SMT Scharf AG
Annual financial report 2017

Contents

Management report for fiscal year 2017

Economic environment

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

- **Business areas:** Captivated railway systems deployed in underground mines are the company's main product. Such systems are technically capable of transporting personnel and materials up to 45 tons on gradients of up to 35 degrees. Chairlifts for mining applications constitute an ancillary product. The product range also includes the development and installation of open air rail and cable management systems, including for energy supplies to machines, for example. The tunnel logistics business area is still in the process of being established. It promises great potential for generating sales over the coming years and is to be expanded to form a further business pillar.

- **Nature 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 and maintenance work. While the new systems and service business developed well in the year under review, the share of the service business, expressed as a percentage of revenue, declined year on year due to the higher level of investment by mine operators in new systems. 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 Coalmining segment), as well as increasingly in producing gold, platinum, copper, nickel (hard rock) and salts (aggregated within the Non-Coalmining 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, above all including the export markets in Russia, Poland, China and South Africa. The German domestic mining market plays only a minor role nowadays. In smaller markets, SMT Scharf works together with dealers or agents.

According to preliminary data from the International Monetary Fund (IMF), the global economy grew by 3.7% in 2017, which is stronger than in the previous year (3.2%). The Chinese economy benefited from the uptrend in global trading and reported growth which was more dynamic than anticipated at the start of the year. The global upswing was also in evidence in Russia where the gross domestic product (GDP) began to pick up momentum following declining figures at the last count. South Africa also exceeded expectations of economic growth in the second half of 2017 when the pace accelerated slightly, although growth rates still remained low. In the meantime, Poland ranks among Europe’s most dynamic markets. The drivers here include private consumption as well as an uptrend in capital expenditure. The four aforementioned countries represent the most important sales markets of SMT Scharf. The customers there together generally account for more than 75 % of Group sales revenues.

Exchange rate changes in the most important sales markets for SMT Scharf AG* (in %)	**2017**	**2016**
World	3.7	3.2
China	6.8	6.7
Poland	3.8	2.6
Russia	1.8	-0.2

South Africa	0.9	0.3

* Sources: IMF World Economic Outlook Update, January 2018; IMF World Economic Outlook, October 2017 (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. In addition, SMT Scharf has adapted its organisation to these influences and reduced the costs incurred by exchange rate effects in the reporting period by using hedging transactions. The four most important currencies of SMT Scharf AG fluctuated strongly in part in the period under review:

Following considerable gains of the Russian rouble and the South African rand as against the euro in 2016, the European currency retained its purchasing power over the course of the fiscal year ended (increase in purchasing power of 8% and 3% respectively). As a result, the products of SMT Scharf have become somewhat more expensive in these countries when converted into the domestic currency. The same applies to the Chinese Yuan Renminbi where the strength of the euro in the last fiscal year led to an increase in purchasing power of 7% in comparison with 3% in the previous year. In Poland, by contrast, strong economic growth also impacted the currency. The euro declined by 5% against the zloty.

Exchange rate changes in the most important sales markets for SMT Scharf AG* (in %)	**2017**	**2016**
Yuan Renminbi (China) / euro	+7	+3
Zloty (Poland) / euro	-5	+3
Rouble (Russia) / euro	+8	-19
Rand (South Africa) / euro	+3	-15

* Source: ECB, change over course of year

Management and control system

SMT Scharf AG manages and controls its business by applying financial and non-financial performance indicators whose development 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 and in discussions with the Supervisory 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 stable or a further uptrend in raw materials prices.

Financial performance indicators:

Key indicator	**Calculation method**	**Target (medium-term, 3-5 years)**
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) / operating performance	>10%
Cost of materials ratio	Cost of materials / operating performance	~50%
Key balance sheet indicators		
Net working capital	Annual average current assets – annual average liquid assets – annual average current liabilities	EUR 20 million
Equity ratio (on the reporting date)	Equity / total assets	>=30%
Key efficiency figures		
Net working capital intensity	Net working capital / Group revenue	<50%
Days of sales outstanding	Number of days in reporting year * (annual 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 / annual average number of employees (FTEs)	<10%
Sickness rate	Number of work days lost due to sickness / Planned working days	5%

Personnel

SMT Scharf AG does not have its own operating business. It is the management holding company for companies in SMT Scharf Group. With the exception of the three Managing Board members there are only two other employment relationships, unchanged from the previous year.

Financial position and performance

Equity and particular legal relationships

The subscribed capital of SMT Scharf AG was raised from EUR 3.0 million to EUR 4.2 million against cash capital contributions as part of the IPO in April 2007.

The Managing Board of SMT Scharf AG has passed on November 6, 2017 a resolution, with Supervisory Board approval, to implement a capital increase under partial utilisation of Authorised Capital 2016, and excluding subscription rights for existing shareholders. The share capital of currently EUR 4,200,000.00 was increased by up to EUR 420,000.00 against cash capital contributions through issuing up to 420,000 new no par value ordinary bearer shares with a proportional amount of the share capital of EUR 1.00 per ordinary bearer share ("New Shares") to up to EUR 4,620,000.00. The New Shares are to be dividend-entitled from January 1, 2017, and are to be included in the existing listing in the Regulated Market of the Frankfurt Stock Exchange (Prime Standard).

After the capital increase, Authorised Capital 2016 still exists to issue a total of up to 1,680,000 further ordinary shares. With Supervisory Board approval, the Managing Board can utilise this authorised capital to raise 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. With Supervisory Board approval, the Managing Board was authorised to issue 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 (1.07% 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.

Net assets:
The subscribed capital of SMT Scharf AG amounts to kEUR 4,620. Of this amount, kEUR 49 was accounted for by treasury shares at the end of the reporting period with the result that the balance sheet value was kEUR 4,571. Added to this is a share premium of kEUR 16,985. As of 31 December 2017, equity, including the net profit for the year and the share of capital accounted for by treasury shares, amounts to kEUR 21,293 (previous year: kEUR 16,297). This equates to 90% of total assets (previous year: 91%). Assets consist essentially of holdings in and receivables from companies in the SMT Scharf Group.

Results of operations:
In 2017, SMT Scharf AG posted earnings of kEUR -422 (previous year: kEUR 307).

Financial position
Liquid assets increased to kEUR 6,194 due to the successful capital increase in November 2017 (previous year: kEUR 1,044). The aim of finance management is to secure financial flexibility and optimize capital costs.

Investments
As a result of setting up SMT Scharf Sudamerica SpA, Santiago/Chile with effect from 24 March 2017 as well as loans granted or loan repayments within the SMT Group, financial assets only changed marginally from EUR 15.7 million to EUR 15.5 million.

The company’s assets and finance position was significantly improved, primarily due to the capital increase. SMT Scharf is therefore still well positioned to face the challenges of the coming financial years.

Corporate governance declaration

Corporate governance declaration pursuant to Section 161 of the German Stock Corporation Act (AktG)

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) under the "Other publications" heading.

Working approach of the Managing and Supervisory Boards:

Upon application by the company, the District Court of Hamm has appointed Univ. Prof. Dr. Louis Velthuis as a new member of the Supervisory Board of SMT Scharf AG in September 2017. Univ. Prof. Dr. Louis Velthuis furthermore assumes the interim position of Chairman following on from Dipl.-Ing. Michael Reich, former Chairman of the Supervisory Board, who has withdrawn from the Board for reasons of health for an indefinite period of time.

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 the latter’s 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 bylaws require prior approval by the Supervisory Board. 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 composition of the Supervisory Board is very diverse. In addition to the professional qualifications and industry background of the members, the members of the Supervisory Board have various other important competencies. This promotes the diversity of points of view in the internal discussion. An international staffing reflects the global activities of the Group. Adequate staffing with female members is also desired and taken into account. The Supervisory Board has set a 0% target for the proportion at the first management level (Managing Board) and at 19% for the management level below that (general managers of the subsidiaries and authorised signatories). For the Supervisory Board, the target for the proportion of women has been set at 33.3%. Since the first management level and the Supervisory Board are the current quotas, these targets have already been 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 which arise during the audit, of all findings which are material for the Supervisory Board's tasks and which result during the audit, and all findings which 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 the bylaws 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 disclosures are available on the Internet at www.smtscharf.com under the Investor Relations heading.

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 capped.

Decisions about the compensation 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 the private use of company cars, life insurance cover, and reimbursement of out-of-pocket expenses. 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 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.

Events after the balance sheet date

Changes to the Managing Board of SMT Scharf AG

The Supervisory Board of SMT Scharf AG and Rolf Ferdinand Oberhaus, member of SMT Scharf AG’s Managing Board, and responsible in this role for the areas of Sales and Marketing, reached a consensus decision on March 12, 2018, not to renew the employment contract of Mr. Oberhaus which runs until December 31, 2018. Furthermore, the Supervisory Board decided to release Mr. Oberhaus from his duties with immediate effect.

Risk report

SMT Scharf operates a **risk management system (RMS)** which is fully integrated into the company's planning, management and control processes. Consequently, 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. The risk management system is aimed at the early identification of opportunities and risks for the purpose of initiating appropriate precautionary and securing measures without delay which are then subject to ongoing monitoring.

Risk management is based mainly on internal regulations set out in the form of guidelines and implemented in the process of corporate management and supervision. 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 at short notice are communicated immediately and by direct routes to the organisational units responsible for the early identification, management and communication of the respective risks. Risk management officers 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 that 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 are organised in line with accounting units. Standard financial accounting regulations are applied within the SMT Scharf Group, and compliance with these regulations is monitored on an ongoing basis. 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 successfully implemented in the company to assist in identifying and preventing potential infringements of the law in a timely manner. The CMS is instrumental in uniformly defining appropriate responses to compliance issues for all group companies and of communicating these issues. SMT Scharf has appointed an external compliance officer to monitor compliance management within the Group.

Significant risks for SMT Scharf AG lie in changes to the legal frameworks in countries in which it operates through its subsidiaries. Capital controls, changes to the rights of disposal over shares in the company or to tax law may limit the options for managing companies in the SMT Scharf Group. Changes of government, changes in the ownership structure of mines or other factors may severely impair subsidiaries’ earning power. The Managing Board counters these risks by keeping a permanent watch on the markets and their underlying political conditions. SMT Scharf AG currently only uses financial instruments for the short-term investment of free funds and to hedge against exchange rate risks; consequently, there are no significant risks from the use of financial instruments.

Report on opportunities

Positive effects of strategic measures

The extensive list of measures contained in the three strategic action areas of "Organic Growth", "External Growth" and "Operative Intelligence" aims to make SMT Scharf even more productive and more competitive overall. It enables SMT Scharf to respond to the anticipated upturn in the mining industry from a stronger position and to benefit from the upswing in the mining industry. 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, the manufacturing industry in emerging economies and industrialised nations will have a stronger demand for raw materials energy driving continued economic growth forward. 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 emerging upswing phase. This is expected to generate an ongoing increase in sales revenues for SMT Scharf, due to demand for mining equipment picking up.

Higher demand on local markets

After the current realignment of the Chinese economy and economic stabilisation, SMT Scharf assumes that 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 reduced growth momentum. 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 neglected their mines' productivity in recent years due to the difficult market environment. SMT Scharf believes that the investment backlog arising from these circumstances will continue to be pared down. In the medium term, the recovery in the global economy will be ongoing, which will boost demand for coal and other raw materials, so mine operators will have greater incentives to make more investments in new systems 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 the coal segment 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. Through establishing new subsidiaries, 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 for deploying SMT Scharf products.

Attractive growth opportunities in the coming year arise from the takeover of Canadian RDH Mining Equipment Ltd. (RDH) after December 31, 2017. RHD is the market leader for battery-driven vehicles for mining and tunnel construction. The combination of SMT Scharf's international sales and after-sales expertise and the new product program will enable the company to leverage further synergies in the international hard rock and tunnel market. SMT Scharf anticipates positive effects on its sales revenue and earnings trend in the current financial year and in the future.

Moreover, the new tunnel logistics segment promises the potential for significant sales revenues in the medium term, and the opportunity of becoming less dependent on the raw materials price cycle, as demand for infrastructure is driven by other factors such as growing population density 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

China, Russia, Poland and South Africa will remain SMT Scharf's core markets for the foreseeable future. For 2018, the IMF expects that economic growth in China and Poland as well as Russia will slow slightly. With 0.9 % forecast GDP growth, the economy in South Africa is expected to expand at the same rate as in the previous year. Overall, the IMF experts anticipate that the global economy will gain further momentum, achieving 3.9 % GDP growth in 2018.

Given the signals that can be observed in the market, the Managing Board assumes that the sector environment and market conditions for mining equipment can continue to improve in 2018. For the 2018 fiscal year, the Managing Board of SMT Scharf anticipates consolidated revenue in a range between EUR 58 million and EUR 62 million. Thanks to the takeover of Canadian mining specialist RDH Mining Equipment, SMT Scharf expects positive effects for its revenue and earnings trends for the coming years. With the takeover in February 2018 of the leading supplier of battery-driven vehicles with lithium-ion technology for underground mining, SMT Scharf has added further to its product portfolio of rubber-wheeled vehicles and established a foundation to achieve far-reaching synergies in the international hard-rock and tunnel market. Furthermore, the Managing Board forecasts 2018 EBIT in a range between EUR 4.5 million and EUR 5.5 million. The positive effects from the RDH acquisition are included in this calculation.

In the Tunnel segment – a business area that is still new for the Group – the company continues to expect no significant revenues in 2018. This segment remains in its buildup phase. For this reason, the management does not anticipate major sales revenue growth in this segment until the medium term. In terms of the cost of materials ratio (based on total operating revenue), a higher figure than 2017 is anticipated, although it will continue to lie above the medium-term target of 50.0 %. Net working capital for 2018 is expected at the previous year's level, assuming a slight improvement in net working capital intensity in relation to revenue. Days of sales outstanding in 2018 are to lie slightly above the medium-term target of 150 days. An equity ratio at the previous year's level is also anticipated for 2018. 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.

Medium- to long-term, the management expects further improvements in the worldwide market for mining equipment and a further reduction in the sector's investment backlog. Due to the consolidation in China, this especially relates to Chinese mine operators that need to optimise infrastructure and invest in innovative transportation logistics. Over the coming years, the management expects rising demand for electric vehicles for deployment in underground mining. In this context, SMT Scharf regards itself as well positioned to exploit future growth opportunities thanks to the newly acquired battery and electrical expertise at RDH. SMT Scharf's expertise as an integrated system supplier also enables the Group to retrofit electric vehicles for coal mining purposes. Here, the company can make recourse to its established market access in target markets worldwide.

Commodity production will increase due to the long-term sustainable expansion of the global economy. Emerging economies' growth weakness can also be seen as temporary. Prosperity in such emerging economies will continue to rise in the long term, accompanied by sustainable growth in demand for energy. International Energy Agency (IEA) experts nevertheless forecast a significant increase by 2040 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 decline there too. Coal should account for around 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. As part of its corporate strategy, the company will continue to focus in the future on operative excellence, external growth and organic growth, in order to further strengthen SMT Scharf's market position.

Hamm, March 21, 2018

The Managing Board

Hans Joachim Theiss Wolfgang Embert

Balance sheet as of December 31, 2017

Assets (in EUR)	31/12/2017		31/12/2016	
A. Fixed assets				
I. Property, plant and equipment		**10,009.43**		**11,893.42**
Office and operating equipment	10,009.43		11,893.42	
II. Financial assets		**15,535,867.62**		**15,718,775.14**
1. Shares in affiliated companies	13,658,120.42		13,554,546.92	
2. Loans to affiliated companies	1,877,747.20		2,164,228.22	
		15,545,877.05		**15,730,668.56**
B. Current assets				
I. Receivables and other assets		**1,919,621.04**		**1,051,058.50**
1. Receivables from affiliated companies	1,356,086.05		564,095.62	
2. Other assets	563,534.99		486,962.88	
II. Bank balances		**6,194,124.93**		**1,043,768.08**
		8,113,745.97		**2,094,826.58**
C. Prepaid expenses and deferred charges		**5,692.00**		**7,375.00**
Assets (total)		**23,665,315.02**		**17,832,870.14**

Equity and liabilities (in EUR)	31/12/2017		31/12/2016	
A. Equity				
I. Subscribed capital		**4,570,523.00**		**4,150,523.00**
Total face value	4,620,000.00		4,200,000.00	
Face value of treasury shares (Conditional capital 2,100,000.00 previous year 2,100,000.00)	49,477.00		49,477.00	
II. Share premium		**16,984,646.99**		**11,986,646.99**
III. Profit brought forward		**103,093.70**		**103,093.70**
1. Statutory reserve	1,648.70		1,648.70	
2. Other revenue reserves	101,445.00		101,445.00	
IV. Retained profit / accumulated loss		**-365,198.03**		**56,429.06**
		21,293,065.66		**16,296,692.75**
B. Provisions				
1. Pension provisions	191,614.00		183,407.00	
2. Other provisions	704,793.54		482,500.00	
		896,407.54		**665,907.00**
C. Liabilities				
1. Liabilities to banks	375,000.00		500,000.00	
2. Trade payables	188,392.78		111,588.69	
3. Liabilities to affiliated companies	884,343.37		227,870.52	
4. Other liabilities of which from taxes 24,987.47 (previous year 25,903.74)	27,199.42		29,582.71	
		1,474,935.57		**869,041.92**
D. Deferred income		**906.25**		**1,228.47**
Equity and liabilities (total)		**23,665,315.02**		**17,832,870.14**

Consolidated income statement for the period from January 1 to December 31, 2017

In EUR		2017	2016
1.	Revenue	599,113.48	511,968.23
2.	Other operating income of which from currency translation: 12,510.12 (previous year 23,671.42)	116,455.31	172,868.78
3.	Personnel expenses		
	a) Wages and salaries	1,203,728.75	1,025,657.52
	b) Social expenses of which for post-retirement benefits: 19,340.96 (previous year 6,967.00)	79,921.39	70,112.81
4.	Depreciation, amortisation and impairment losses	8,222.14	6,892.81
5.	Other operating expenses of which from currency translation: 40,033.64 (previous year 2,085.57)	1,549,976.45	1,051,254.28
6.	Income from participating interests of which from associated companies: 1,000,064.36 (previous year 1,700,000.00)	1,000,064.36	1,700,000.00
7.	Income from transfer of profits and losses of which from affiliated companies: 653,970.83 (previous year 0.00)	653,970.83	0.00
8.	Interest and similar income of which from associated companies: 56,985.65 (previous year 77,305.71)	56,985.65	77,305.71
9.	Interest and similar expenses	6,367.99	1,228.48
10.	**Earnings after tax**	**-421,627.09**	**306,996.82**
11.	**Consolidated net income/net loss**	**-421,627.09**	**306,996.82**
12.	Profit carried forward/loss carried forward	56,429.06	-531,045.76
13.	Sale/purchase of treasury shares	0.00	280,478.00
14.	**Unappropriated net profit/loss**	**-365,198.03**	**56,429.06**

Notes to the consolidated financial statements for the 2017 fiscal year

Accounting and valuation policies

The present annual financial statements were prepared in accordance with Sections 242 ff., 264 ff. of the German Commercial Code (HGB) in compliance with the Accounting Directive Implementation Act (BilRuG) and the relevant regulations of the German Stock Corporation Act. The company is deemed to be a large corporation as defined by Section 267 (3) (2) HGB. SMT Scharf AG has its head office in Hamm and is registered in the Commercial Register with the District Court of Hamm under the number HRB 5845.

The income statement has been structured using the nature of expense method.

Measurement is made in accordance with the commercial measurement regulations applying to corporations taking into account that the business is a going concern. The accounting and measurement methods applied to the previous annual financial statements have been retained unchanged.

Unless otherwise specified, figures in the Notes are given in thousands of euros (kEUR).

The following accounting principles have been applied in detail.

Property, plant and equipment is measured at cost net of systematic depreciation over a useful life of 3 to 5 years. Impairment losses are applied where necessary. The depreciation rates applied to assets are defined in accordance with their normal useful life. Fixed assets are amortised by the straight line method.

Shares in affiliated companies are measured at cost including incidental acquisition costs or at their fair value if lower.

Receivables and other assets as well as bank balances have been recognised at their face value. Impairment allowances are applied to receivables individually to the extent of any discernible risks.

Deferred taxes are determined for any temporary differences between the commercial carrying amounts for assets, debts as well as accruals and deferrals and their values attributed for tax purposes. Deferred taxes are determined on the basis of the tax rate applicable to SMT Scharf AG, Hamm, for taxes on income, i.e. currently 32.1%, comprising trade tax and corporation tax. Any overall tax liability has been shown in the statement of financial position as a deferred tax liability. In the event of any tax relief, no use will be made of the corresponding capitalization option. As in the previous year, there was an overall deferred tax asset for the financial year which is not shown in the statement of financial position.

Prepaid expenses consist of expenses paid before the balance sheet date that relate to expenses for a certain period after that date. This item is expensed chronologically using the straight line method.

Business transactions in a foreign currency are recognised at the exchange rate applicable on the date they are incurred. Foreign currency positions with a residual term of more than one year are translated at the average spot exchange rate on the reporting date taking into account the concept of historical cost and the realisation rule. If the term is shorter, the translation is always made at the average spot exchange rate on the reporting date.

Treasury shares have been openly deducted from subscribed capital at their calculated share of the authorised share capital.

Provisions have been shown at the repayment amount required based on reasonable commercial judgement.

Pension provisions were determined in accordance with accepted actuarial principles by means of the projected unit credit method based on the 2005G mortality tables. The actuarial interest rate used is based on the average market interest rate for the last ten years (Federal Bank rate) resulting from an assumed residual term of 15 years which amounts to 3.68% p.a. as of 31 December 2017. A rate of pension increases of 1.0% p.a. was used for the calculation. The differential in accordance with Section 253 (6) HGB as of 31 December 2017 amounts to kEUR 21 which is blocked for distribution.

Other provisions reflect all visible risks and uncertain obligations to an appropriate extent.

Payables are shown at their repayment amount.

Information on the statement of Financial Position

Changes in fixed assets are shown in the following Analysis of Changes in Fixed Assets:

		Acquisition costs				
		01/01/2017	Additions	Disposals	Reclassification	31/12/2017
1.	Other equipment, factory and office equipment	23,228.53	6,338.15	0.00	0.00	29,566.68
I.	**Property, plant and equipment**	**23,228.53**	**6,338.15**	**0.00**	**0.00**	**29,566.68**
1.	Shares in affiliated companies	14,392,525.57	103,573.50	0.00	0.00	14,496,099.07
2.	Loans to affiliated companies	2,164,228.22	50,000.00	336,481.02	0.00	1,877,747.20
II.	**Financial assets**	**16,556,753.79**	**153,573.50**	**336,481.02**	**0.00**	**16,373,846.27**
Total		**16,579,982.32**	**159,911.65**	**336,481.02**	**0.00**	**16,403,412.95**

		Depreciation, amortization and impairment losses				
		01/01/2017	Additions	Disposals	Reclassification	31/12/2017
1.	Other equipment, factory and office equipment	11,335.11	8,222.14	0.00	0.00	19,557.25
I.	**Property, plant and equipment**	**11,335.11**	**8,222.14**	**0.00**	**0.00**	**19,557.25**
1.	Shares in affiliated companies	837,978.65	0.00	0.00	0.00	837,978.65
2.	Loans to affiliated companies	0.00	0.00	0.00	0.00	0.00
II.	**Financial assets**	**837,978.65**	**0.00**	**0.00**	**0.00**	**837,978.65**
Total		**849,313.76**	**8,222.14**	**0.00**	**0.00**	**857,535.90**

Receivables from affiliated companies comprise in particular receivables from Group allocations and receivables from profit and loss transfer agreements with SMT Scharf GmbH and Nowilan GmbH. Other assets include VAT receivables amounting to kEUR 553 (previous year kEUR 487).

As of 31 December 2017, SMT Scharf AG is not showing any deferred taxes (previous year: kEUR 0). Deferred tax assets result almost exclusively from loss carryforwards. Of the existing loss carryforwards (kEUR 6,663 and kEUR 5,609 for corporation tax and trade tax respectively; previous year: kEUR 4,337), those loss carryforwards which the company assumes will be utilised in the next five years (kEUR 3,460; previous year: kEUR 3,378), have been included in the calculation of deferred taxes. Deferred tax liabilities of kEUR 101 mainly result from temporary differences from the capitalization of development costs at the level of the subsidiary SMT Scharf GmbH, Hamm. The calculated tax relief amounting to kEUR 1,023 (previous year: kEUR 1,081) has not been capitalised in accordance with the option afforded under Section 274 HGB.

As of 31 December 2017, a total of 4,620,000 ordinary bearer shares of SMT Scharf AG have been issued in the form of no par value shares with a notional value of EUR 1 per share, of which 49,477 are held by the company itself. 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 19 April 2021, by up to kEUR 2,100 against cash or non-cash capital contributions (Authorised Capital 2016). Shareholders' subscription rights can be excluded in this context.

The Conditional Capital 2014 was cancelled by the 2016 Shareholders' Meeting, and Conditional Capital 2016 created in its place. The Managing Board was authorised to issue, with Supervisory Board approval, once or on several occasions until 19 April 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 kEUR 70,000, 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 kEUR 2,100 according to the more detailed specifics of the terms and conditions of the convertible bonds or bonds with warrants. At present, no such securities have been issued.

The company held 49,477 treasury shares on 31 December 2016, equivalent to 1.07 % 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), show an accumulated loss for the period of kEUR 365. The Managing and Supervisory boards will propose to the Ordinary AGM to be held on 23 May 2017 that it carries this net retained loss forward to a new account.

Shareholder structure

74.53% of SMT Scharf AG's shares are free float shares as defined by Deutsch Börse (German Stock Exchange). These include all shareholdings below 5% with the exception of treasury shares. Based on notifications of voting rights received by the company in accordance with the Securities Trading Act (WpHG), the shareholder structure on 31 December 2017 was as follows:

Shareholder-Pool Shareholder Value Beteiligungen AG/Share Value Stiftung/Christiane Weispfenning	13.72%	633,715 shares
Investment company with variable capital (SICAV)	5.62%	259,526 shares
Axxion S.A.	5.06%	233,896 shares
Overseas Asset Management (Cayman), LTD	4.88%	225,301 shares

Managing Board Chairman Hans Joachim Theiss held a total of 10,000 shares as of 31 December 2017.

Changes in provisions in the financial year were as follows:

	Pension provisions	**Other personnel provisions**	**Miscellaneous other provisions**
As of 01/01/2017	184	250	233
Used	0	250	148
Added	8	420	240
Reversed	0	0	40
As of 31/12/2017	192	420	285

The liabilities to banks have a residual term of up to five years. Liabilities to affiliated companies comprise current VAT from the existing fiscal union as well as the transfer of overheads. There are no liabilities secured through liens.

Information on income statement

The sales revenues of kEUR 599 result from Group allocations.

Other operating income is mainly made up of income from the transfer of costs to subsidiaries and the reimbursement of insurance premiums amounting to kEUR 77 as well as income of kEUR 22 from the release of provisions.

SMT Scharf AG has no operating business of its own but is the management holding company for companies in the SMT Scharf Group. Apart from the three members of the Managing Board, there are only two further employment relationships (previous year: two).

Other disclosures

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

Period from 1 January to 31 December 2017:

Univ. Prof. Dr. Louis Velthuis (Chairman since 7 September 2017)	Holder of the Chair for Controlling at the Johannes Gutenberg University, Mainz	Intershop Communications AG, member of the Supervisory Board
Dipl.-Ing. Michael Reich, Hamm (Chairman until 7 September 2017)	CEO DSI Underground	DSI International Luxemburg, S.a r.l., member of the Supervisory Board OOO DSI Techno, Chairman of the Supervisory Board RocBolt Resins Pty Ltd (Sydney), member of the Supervisory Board RMS Australia PTY Ltd, Director REICH GROUP Pty Ltd, Director EDVIRT Australia Pty Ltd, Chairman of the Board
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 kEUR 1 per

Supervisory Board meeting.. The fixed remuneration totals kEUR 15 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 kEUR 10 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 2017 fiscal year:

In kEUR	**Reich**	**Velthuis**	**Vorsteher**	**Gattineau**
Fixed remuneration	15	7	15	15
Variable remuneration	6	3	8	8
Expenses	0	1	0	0
Meeting fees	3	3	6	6
Total	24	14	29	29

No remuneration exists for former members of the Supervisory Board or their surviving dependants. No advances, loans, or contingent liabilities exist in favour of members of the Supervisory Board. Michael Reich, Supervisory Board Chairman until 7 September 2017, held a total of 6,000 shares in the company as of 31 December 2016 (previous year: 6,000 shares).

The Managing Board of SMT Scharf AG consisted of Mr. Hans Joachim Theiss (Managing Board Chairman), Mr. Wolfgang Embert and Mr. Rolf Ferdinand Oberhaus (until 12 March 2018).

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. There are pension obligations towards former members of the Board amounting to kEUR 176, and towards current members of the Board amounting to kEUR 15. 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 2017 fiscal year:

	Theiß			**Embert**			**Oberhaus**		
In kEUR	2017	Min 2017	Max 2017	2017	Min 2017	Max 2017	2017	Min 2017	Max 2017
a) Fixed remuneration	266	266	266	201	201	201	191	191	191
b) Performance-related remuneration 2017	181	0	487	104	0	365	104	0	365
Total remuneration (a+b)	447	266	753	305	201	566	295	191	556
Payout of performance-related remuneration 2016	90			52			52		

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 Mr. Hans Joachim Theiss held a total of 10,000 shares as of 31 December 2017.

With the exception of pension payments, no remuneration exists for former members of the Managing Board or their surviving dependants. No advances, loans or contingent liabilities exist in favour of members of the Managing Board.

The company has assumed joint liability towards banks for the credit lines of subsidiaries amounting to EUR 9.2 million. The Managing Board assesses the risk of the banks having recourse to the company as low due to the creditworthiness of the subsidiaries.

Effective April 27, 2017, the company has issued an unlimited letter of comfort to OOO SMT Scharf Service, Novokuznetsk, Russian Federation. The Management Board considers the risk of a claim to be low.

Other financial obligations result from lease and rental contracts and apply as follows:

	31/12/2017	**31/12/2016**
up to 1 year	34	46
1 - 5 years	15	48

Disclosures on the auditors' fees are contained in the consolidated financial statements of SMT Scharf AG. The company therefore refrains from publishing these details here due to the exemption group clause contained in Section 285 no. 17 HGB. The tax consultancy services provided by the auditor mainly relate to tax declaration services and other tax consultancy services.

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

	Interest	**Equity (IFRS) 31/12/2017**	**Profit/loss (IFRS) 2017**
SMT Scharf GmbH, Hamm, Germany	100 %	19,776	1,826
SMT Scharf Saar GmbH i.L, Schmelz, Germany	100%	43	1
Nowilan GmbH, Dinslaken, Germany	100 %	168	22
SMT Scharf Polska Sp. z o. o., Tychy, Poland	100 %	5,566	1,139
SMT Scharf Africa (Pty.) Ltd., Germiston, South Africa	100 %	3,624	726
TOW SMT Scharf Ukrainia, Kiev, Ukraine	100%	-126	52
SMT Scharf Südamerica SpA, Santiago , Chile	100%	23	-80
OOO SMT Scharf, Novokuznetsk, Russian Federation	100 % *	5,634	1,442
OOO SMT Scharf Service, Novokuznetsk, Russian Federation	100 % ***	48	-115
Scharf Mining Machinery (Beijing) Co., Ltd., Beijing, China	100 % **	2,730	701
Scharf Mining Machinery (Xuzhou) Ltd, Xuzhou, China	100 %	3,480	986

* 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.

SMT Scharf AG set up SMT Scharf Sudamerica SpA, Santiago/Chile with effect from 24 March 2017, and is including this company in the group of fully consolidated entities due to the control it exercises through a majority of the voting rights.

SARECO Engineering (Pty.) Ltd., Germiston / South Africa, was liquidated in December 2017 and consequently deconsolidated. All assets and liabilities were previously transferred to SMT Scharf Africa (Pty) Ltd., Germiston / South Africa. The liquidation therefore had no significant impact on earnings.

As a listed corporation, SMT Scharf AG must declare in accordance with Section 161 of the German Stock Corporation Act to what extent it meets the recommendations of the "German Corporate Governance Code Government Commission". The Managing Board and the Supervisory Board gave this declaration on 15 December 2017. It has been made available to shareholders at www.smtscharf.com.

Events after the balance sheet date

Expansion of business activities in China

SMT Scharf has agreed a strategic partnership with Shanxi Lu'an Coal Technology Equipment Co. Ltd., Xiangheng Town, Shanxi Province China, one of China’s leading mining companies. With this goal in mind, the Shanxi An'de Auxiliary Transportation Co. Ltd., Changzhi, Shanxi Province China, joint venture was founded in January 2018 in order to promote sales and the service and after-sales business of specific transport systems for the Chinese mining industry. Shanxi Lu'an Coal Technology Equipment Co. Ltd., Xiangheng Town, Shanxi Province China, is the largest shareholder with a stake of 51% in the joint venture. SMT Scharf AG is invested in the joint venture with 40%, while Shanxi Lu'an Haitong Industry & Trade Co. Ltd., Xiangheng Town, Shanxi Province China, is the third partner with a share of 9%. SMT Scharf AG is contributing funds in the mid-six-figure euro range to the cooperation. All the requirements of the Chinese Lu'an Group for the products of the SMT Scharf Group will be served through this new joint venture. This extensive access to the mining group also includes the delivery of replace-ment parts and service.

Takeover of RDH Mining Equipment

In February 2018, SMT Scharf AG acquired 100% of the shares in RDH Mining Equipment Ltd., a company headquartered in Alban, Canada, via SMT Scharf Corporation, a wholly owned subsidiary with head offices in Alban, Canada. The purchase price totals around CAD 8.0 million (corresponding to around EUR 5.17 million) plus an earn-out, paid to a small extent by granting shares in SMT Scharf AG and otherwise in cash. SMT Scharf AG drew on liquidity from the successful capital increase in November 2017 and on borrowed capital to finance the cash portion. The takeover ideally supplements SMT Scharf’s portfolio by adding vehicles on rubber wheels, which will allow extensive synergies to be leveraged in the international hard rock and tunnel market through the new product program. RDH has specialised for more than 30 years in high quality mining equipment for mining and tunnel construction and has operated in the North American market in particular, with a share in revenues averaging more than 50%. RDH’s leading position in battery-driven vehicles in particular, combined with SMT Scharf’s international sales and after-sales competence, harbours potential for the future.

Changes to the Managing Board of SMT Scharf AG

The Supervisory Board of SMT Scharf AG and Rolf Ferdinand Oberhaus, member of SMT Scharf AG's Managing Board, and responsible in this role for the areas of Sales and Marketing, reached a consensus decision on March 12, 2018, not to renew the employment contract of Mr. Oberhaus which runs until December 31, 2018. Furthermore, the Supervisory Board decided to release Mr. Oberhaus from his duties with immediate effect.

Hamm, March 21, 2018

The Managing Board

Hans Joachim Theiss Wolfgang Embert

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, 2017, provide a true and fair view of the Group's financial position and performance, and the Group management report for the 2017 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 21, 2018

The Managing Board

Hans Joachim Theiss Wolfgang Embert

Independent Auditor's Report

To SMT Scharf AG, Hamm:

Report on the audit of consolidated financial statement and the management report

Audit opinions

We have audited the annual financial statements of SMT Scharf AG consisting of the balance sheet as at December 31, 2017, and the income statement for the fiscal year from January 1 to December 31, 2017, as well as the notes to the financial statements, including the presentation of the accounting and valuation policies. Moreover, we have audited the management report of SMT Scharf AG for the fiscal year from January 1 to December 31, 2017. In accordance with the requirements of German law, we did not audit the content of the Corporate Governance Declaration pursuant to Section 289f (4) of the German Commercial Code (HGB) (disclosure on the proportion of women).

In our opinion, based on the findings of our audit,

- the consolidated financial statements comply in all material respects with the requirements applicable to stock corporations under German commercial law and, taking account of the generally accepted principles of German accounting, give a true and fair view of the net assets and financial position of the company as at December 31, 2017 and its results of operations for the fiscal year from January 1 to December 31, 2017 and
- the management report gives a true and fair view overall of the position of the company. This management report is consistent with the annual financial statements in all material respects, complies with the provisions under German law, and accurately describes the opportunities and risks of future development. Our audit opinion on the management report does not cover the Corporate Governance Declaration pursuant to Corporate Governance Declaration pursuant to Section 289f (4) of the German Commercial Code (HGB) (disclosure on the proportion of women).

In accordance with Section 322 (3) sentence 1 HGB, we state that our audit of the annual financial statements and the management report has not given rise to any reservations.

Basis of the audit opinions

We performed our audit of the annual financial statements and of the management report in accordance with Section 317 HGB and the EU statutory audit directive (No 537/204; hereinafter "EU StAD"), taking account of the generally accepted German standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany). Our responsibility under these directives and principles is described in the section on "Responsibility of the statutory auditor for the audit of the annual financial statements and the management report" of our independent audit report. In accordance with the provisions under European law, German commercial law and code of professional conduct, we act independently from the company and have fulfilled our other German professional duties in compliance with these requirements. In addition, we herewith declare that, in accordance with Article 10 (2) f) of EU StAD, we did not carry out any prohibited non-audit services as defined under Article 5 (1) EU StAD. We believe that the audit evidence which we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the annual financial statements and the management report.

Matters of significant auditor attention in the audit of the annual financial statements

Matters of significant auditor attention are matters we consider in our best judgement to be the most important from our audit of the annual financial statements for the fiscal year from January 1 to December 31, 2017. These matters were included in connection with our audit of the annual financial statements overall and in forming our audit opinion; we do not provide any separate audit opinion on these matters.

Intrinsic value of shares in affiliated companies

In respect of the accounting and valuation policies applied, we make reference to the section on “Accounting and valuation policies” in the notes to the financial statements. Disclosures on the subsidiaries can be found in the notes to the consolidated financial statements in the section entitled “Information about subsidiaries”.

Risk for the annual accounts

The shares in affiliated companies represent a major item in the annual financial statements and totalled EUR 13.7 million as of December 31, 2017 (December 31, 2016: EUR 13.6 million). This corresponds to 58% of total assets (previous year: 76%).

The estimate of the intrinsic value of the shares in affiliated companies is based above all on the assessment and evaluation of the companies’ future profitability within the meaning of discounted cash flow. Furthermore, the net asset value was also taken as the minimum value in the assessment.

Estimating intrinsic value relies to a great degree on discretion and depends on the estimates and assumptions of the legal representatives. Consequently, there is a risk that value allowances for participating interests have not been formed in a sufficient amount.

Procedure followed in conducting our audit

In the context of auditing the annual financial statements, we reviewed the measurement of participating interests in the context of a structured sequence. Based on the overall portfolio, we identified the amounts recognised for participating interests in the form of a risk analysis, which were then subject to extensive examination. Our audit activities comprised in particular examining the underlying planning assumptions as well as assessing the estimates otherwise made by the legal representatives for completeness, accuracy and plausibility. We examined the participating interests already written down in respect of potential for reinstating the original values. We compared the approach adopted with the accounting and valuation policies applied by the company.

Our conclusions

SMT applies an appropriate procedure to measuring participating interests. The underlying assumptions and discretionary decisions are generally well balanced. Valuation allowances were made in a suitable scope.

Other information

The legal representatives are responsible for other information. Other information comprises:

- the Corporate Governance Declaration pursuant to Section 289f (4) HGB (information on proportion of women) and
- assurance pursuant to Section 289 (1) sentence 5 HGB on the management report.

Our audit opinion on the annual financial statements and the management report does not cover other information. We therefore do not express an audit opinion nor do we issue a conclusive audit statement on this information in any other form.

In the context of our audit, we are responsible for reading other information and for assessing whether this other information

- reveals material discrepancies in respect of the annual financial statements, the management report or other knowledge that we obtain from our audit or
- otherwise seems to be essentially incorrectly described.

Responsibility of the legal representatives and the Supervisory Board for the annual financial statements and the management report

The legal representatives are responsible for preparing the annual financial statements which comply with requirements placed on stock corporations under German commercial law in all material aspects and for ensuring that the annual financial statements, taking account of the generally accepted principles of German accounting, give a true and fair view of the net assets, financial position and results of operations of the company. Moreover, the legal representatives are responsible for the internal controls which they deem necessary in accordance with the generally accepted principles of German accounting for the purpose of preparing annual financial statements which are free of material – intended or unintended – misstatements.

In preparing the annual financial statements, the legal representatives bear responsibility for assessing the capacity of the company as a going concern. Furthermore, they are responsible for disclosing matters in connection with the company as a going concern inasmuch as this is pertinent. In addition, they are responsible for drawing up the accounts on the basis of the going concern accounting policy provided that no factual or legal circumstances prohibit this.

Moreover, the legal representatives are responsible for preparing the management report which gives a true and fair picture of the position of the company, as well as being consistent in all material respects with the annual financial statements, complying with statutory provisions under German law and appropriately describing the opportunities and risks inherent in future development. Moreover, the legal representatives are responsible for the precautionary measures and measures (systems) that they deem necessary for enabling the preparation of a management report in compliance with the provisions applicable under German law and for the purpose of providing suitable evidence for the statements made in the management report.

The Supervisory Board is responsible for supervising the accounting processes of the company for the purpose of preparing the annual financial statements and the management report.

Responsibility of the statutory auditor for the audit of the annual financial statements and the management report

Our aim is to obtain reasonable assurance about whether the annual financial statements as a whole are free from material – intended or unintended – misstatements and whether the management report overall gives a true and fair view of the position of the company while being consistent in all material aspects with the annual financial statements as well as with the findings of the audit, complies with the statutory provisions under German law and appropriately reflects the opportunities and risks of future development. Furthermore, our aim is to issue an audit opinion which includes our report on the audit of the annual financial statements and management report.

Sufficient assurance is a high degree of certainty but no guarantee that an audit carried out in compliance with Section 317 HGB and EU StAD in consideration of the generally accepted German standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect misstatements. Misstatements may arise from infringements or inaccuracies and are viewed as material if it is reasonable to assume that they – either individually or in their entirety – influence the economic decisions of users of the financial statements which are based on these annual statements and management report.

During the audit we exercise due discretion and adopt a critical stance. In addition,

- we identify and assess the risks of material – intended or unintended – misstatements in the annual financial statements and the management report, plan and conduct audit activities in response to these risks, and obtain audit evidence which is sufficient and suitable for serving as a basis for our audit opinions. The risk of not detecting material misstatements is greater with infringements than with inaccuracies as infringements may constitute fraudulent cooperation, falsification, intended incompleteness, misleading representations and/or the suspending of internal controls;
- gain an understanding of the internal control system relevant for the audit of the annual financial statements and the precautions and measures relevant for the audit of the management report in order to plan audit activities which are appropriate under the respective circumstances but, not with the aim of expressing an audit opinion on the effectiveness of these systems;
- assess the appropriateness of the accounting methods applied by the legal representatives and the reasonableness of the accounting estimates made by the legal representatives, along with the associated disclosures;
- draw conclusions on the appropriateness of the going concern accounting principle applied by the legal representatives as well as, on the basis of the evidence obtained from the audit, whether material uncertainty arises in connection with events or circumstances which may lead to significant doubt concerning the impairment of the continuous functioning of the audited entity. Should we come to the conclusion that material uncertainty exists, we are obliged to point out the relevant disclosures in the annual financial statements and in the management report in our auditors report or, if these disclosures are inappropriate, to modify our audit opinion. We draw our conclusions on the basis of the findings of the audit obtained through to the date of our report. Future events or circumstances may, however, result in the company no longer being able to continue its activities;
- assess the overall presentation, the layout and the content of the annual financial statements, including the disclosures, as well as whether the business transactions and events underlying annual financial statements are presented in a way that the annual financial statements give a true and fair view of the net assets, financial position and results of operations of the company in accordance with the generally accepted principles of orderly accounting in Germany;
- assess the consistency of the management report with the annual financial statements, its compliance with the law and the view it presents of the company's situation;
- conduct audit activities concerning the forward-looking statements made by the legal representatives in the management report. Based on sufficient and appropriate findings, we retrace the material assumptions underlying the forward-looking statements made by the legal representatives and assess the appropriateness of the way in which the forward-looking statements were derived based on these assumptions. We do not issue our own audit opinion on the forward-looking statements or on the underlying assumptions. A considerable and unavoidable risk exists that future events may deviate considerably from the forward-looking statements.

We discuss the planned scope and the schedule of the audit, among other issues, with those responsible for supervision, as well as material findings from our audit, including any defects in the internal control system which we ascertain during our audit.

We submit a declaration to those responsible for supervision that we have complied with the relevant requirements on independence and discuss with them all relationships and other circumstances which provide grounds for the reasonable assumption that they may impact our independence and the safeguards taken in this respect.

Of the matters discussed with those responsible for supervision, we determine the matters of the greatest importance arising from our audit of the annual financial statements for the current reporting period and which are therefore key matters for our audit. We elaborate on these matters in the audit report unless the law or other legislation preclude the public reporting of the respective matter.

Other legal and other regulatory requirements

Other disclosures pursuant to Article 10 EU StAD

We were selected by the Annual General Meeting on April 26, 2017 as the external auditor. We were engaged by the Supervisory Board on November 15, 2017. We have acted as the annual auditor of SMT Scharf AG since the 2016 fiscal year without interruption.

We herewith declare that the audit opinions included in this auditor’s report concur with the additional report addressed to the Audit Committee pursuant to Article 11 EU StAD (audit report).

Auditor responsible

Stefan Schumacher is the auditor responsible for the audit.

Cologne, March 21, 2018

Rödl & Partner GmbH
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Stramitzer Certified Public Accountant	Schumacher Certified Public Accountant

Joint Declaration by the Executive and Supervisory Boards of SMT Scharf AG in accordance with Section 161 of the German Public Companies Act (AktG) on the Recommendations by the "Regierungskommission Deutscher Corporate Governance Kodex" ("Government Commission on the German Corporate Governance Code") (Version dated: 7 February 2017)

The Executive and Supervisory Boards of SMT Scharf AG declare that the recommendations of the "Regierungskommission Deutscher Corporate Governance Kodex" ("Government Commission on the German Corporate Governance Code") of the version dated 7 February 2017 have - **apart from the following exceptions** - been complied with in the past and will continue to be complied with.

- The Supervisory Board has not established any committees because it consists of only three members. In view of the size of the company, this number appears appropriate.

- Diversity was not a separate criterion in the composition of the Executive Board. This may also be the case in the future as the Board has only three members.

- Currently, there are no age limits for the members of the Executive Board or the Supervisory Board. This will satisfy the requirements of the German Equal Treatment Act (AGG).

- If Board activities are ended prematurely, the service contracts of the members the Executive Board do not provide for any limitation to payments to two years' work. To date, such a limit appears unnecessary because the service contracts run for three years only.

- There is no intention to agree any excess in D&O insurance for the Supervisory Board.

- The incentive scheme for Supervisory Board remuneration was reviewed with regard to the amendment to the Code dated 7 February 2017. The provisions of the new Code have not been complied with to their full extent and the incentive scheme will therefore be reviewed in order to bring it into line with the Code.

- Efforts will be made to review the performance-based remuneration of the Supervisory Board – which is oriented to long-term company growth – in order to bring it into line with the Code.

Hamm, December 15, 2017

(Prof. Dr. Velthuis) (Dr. Vorsteher) (Gattineau)

(Theiß) (Embert)

Supervisory Board report for the 2017 fiscal year

In 2017 fiscal year, the Supervisory Board of SMT Scharf AG diligently performed the tasks required of it by law and the company's articles of incorporation. It supervised and consulted with the Managing Board on a running basis. The Supervisory Board received regular, up-to-the-minute, comprehensive written and oral reports from the Managing Board about the development of SMT Scharf AG's business 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 bylaws procedure were always upheld.

Owing to changes in personnel at Supervisory Board level as of September 7, 2017, this report was prepared with the participation of Dipl.-Ing. Michael Reich, the former Chairman of the Supervisory Board, who is responsible for the content up until the aforementioned date. Upon application by the company, the Local Court of Hamm appointed Univ.-Prof. Dr. Louis Velthuis as a new member of SMT Scharf AG's Supervisory Board. In addition, he has taken on the role of Chair from former Chairman Dipl.-Ing. Michael Reich in an interim capacity. Mr Reich is withdrawing indefinitely from the Supervisory Board for reasons of health.

The Supervisory Board met in five regular meetings held on March 1, April 26, June 29, September 22, November 6 and December 15, 2017. All the meetings took place in the offices and workshop facilities in Hamm. 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 brighter prospects for the sector's business activities in the reporting year 2017, the topics accorded special consideration included the development in the core markets and the implementation of the corporate strategy promoted by the Managing Board. In this context, the Supervisory Board noted the ongoing successes of the structural program launched in 2015, which focused especially on further improving profitability in the period under review. In macroeconomic terms, a sustained recovery in the price of raw materials took place in 2017 fiscal year, with a sustained upswing in the sector's business activities expected as a result. Based on the progress achieved, the Supervisory Board regards the company as well-positioned to successfully and profitably participate in this development.

The ongoing further development and adjustment of SMT Scharf AG's localisation strategy to accommodate developments in the Group's core markets was addressed in depth by the Supervisory Board and the Managing Board. A decisive step was taken through the founding of a sales company in Chile, where SMT Scharf AG has achieved even closer proximity to South American customers in the non-coal mining business. In this context, another key focus of the work of the Supervisory Board and the Management Board in 2017 fiscal year was placed on forging ahead with introducing a new Enterprise Resource Planning (ERP) system aimed at fostering international cooperation within the Group and further optimising processes.

- In its meeting on March 1, 2017, the Supervisory Board had the auditor Rödl und Partner present and explain the 2016 annual financial statements. The outcome of the auditing process, the presentation of the results and the commercial situation of the Group, along with the assets, financial position and results of operations of the company and of the Group were elaborated on. Both the separate financial statements and consolidated financial statements for 2016 were approved unanimously. Tax issues and the new reporting requirements valid as from 2017 fiscal year were also discussed. In addition, the Supervisory Board and the Managing Board dealt with the Group's current development of business along with the strategy and personnel topics in detail. The Supervisory Board therefore discussed the introduction of a quota for women employees in detail and unanimously approved the request of the Managing Board for the introduction of a quota at the various management levels within the Group. Furthermore, the Supervisory Board approved the disbursement of bonuses for 2016 fiscal year within the Group.

- At its meeting on April 26, 2017, the Supervisory Board initially reflected on the immediately preceding AGM. The Managing Board informed the Supervisory Board about the current status of business. In addition, the Supervisory Board consulted on various topics concerning personnel together with the Managing Board, including considering revising the bonus system in the regional companies and the introduction of structured appraisals within the Group. Furthermore, the Supervisory Board and the Managing Board discussed business activities in China and the development of the Shandong XinSha Monorail Co. Ltd joint venture. In the meantime, activities at the Saarland location have been concluded. The Supervisory Board therefore approved the sale of the property and inventory at the price of between EUR 130,000 and EUR 150,000.

- In the context of its meeting on June 29, 2017, the Supervisory Board obtained information on the current status of business. Topics of particular discussion included the measures for optimising working capital and the introduction of a new ERP system. Moreover, the Managing Board and the Supervisory Board discussed their opinions and thoughts in detail on developing the corporate mission statement. Deliberations on developing business in the Chinese market, which is important for SMT Scharf were taken further in the meeting. In this context, the Supervisory Board engaged in a detailed discussion of the development of the Shandong XinSha Monorail Co. Ltd joint venture with the Managing Board.

- In the meeting on September 22, 2017, the Managing Board presented a detailed report to the Supervisory Board on the current status of business. In this context, the issue of exchange rates, the Group's liquidity and the implementation of a new ERP system were discussed. The Managing Board also elaborated on the situation concerning the Shandong XinSha Monorail Co. Ltd joint venture. In addition, the Managing Board and the Supervisory Board weighed up the current possibilities of strategic partnerships, participations and takeovers in detail. In this connection, in-depth discussions on the various financing alternatives, in particular the form a capital increase could take, took place together with the Managing Board.

- In the meeting on November 6, 2017, the Managing Board reported on the current status of the implementation of strategic measures. Following detailed discussions, the Supervisory Board conditionally approved the purchase of the Canadian mining company RDH Mining Equipment Ltd. Another key topic of the meeting concerned the structuring of Managing Board compensation. The Supervisory Board presented its views on this topic in detail and discussed possible changes with the Managing Board.

- The last Supervisory Board meeting of 2017 was held on December 15. The auditing company Rödl & Partner submitted a detailed report on its audit of the 2017 annual financial statements which progressed according to schedule. The Managing Board also provided information on various strategic options and discussed possible financing models in depth with the Supervisory Board in this context. After due consideration, the Supervisory Board approved the establishing of the planned joint venture with the Lu'an Group for the purpose of expanding business activities in the Chinese market. The Managing Board subsequently presented a report on the current status of business. Among other issues, measures due to be initiated in 2018 fiscal year by the Managing Board with the aim of further improving liquidity were discussed. Following detailed discussion, the Supervisory Board approved the budget for the 2018 fiscal year.

The separate financial statements and separate management report, as well as the IFRS consolidated financial statements and Group management report for the 2017 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 21, 2018, 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 2017 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 approved 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 2017 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 2017 fiscal year given the continued challenging market situation, the company's strategic further development and sector consolidation.

The Supervisory Board thanks 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 Managing Board and the employees much success in meeting the challenges posed in the new fiscal year.

Hamm, March 21, 2018

Univ.-Prof. Dr. Louis Velthuis