**SMT Scharf AG**
**Group financial report 2016**

## Contents

# Group management report for the 2016 fiscal year

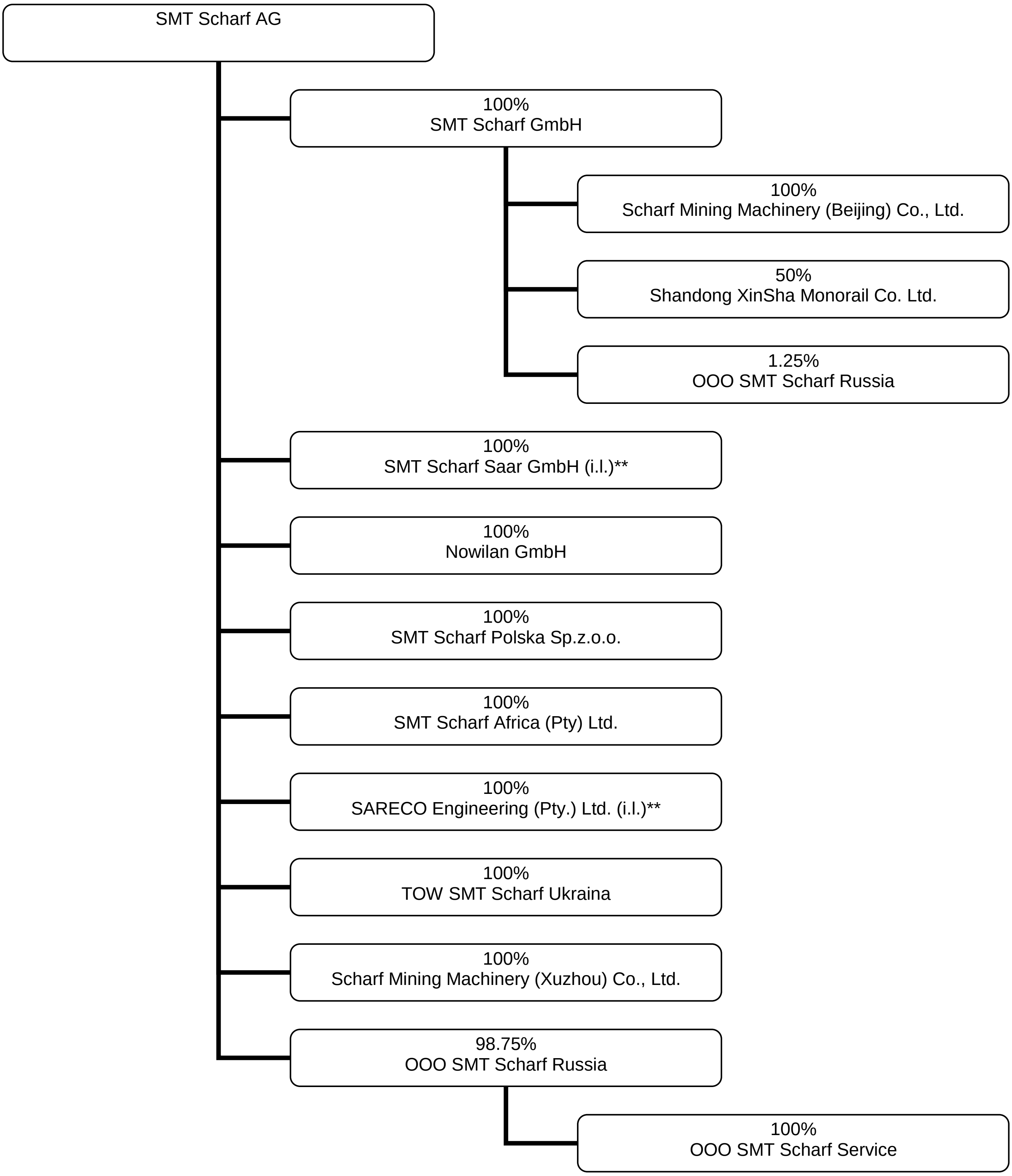
## Basis of the Group

### Business model and Group structure

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.

*Ownership interests within the SMT Scharf Group*




* Further 50%: Shandong Liye Equipment Co. Ltd.
** In liquidation

## Corporate objectives and strategy

SMT Scharf has been pursuing a strategic orientation to three areas of activity since mid-2015. To this end, the Managing Board team has defined an extensive **list of measures** that are being consistently addressed and implemented. The **three strategic areas of activity** are:

- **Organic growth** through expanding the hard rock area, tapping new geographic markets and setting up and establishing tunnel logistics as a third business area.
- **External growth** through takeovers and partnerships by which the core positioning of SMT Scharf is to be advanced and secured. The first takeovers and strategic partnerships have already been concluded or agreed.
- **Operative excellence** to make SMT Scharf even better overall, above and beyond progress achieved over past quarters, and to strengthen productivity, profitability and market position. For this purpose, potential optimisations in the interplay of international sites and development process management are being identified and leveraged. The targeted analysis of specific markets and customer requirements helps SMT Scharf become even more competitive in this context.

With this set of measures, the Managing Board team is progressing its strategy of further developing the company to become a **system supplier of logistics solutions**, while at the same time positioning it in **adjacent markets** (through the core positioning in the mining supply market). The aim is to thereby tap additional sales revenue potential and make sales trends less dependent on the cyclical business in traditional mining.

SMT Scharf responded with a **CSI program** to the pronounced phase of weakness in the mining sector, a phase that is now ending. This program comprised – on a summarised basis – short-term cost cuts (C) accompanied at the same time by a strengthening of sales (S) and innovative capability (I). Positive value contributions have become increasingly evident over the past fiscal years in this connection, enabling SMT Scharf to reach its target of a marked **improvement in results**. Contributions in this context will also include the **localisation strategy** that makes recourse to the competences of the foreign subsidiaries located directly in customers' home markets. The current introduction of an **Enterprise Resource Planning** (ERP) system should help to further boost the efficiency of international collaboration within the Group, improve processes, and identify optimisation potentials at an early stage in future. The company plans to launch the strategic measures during the course of 2017 and implement them prospectively by 2019.

## 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) | (Group revenue in reporting year / Group revenue in previous year)-1 | >5% |
| Tunnel revenue share | Tunnel segment revenue / Group revenue | 10% |
| EBIT margin | Earnings before interest and tax (EBIT) / Total operating revenue | >10% |
| Cost of materials ratio | Cost of materials / Total operating revenue | <50% |
| ***Key balance sheet indicators*** | | |
| Net working capital | Year-average current assets – Year-average liquid assets – Year-average current liabilities | EUR 20 million |
| Equity ratio (on reporting date) | Equity / total assets | 35-40% |
| ***Key efficiency figures*** | | |
| Net working capital intensity | Net working capital / Group revenue | <50% |
| Days of sales outstanding | Number of days in reporting year * (Year-average trade receivables / Group revenue) | <150 days |

*Non-financial performance indicators:*

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

**Employees**

SMT Scharf AG calculates the number of its employees in the form of full-time equivalents (FTEs). SMT Scharf Group employed 308 staff (full-time employees) as of December 31, 2016, including 3 trainee/s. The Group employed 281 individuals as of the previous year's reporting date (including 5 trainees). SMT Scharf also draws on additional temporary help staff to flexibly boost production capacity.

The localisation structure that has arisen due to change in the structure of demand for SMT products led the number of employees in Germany to fall continuously over the past years, whereas production capacities at the foreign companies and consequently their workforces were gradually added to. Especially in China, additional qualified staff were hired to make it possible to expand our local technical expertise in terms of service and development, as well as production. The number of employees in Germany reduced from 88 as of December 31, 2015, to 85 FTE as of the reporting date.

*SMT Scharf Group employees*

| | 2016 | 2015 |
|---|---|---|
| Total employees | 308 | 281 |
| Employees in Germany | 85 | 88 |
| Employees abroad | 223 | 193 |
| Female employees | 50 | 47 |
| Male employees | 258 | 234 |

The number of employees at foreign sites increased by 30 FTEs to 223 FTEs in the 2016 fiscal year. The proportion of staff employed abroad grew to 72% as a consequence (previous year: 69%). Hiring was strongest in the target market Russia (65 FTEs to 98 FTEs). Employee turnover amounted to 0% in the year under review, in line with the medium-term target of <10%. The workforce sickness rate stood at 4.7% in 2016, below the 5% target.

**Research and development**

The localisation strategy in Poland, Russia and China is being pursued with consistency, and is being coordinated closely with Group headquarters in Germany. Synergy generation through further site networking is being implemented efficiently (ERP system).

International project teams are enabling important further developments and innovations to the existing product range to be accelerated, and be improved in line with respective local market demand through targeted coordination with customers. At the same time, local production and a global supplier network cater for delivery times in line with customers' needs. Innovative modular machine design is helping to optimise costs through including as many identical components as possible.

For innovative applications beyond underground coal mining, new transportation technologies can be developed based on our experience with monorail hanging railways for tunnelling and the exploitation of further mineral resources.

In 2016, the SMT Scharf Group did not invest in development projects for research and development that meet IAS 38 criteria. Expenses for research and development amounted to EUR 2.8 million in the 2016 fiscal year (2015: EUR 2.5 million).

# Economic and business report

## Macroeconomic environment

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

## Sector trends

Prices of the most important energy raw materials and metals recovered or at least stabilised during the reporting period. The downtrend in prices that has been observable since early 2011 continued as a consequence. Although it is still too early to gauge whether raw materials prices have achieved a sustained turnaround, a continued stabilisation of commodity market price structures would give justified ground to hope the mining industry along with its suppliers have crossed the cyclical low point. This is especially true for the coal sector important to SMT Scharf. Following a continuing phase of stabilisation that already started at the end of 2015, the coal price rose by around 50 percent to reach its peak during the second half of the fiscal year elapsed (based on the USD price of a tonne of hard coal). If this trend continues or prices remain at current levels, it is anticipated that demand from coal mine operators worldwide will recover with a six- to twelve-month lag, quickly reducing an investment backlog that has accumulated over many years. This forecast also looks likely to materialise insofar as China has advanced the consolidation of its domestic mining sector over the past months, including closing many small and unprofitable mines.

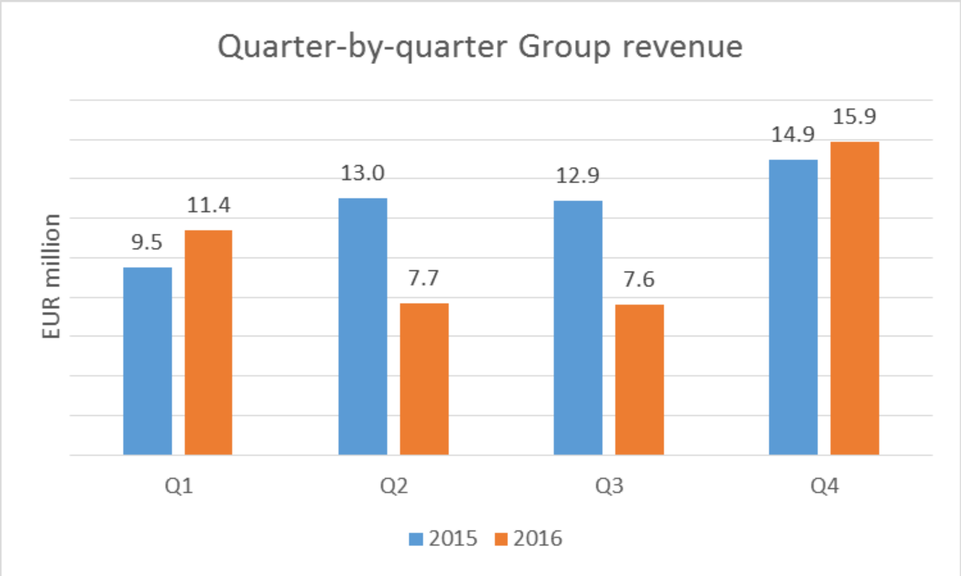
Also in the assessment of the Specialist Mining Equipment Association of the German Engineering Federation (VDMA), the recovery in raw materials prices will enable German mining machinery manufacturers to pass the cyclical low point. These manufacturers prospectively saw sales down 21 percent to EUR 2.8 billion in the full 2016 year, according to the association's data. The VDMA anticipates the sector situation will stabilise in 2017, however, before a marked upturn in 2018. Demand is also being bolstered by the fact that digitalisation and Industry 4.0 are also increasingly making inroads into the mining industry. Innovative technologies envisage far-reaching automation and autonomous management of mining and transportation systems in this context, creating great incentives for mine operators to invest.

SMT Scharf sees major growth potential in its newly founded Tunnel segment: according to data from the International Tunnelling and Underground Space Association (ITA), the worldwide tunnel construction market is worth around USD 90 billion per year (based on 2013 data), with a total of 4,500 to 4,700 kilometres of tunnels being constructed annually. Asia is reporting the fastest growth in this context, with annual tunnel construction having increased fivefold between 2000 and 2013 (measured in kilometres) and with 75 percent of the tunnels being constructed in China.

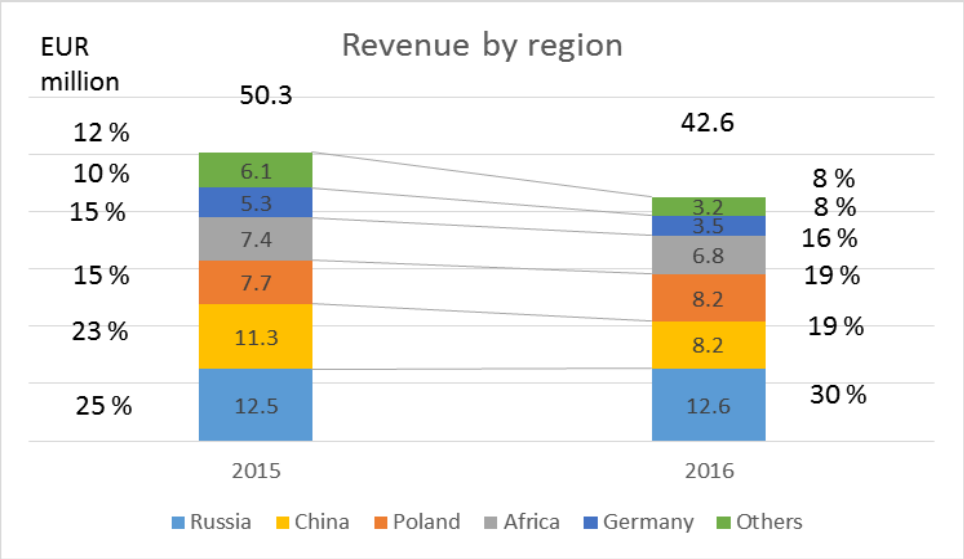
The impact of the cyclical coal mining business on the business trends of SMT Scharf is mitigated by diversification by products, deployment regions, customer groups and regional markets.

## Business trends

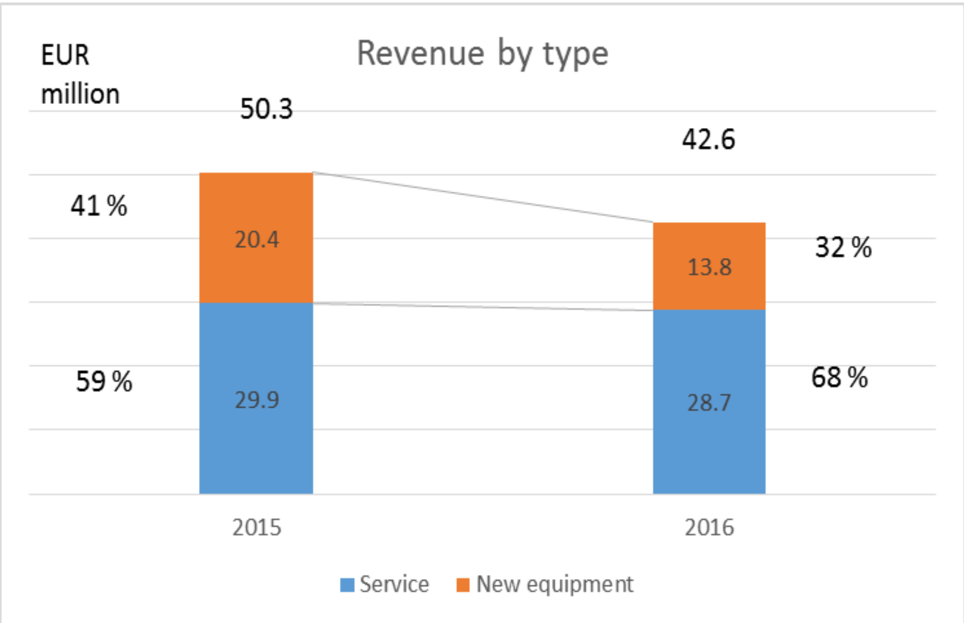
Given the continued demanding sector environment, consolidated revenue of EUR 42.6 million in the 2016 fiscal year was down 15.4% year-on-year, as expected, and despite a strong first-quarter performance (2015: EUR 50.3 million). At the same time, operating earnings (EBIT) of EUR 2.5 million in the fiscal year elapsed were up by 9.3% compared with the previous year (2015: EUR 2.3 million). SMT Scharf consequently performed well on the market and also strengthened the company's intrinsic value. The significant profitability improvement reflects the progressive successes of the restructuring measures launched in 2015. The recovery in raw materials prices on world markets at the end of the year also led to a sales growth acceleration during the fourth quarter, when consolidated revenue of EUR 15.9 million increased by 6.4% compared with the previous year's quarter (Q4/2015: EUR 14.9 million).



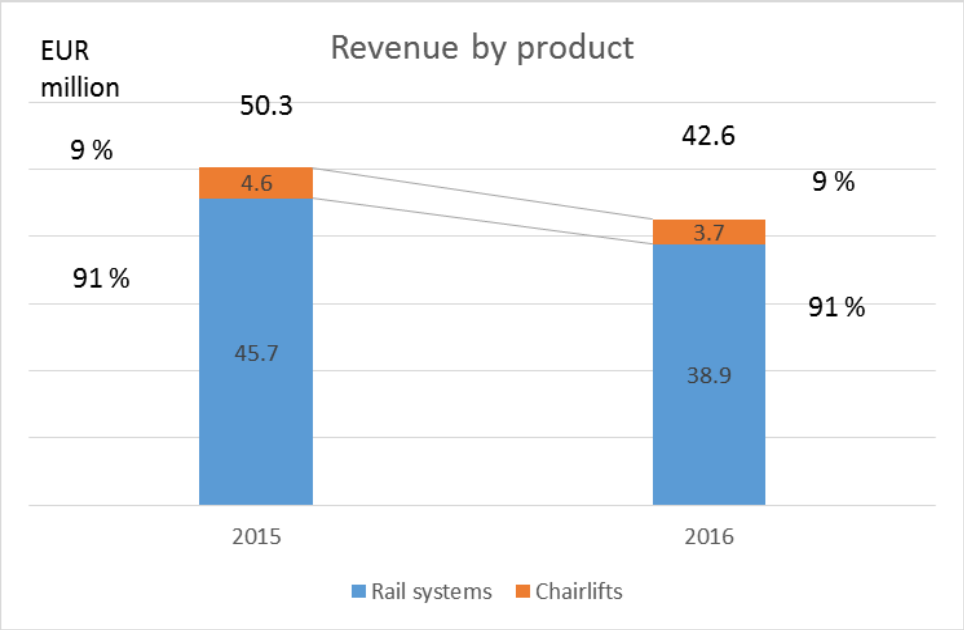

SMT Scharf generated almost 92% of its revenue abroad in the reporting year (2015: 90%). As in the previous year, the most important market was Russia (and CIS) with a share of 29.6% or EUR 12.6 million (2015: 24.9% or EUR 12.5 million). Indications of economic recovery in Russia failed to gather until the year-end. China followed in second place with a proportionally reduced 19.3% or EUR 8.2 million (2015: 22.5% or EUR 11.3 million). Consolidation in China's mining sector progressed in 2016, with the Chinese government shutting down many smaller mines. China's rate of economic growth has also slowed since the reporting period started. Poland occupies third position (19.3% or EUR 8.2 million) – here business volumes grew year-on-year both proportionally and in absolute terms, thanks mainly to high growth in the service business (2015: 15.2% or EUR 7.7 million). The reduction in Africa – in position four, with 15.9% or EUR 6.8 million (2015: 14.7% or EUR 7.4 million) – is due to the fact that SMT Scharf is present there mainly South Africa's hard rock market, which was affected by falling prices for gold, platinum and copper – markets following hard coal. To these were added prolonged strikes during the reporting period. On the American market, activities focused on Chile where new orders were won from newly acquired major customers. The market in Australia has also become more important, with stronger sales efforts leading to the acquisition of a renowned customer with follow-up potential. The remaining revenue generated in Germany of EUR 3.5 million, or 8.2%, has reduced further, as planned, also due to the currently running shutdown of the location in Saarland (2015: EUR 5.3 million or 10.5%).



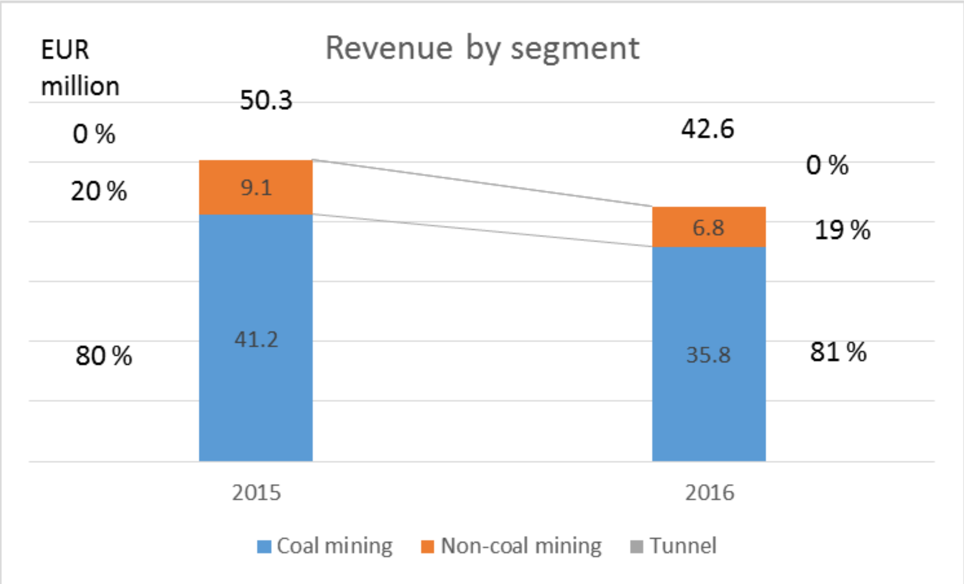

Growth in the spare parts and service business partly offset the reduction in business with new systems in 2016, with the revenue share of the spare parts business rising to 67.5% on the lower consolidated revenue level (previous year: 59.4%). This shift continues to occur in the context of the generally declining market trend, with many mine operators preferring to repair their existing plants then invest in new ones. The share of business with new systems fell further to 32.5% accordingly (2015: 40.6%). Trends were sharply different by country markets, however: in Australia, 90.0% of revenue was attributable to the new systems business, and in Russia 43.6%. By contrast, in Poland and Africa the spare parts and service business accounted for 76.7% and 91.7% respectively. In China, the share of both types of business was almost even.



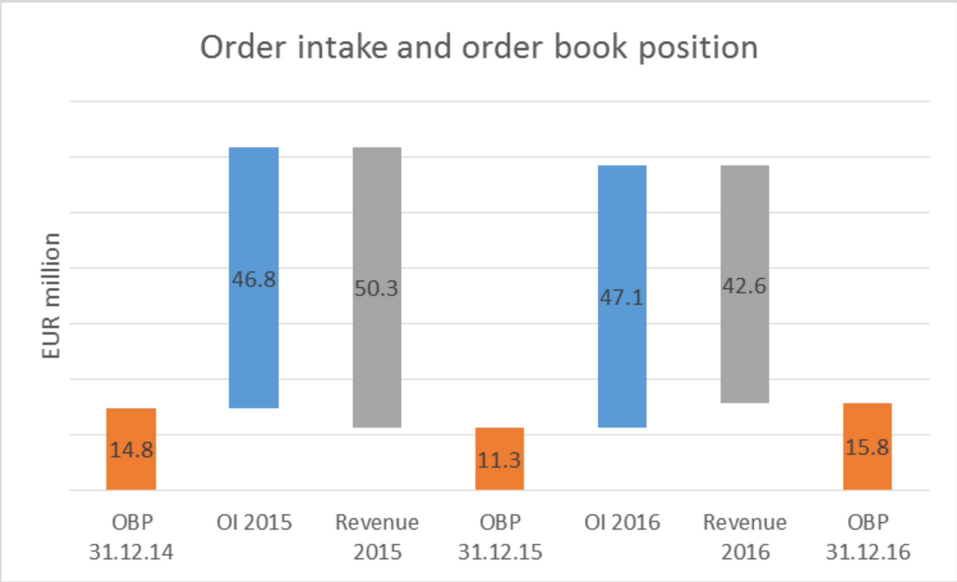

At 91.4%, most of total revenue was attributable to the Railways product, as in the previous year (2015: 90.8%), while Chairlifts accounted for 8.6% of revenue (2015: 9.2%).




The Coal segment continue to account for most of consolidated revenue in the 2016 fiscal year, at 84.1% or EUR 35.8 million (2015: 82.0% or EUR 41.2 million). Correspondingly, a smaller proportion of 15.9%, or EUR 6.8 million, was attributable to the Non-coal mining segment (2015: 18.0% or EUR 9.1 million). SMT Scharf opened a new segment in the fiscal year elapsed with the Tunnel area, which it hopes will deliver further business volume over the coming years. No revenue has yet been generated during the start-up phase in 2016, however.




New order intake amounted to EUR 47.1 million in the year under review (2015: EUR 46.8 million). The order book position of the SMT Scharf Group stood at EUR 15.8 million as of December 31, 2016 (December 31, 2015: EUR 11.3 million).




**Financial position and performance**

**<u>Results of operations</u>:**

The consolidated revenue of the SMT Scharf Group amounted to EUR 42.6 million in the 2016 fiscal year (2015: EUR 50.3 million). In line with this trend, total operating revenue (consolidated revenue plus changes in inventories) decreased to EUR 42.2 million given a slight reduction in inventories of finished goods and work in progress, as in the previous year (2015: EUR 50.0 million). Other operating income stood at EUR 4.6 million (2015: EUR 5.1 million), reflecting year-on-year significantly higher miscellaneous other income, while currency exchange rate gains and gains from the release of provisions fell. Miscellaneous other operating income comprises mainly overheads passed on, reversals of specific valuation allowances, and rental income.

The cost of materials decreased by 19.3% to EUR 21.7 million (2015: EUR 26.9 million), with the cost of materials ratio (in relation to total operating revenue) increasing to 51.5% (2015: 53.9%). This development is mainly attributable to the valuation allowances applied to inventories in the previous year. Personnel expenses diminished by 4.1% to EUR 11.6 million, despite a higher number of employees (2015: EUR 12.1 million). Wage cost benefits in the foreign target markets – where the number of employees has continued to rise – contributed in this context. The fact that the personal expense ratio (in relation to total operating revenue) of 27.4% is above the previous year's level (2015: 24.1%) reflects a basis effect from the lower sales revenue level in the 2016 fiscal year.

A slightly higher year-on-year level of total depreciation, amortisation and impairment losses of EUR 2.5 million (2015: EUR 1.9 million) arises from the impairment loss applied to a development project that has failed to retain its value. Offsetting this, other operating expenses recorded a marked reduction of 28.6% to EUR 8.6 million (2015: EUR 12.0 million). This decrease chiefly reflects considerably lower valuation allowances applied to receivables (EUR 0.5 million compared with EUR 1.9 million in the previous year) and lower exchange rate losses (EUR 1.9 million compared with EUR 2.1 million in the previous year). Overall in the fiscal year, exchange rate gains and exchange rate losses generated a net gain of EUR 0.1 million (2015: EUR 0.8 million).

*Table*: *Results of operations*

| ***EUR million*** | **2016** | **2015** | **Change** |
|---|---|---|---|
| Revenue | 42.6 | 50.3 | -15.3% |
| Total operating revenue | 42.2 | 50.0 | -15.6% |
| EBIT | 2.5 | 2.3 | 8.7% |
| EBIT margin (in %) | 5.9 | 4.6 | |
| Consolidated net profit | 1.9 | 1.5 | 27.3 % |
| Earnings per share (in EUR) | 0.45 | 0.36 | 25.0 % |

Overall, the SMT Scharf Group generated an operating profit (EBIT) of EUR 2.5 million in the year under review (2015: operating profit of EUR 2.3 million). The EBIT margin (in relation to total operating revenue) stood at 5.9% (2015: 4.5%). The earnings improvement also reflects the fact that valuation allowances applied to inventories and receivables in the previous year were not incurred to the same extent in 2016. The financial result of EUR 0.5 million is up 47.8% compared with the previous year (2015: EUR 0.3 million), reflecting 39.9% year-on-year higher interest income of EUR 0.1 million (2015: EUR 0.1 million). Income from participating interests (Chinese joint venture) of EUR 0.5 million was also slightly above the previous year's level (2015: EUR 0.5 million).

The Group generated a profit before tax of EUR 2.9 million (2015: EUR 2.6 million). The tax expense of EUR 1.1 million in the reporting year was at the previous year's level (2015: EUR 1.1 million). Of this amount, EUR 2.2 million comprised current tax expenses (2015: EUR 1.4 million), and EUR -1.2 million deferred tax (2015: EUR -0.3 million). The Group's tax rate amounted to 32.1%, as in the previous year.

Overall, SMT Scharf AG generated a consolidated net profit of EUR 1.9 million, a further improvement of EUR 0.4 million compared with the previous year (2015: EUR 1.5 million). This corresponds to earnings per share of EUR 0.45 (2015: loss per share of EUR 0.36).

**Net assets:**

The total assets of the SMT Scharf Group rose to EUR 59.4 million as of December 31, 2016 (December 31, 2015: EUR 58.6 million).

On the assets side of the balance sheet, non-current assets decreased to EUR 13.8 million (December 31, 2015: EUR 14.3 million). Property, plant and equipment amounted to EUR 4.7 million (December 31, 2015: EUR 5.2 million) due to current depreciation charges and disposals of office and operating equipment. Compared with the previous year's balance sheet date, deferred tax assets increased to EUR 3.3 million (December 31, 2015: EUR 2.5 million).

Current assets continued to comprise the largest proportion on the assets side. Inventories of EUR 13.0 million were slightly below the previous year's level (December 31, 2015: EUR 13.7 million). Trade receivables were reduced slightly to EUR 23.4 million (December 31, 2015: EUR 23.9 million). Currency exchange rate effects amounted to EUR 0.1 million. In relation to consolidated revenue of EUR 42.6 million in the 2016 fiscal year (2015: EUR 50.3 million), average trade receivables outstanding of EUR 23.6 million (2015: EUR 23.2 million) and 366 days (2015: 365 days), days of sales outstanding stood at a higher level of 203 days (2015: 168 days). The high receivables position – deriving mainly from Chinese customers – is to be reduced successively. Related measures include agreeing payment plans with three major customers. Cash and cash equivalents expanded significantly, standing at EUR 6.6 million as of December 31, 2016 (previous year: EUR 5.2 million).

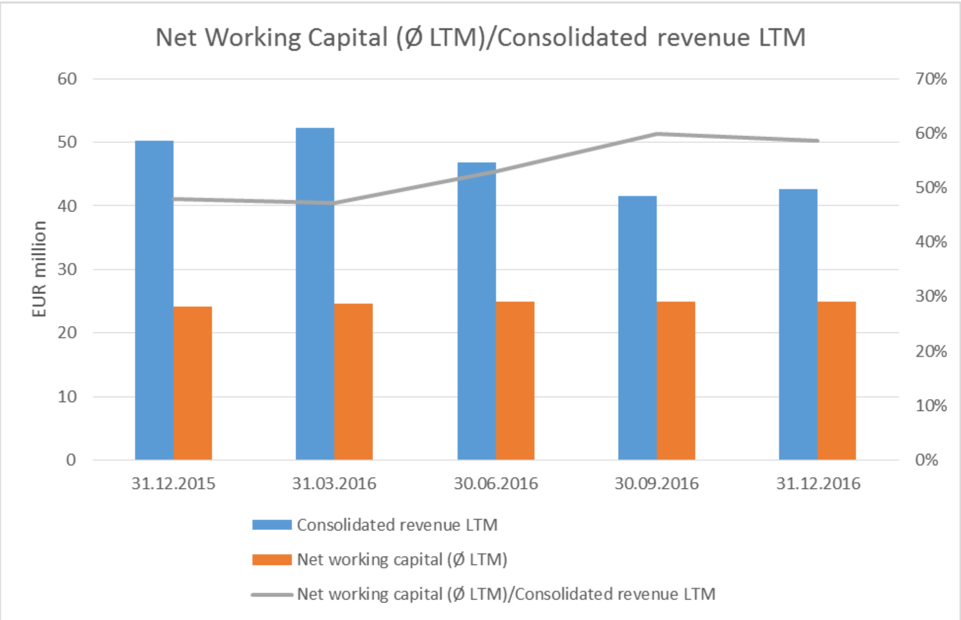
Due to the consolidated net profit the Group generated and a lower level of total assets, the SMT Scharf Group equity ratio rose to 66.1% (December 31, 2015: 63.2%).

Non-current provisions and liabilities amounted to EUR 5.3 million as of the balance sheet date (previous year: EUR 6.5 million). Non-current financial liabilities were reduced to EUR 1.3 million in the reporting year, also due to the positive business performance (previous year: EUR 2.1 million). Offsetting this, the pension provision increased to EUR 3.6 million, as planned (previous year: EUR 3.3 million).

Current provisions and liabilities were also reduced. These stood at EUR 14.9 million as of the balance sheet date (December 31, 2015: EUR 15.1 million), reflecting a EUR 0.2 million year-on-year decrease. Trade payables of EUR 4.1 million were slightly below the previous year's level (December 31, 2015: EUR 4.2 million). Current financial liabilities were reduced to EUR 2.2 million (previous year: EUR 2.8 million).

***Table*: *Net assets***

| ***EUR million*** | **31/12/2016** | **31/12/2015** |
|---|---|---|
| Total assets | 59.4 | 58.6 |
| Equity | 39.3 | 37.0 |
| Equity ratio (in %) | 66.1 | 63.2 |
| Non-current and current provisions and liabilities | 20.1 | 21.6 |
| Non-current assets | 13.8 | 14.3 |
| Current assets | 45.7 | 44.3 |
| Days of sales outstanding (in days) | 203 | 168 |
| Net working capital on the balance sheet date | 24.6 | 24.7 |
| Net working capital – year-average | 24.9 | 24.1 |
| Net working capital intensity (in %) | 58.6 | 47.9 |




(LTM: last twelve months, rolling 12-month basis)

**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 Weispfenning 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.

**Financial position:**

SMT Scharf AG mainly performs the central steering financial management for the SMT Scharf Group. The Group's financial management comprises the management of cash and liquidity, the hedging of interest, currency and raw materials price risks, Group financing, the issuing of guarantees and letters of comfort, and communicating with rating agencies. We manage process centrally, which enables us to work efficiently and successfully control risks.

The main task is to minimise financial risks and capital costs and thereby maintain the Group's sustainable financial stability and flexibility. The Group's financial strategy is based on the principles and objectives of financial management, and takes into account not only shareholders' interests but also debt capital providers' claims. A high degree of continuity and predictability for investors aims to maintain financial flexibility and low capital costs for the SMT Scharf Group.

The SMT Scharf Group's financial position comprises all of the cash and cash equivalents carried on the balance sheet, in other words, cash on hand and bank balances, to the extent that these are available within three months (from the date of acquisition) without any notable fluctuations in value, as well as marketable securities less current financial liabilities and less the hardship and social funds. Committed credit lines of EUR 3.3 million exist, but have not been utilised.

Given the net profit that was generated for the year, the SMT Scharf Group reported cash flows from operating activities of EUR 0.3 million in the year under review (2015: EUR 0.6 million). Low cash flow from operating activities results mainly from the first-time recognition of current financial liabilities in cash and cash equivalents in 2016, totaling EUR 2.8 million. Cash flow from investing activities stood at EUR -1.1 million (2015: EUR -0.5 million) and relates mainly to the acquisition of Nowilan GmbH. Cash flow from financing activities stood at EUR -0.7 million due to higher outgoing payments for loan redemption (2015: EUR -0.6 million). In total, the cash and cash equivalents position fell from EUR 4.7 million on December 31, 2015 to EUR 4.1 million on December 31, 2016.

**Comparison of the actual financial position and performance with the forecast:**

In the outlook contained in the 2015 annual report, SMT Scharf initially expected a slight reduction in revenue for 2016 to a level of EUR 45.0 million due to negative effects from the global and sector economies. In terms of EBIT, the company was aiming for a year-on-year higher margin of 4.1%. Due to business trends during the course of the fiscal year, the revenue forecast was fine-tuned at the midyear stage.

The actual results at the fiscal year-end were ahead of expectations:

- Actual consolidated revenue EUR 42.6 million was ahead of the EUR 40.0 million forecast.
- The objective of reporting improved EBIT results was thereby clearly reached. EBIT of EUR 2.5 million was above the previous year's level. The EBIT margin (in relation to total operating revenue) of 5.9% was significantly above the targeted 4.1%, as expected.
- Consolidated net income of EUR 1.9 million also reflected considerable year-on-year growth.
- The equity ratio of 66.1% also improved tangibly compared with 63.2% in the previous year. The company was aiming for an equity ratio at the previous year's level.
- The personal expense ratio increased year-on-year, as expected, due to the lower revenue base and hiring at the subsidiaries.

### Overall statement on the company's business position

The SMT Scharf Group recorded a significant increase in its results in the reporting year, despite lower revenue. The successes deriving from the restructuring over the past years as well as ongoing measures to deliver operative excellence are consolidating as a consequence. Both the EBIT margin and consolidated net income are significantly positive. The EBIT margin continues to advance towards the 10.0% level that the company's management has set as the long-term objective.

The company's net assets and financing positions have stabilised further due to the improved profitability: the equity ratio stands at 66.1% and net debt remains low. Good chances consequently exist that the SMT Scharf Group can outperform in the emerging upturn in the mining sector.

## 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. We refer to the respective note to the financial statements.

# Report on risks and opportunities; Outlook

## 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.

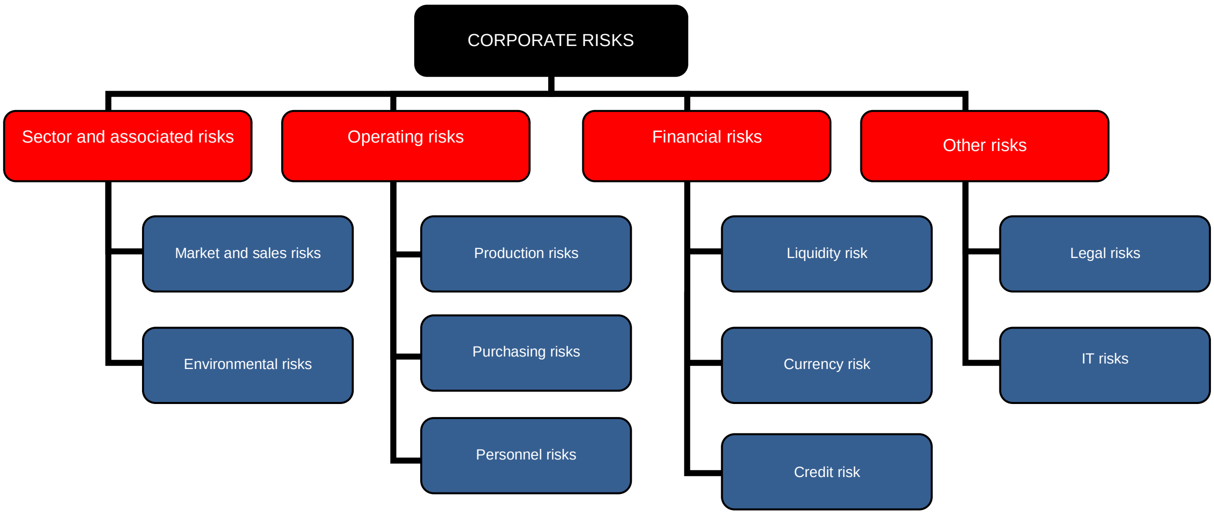
**Risk management** is based mainly on internal regulations set out in the form of guidelines and implemented in the corporate management and supervision process. Key elements in this process include strategic and operational forecasting, the preparation of weekly, monthly and quarterly reports for the 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.

### Corporate risks

SMT Scharf is subject to a number of risks arising from the Group companies' business activities. To make the risk report clearer and provide better overview, it allocates the risks to different categories, where they are presented in summarised form. SMT Scharf differentiates between sector and associated risks, operating risks, financial risks, and other risks. The section entitled "Other disclosures" in the notes to the IFRS consolidated financial statements for the 2016 fiscal year includes detailed disclosures about financial risk management.




## Sector and associated risks

### Market and sales risks

SMT Scharf AG and its subsidiaries operate worldwide, and are exposed to different political, legal and economic conditions. SMT Scharf counters the resultant risks by carefully monitoring such conditions and anticipating market trends as far as possible.

In macroeconomic terms, a recession or downturn in demand among individual customer groups could have a negative impact on the business of SMT Scharf. In addition, in many countries political continuity and stability in mine ownership play a role. A change of government or a change in mines' ownership structures could result in staffing changes at SMT Scharf customers, thereby potentially significantly delaying projects. SMT Scharf counters such risks by permanently monitoring the market and by advancing diversification through tapping new markets.

### Environmental risks

The SMT Scharf Group is not aware of any environmental objections or impacts at its facilities. Some of the buildings that SMT Scharf utilises were built with materials that contain asbestos. These materials are monitored regularly, and the Group ensures appropriate disposal during any conversion work.

## Operating risks

### Production risks

As an industrial company, SMT Scharf is exposed to the risk of disruptions to operations, delays to suppliers' deliveries, quality problems and unanticipated technical difficulties. These can lead to divergences from planned results internally, and can disrupt agreements made with customers or suppliers. Internal guidelines for project and quality management, product safety, occupational health and safety, and environmental protection are aimed at helping reduce such risks. Downtime production lines losses are covered by operational disruption insurance.

### Purchasing risks

Negative trends in material and energy prices, and problems with deliveries of pre-products, constitute potential purchasing risks. SMT Scharf counters such risks through entering into the longest-possible relationships with suppliers, and through tapping alternative suppliers worldwide. In addition, SMT Scharf constantly overhauls its own products' designs with the aim of making them more cost-effective.

### Personnel risks

The business success of SMT Scharf depends partly on the extent to which the company is able to retain highly qualified technical and managerial staff, and acquire further suitable employees – especially given further hiring in foreign markets. Wage increases and increases in incidental personnel expenses can lead to cost increases that SMT Scharf is unable to pass on through prices. SMT Scharf reduces such risks through production rationalisation measures.

## Financial risks

### Liquidity risks

SMT Scharf manages internal liquidity through central liquidity management. This system ensures that the funds required to finance its ongoing operating business and current and future investments in all of the Group companies are available on time, and in local currency. Given positive operating cash row, no liquidity risks exist, as sufficient existing bank deposits as well as lending and guarantee lines are available. SMT Scharf invests free liquid funds so they are available short-term and generate relatively secure returns. Working together with several banks aims to limit default risks.

### Currency risks

SMT Scharf is exposed to currency and default risks through its business activities. The Group counters such risks by deploying appropriate hedging instruments. This includes deploying forward currency transactions to hedge open items denominated in foreign currencies. The risk of higher product prices on foreign markets due to a strong Euro is weakened by a rising foreign proportion of purchased components. A total of 72% of the workforce of SMT Scharf was employed outside the Eurozone as of the December 31, 2016 reporting date, thereby reducing the risk of higher personnel costs due to exchange rate effects (natural hedging).

### Credit risks

Counterparty risks are limited by concluding documentary credits and by individual customer credit limits, among other measures. Interest-rate risks are presently of minor importance. No other risks arising from the deployment of financial instruments currently exist.

## Other risks

### Legal risks

SMT Scharf is subject to standard liability risks, which result, in particular, from product liability, as well as patent law, tax law, competition law, and environmental law. A concept with high quality and security standards exists to manage such risks in a controlled manner. SMT Scharf has also taken out insurance cover for physical damages, product liability and other risks, to protect itself from any potential losses.

### IT risks

Clear guidelines provide detailed regulations on handling information as well as the secure utilisation of information systems. SMT Scharf utilises up-to-date and application-specific technical protection to ensure the highest possible data security.

## 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.

# Corporate governance declaration

**<u>Corporate governance declaration pursuant to Section 161 of the German Stock Corporation Act (AktG)</u>**

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.

## Remuneration systems 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.

Hamm, March 1, 2017

The Managing Board

Hans Joachim Theiss Wolfgang Embert Rolf Ferdinand Oberhaus

# Consolidated balance sheet as of December 31, 2016

| EUR | Note | 31/12/2016 | 31/12/2015 | 31/12/2014 |
|---|---|---|---|---|
| **Assets** | | | | |
| Intangible assets | (8) | 1,373,161.96 | 2,304,996.08 | 2,932,437.57 |
| Property, plant and equipment | (8) | 4,656,510.08 | 5,161,873.19 | 6,713,043.27 |
| Equity accounted investments | | 3,742,669.13 | 3,766,893.18 | 3,391,527.74 |
| Deferred tax assets | (7) | 3,259,011.49 | 2,455,309.38 | 2,552,801.19 |
| Other non-current non-financial assets | | 732,741.03 | 644,776.90 | 1,781.25 |
| **Non-current assets** | | **13,764,093.69** | **14,333,848.73** | **15,591,591.02** |
| Inventories | (9) | 13,008,783.66 | 13,665,297.93 | 14,061,563.23 |
| Trade receivables | (10) | 23,374,427.07 | 23,882,324.98 | 22,430,342.85 |
| Other current non-financial assets | | 2,202,848.66 | 1,550,807.93 | 1,749,073.56 |
| Other current assets | (11) | 424,644.00 | 0.00 | 0.00 |
| Cash and cash equivalents | (12) | 6,637,519.53 | 5,196,858.77 | 6,646,975.76 |
| **Current assets** | | **45,648,222.92** | **44,295,289.61** | **44,887,955.40** |
| **Total assets** | | **59,412,316.61** | **58,629,138.34** | **60,479,546.42** |

| EUR | Note | 31/12/2016 | 31/12/2015 | 31/12/2014 |
|---|---|---|---|---|
| **Equity and liabilities** | | | | |
| Subscribed share capital | | 4,150,523.00 | 4,140,523.00 | 4,154,850.00 |
| Share premium | | 11,642,272.90 | 11,614,772.90 | 11,815,350.90 |
| Profit brought forward | | 26,750,937.52 | 25,092,834.95 | 23,722,635.13 |
| Other reserves | | -3,246,676.52 | -3,823,263.78 | -2,823,949.89 |
| **Equity** | (13) | **39,297,056.90** | **37,024,867.07** | **36,868,886.14** |
| Provisions for pensions | (14) | 3,590,537.00 | 3,289,432.00 | 3,188,417.00 |
| Other non-current provisions | (15) | 349,415.38 | 383,600.07 | 363,708.04 |
| Deferred tax liabilities | (7) | 95,783.29 | 800,552.40 | 1,191,477.91 |
| Non-current financial liabilities | (20) | 1,312,690.00 | 2,058,402.00 | 2,387,750.00 |
| **Non-current provisions and liabilities** | | **5,348,425.67** | **6,531,986.47** | **7,131,352.95** |
| Current income tax | | 1,441,451.32 | 390,469.97 | 762,164.54 |
| Other current provisions | (15) | 5,107,207.44 | 6,113,481.36 | 7,530,891.43 |
| Advance payments received | | 476,414.79 | 232,412.58 | 438,674.14 |
| Trade payables | (16) | 4,057,802.04 | 4,217,503.00 | 3,501,977.22 |
| Current financial liabilities | (20) | 2,183,104.94 | 2,807,242.95 | 3,000,000.00 |
| Other current non-financial liabilit | | 1,500,853.51 | 1,311,174.94 | 1,245,600.00 |
| **Current provisions and liabilities** | | **14,766,834.04** | **15,072,284.80** | **16,479,307.33** |
| **Total equity and liabilities** | | **59,412,316.61** | **58,629,138.34** | **60,479,546.42** |

# Consolidated statement of comprehensive income from January 1 to December 31, 2016

| EUR | Note | 2016 | 2015 |
|---|---|---|---|
| Revenue | (1) | 42,564,753.71 | 50,302,634.38 |
| Changes in inventories | | -323,892.55 | -287,054.72 |
| Total operating revenue (100 % ) | | 42,240,861.16 | 50,015,579.66 |
| Other operating income | (2) | 4,618,472.89 | 5,148,369.53 |
| Cost of materials | | 21,743,739.73 | 26,935,041.24 |
| Personnel expenses | (3) | 11,562,863.85 | 12,055,541.33 |
| Depreciation, amortisation and impairment losses | (4) | 2,476,661.87 | 1,861,078.46 |
| Other operating expenses | (5) | 8,603,171.49 | 12,049,751.91 |
| **Profit/loss from operating activities (EBIT)** | | **2,472,897.11** | **2,262,536.25** |
| Result from equity accounted investments | (6) | 488,857.69 | 449,390.64 |
| Interest income | | 125,089.79 | 89,422.30 |
| Interest expenses | | 155,733.40 | 228,848.08 |
| **Financial result** | | **458,214.08** | **309,964.86** |
| **Profit/loss before tax** | | **2,931,111.19** | **2,572,501.11** |
| Income taxes | (7) | 1,058,325.15 | 1,100,886.52 |
| **Consolidated net profit/loss** | | **1,872,786.04** | **1,471,614.59** |
| Other comprehensive income items recycled later to profit or loss | | 576,587.26 | -999,313.89 |
| Share of other comprehensive income attributable to equity accounted investments | | -513,081.74 | -824,778.08 |
| Other comprehensive income items not recycled later to profit or loss | | -294,583.47 | -101,414.77 |
| **Comprehensive income** | | **2,154,789.83** | **-453,892.15** |
| **Earnings per share *** | | | |
| Basic | | 0.45 | 0.36 |
| Diluted | | 0.45 | 0.36 |

* Consolidated net income divided by an average number of 4,156,146 issued shares (previous year: 4,143,820)

## Consolidated cash flow statement from January 1 to December 31, 2016

| EUR | 2016 | 2015 |
|---|---|---|
| Consolidated net profit | 1,872,786.04 | 1,471,614.59 |
| - Result from equity accounted investments | -488,857.69 | -449,390.64 |
| + Dividend income from equity accounted investments | 0.00 | 159,201.00 |
| + Depreciation and amortisation of non-current assets | 2,476,661.87 | 1,861,078.46 |
| + Loss from disposal of non-current assets | 211,521.17 | 562,747.66 |
| +/- Increase/decrease in provisions | -902,257.06 | -1,445,862.04 |
| -/+ Increase/decrease in inventories, trade receivables and other assets that are not allocable to investing a financing activities | 362,227.54 | -2,123,771.40 |
| +/- Increase/decrease in trade payables and other liabilities that are not allocable to investing a financing activities | -3,430,694.12 | 711,945.66 |
| +/- Income tax expense | 1,058,325.15 | 1,100,886.52 |
| +/- Interest expenses / interest income | 30,643.61 | 139,425.78 |
| +/- Income tax payments | -951,303.80 | -1,371,278.29 |
| **Cash flow from operating activities** | **239,052.71** | **616,597.30** |
| + Cash inflows from disposal of property, plant and equipment | 1,036,113.72 | 0.00 |
| - Capital expenditure on property, plant and equipment | -1,788,997.03 | -440,851.19 |
| - Capital expenditure on intangible assets | -18,626.03 | -30,470.83 |
| - Cash outflows for additions to the consolidation scope | -306,307.90 | 0.00 |
| + Interest received | 27,193.69 | 0.00 |
| **Cash flow from investing activities** | **-1,050,623.55** | **-471,322.02** |
| - Cash outflows from purchase of treasury shares | 0.00 | -214,905.00 |
| + Cash inflows from drawing down financing loans | 500,000.00 | 0.00 |
| - Cash outflows from repaying bonds and (financing) loans | -1,245,712.00 | -329,348.00 |
| - Interest paid | -71,484.33 | -192,757.05 |
| -/+ Change in hardship and social funds | 132,877.24 | 99,724.79 |
| **Cash flow from financing activities** | **-684,319.09** | **-637,285.26** |
| | | |
| **Net change in cash and cash equivalents** | **-1,495,889.93** | **-492,009.98** |
| Effect of changes in exchange rates, Group composition and valuations on cash and cash equivalents | 886,322.99 | -858,382.22 |
| Cash and cash equivalents at start of period | 4,707,731.92 | 6,058,124.12 |
| **Cash and cash equivalents at end of period** | **4,098,164.98** | **4,707,731.92** |

## Consolidated statement of changes in equity from January 1 to December 31, 2016

| EUR | Subscribed share capital | Share premium | Profit/loss carried forward | Currency translation difference | Total equity |
|---|---|---|---|---|---|
| **Balance on 01/01/2016 (after correction)** | **4,140,523.00** | **11,614,772.90** | **25,092,834.95** | **-3,823,263.78** | **37,024,867.07** |
| Purchase of treasury shares | 10,000.00 | 27,500.00 | 79,900.00 | | 117,400.00 |
| | | | | | |
| Consolidated net profit/loss | | | 1,872,786.04 | | 1,872,786.04 |
| Currency difference on translating foreign net results the year | | | | 576,587.26 | 576,587.26 |
| | | | | | |
| Recognition of actuarial gains/losses | | | -433,849.00 | | -433,849.00 |
| Deferred taxes on recognised actuarial gains/losses | | | 139,265.53 | | 139,265.53 |
| Comprehensive income | | | 1,578,202.57 | 576,587.26 | 2,154,789.83 |
| **Balance on 31/12/2016** | **4,150,523.00** | **11,642,272.90** | **26,003,712.44** | **-3,246,676.52** | **39,297,056.90** |

| EUR | Subscribed share capital | Share premium | Profit/loss carried forward | Currency translation difference | Total equity |
|---|---|---|---|---|---|
| **Balance on 01/01/2015** | **4,154,850.00** | **11,815,350.90** | **23,722,635.13** | **-2,823,949.89** | **36,868,886.14** |
| Purchase of treasury shares | -14,327.00 | -200,578.00 | | | -214,905.00 |
| | | | | | |
| Consolidated net profit/loss | | | 1,471,614.59 | | 1,471,614.59 |
| Currency difference on translating foreign net results for the year | | | | -999,313.89 | -999,313.89 |
| Recognition of actuarial gains/losses | | | -149,359.00 | | -149,359.00 |
| Deferred taxes on recognised actuarial gains/losses | | | 47,944.23 | | 47,944.23 |
| Comprehensive income | | | 690,901.93 | -999,313.89 | -308,411.96 |
| **Balance on 31/12/2015** | **4,140,523.00** | **11,614,772.90** | **25,092,834.95** | **-3,823,263.78** | **37,024,867.07** |

# Notes to the IFRS consolidated financial statements for the 2016 fiscal year

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

SMT Scharf AG, Römerstrasse 104, 59075 Hamm, Germany (hereinafter also referred to as the "company") 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 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.

## Information about the consolidated financial statements

As SMT Scharf AG is admitted to the regulated market, it prepares its consolidated financial statements according to IFRS. The consolidated financial statements, comprising balance sheet, income statement, statement of comprehensive income, statement of changes in equity, cash flow statement and supplementary disclosures in the notes the financial statements, at the SMT Scharf Group as of December 31, 2016 have been prepared according to the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB), as they are to be applied in the EU and which are valid as of the reporting date. The term IFRS also includes the International Accounting Standards (IAS) and the interpretations of the Standing Interpretations Committee (SIC) and the International Financial Reporting Interpretations Committee (IFRIC) that are still valid. In addition, the requirements of Section 315a of the German Commercial Code (HGB) have been complied with.

The consolidated financial statements have been prepared in Euros. Unless otherwise indicated, all amounts in the notes to the financial statements are stated and rounded to thousands of Euros (EUR thousands).

The Supervisory Board is expected to approve the IFRS consolidated financial statements on March 1, 2017, before release for publication.

a) New and revised standards and interpretations requiring first-time
in the fiscal year under review

As of January 1, 2016, the Group applied the following new and revised standards and interpretations:

> IFRS 11 "Joint Arrangements"
With "Acquisition of an Interest in a Joint Operation" (amendments to IFRS 11), IFRS 11 is amended so that the acquirer of an interest in a joint operation that comprises a business as defined in IFRS 3 has to apply all principles relating to the accounting treatment of business combinations deriving from IFRS 3 and other IFRS if they do not contradict the guidelines contained in IFRS 11.
These amendments have no effects on the Group.

> IAS 16 "Property, Plant and Equipment"/ IAS 38 "Intangible Assets" – "Clarification of Acceptable Methods of Depreciation and Amortisation"
The amendments provide guidelines as to which depreciation and amortisation methods can be applied, especially in relation to revenue-based depreciation and amortisation methods.
These amendments have no effects on the Group.

> IAS 16 "Property, Plant and Equipment"/ IAS 41 "Agriculture" – "Bearer Plants"
These amendments bring bearer plants that are no longer subject to significant biological changes within the application scope of IAS 16, enabling them to be treated like property, plant and equipment.
These amendments have no effects on the Group.

> IAS 27 "Separate Financial Statements" – Equity Method in Separate Financial Statements
Due to the amendments, interests in subsidiaries, joint ventures and associates can also be equity accounted in separate IFRS financial statements in the future. Options consequently exist to include such entities at amortised cost, as available-for-sale financial assets, and by applying the equity method.
These amendments have no effects on the Group.

> Annual Improvements to IFRS (2010–2012 Cycle)
The IASB has published its 2010-2012 Cycle to its Annual Improvements to IFRS, resulting in clarifications of the following standards and topical areas.

- IFRS 2: Definition of vesting conditions and market conditions
- IFRS 3: Recognising contingent considerations in connection with business combinations
- IFRS 8: Disclosures relating to aggregating segments and the requirement for a reconciliation for segment assets
- IFRS 13: Continued possibility to waive discounting in the fair-value measurement of current receivables and liabilities if the effect is immaterial
- IAS 16 and IAS 38: Revaluation method – Calculating accumulated depreciation and amortisation on the date of a revaluation
- IAS 24: Expanding the definition of related parties to include companies rendering services in the corporate management area (management entities)

These amendments have no significant effects on the Group.

> Annual Improvements to IFRS (2012-2014 Cycle)
The IASB published the 2012-2014 Cycle of the Annual Improvements to IFRS, resulting in clarifications of the following standards and topical areas:

- IFRS 5: Guidelines on reclassification from the held for distribution to owners category -> held for sale, and vice versa
- IFRS 7: Guidelines as to whether a servicing contract comprises a continuing involvement in a transferred asset, and the applicability of the amendments to IFRS 7 to condensed interim financial statements
- IAS 19: Discount rate: Regional market issue
- IAS 34: Disclosures of information "elsewhere" in interim financial reports

These amendments have no significant effects on the Group.

> IAS 1 "Presentation of Financial Statements" – Disclosure Initiative
The clarifications aim to relieve IFRS financial statements of immaterial information while at the same time requiring relevant information to be imparted. Moreover, comprehensibility is not to be restricted through aggregating relevant with irrelevant information, or aggregating important items with different characteristics. It is also clarified that, when determining the structure of the notes to the financial statements, companies must take into account the related effect on the reader's ability to understand and compare financial statements.
These amendments have no significant effects on the Group.

> IAS 19 "Employee Benefits"
The amendments to IAS 19 include an exemption for companies when recognising contributions by employees or third parties to a pension plan if such contributions are independent of the number of service years.
These amendments have no effects on the Group.

> IFRS 10, IFRS 12, IAS 28 "Investment Entities: Applying the Consolidation Exemption"
This amendment relates to clarifications connected with consolidation exemptions for investment entities.
These amendments have no effects on the Group.

b) Standards and interpretations not applied (published but not yet requiring mandatory application, or partly not yet to be applied in the EU)

The International Accounting Standards Board (IASB) and the IFRS Interpretations Committee (IFRS IC) have approved further standards and interpretations that do not yet require mandatory application for the 2016 fiscal year or that the EU has yet to recognise.

> IFRS 15 "Revenue from Contracts with Customers"
This new standard regulates the timing and level of revenue recognition. IFRS 15 fully replaces existing revenue recognition regulations consisting of standards IAS 18 and IAS 11, as well as various interpretations of standards, and provides new regulations for several aspects. This standard is to be applied prospectively for fiscal years starting from January 1, 2018.

> IAS 12 "Income Taxes"
The amendments serve to clarify various questions relating to recognising deferred tax assets for unrealised losses on assets measured at fair value. This standard is to be applied prospectively for fiscal years starting from January 1, 2017. EU endorsement is still outstanding.

> IAS 7 "Statement of Cash Flows"
The amendments serve to clarify and improve information to be conveyed in relation to changes in liabilities arising from financing activities. The amendments are applicable for fiscal years starting on or after January 1, 2017. EU endorsement is still outstanding.

> IFRS 9 "Financial Instruments"
IFRS 9 relates to the classification and measurement of financial instruments as well as the recognition of derivatives and hedges, and will replace IAS 39 Financial Instruments. This standard is to be applied for fiscal years starting from January 1, 2018.

> IFRS 15 "Revenue from Contracts with Customers": clarification
This clarification of IFRS 15 was published in April 2016 and includes three specific amendments and transition exemptions for IFRS 15. This amendment is to be applied for fiscal years starting from January 1, 2018.

> IFRS 2 "Share-based Payment": clarification
The amendments to IFRS include clarifications relating to the recognition of certain share-based cash-settled payment transactions. The amendments to IFRS 2 are applicable for fiscal years starting on or after January 1, 2018. EU endorsement is still outstanding.

> IFRS 16 "Leases"
IFRS 16 will replace the IAS 17, IFRIC 4, SIC-15 and SIC-27 standards and interpretations in the future. The new regulations dispense in the future with the differentiation between finance and operating leases for the lessor. The lessor is instead required to recognise a right of use. This standard comes becomes effective on January 1, 2019. Endorsement is still outstanding.

The Group is currently examining the effects that will arise from first-time application. For this reason, it is not yet possible to reliably provide more precise information about the potential effects.

**Information about subsidiaries**

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

| | Interest | Equity (IFRS) 31/12/2016 | Profit/loss (IFRS) 2016 |
|---|---|---|---|
| SMT Scharf GmbH, Hamm Germany | 100 % | 17,810 | -223 |
| SMT Scharf Saar GmbH i.I, Neunkirchen, Germany | 100 % | 42 | -281 |
| 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 Ukrainia, 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.

The following changes occurred in the fiscal year under review.

With effects as of September 1, 2016, SMT Scharf AG acquires 100% of the shares in Nowilan Gesellschaft für Antriebstechnik mbH in Dinslaken. With this acquisition, SMT Scharf takes its next step as part of its announced strategy of further developing itself to become a comprehensive system supplier in the underground logistics area. Nowilan is an internationally operating provider of drive technology, logistics solutions and special engineering. This microenterprise does not have its own production plants but instead uses external production capacities. Nowilan develops solutions on an individual project basis for customers. The company possesses a high level of technical know-how, an established brand name and a network in underground special engineering and tunnel logistics, areas of interest to SMT Scharf. A partnership has combined both companies to this end over many years, which has proved itself especially in the context of collaborating on technically high-end projects. The acquisition amounts to EUR 534 thousand (EUR 410 thousand in cash and 10,000 SMT Scharf AG shares). The present value of the shares on the acquisition date amounted to EUR 117 thousand and was calculated on the basis of the current stock market price. Goodwill of EUR 377 thousand was recognised in connection with the business combination with Nowilan. This reflects the expected benefits from synergy effects, including in the market profile after integrating Nowilan into the SMT Group.

The fair value of the identifiable acquired assets and liabilities is as follows:

| **EUR thousand** | **01/09/2016** |
|---|---:|
| Cash and cash equivalents | 104 |
| + other current assets | 116 |
| + other tangible assets | 6 |
| - Provisions | 56 |
| - Liabilities | 14 |
| = Net assets | 156 |

The purchase price allocation is regarded as provisional in accordance with IFRS 3.45.

The acquired company generated EUR 1 thousand of revenue in the reporting period, contributing a loss of EUR 73 thousand to the consolidated net result. If the company had already been acquired at the start of the reporting period, the company would have contributed EUR 133 thousand to revenue and a loss of EUR 52 thousand to the consolidated net result.

Estonian company SMT Scharf International was removed from the company register after the end of its liquidation period on August 9, 2016 and consequently no longer forms part of the Group.

**Information about joint ventures**

Through SMT Scharf GmbH, SMT Scharf AG holds a 50 % interest in Shandong Xinsha Monorail Co. Ltd, Xintai/China. The main operating activity is the production, repair and marketing of machinery and equipment of any type, and trading with such assets. SMT Scharf AG classifies this company as a joint venture in accordance with IFRS 11, as together with its partner entity it owns the rights to the net assets. Joint ventures are recognised on the date of addition at cost, and measured subsequently applying the equity method.

**In accordance with IFRS, the summarised financial information is provided below and corresponds to the amounts in the joint venture's financial statements.**

| **EUR thousand** | **31/12/2016** | **31/12/2015** |
|---|---|---|
| Non-current assets | 44 | 60 |
| Current assets | 13,378 | 17,164 |
| Non-current liabilities | 0 | 0 |
| Current liabilities | 5,805 | 9,690 |

The assets and liabilities listed above include the following amounts:

| **EUR thousand** | **31/12/2016** | **31/12/2015** |
|---|---|---|
| Cash and cash equivalents | 1,482 | 1,164 |
| Current financial liabilities | 0 | 1,133 |
| Non-current financial liabilities | 0 | 0 |

| **EUR thousand** | **31/12/2016** | **31/12/2015** |
|---|---|---|
| Revenue | 11,010 | 12,175 |
| Profit from continuing operations | 978 | 899 |
| Comprehensive income | 978 | 899 |
| Dividend received from joint venture | 0 | 177 |

The profit listed above includes the following amounts:

| **EUR thousand** | **31/12/2016** | **31/12/2015** |
|---|---|---|
| Depreciation and amortisation | 19 | 9 |
| Interest income | 0 | 0 |
| Interest expenses | 61 | 214 |
| Income taxes | 326 | 23 |

Reconciliation between the summarised financial information and the carrying amounts of the interest in the joint venture as recognised in the consolidated financial statements:

| **EUR thousand** | **31/12/2016** | **31/12/2015** |
|---|---|---|
| Net assets of the joint venture | 7,486 | 7,534 |
| Interest held | 50% | 50% |
| **Carrying amount of the interest** | 3,743 | 3,767 |

## Consolidation principles

The consolidated financial statements are based on the separate financial statements of the companies in the SMT Scharf Group, which were prepared according to standard Group accounting and valuation methods. The separate financial statements were prepared as of December 31.

Subsidiaries are companies that SMT Scharf AG directly or indirectly controls. The Group obtains control when it can exercise power over the investee, is exposed to fluctuating returns from the investee, and possesses the capability to exercise its power over the investee to affect the level of return from the investee.

Control can also arise in cases where SMT does not hold the majority of the voting rights, if the Group is able to unilaterally determine the significant activities of the investee. All facts and circumstances are taken into consideration when assessing whether control exists. These especially include the purpose and structure of the investee, identifying its significant activities and decisions relating to them, and the relationship of the company's own voting rights in comparison to the scope and distribution of other voting rights, potential voting rights and rights arising from other contractual arrangements. All facts and circumstances subject to the exercising of management discretion must be taken into account when assessing whether control exist.

SMT examines its assessment of control if indications exist that one or several of the aforementioned control criteria have changed.

Results from subsidiaries acquired or sold during the course of the fiscal year are recognised in the consolidated income statement and in the consolidated statement of comprehensive income with effect of the actual acquisition or disposal date.

As a rule, capital for the companies in SMT Scharf Group is consolidated applying the purchase method pursuant to IFRS 3. This entails carrying acquired assets and liabilities at fair value. If these companies were not formed by the Group itself, and if a positive difference exists between acquisition cost and the subsidiary's proportionate revalued equity, the difference is carried as goodwill and tested regularly for impairment. Any remaining negative difference is recognised in profit or loss after a second assessment. Acquisition-related costs are expensed as incurred. Expenses, income, receivables and liabilities between the fully consolidated companies and intragroup profits from deliveries and services within the Group are eliminated. Deferred taxes are recognised if consolidation steps affect profit or loss.

Changes to the Group's shareholding quotas in subsidiaries that do not lead to a loss of control are recognised as transactions between owners.

## Currency translation

The separate statements for the fully consolidated subsidiaries are translated based on the functional currency concept according to IAS 21. The functional currency for the subsidiaries is based on the primary economic environment, and consequently corresponds to the respective local currency. Balance sheet items are translated at the rate of exchange on the balance sheet date; items in the income statement are translated at the average annual rate of exchange. In statements of changes in assets, provisions and equity, the company translates balances at the start and end of fiscal years, and consolidation scope changes, at the exchange rate on the respective date. The remaining items are translated at the annual average exchange rate. Year-on-year differences in the currency translation of balance sheet items are recognised in equity through other comprehensive income within other reserves.

Foreign-currency transactions are translated into the functional currency applying the exchange rate on the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated into the respective functional currency applying the exchange rate on the reporting date. The foreign currency gains and losses arising from these translations are recognised in the consolidated income statement under "other operating income" or "other operating expenses".

The exchange rates for the key currencies were:

| | **Closing rate** | | **Average rate** | |
|---|---|---|---|---|
| **1 Euro =** | **31/12/2016** | **31/12/2015** | **2016** | **2015** |
| Polish Zloty | 4.4103 | 4.2639 | 4.3632 | 4.1841 |
| South African Rand | 14.4570 | 16.9530 | 16.2645 | 14.1723 |
| Chinese Renminbi Yuan | 7.3202 | 7.0608 | 7.3522 | 6.9733 |
| Russian Ruble | 64.3000 | 80.6736 | 74.1446 | 68.072 |

## Accounting and valuation policies

The statement of comprehensive income is prepared applying the nature of expense method.

Revenue from the sale of equipment and spare parts is recognised when ownership and risk transfer to the customer, to the extent that a price has been agreed or can be determined, and it is probable that this will be paid. Revenue from services is recognised when the services have been provided, a price has been agreed or can be determined, and it is probable that the price will be paid. In the case of master agreements for services, the services provided are invoiced regularly, on a monthly basis, as a rule. Revenue is reported net of discounts, rebates and other price reductions.

Revenue and expenses from construction contracts in the meaning of IAS 11 are carried according to their percentage of completion. The percentage of completion is given by the ratio of the order-based costs incurred through to the reporting date to the total estimated order-based costs on the reporting date (cost-to-cost method). The costs relating to the construction contract incurred by the respective date plus the proportionate profits resulting from the degree of completion achieved are recognised under trade receivables. Changes to contracts, subsequent claims or performance bonuses are taken into account to the extent that these have already been agreed on a binding basis with the customer. If the result of a construction contract cannot be reliably estimated, the revenues that are likely to be achieved are recognised up to the level of costs incurred. Order-based costs are recognised in the period in which they are incurred. If it can be foreseen that the total costs from the contract will exceed the income from the contract, the anticipated losses are reported directly as expenses. No construction contracts currently exist within the SMT Scharf Group.

Income from rental agreements is recognised under accrual basis accounting as other operating income in accordance with the provisions of the underlying agreements. Income from operating leases in the meaning of IAS 17 is recognised under accrual basis accounting as revenue in accordance with the provisions of the underlying leases.

Interest income is accrued pro rata temporis applying the effective interest method.

Borrowing costs are not capitalised as per IAS 23, but are instead expensed immediately if the criteria for a qualifying asset in the meaning of IAS 23 are not met.

Research and development costs that do not meet the IAS 38 capitalisation criteria are expensed immediately.

The EUR 1,305 of goodwill reported as of December 31, 2016 (previous year: EUR 927), which is allocated to two cash generating units, is recognised at cost. Goodwill is tested for impairment annually and also if indications otherwise exist of potential impairment, as a matter of principle. The recoverable amount of this CGU is measured through calculating values in use by applying the discounted cash flow method, as a matter of principle. This approach utilises the planned after tax cash flow deriving from the five-year planning for the CGU, prepared on a bottom-up basis and approved by the Managing Board of SMT Scharf AG. Cash flows beyond the five-year horizon are calculated on the basis of the average for the five-year period, as a matter of principle. No growth rate is applied to extrapolate the five-year average. Present values are calculated by discounting, applying an interest rate of 10.0 % (previous year: 8.0 %). No goodwill impairment losses were recognised in the year under review.

Assuming that the criteria of IAS 38 are met, purchased intangible assets are recognised at cost, and amortised straight-line over a period of between three and six years depending on their useful life. All acquired intangible assets have a limited useful life.

Separate internally generated intangible assets are capitalised as soon as IAS 38 criteria are fulfilled cumulatively. From this date, the development or historical costs that can be directly allocated to the individual intangible assets (mostly personnel expenses), including development-related overheads, are capitalised. The capitalised assets are amortised straight-line from the date that they are available for disposal (marketability) over the anticipated product life cycle of six to eight years. All capitalised internally generated intangible assets have a limited useful life.

Property, plant and equipment utilised in operations is measured at cost less straight-line depreciation. Depreciation is based on the following useful lives throughout the entire Group:

| | **In years** |
|---|---:|
| Buildings | 10 to 50 |
| Technical equipment and machinery | 5 to 20 |
| Other office equipment, fixtures and fittings | 2 to 13 |

Expenses for maintenance and repairs are recognised as expenses to the extent that these are not subject to mandatory capitalisation.

Intangible assets and property, plant and equipment are impairment tested regularly based on cash-generating units.

Government grants are recognised if sufficient certainty exists that such subsidies will be granted, and that the company fulfils the conditions with which they are linked. Such grants were not received in 2016.

The SMT Scharf Group has concluded leases as a lessee (mostly for cars and photocopiers). According to IAS 17, these are to be classified as operating leases, as most of the opportunities and risks that are associated with the ownership remain with the lessor. Lease payments for these operating leases are carried as other operating expenses over the lease period. The SMT Scharf Group has also concluded leases as a lessor (mostly for DZ 1500 and DZ 1800 diesel trains). According to IAS 17, these are to be classified as operating leases, as most of the opportunities and risks that are associated with ownership remain with SMT Scharf. These leased assets are capitalised as office and operating equipment under property, plant and equipment. Lease payments for these operating leases are recognised as revenue over the lease period.

Other financial assets are classified on the basis of accounting and valuation according to IAS 39. As of December 31, 2016, the SMT Scharf Group had assets in the originated loans and receivables category.

The extended loans and receivables are measured at amortised cost applying the effective interest method. All of the SMT Scharf Group's loans and receivables bear interest at standard market rates. As a rule, loans and receivables are originated at their nominal values. Individual write-downs are formed for receivables for which default is highly probable. General credit risk is reflected by way of write-downs for the stock of receivables which have not been adjusted through individual write-downs – these are based on past experience, as a rule. Receivables denominated in foreign currencies are translated applying the closing rate of exchange, and any resultant exchange rate differences are carried under other operating income or expense.

Liquid assets comprise cash, sight deposits and short-term bank deposits that had a remaining term of up to three months on addition and are subject to only minor value fluctuations. These items are measured at amortised cost.

Inventories are measured at the lower of cost or net realisable value. Pursuant to IAS 2, manufacturing costs are identified as fully absorbed costs (comprising unit costs and reasonable overheads including production-related administrative expenses) applying the standard cost method. Purchase costs are measured applying the average cost method. Net realisable value corresponds to the selling price in the ordinary course of business, less estimated costs of completion and costs necessary to realise sale.

Deferred and current taxes are measured in accordance with IAS 12. Deferred taxes are determined for temporary differences between the carrying amounts of assets and liabilities in the IFRS balance sheet and their tax base, and for realisable tax loss carryforwards. Calculations are based on the tax rates that apply in the respective country on the expected date of realisation, as passed by law on the balance sheet date. Deferred tax assets are recognised only to the extent that it is probable that the associated tax receivables will be used. Tax loss carryforwards are included in tax deferrals only if it is probable that these will be realised.

Provisions for pensions are measured applying the projected unit credit method. In this context, the future obligations are measured based on the benefit entitlements proportionately acquired by the balance sheet date. Measurement entails assumptions being made regarding the future development of specific parameters that affect the future benefit amount. The calculation is based on actuarial reports that apply biometric principles. Actuarial gains and losses are offset in full with equity. As a result, no amortisation of actuarial gains and losses is recognised in profit or loss.

The other provisions are formed for all identifiable risks and uncertain liabilities, if it is probable that such risks will materialise and it is possible to reliably estimate their amount. To the extent that the Group expects at least a partial refund for a provision carried as a liability (as is the case, for example, in insurance policies), the refund is only then recognised as a separate asset if the refund is as good as certain to be paid. Expenses for the formation of provisions are reported in the consolidated statement of comprehensive income after deduction of the refund.

Other provisions are measured in line with IAS 37 applying the best possible estimate of the amount of the liability. If provisions only become due after one year, and if it is possible to reliably estimate the amount or date of the payments, the present value is measured by discounting.

The amount of the provision for warranties is measured applying the warranty expense that was incurred in the past, the warranty period, and the revenues affected by warranties. Individual provisions are formed for known losses. Provisions for other business-related liabilities are measured based on the services that are still to be rendered, in the amount of the production costs that are yet to be incurred, as a rule.

Financial liabilities are carried at cost on initial recognition. This corresponds to the fair value of the compensation received. Transaction costs are also taken into account in this regard. All liabilities are measured in subsequent years at amortised cost applying the effective interest method. Liabilities in foreign currencies are translated by applying the closing rate of exchange, and any resultant exchange rate differences are carried under other operating income or expense.

**Accounting estimates and the exercising of discretion**

The preparation of the consolidated financial statements requires the making of assumptions and utilisation of accounting estimates that relate to the recognition and measurement of assets and liabilities, income and expenses, and the extent of contingent liabilities. Estimates made by the company are based on historical amounts and other assumptions considered appropriate in the particular circumstances. Actual amounts may differ from estimates. The estimates and assumptions made are subject to constant review and adjusted accordingly.

The main estimates and related assumptions, as well as uncertainties connected with the selected accounting policies, as listed below, are critical to an understanding of the risks underlying the financial reporting, as well as the effects that such estimates, assumptions and uncertainties could have on the consolidated financial statements:

<u>Goodwill</u>

The SMT Group conducts a goodwill impairment test annually, and also whenever indications exist that goodwill might have become impaired. The recoverable amount of the cash-generating units is estimated for this purpose. This recoverable amount corresponds to the higher of fair value less costs of disposal, and value in use. Calculating value in use requires adjustments and estimates to be made in relation to the forecasting and discounting of future cash flows. Although the management assumes that the assumptions applied to calculate the recoverable amount are appropriate, any unforeseen changes to such assumptions could result in an impairment loss that could exert a sustainable negative effect on the company's financial position and performance. The carrying amount of the goodwill amounts to EUR 1,305 thousand as of the balance sheet date.

Useful lives of other intangible assets, and of property, plant and equipment

At every fiscal year-end, the Group reviews the estimated useful lives of its other intangible assets, and of its property, plant and equipment. No modifications were required for such estimates in 2016 and 2015.

Impairment testing of other intangible assets, and of property, plant and equipment

On each balance sheet date, the Group is required to estimate whether any indication exists that the carrying amount of an item reported under other intangible assets, or of property, plant and equipment, might have become impaired. In such cases, the recoverable amount of the respective asset is estimated. The recoverable amount corresponds to the higher of fair value less costs of disposal, and value in use. To calculate value in use, the discounted future cash flows of the respective asset are calculated. Estimating discounted future cash flows includes significant assumptions, including especially those relating to future sales prices and sales volumes, costs, and discounting rates. Although the management assumes that the estimates of the relevant expected useful lives, assumptions relating to economic conditions and trends in sectors where the Group operates, and estimates of the discounted future cash flows, are appropriate, a modification of the analysis might be necessitated by a change to the assumptions or circumstances. If the trends identified by the management reverse in the future, or if the assumptions and estimates prove to be erroneous, additional impairment losses, or reversals of impairment losses, might be required.

Taxes on income

On each reporting date, the Group assesses whether the realisability of future tax benefits is sufficiently likely for the recognition of deferred tax assets. This requires the management to assess, inter alia, tax benefits deriving from future available tax strategies and future taxable income, as well as to take further positive and negative factors into account. The reported deferred tax assets could diminish if the estimates of the planned tax income and tax benefits achievable through available tax strategies are reduced, or if changes to current tax legislation restrict the timeframe or scope of realisability of future tax benefits. A total of EUR 3,259 thousand of deferred taxes were capitalised as of December 31, 2016, which were offset by deferred tax liabilities of EUR 96 thousand.

Employee benefits

Pensions and similar obligations are measured according to actuarial valuations. Such valuations are based on statistical and other factors in order to thereby anticipate future events. These factors include, among others, actuarial assumptions such as discount rates, expected salary increases and mortality rates. Such actuarial assumptions can differ considerably from actual developments due to changes in market and economic conditions, consequently resulting in a significant change to pension and similar obligations, as well as related future expense.

**Amendments pursuant to IAS 8**

As part of ongoing improvement to the financial reporting of SMT Scharf AG, the balance sheet structure was optimised in the year under review. This results in adjusted allocations of individual matters to specific balance sheet items. In addition, individual designations of balance sheet items were modified to make them more comprehensible for the readers of the financial statements. It does not entail any modification of contents or accounting policy, however. A second comparative period has been included due to the modified structure, pursuant to IAS 1.41. All modifications have been included retrospectively.

Moreover, a correction in the valuation of inventories with effect on the 2015 fiscal year was made. For further details on this topic, please refer to the remarks relating to inventories.

## Notes to the income statement

### (1) Revenue

Revenue is composed of the following items:

| | 2016 | 2015 |
|---|---|---|
| Sale of new equipment | 13,822 | 20,402 |
| Spare parts sales and miscellaneous | 28,743 | 29,901 |
| Total | 42,565 | 50,303 |

Revenue by region was as follows:

| | 2016 | 2015 |
|---|---|---|
| China | 8,227 | 11,327 |
| Russia and other CIS states | 12,617 | 12,544 |
| Poland | 8,216 | 7,663 |
| Germany | 3,502 | 5,263 |
| Africa | 6,781 | 7,391 |
| America | 451 | 3,244 |
| Other countries | 2,771 | 2,871 |
| Total | 42,565 | 50,303 |

### (2) Other operating income

Other operating income is composed of the following items:

| | 2016 | 2015 |
|---|---|---|
| Miscellaneous other operating income | 1,699 | 741 |
| Exchange rate gains | 2,014 | 2,962 |
| Release of provisions | 905 | 1,445 |
| Total | 4,618 | 5,148 |

Miscellaneous other operating income comprises mainly overheads passed on, reversals of specific valuation allowances, and rental income.

### (3) Personnel expenses

Personnel expenses are composed of the following items:

| | 2016 | 2015 |
|---|---|---|
| Wages and salaries | 9,839 | 10,255 |
| Social security and pension contributions | 1,724 | 1,800 |
| Total | 11,563 | 12,055 |

Expenses for defined contribution pension plans, especially statutory pension insurance, of EUR 90 thousand (previous year: EUR 99 thousand) were recognised during the fiscal year under review.

The average number of employees in the SMT Scharf Group totalled:

| | 2016 | 2015 |
|---|---:|---:|
| Employees | 298 | 275 |
| of whom trainees | 3 | 6 |
| Total | 298 | 275 |

**(4) Depreciation, amortisation and impairment losses**

| | 2016 | 2015 |
|---|---:|---:|
| Amortisation and impairment losses applied to intangible assets | 1,344 | 457 |
| Depreciation and impairment losses applied to equity, plant and equipment | 1,132 | 1,404 |
| Total depreciation, amortisation and impairment losses | 2,476 | 1,861 |

Amortisation and impairment losses applied to intangible assets include an impairment loss of EUR 1,008 thousand for a capitalised development project, which the company assumes cannot be utilised in the future.

**(5) Other operating expenses**

Other operating expenses are composed of the following items:

| | 2016 | 2015 |
|---|---:|---:|
| Valuation allowances applied to receivables | 500 | 1,877 |
| Exchange rate losses | 1,878 | 2,142 |
| Special direct cost of sales | 807 | 1,579 |
| Third-party services | 1,606 | 1,356 |
| Travel expenses | 721 | 1,092 |
| Rent and leases | 547 | 717 |
| Maintenance costs | 386 | 403 |
| Advertising | 73 | 170 |
| Contributions/fees | 188 | 163 |
| Miscellaneous other operating expenses | 1,897 | 2,551 |
| Total | 8,603 | 12,050 |

The miscellaneous other operating expenses mostly include additions to provisions, expenses for cleaning and disposal, energy costs, insurance and telecommunications. The auditors' fees, including its network societies' fees incurred during the fiscal year, are carried under third-party services. These are composed as follows:

| | 2016 | 2015 |
|---|---:|---:|
| Audit | 98 | 138 |
| Tax consulting | 19 | 16 |
| Other services | 72 | 5 |
| Total | 189 | 159 |

### (6) Income from equity accounted investments

The income from participating interests results from the net profit generated by Chinese company Shandong Xinsha Monorail Co. Ltd., Xintai, and amounts to EUR 489 thousand in the year under review (previous year: EUR 449 thousand).
The related items on the balance sheet and statement of comprehensive income were renamed for better comprehensibility.

### (7) Income taxes

Income taxes are composed of the following items:

| | **2016** | **2015** |
|---|---|---|
| Current tax expense | 2,222 | 1,412 |
| of which relating to the fiscal year under review | 2,222 | 1,034 |
| Deferred taxes | -1,164 | -311 |
| of which: creation or reversal of temporary differences | -884 | -311 |
| of which: increase in losses carried forward | -320 | 0 |
| Total | 1,058 | 1,101 |

Deferred taxes are measured based on the tax rates that apply, or are expected to apply, according to the current legal situation on the balance sheet date, or on the date when they are realised. The Group's tax rate amounted to 32.1 %, as in the previous year. If deferred tax assets or liabilities are carried for foreign companies, these are measured at the tax rates that apply in the corresponding countries.

Deferred taxes result from temporary differences in the following balance sheet items:

| | **31/12/2016** | **31/12/2015** |
|---|---|---|
| Deferred tax assets | | |
| Pension provisions | 375 | 372 |
| Miscellaneous assets and liabilities | 1,599 | 1,013 |
| Loss carryforwards | 1,694 | 1,374 |
| Offsetting with deferred tax liabilities | -409 | -304 |
| | 3,259 | 2,455 |
| Deferred tax liabilities | | |
| Intangible assets | 0 | 427 |
| Property, plant and equipment | 435 | 627 |
| Miscellaneous assets and liabilities | 70 | 51 |
| Offsetting with deferred tax assets | -409 | -304 |
| | 96 | 801 |

Deferred tax assets and liabilities totalling EUR 409 thousand were netted as they relate to future charges or reductions for the same taxpayer to the same tax authority (previous year: EUR 304 thousand). Consolidation effects resulted in deferred tax assets of EUR 548 thousand (previous year: EUR 752 thousand) (included in "miscellaneous assets and liabilities"). The deferred tax position relating to actuarial gains and losses recognised in other comprehensive income amounts to EUR 1,976 thousand. As of December 31, 2016, deferred tax assets were carried for tax loss carryforwards in the amount of EUR 1,694 thousand (previous year: EUR 1,374 thousand). According to the current legal situation, no timing or amount-based restrictions relate to these loss carryforwards. These are regarded as realisable on the basis of the tax planning. No deferred taxes were recognised for loss carryforwards of EUR 959 thousand (previous year: EUR 0 thousand).

| | 2016 | 2015 |
|---|---|---|
| Profit/loss before income taxes | 2,931 | 1,893 |
| Imputed tax expense | 941 | 608 |
| International tax rate differences | -105 | -314 |
| Non-tax-effective income from associates | -149 | -137 |
| Write-off of deferred tax relating to loss carryforwards | 0 | 367 |
| Non-capitalization of deferred taxes on loss carryforwards | 410 | 69 |
| Previous years' taxes | 0 | 289 |
| Other differences | -39 | 219 |
| Reported income tax expense | 1,058 | 1,101 |

## Notes to the balance sheet

### (8) Intangible assets, property, plant and equipment and leased items

The composition of and changes to intangible assets, property, plant and equipment, and leased assets are presented in the statement of changes in non-current assets:

## Statement of changes in non-current assets from January 1 to December 31, 2016

| | | Opening balance 01/01/2016 | Currency translation | Addition | Disposal | Reclassification | Closing balance 31/12/2016 |
|---|---|---|---|---|---|---|---|
| Goodwill | Gross | 1,034 | 1 | 377 | 0 | 0 | 1,412 |
| | Value adjustments | 107 | 0 | 0 | 0 | 0 | 107 |
| | Net | 927 | 1 | 377 | 0 | 0 | 1,305 |
| Purchased intangible assets | Gross | 614 | 30 | 19 | 7 | 15 | 671 |
| | Value adjustments | 566 | 26 | 30 | 7 | 3 | 618 |
| | Net | 48 | 4 | -11 | 0 | 12 | 53 |
| Own work capitalised (development costs) | Gross | 3,370 | -1 | 0 | 0 | 0 | 3,369 |
| | Value adjustments | 2,040 | 0 | 1,314 | 0 | 0 | 3,354 |
| | Net | 1,330 | -1 | -1,314 | 0 | 0 | 15 |
| **Intangible assets** | **Gross** | **5,018** | **30** | **396** | **7** | **15** | **5,452** |
| | **Value adjustments** | **2,713** | **26** | **1,344** | **7** | **3** | **4,079** |
| | **Net** | **2,305** | **4** | **-948** | **0** | **12** | **1,373** |
| Land and buildings | Gross | 12,526 | 60 | 19 | 3,279 | 0 | 9,326 |
| | Value adjustments | 9,110 | 12 | 279 | 2,247 | 0 | 7,154 |
| | Net | 3,416 | 48 | -260 | 1,032 | 0 | 2,172 |
| of which leased to third parties | Gross | 1,385 | 0 | 0 | 1,385 | 0 | 0 |
| | Value adjustments | 974 | 0 | 0 | 974 | 0 | 0 |
| | Net | 411 | 0 | 0 | 411 | 0 | 0 |
| Technical equipment and machinery | Gross | 1,593 | 19 | 12 | 47 | 0 | 1,577 |
| | Value adjustments | 1,406 | 20 | 75 | 40 | 0 | 1,461 |
| | Net | 187 | -1 | -63 | 7 | 0 | 116 |
| Fixtures and fittings | Gross | 7,936 | 204 | 1,751 | 991 | 0 | 8,900 |
| | Value adjustments | 6,412 | 145 | 778 | 783 | 0 | 6,552 |
| | Net | 1,524 | 59 | 973 | 208 | 0 | 2,348 |
| Advance payments rendered | Gross | 57 | -3 | 13 | 0 | -15 | 52 |
| | Value adjustments | 22 | 9 | 0 | 0 | 0 | 31 |
| | Net | 35 | -12 | 13 | 0 | -15 | 21 |
| **Property, plant and equipment** | **Gross** | **22,112** | **280** | **1,795** | **4,317** | **-15** | **19,855** |
| | **Value adjustments** | **16,950** | **186** | **1,132** | **3,070** | **0** | **15,198** |
| | **Net** | **5,162** | **94** | **663** | **1,247** | **-15** | **4,657** |

**Statement of changes in non-current assets from January 1 to December 31, 2015**

| | | Opening balance 01/01/2015 | Currency translation | Addition | Disposal | Reclassification | Closing balance 31/12/2015 |
|---|---|---|---|---|---|---|---|
| Goodwill | Gross | 1,227 | -193 | 0 | 0 | 0 | 1,034 |
| | Value adjustments | 107 | 0 | 0 | 0 | 0 | 107 |
| | Net | 1,120 | -193 | 0 | 0 | 0 | 927 |
| Purchased intangible assets | Gross | 623 | -39 | 30 | 0 | 0 | 614 |
| | Value adjustments | 554 | -32 | 44 | 0 | 0 | 566 |
| | Net | 69 | -7 | -14 | 0 | 0 | 48 |
| Own work capitalised (development costs) | Gross | 3,370 | 0 | 0 | 0 | 0 | 3,370 |
| | Value adjustments | 1,627 | 0 | 413 | 0 | 0 | 2,040 |
| | Net | 1,743 | 0 | -413 | 0 | 0 | 1,330 |
| **Intangible assets** | **Gross** | **5,220** | **-232** | **30** | **0** | **0** | **5,018** |
| | **Value adjustments** | **2,288** | **-32** | **457** | **0** | **0** | **2,713** |
| | **Net** | **2,932** | **-200** | **-427** | **0** | **0** | **2,305** |
| Land and buildings | Gross | 12,552 | -33 | 7 | 0 | 0 | 12,526 |
| | Value adjustments | 8,596 | -11 | 525 | 0 | 0 | 9,110 |
| | Net | 3,956 | -22 | -518 | 0 | 0 | 3,416 |
| of which leased to third parties | Gross | 1,385 | 0 | 0 | 0 | 0 | 1,385 |
| | Value adjustments | 930 | 0 | 44 | 0 | 0 | 974 |
| | Net | 455 | 0 | -44 | 0 | 0 | 411 |
| Technical equipment and machinery | Gross | 1,611 | -33 | 58 | 43 | 0 | 1,593 |
| | Value adjustments | 1,394 | -30 | 85 | 43 | 0 | 1,406 |
| | Net | 217 | -3 | -27 | 0 | 0 | 187 |
| Fixtures and fittings | Gross | 8,398 | -106 | 373 | 729 | 0 | 7,936 |
| | Value adjustments | 5,898 | -103 | 783 | 166 | 0 | 6,412 |
| | Net | 2,500 | -3 | -410 | 563 | 0 | 1,524 |
| Advance payments rendered | Gross | 51 | 3 | 3 | 0 | 0 | 57 |
| | Value adjustments | 11 | 0 | 11 | 0 | 0 | 22 |
| | Net | 40 | 3 | -8 | 0 | 0 | 35 |
| **Property, plant and equipment** | **Gross** | **22,612** | **-169** | **441** | **772** | **0** | **22,112** |
| | **Value adjustments** | **15,899** | **-144** | **1,404** | **209** | **0** | **16,950** |
| | **Net** | **6,713** | **-25** | **-963** | **563** | **0** | **5,162** |

Land and buildings with a carrying amount of EUR 1,816 thousand (previous year: EUR 1,816 thousand) serve as collateral for loans that have been drawn down.

The production costs of intangible assets that must be capitalised pursuant to IAS 38 are initially expensed (especially personnel expenses) according to the nature of expense format, and then eliminated in the relevant period. The amortisation of internally generated intangible assets is carried as amortisation expense. Amortisation, depreciation and impairment losses of EUR 2,476 thousand in the fiscal year under review included an impairment loss of EUR 1,008 thousand, for which the company assumes no future usability. In 2016, no development costs that meet the criteria of IAS 38 were capitalised for projects.

SMT Scharf Group leases internally developed drive systems as a lessor. On the balance sheet date, seven leased items were carried as leased assets in the statement of changes in non-current assets. The carrying amount of the leased assets amounts to EUR 373 thousand (previous year: EUR 313 thousand) and is included in the technical equipment and machinery item.

## (9) Inventories

Inventories subdivide as follows:

| | 2016<br>EUR thousand | 2015<br>EUR thousand | 2014<br>EUR thousand |
|---|---:|---:|---:|
| Raw materials, consumables and supplies | 2,894 | 2,017 | 2,502 |
| Work in progress | 5,251 | 2,828 | 2,910 |
| Finished goods and merchandise | 4,864 | 8,820 | 8,649 |
| Carrying amount | 13,009 | 13,665 | 14,061 |

Impairment losses of EUR 3,881 thousand were recognised in inventories (previous year: EUR 5,464 thousand). An excessively high impairment loss of EUR 679 thousand applied to inventories in the previous year was corrected pursuant to IAS 8.41. Impairment losses in 2015 reduced to EUR 4,785 thousand accordingly (originally: EUR 5,464 thousand). The carrying amount of the inventories changed from EUR 12,986 thousand to EUR 13,665 thousand as of December 31, 2015. As of December 31, 2016, write-downs of inventories to their lower net realisable value totalled EUR 3,881 thousand.

## (10) Receivables and other assets

Trade receivables include security deposits in standard industry amounts that have been contractually agreed with the customers. These deposits cover the incidental services of SMT Scharf that are to be rendered once the risk has been transferred.

| | 2016<br>EUR thousand | 2015<br>EUR thousand |
|---|---:|---:|
| Trade receivables | 25,430 | 26,892 |
| Specific valuation allowances | 2,056 | 3,010 |
| Carrying amount | 23,374 | 23,882 |

The trade receivables listed in the table are allocated to the loans & receivables category, and measured at amortised cost.

Specific valuation allowances are applied to trade receivables to reflect related default risk, where required. Indications of impairment to receivables include unreceived payments and information about changes to customers' creditworthiness. No significant concentration of credit risk exists due to the diversification of the customer base.
The carrying amount of receivables to which valuation allowances have been applied stands at EUR 2,056 thousand (previous year: EUR 3,010 thousand).

The due dates of trade receivables are as follows:

| | |
|---|---|
| Receivables not due | 19,142 |
| Value-adjusted due receivables | 2,056 |
| Due receivables not value-adjusted | 2,176 |
| - of which do between 1 and 30 days | 323 |
| - of which do you from 31 days | 1,853 |
| **Trade receivables, total** | **23,374** |

### (11) Financial assets

| | 2016<br>EUR thousand | 2015<br>EUR thousand | 2014<br>EUR thousand |
|---|---|---|---|
| Securities | 425 | 421 | 426 |

SMT Scharf has acquired units in a money market-like fund to secure funding for early retirement schemes. The fund has an indefinite term and is subject to only minor value fluctuations. The units are measured at fair value through profit or loss on the balance sheet date. Of the securities and cash and cash equivalents, EUR 356 thousand (previous year: EUR 489 thousand) are attributable to a hardship and social fund. This fund is managed in trust by a commission which includes both employer and employee representatives.

The securities reported under liquid assets in the previous year are reported from the 2016 fiscal year under other financial assets to improve the presentation of the balance sheet. Comparable figures were not adjusted.

### (12) Liquid assets

Cash and cash equivalents comprise cash positions and bank deposits available short-term. The securities reported under liquid assets in the previous year are reported from the 2016 fiscal year under other financial assets to improve the presentation of the balance sheet. Comparable figures were not adjusted.

### (13) Equity

The changes in the SMT Scharf Group's equity are shown in the statement of changes in equity. The accumulated other income in the consolidated statement of changes in equity amounted to EUR -7,086 thousand (previous year: EUR -7,368 thousand). The subscribed capital has totalled EUR 4,200 thousand since the capital increase in April 2007. The share premium account includes the premium from the capital increase, less the transaction costs taking tax factors into account, and additions from the sale and transfer of own shares.

As of December 31, 2016, a total of 4,150,523 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 up to 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 were issued by the company prior to April 22, 2014, fulfilled their conversion obligation. In order to continue to enable the company to issue such financial instruments, the authorisation was reformulated at the last AGM and extended until May 6, 2019. At present, no such securities have been 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 could also occur through deploying equity derivatives. In addition, the resolution included the further conditions for the purchase and sale of treasury shares. A total of 10,000 treasury shares were issued in the 2016 fiscal year as part of an acquisition. 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), include a profit for the period included in retained earnings 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.

## (14) Provisions for pensions

The SMT Scharf Group's German companies have defined benefit commitments for post-retirement, invalidity and surviving dependant benefits in its employee pension scheme. The pension commitments result from various employer-financed direct commitments and from salary conversions based on a company agreement. In addition, indirect pension commitments exist according to the articles of association of the benefit fund of DBT e.V. No plan assets exist.

The amount of the pension commitment (defined benefit obligation) was calculated applying actuarial methods. In addition to the assumptions on life expectancies according to the 2005 G mortality tables, the following assumptions were applied:

| **in % p. a.** | **31/12/2016** | **31/12/2015** |
|---|---|---|
| Qualifying trend | 2.0 | 2.0 |
| Rate of pension increases | 1.0 | 1.0 |
| Discount rate (DBO) | 1.50 | 2.20 |

The current service cost and interest expense are reported under personnel expenses. The defined benefit obligation reports the following changes:

| | **2016** | **2015** |
|---|---|---|
| Defined benefit obligation on January 1 | 3,200 | 3,188 |
| Current service cost | 26 | 22 |
| Interest cost | 69 | 73 |
| Pension payments and transfers | -149 | -143 |
| Actuarial gains / losses | 194 | 149 |
| Defined benefit obligation on December 31 | 3,340 | 3,289 |

A -0.5 % change in the interest rate would result in an increase of EUR 253 thousand. A 0.5 % increase in the interest rate would feed through to a EUR 226 thousand reduction in the pension obligation. Both sensitivity calculations were performed while keeping all other assumptions unchanged.

The expensed pension cost for defined benefit commitments that is reported in personnel expenses comprises the following items:

| | **2016** | **2015** |
|---|---:|---:|
| Change based on expert valuation | -6 | 0 |
| Current service cost | 26 | 22 |
| Pension interest cost | 69 | 73 |
| | 89 | 95 |

The expected pension payments within the next twelve months amount to EUR 161 thousand (previous year: EUR 149 thousand). For the coming fiscal year, the Group expects to make a contribution of EUR 11 thousand two the defined benefit plan (previous year: EUR 11 thousand).

### (15) Other provisions

The other current provisions are all due within one year. They are attributable to personnel, sales and other areas. Provisions for personnel relate, in particular, to performance-related remuneration for employees and overtime pay. Provisions in the sales and marketing area relate, in particular, to warranty and follow-up costs. The costs in this regard were estimated on a project-by-project basis apply prudent commercial judgement. Miscellaneous other provisions relate, in particular, to uncertain liabilities to suppliers. In addition, they also include provisions for litigation, including the associated costs of proceedings. The results of current and future litigation cannot be predicted reliably, with the result that expenses may be incurred in this regard that are not covered by insurance, rights of recourse or other existing provisions, and which could have a material impact on the company and its results. The Managing Board believes that no decisions are to be expected in the currently pending or threatened litigation that could have a material negative impact on SMT Scharf Group's financial position or results of operations.

The other non-current provisions mostly relate to obligations for personnel, in particular for early retirement agreements, and to long-term risks from litigation.

The changes to other provisions in 2016 can be seen in the following statement of changes in provisions.

**Consolidated statement of changes in other provisions from January 1 to December 31, 2016**

| | Opening balance 01/01/2016 | Currency translation | Consumption | Additions | Reversals | Closing balance 31/12/2016 |
|---|---|---|---|---|---|---|
| Personnel | 2,513 | -26 | 1,965 | 1,103 | 264 | 1,413 |
| Sales and marketing | 1,404 | 19 | 377 | 757 | 150 | 1,615 |
| Miscellaneous | 2,197 | -9 | 505 | 869 | 491 | 2,079 |
| Other current provisions | 6,114 | -16 | 2,847 | 2,729 | 905 | 5,107 |
| Other non-current provisions | 384 | 2 | 179 | 146 | 0 | 349 |

**Consolidated statement of changes in other provisions from January 1 to December 31, 2015**

| | Opening balance 01/01/2015 | Currency translation | Consumption | Additions | Reversals | Closing balance 31/12/2015 |
|---|---|---|---|---|---|---|
| Personnel | 3,835 | 6 | 1,589 | 1,254 | 993 | 2,513 |
| Sales and marketing | 1,315 | 23 | 425 | 755 | 264 | 1,404 |
| Miscellaneous | 2,381 | 47 | 1,004 | 935 | 162 | 2,197 |
| Other current provisions | 7,531 | 76 | 3,018 | 2,944 | 1,419 | 6,114 |
| Other non-current provisions | 364 | 0 | 182 | 228 | 26 | 384 |

## (16) Liabilities

As was the case in the previous year, none of the trade payables, advance payments received and other current liabilities have a term of more than one year.

No liabilities exist that are secured by rights of lien; a land charge has been registered as collateral for the utilisation of the KfW loan arising from the ERP innovation programme.

## (17) Notes to the cash flow statement

The cash flow statement shows the changes in the SMT Scharf Group's net financial position as a result of cash inflows and outflows during the period under review. In accordance with IAS 7, a distinction is made between cash flows from operating, investing and financing activities.

The cash flows from investing and financing activities are identified directly, in other words, these are related to payments. In contrast, the cash flow from operating activities is derived indirectly from the net profit/loss for the period. The cash flow from operating activities includes the following receipts and payments:

| | 2016 | 2015 |
|---|---:|---:|
| Interest received | 27 | 0 |
| Interest paid | 71 | 193 |
| Income taxes paid | 951 | 1,371 |

The net financial position in the cash flow statement comprises all of the cash and cash equivalents carried on the balance sheet, in other words, cash on hand and bank balances, to the extent that these are available within three months (from the date of acquisition) without any notable fluctuations in value, as well as marketable securities less current financial liabilities and less the hardship and social funds.

| | 31/12/2016 | 31/12/2015 |
|---|---:|---:|
| Cash and cash equivalents | 6,637 | 5,197 |
| ./. Current financial liabilities | -2,183 | 0 |
| ./. Hardship and social funds | -356 | -489 |
| Net financial position | 4,098 | 4,708 |

## Other disclosures

## (18) Other financial liabilities and contingent liabilities

At the end of the fiscal year under review, contingent liabilities existed from advance payment and warranty guarantees with a total value of EUR 184 thousand (previous year: EUR 20 thousand).

## (19) Leases

The Group is a lessee arising from operating leases for cars and copiers. The leases have terms of up to five years and in some cases include extension options and escalation clauses. In 2016, the rental and lease agreements resulted in payments totalling EUR 547 thousand being recognised in other operating expenses (previous year: EUR 575 thousand). The total nominal amount of the future minimum lease payments under operating leases is composed as follows by term:

| | 31/12/2016 | 31/12/2015 |
|---|---|---|
| Due within one year | 390 | 408 |
| Due in one to five years | 1,417 | 1,066 |
| Due after more than five years | 0 | 0 |
| Total | 1,807 | 1,474 |

The Group is also a lessor as part of operating leases. This relates to drive machines that the lessee is to purchase at the end of the lease term.

The sum of future minimum lease payments from uncancellable operating leases is as follows:

| | 31/12/2016 | 31/12/2015 |
|---|---|---|
| Due within one year | 29 | 30 |
| Due in one to five years | 23 | 47 |
| Due after more than five years | 0 | 0 |
| Total | 52 | 77 |

**(20) Other disclosures about financial instruments**

The valuation of financial assets and liabilities is discussed in the section on accounting and valuation methods. SMT Scharf Group did not hold any held-to-maturity or available-for-sale financial instruments in either 2016 or 2015. No regroupings were implemented.

The fair values of the financial assets and liabilities were measured by applying the following hierarchy: If available, fair value is determined based on listed market prices. If no such market prices are available, the fair value is determined in accordance with generally recognised valuation models based on DCF analyses, current market transactions, and traders' listings for similar instruments.

The fair values are presented in the following table:

**31/12/2016**

| Balance sheet item | IAS 39 category | Carrying amount | Fair value |
|---|---|---|---|
| Non-current financial asset | LaR | 0 | |
| Trade receivables | LaR | 23,374 | 23,374 |
| Other financial assets | LaR | 425 | 425 |
| Non-current financial liabilities | FLAC | 1,313 | 1,376 |
| Trade payables | FLAC | 4,058 | 4,058 |
| Current financial liabilities | FLAC | 2,183 | 2,183 |
| Total | LaR | 31,353 | 31,416 |

**31/12/2015**

| Balance sheet item | IAS 39 category | Carrying amount | Fair value |
|---|---|---|---|
| Non-current financial asset | LaR | 0 | 0 |
| Trade receivables | LaR | 23,882 | 23,882 |
| Other financial assets | LaR | 0 | 0 |
| Non-current financial liabilities | FLAC | 2,058 | 2,111 |
| Trade payables | FLAC | 4,218 | 4,218 |
| Current financial liabilities | FLAC | 2,807 | 2,807 |
| Total | LaR | 32,965 | 33,018 |

Net gains or losses by individual IAS 39 categories:

| EUR thousand | 2016 | 2015 |
|---|---|---|
| Loans and receivables (LaR) | -500 | -1,877 |
| Financial liabilities measured at amortised cost (FLAC) | -156 | -229 |
| Total | -656 | -2,106 |

The contractual cash flows for financial liabilities are as follows:

| Balance sheet item December 31, 2016 | Carrying amount | Contractually agreed cash flows | Up to one year | 1 – 5 years | More than 5 years |
|---|---|---|---|---|---|
| Loan | 813 | Quarterly | 52 | 865 | 0 |
| Loan | 500 | Quarterly | 125 | 375 | 0 |

| Balance sheet item December 31, 2015 | Carrying amount | Contractually agreed cash flows | Up to one year | 1 - 5 years | More than 5 years |
|---|---|---|---|---|---|
| Loan | 2,058 | Quarterly | 285 | 1,425 | 348 |

### (21) Capital management

The company's management manages SMT Scharf Group's capital (equity and liabilities) with the aim of maintaining financial flexibility so as to achieve the Group's growth targets while at the same time optimising financing costs. The overall strategy in this regard is unchanged year-on-year.

Management reviews the company's capital structure regularly on the reporting dates. In doing so, it reviews the capital costs, the collateral provided and the open lines of credit and opportunities for borrowing. The Group has a target equity ratio of above 30 % over the longer term. It is anticipated that this will be maintained during the Group's further expansion. The Group's capital structure changed as follows during the fiscal year under review:

| | 31/12/2016 in EUR thousand | in % | 31/12/2015 in EUR thousand | in % |
|---|---|---|---|---|
| Equity | 39,297 | 66.2 | 37,025 | 63.2 |
| Non-current liabilities | 5,348 | 9.0 | 6,532 | 11.1 |
| Current liabilities | 14,767 | 24.8 | 15,072 | 25.7 |

## (22) Financial risk management

The Managing Board of SMT Scharf AG manages the purchase and sale of financial assets and liabilities, and monitors associated financial risks. The details of implementing financial risk management are as follows:

Liquidity risks: The Group manages its liquidity risks by maintaining sufficient reserves, monitoring and maintaining its credit agreements, as well as forecasting and coordinating its cash inflows and outflows. The Group has access to credit lines. The undrawn amount totalled EUR 6,321 thousand on the balance sheet date (previous year: EUR 2,667 thousand). The Group also has access to guarantee credit lines. The management expects that the Group will be able to fulfil its other financial liabilities from its cash flow from operating activities, and from the proceeds from maturing financial assets.

Credit risks: The maximum risk of default is represented by the carrying amount of the financial assets, less impairment losses, as recognised in the consolidated financial statements. This amounts to EUR 25,591 thousand (previous year: EUR 25,433 thousand).

The Group engages in business only with creditworthy parties, if necessary obtaining collateral to minimise any default risk. The Group obtains information from independent rating agencies, other available financial information, and its own trade notes to assess creditworthiness, in particular for key accounts. Credit risks are controlled using limits for each party. These limits are reviewed and approved at least once per year. Open items are also monitored. The SMT Scharf Group does not believe that it is subject to any major risks of default from a party, or group of parties, to a contract with similar characteristics. Trade receivables exist that are due from a large number of customers distributed over various regions.

No uniform payment conditions exist within the Group, as agreements for equipment orders are concluded individually. SMT Scharf writes receivables off if payment targets are exceeded substantially. This approach is based on past experience which shows that, as a rule, no payment can be expected from receivables that are more than six months overdue. Doubtful receivables were written down in the amount of EUR 2,556 thousand (previous year: EUR 3,010 thousand). Write-downs of EUR 2,176 thousand (previous year: EUR 1,197 thousand) were applied to trade receivables that were overdue on the balance sheet date, as no material change was ascertained in the contractual party's creditworthiness, and it is expected that the outstanding amounts will be paid. The Group holds no collateral for these unpaid items.

Market risks: Market risks can result from changes to exchange rates (exchange rate risk) or interest rates (interest rate risk). SMT Scharf counters such risks by deploying suitable hedging and management instruments. Management is realised by constantly monitoring cash flow, and monthly reporting to Group management. Exchange rate risks are limited insofar as the Group mostly issues its invoices in Euros or in local currency. Otherwise, exchange rate hedges are agreed for significant transactions taking cost benefit aspects into account. No such hedges exist as of December 31, 2016. The Group is not exposed to any major interest-rate risks at present as it borrows at fixed interest rates. An imputed increase or reduction in the market interest-rate level of +/- 200 basis points on the balance sheet date would have affected earnings before tax by +/- EUR 10 thousand.

## (23) Segment reporting

In line with IFRS 8, the identification of reportable operating segments is based on the "management approach". According to this, the external segment reporting is carried out based on the Group's internal organization and management structure as well as the internal financial reporting to the highest management body ("chief operating decision maker"). In the SMT Scharf Group, the Managing Board of SMT Scharf AG is responsible for the measurement and controlling of the business success of the segments, and is the chief operating decision maker within the meaning of IFRS 8.

As a modification compared with the previous year, SMT Scharf AG reports on three operating segments (previous year: two segments), which are segment boards independently manage by type of product and service, brands, sales channels and customer profiles. The previous year's figures were restated accordingly.

The operating segments each bundle their respective activities in the areas of Coalmining and Non-Coalmining as well as the new Tunnel segment.
The operating segments each bundle their respective activities in the areas of Coal mining, Non-coal mining and Tunnel.

Intersegment revenues and inputs are of minor significance, and are not reported separately.

The measurement principles for segment reporting are based on the IFRS applied in the consolidated financial statements. SMT Scharf AG assesses segment performance utilising earnings before interest and other financial results, which comprises profit from operating activities (EBIT) plus earnings from equity accounted interests.

Segment assets and liabilities comprise all assets and liabilities that can be allocated to the operating segments, and whose positive and negative results determine the operating result. Segment assets especially include intangible assets, property, plant and equipment, inventories, trade receivables and other liabilities, as well as significant provisions. Segment capital expenditure contains additions to intangible assets and to property, plant and equipment.

If a segment can be directly attributed in line with the equity method in the consolidated financial statements, its proportion of the profit and loss for the period and its carrying amount are stated there.

| (EUR thousand) | Coal mining Q4/2016 | Coal mining Q4/2015 | Non-coal mining Q4/2016 | Non-coal mining Q4/2015 | Tunnel Q4/2016 | Tunnel Q4/2015 | Not allocated Q4/2016 | Not allocated Q4/2015 | SMT Scharf Group Q4/2016 | SMT Scharf Group Q4/2015 |
|---|---|---|---|---|---|---|---|---|---|---|
| Revenue | 35,783 | 41,235 | 6,781 | 9,068 | 1 | - | - | - | 42,565 | 50,303 |
| Operating result (EBIT) | 2,310 | 1,614 | 157 | 649 | 7 | - | - | - | 2,473 | 2,263 |
| Earnings from equity accounted companies | 489 | 449 | - | - | - | - | - | - | 489 | 449 |
| Segment assets | 51,374 | 52,711 | 4,530 | 3,462 | 249 | - | 3,259 | 2,455 | 59,412 | 58,629 |
| Segment liabilities | 18,014 | 20,210 | 1,574 | 593 | 103 | - | 328 | 801 | 20,019 | 21,604 |
| Segment investments | 1,658 | 384 | - | 57 | 533 | - | - | - | 2,191 | 441 |
| Interests in equity accounted companies | 3,743 | 3,767 | - | - | - | - | - | - | 3,743 | 3,767 |
| Depreciation and amortisation | 2,416 | 1,559 | 59 | 82 | 1 | - | - | - | 2,476 | 1,641 |
| FTEs | 29 | 25 | 277 | 250 | 2 | - | - | - | 308 | 275 |

The following table shows the transfer of the key figure earnings before interest and other financial results into earnings before and after taxes:

| EUR thousand | 2016 | 2015 |
|---|---|---|
| Result before net interest and other net financial result | 2,962 | 2,712 |
| Net interest result | -31 | -139 |
| **Profit/loss before tax** | **2,931** | **2,573** |
| Income taxes | 1,058 | 1,101 |
| **Profit/loss after tax** | **1,873** | **1,472** |

Non-current assets and external sales are analysed by region at SMT Scharf Group. Non-current assets are allocated to the regions according to the location of the respective asset. Non-current assets include intangible assets, property, plant and equipment, interests in equity accounted companies, and other non-current assets. The allocation of external sales is based on the location of the respective customer, and is presented among the notes to the income statement.

Of the non-current assets comprising intangible assets and property, plant and equipment, EUR 2,449 thousand (previous year: EUR 5,080 thousand) relate to Germany, and EUR 4,313 thousand (previous year: EUR 2,387 thousand) relate to other countries.

## (24) Supervisory Board

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<br>OOO DSI Techno, Supervisory Board Chairman<br>RocBolt Resins Pty Ltd (Sydney), Supervisory Board member<br>RMS Australia PTY Ltd, Director<br>RMS Australia PTY Ltd, Director EDVIRT Australia Pty Ltd, Chairman of the Board (since March 1, 2016)<br>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 companies) |

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 profit for the period, and is limited to EUR 10 thousand per Supervisory Board member per 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. Michael Reich, Supervisory Board Chairman, held a total of 6,000 shares in the company as of December 31, 2016.

## (25) Managing 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 an annual performance-related bonus, plus reimbursement of their out-of-pocket expenses. 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 |
| | | | | |
| Bonus | 119 | 60 | 60 | 9 |
| – of which already paid out | 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.

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.

## (26) Related parties

Besides the Managing and Supervisory boards of SMT Scharf AG, related parties pursuant to IAS 24 include key management personnel at companies that SMT Scharf AG controls or significantly influences.

Business transactions between the parent company and its subsidiaries that are regarded as related enterprises are eliminated through consolidation and are not explained in these notes to the financial statements. Along with these business relationships, the following transactions existed in the respective fiscal year:

Consultancy services for a Kaizen project with the volume of EUR 8.0 thousand (previous year: 0) were purchased from a key management personnel member in 2016. No open liabilities exist as of the balance sheet date (previous year: 0). No services were provided to related parties.

Further information about compensation of key management personnel, please refer to the remarks concerning the Managing and Supervisory boards.

## (27) Events after the balance sheet date

No events of particular significance occurred after the balance sheet date.

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

# Independent Auditor’s Report

## Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of SMT Scharf AG and its subsidiaries, which comprise the consolidated statement of financial position, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows, and notes to the consolidated financial statements for the business year from 1 January to 31 December 2016.

*Management’s Responsibility for the Consolidated Financial Statements*
The management of SMT Scharf AG is responsible for the preparation of these consolidated financial statements. This responsibility includes preparing these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and the supplementary requirements of German law pursuant to § [Article] 315a Abs. [paragraph] 1 HGB [Handelsgesetzbuch: German Commercial Code], to give a true and fair view of the net assets, financial position and results of operations of the group in accordance with these requirements. The company’s management is also responsible for the internal controls that management determines are necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

*Auditor’s Responsibility*
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW) as well as in supplementary compliance with International Standards on Auditing (ISA). Accordingly, we are required to comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.
An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The selection of audit procedures depends on the auditor’s professional judgment. This includes the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In assessing those risks, the auditor considers the internal control system relevant to the entity’s preparation of the consolidated financial statements that give a true and fair view. The aim of this is to plan and perform audit procedures that are appropriate in the given circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group’s internal control system. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Audit Opinion*
Pursuant to § 322 Abs. 3 Satz [sentence] 1 HGB, we state that our audit of the consolidated financial statements has not led to any reservations.
In our opinion, based on the findings of our audit, the consolidated financial statements comply in all material respects with IFRSs as adopted by the EU and the supplementary requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets and financial position of the Group as at 31 December 2016 as well as the results of operations for the business year then ended, in accordance with these requirements.

**Report on the Group Management Report**

We have audited the accompanying group management report of SMT Scharf AG for the business year from 1 January to 31 December 2016. The management of SMT Scharf AG is responsible for the preparation of the group management report in compliance with the applicable requirements of German commercial law pursuant to § [Article] 315a Abs. [paragraph] 1 HGB [Handelsgesetzbuch: German Commercial Code]. We are required to conduct our audit in accordance with § 317 Abs. 2 HGB and German generally accepted standards for the audit of the group management report promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Accordingly, we are required to plan and perform the audit of the group management report to obtain reasonable assurance about whether the group management report is consistent with the consolidated financial statements and the audit findings, and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.
Pursuant to § 322 Abs. 3 Satz 1 HGB, we state that our audit of the group management report has not led to any reservations.
In our opinion, based on the findings of our audit of the consolidated financial statements and group management report, the group management report is consistent with the consolidated financial statements, complies with legal requirements, as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Cologne

1 March 2017

sgd. Stramitzer
Wirtschaftsprüfer

[German Public Auditor]

sgd. Schumacher
Wirtschaftsprüfer

[German Public Auditor]

## Declaration by the Managing and Supervisory boards of SMT Scharf AG pursuant to Section 161 of the German Securities Trading Act (WpHG) relating to the recommendations of the "German Corporate Governance Code Government Commission" in the version dated May 5, 2015

The Managing and Supervisory Boards of SMT Scharf AG declare that they have complied and will continue to comply with the recommendations of the "German Corporate Governance Code Government Commission" in the version of the Code dated May 5, 2015, with the following exceptions.

- The Supervisory Board has not formed any committees, as it comprises three members. This number of members appears reasonable given the company's size.
- Diversity was not a stand-alone criterion for membership of the Managing Board. This may also be the case in future as the Managing Board consists of only three members.
- No upper age limit presently exists for members of the Managing and Supervisory boards. This upholds the German Equal Treatment Act (AGG).
- The employment contracts for the members of the Managing Board do not limit payments upon early termination to two years' remuneration. Until now, such a limit appears to be dispensable since the employment contracts only have terms of three years.

Hamm, December 9, 2016

(Reich) (Dr. Vorsteher) (Gattineau)

(Theiss) (Embert) (Oberhaus)

# 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