 | 970 |
| SMT Scharf Saar GmbH i.L, Neunkirchen, Germany | 100% | 42 | -351 |
| Nowilan GmbH, Dinslaken, Germany (since 01/09/2016) | 100 % | 146 | 6 |
| SMT Scharf Polska Sp. z o. o., Tychy, Poland | 100 % | 5,119 | 960 |
| Sareco Engineering (Pty.) Ltd., Germiston, South Africa | 100 % | 0 | 0 |
| SMT Scharf Africa (Pty.) Ltd., Germiston, South Africa | 100 % | 2,957 | -55 |
| TOW SMT Scharf Ukraina, Kiev, Ukraine | 100% | -204 | -14 |
| OOO SMT Scharf, Novokuznetsk, Russian Federation | 100 % * | 4,701 | 1,778 |
| OOO SMT Scharf Service, Novokuznetsk, Russian Federation | 100 % *** | -141 | 77 |
| Scharf Mining Machinery (Beijing) Co., Ltd., Beijing, China | 100 % ** | 2,181 | 561 |
| Scharf Mining Machinery (Xuzhou) Ltd, Xuzhou, China | 100 % | 2,683 | -105 |

* of which 1.25 % indirectly through SMT Scharf GmbH

** indirectly through SMT Scharf GmbH

*** indirectly through OOO SMT Scharf

The main operating activity of all subsidiaries is the production, repair and marketing of machinery and equipment of any type, and trading with such assets.

Pursuant to Section 161 of the German Stock Corporation Act (AktG), SMT Scharf AG is required as a listed public stock corporation to state the extent to which it complies with recommendations of the "German Corporate Governance Code Government Commission". The Managing and Supervisory board issued this statement on December 9, 2016. It has been made available to shareholders at www.smtscharf.com.

Events after the balance sheet date

Following the end of the 2016 fiscal year, no further events occurred that have a significant effect on the financial position and performance.

Hamm, March 1, 2017

The Managing Board

Hans Joachim Theiss

Wolfgang Embert

Rolf Ferdinand Oberhaus

Responsibility statement

We assure that, to the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements of SMT Scharf AG as of December 31, 2016, provide a true and fair view of the Group's financial position and performance, and the Group management report for the 2016 fiscal year presents the Group's business including its results and the Group's position such as to provide a true and fair view, and describes the major opportunities and risks pertaining to Group's anticipated growth and development.

Hamm, March 1, 2017

The Managing Board

Hans Joachim Theiss

Wolfgang Embert

Rolf Ferdinand Oberhaus

Auditors' report and opinion on the annual financial statements

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the management report of the SMT Scharf AG for the business year from 1 January to 31 December 2016. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with § [Article] 317 HGB [„Handelsgesetzbuch“: „German Commercial Code“] and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with [German] principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion. Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the annual financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with [German] principles of proper accounting. The management report is consistent with the annual financial statements, complies with legal requirements, as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.

Cologne
1 March 2017

sgd. Stramitzer
Wirtschaftsprüfer

[German Public Auditor]

sgd. Stramitzer
Wirtschaftsprüfer

[German Public Auditor]

Supervisory Board report for the 2016 fiscal year

In the 2016 fiscal year, the Supervisory Board of SMT Scharf AG conscientiously performed the tasks required of it by law and the articles of incorporation. It 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, approval requirements for certain transactions as defined in the Managing Board's rules of business procedure were upheld.

The Supervisory Board convened for five regular meetings on March 4, April 20, June 29, September 23 and December 9, 2016. Of these meetings, four were held in Hamm, while the June 29 meeting was held in the offices of SMT Polska in Tychy (Poland). On November 10, 2016, the Chairman of the Supervisory Board visited SMT Africa at the Germiston site of the company in South Africa. At its meetings, the Supervisory Board concerned itself with all matters 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 continued difficult sector environment in the year under review, topics covered in this context included trends in core markets and in particular the company's strategic realignment being advanced by the Managing Board.

In this context, the Supervisory Board noted the ongoing successes of the structural program launched in 2015. This is particularly true in relation to improving profitability. At the macroeconomic level, indications are gathering that raw materials prices have passed their low point for good, leading to the expectation of an upswing in the sector cycle in the medium term. Given the progress made, the Supervisory Board regards the company as well-positioned to successfully and profitably participate in this development.

The Supervisory Board conducted a discussion on the continual development and adjustment of the localization strategy of SMT Scharf AG to the developments in core sales markets, especially China, Russia and Poland. In this context, the Supervisory and Managing boards discussed potential opportunities that sector consolidation generates for SMT Scharf, especially opportunities arising from takeovers and strategic partnerships. A second area of focus of the work of the Supervisory Board and Management Board in fiscal year 2016 was to consistently develop the strategy of supplying new end markets and customers outside of the coal main market with the core products of SMT AG. First strategic steps have been made, initial successes have already been reported in the 2016 financial year.

- At the meeting on March 4, 2016, the Supervisory Board had the auditor present and explain the 2015 annual financial statements. 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 2016 fiscal year. Both the separate financial statements and consolidated financial statements for 2015 were approved unanimously. Moreover, the Supervisory Board concurred with the Managing Board's proposals to waive the dividend proposal for the 2015 fiscal year due to the continued difficult market situation and in light of the company's strategic further development in the context of sector consolidation. To this end, it was resolved to appoint Rödl & Partner GmbH Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Cologne branch, as the independent auditor of the separate and consolidated financial statements for the 2016 fiscal year. The Supervisory Board would like to once again thank the auditors of RMS Verhülsdonk for the long-term and trustworthy collaboration. At the meeting, the Supervisory Board and the Management Board dealt in detail with personnel issues within the Group. Among other things, the succession planning at the management levels and training at the various locations of SMT AG were discussed. The Supervisory Board also approved the payment of bonuses for the 2015 financial year within the Group.
- At the April 20 meeting, the Supervisory Board initially reflected on the immediately preceding AGM. The Managing Board subsequently informed the Supervisory Board about the specific plans for the administration's relocation. The Supervisory Board consequently authorised the Managing Board to initiate activities to sell the administrative building and also rent appropriate spaces close to the Römerstrasse site. In a further agenda item, the Managing and Supervisory boards held an in-depth discussion of the possibilities for strategic partnerships, investments and takeovers.
- The June 29 meeting was held in the offices of SMT Polska in Tychy (Poland). The Supervisory Board first discussed together with the Managing Board the current business situation and outlook for the remainder of the 2016 fiscal year. They discussed ideas about even closer, inter-location capacity utilisation between the sites in Hamm, China, Poland and Russia. The fact that the Polish subsidiary continued to achieve sustained positive results within the currently difficult mining environment was seen as a positive. The Supervisory Board nevertheless identifies additional productivity potential in optimising production process and better utilisation of existing space. In response to a Managing Board proposal, the Supervisory Board also approved the closure of the Saarland site. The reason for this is the negative prospect due to the forthcoming final shutdown of German hard coal mining in 2018. The Supervisory Board approved the acquisition of Nowilan GmbH to strengthen engineering and market competence for the growing activities of the Group in underground non-coal mining and tunnel construction.
- As part of the September 29 meeting, the Managing Board delivered an in-depth report to the Supervisory Board on the current business situation and an outlook for the remainder of the fiscal year. A discussion was held in this context about reasons and potential measures relating to the unsatisfactory sales revenue and results trend observable since the second quarter. The Supervisory Board had the Managing Board inform it about the initiative to found a sales unit in South America. In the meeting, further measures as part of the sales initiative developed by the Management Board were discussed in depth and examined for their opportunities and risks. The Managing Board also reported that success had been achieved in agreeing a binding roadmap to shut down the Saarland site and close it in February 2017. Notice was given to the employees affected as of the due date for the respective employment contracts to terminate in April 2017. The Supervisory and Managing boards also discussed the strategic and commercial opportunities connected with potential cooperation partners and acquisition targets. The management of the newly acquired company Nowilan GmbH presented to the Supervisory Board the projects it has managed over past years, especially in tunnel construction. On November 10, 2016, members of the Management Board and the Chairman of the Supervisory Board visited SMT Africa. Together with the South African management growth opportunities for SMT Africa and on the African continent as well as supporting measures were discussed.

- The last Supervisory Board meeting of 2016 was held on December 9. The Managing Board took this opportunity to provide the Supervisory Board with detailed information about budget plans for all Group companies and core markets of SMT Scharf for 2017, covering expected trends on raw materials markets and macroeconomic trends in individual country markets. Expectations for 2017 are considerably more optimistic than a year ago, but still at a low level. Working capital optimisation and further liquidity improvement measures were also discussed in depth. These form a central element of Managing Board work in 2017. After intensive discussion the Supervisory Board approved of the budget plan for 2017. In connection with the sales initiative in Latin America, the Supervisory Board approved the founding of a wholly owned subsidiary in Chile.

The separate financial statements and separate management report, as well as the IFRS consolidated financial statements and Group management report for the 2016 fiscal year, which the Managing Board prepared, were audited by Rödl & Partner GmbH Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Cologne branch, 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 1, 2017, 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 2016 fiscal year. After 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 reservations against either the separate or 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 2016 fiscal year. The corresponding financial statements have been adopted as a consequence.

The Supervisory Board, together with the Managing Board, refrains from a dividend proposal for the 2016 fiscal year given the continued difficult market situation, the company's strategic further development and sector consolidation.

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 in the new fiscal year.

Hamm, March 1, 2017

Michael Reich