SMT Scharf AG
Annual financial report 2007

Contents

Management Report for fiscal year 2007

Macroeconomic environment

SMT Scharf AG's subsidiaries develop, build and maintain rail-bound railway systems for mining and use in tunnels. The railways are used all over the world, primarily in hard coal mines, but also in underground mining for platinum, gold and other metals. They are used to transport material and personnel with working loads of up to 35t. Rail-bound railways are the only means of transport that can be used on branching lines to cope with inclines of more than 13 degrees.

That is why the global demand for commodities, in particular for hard coal, is the most important influence on business at the SMT Scharf Group's companies. As in previous years, there was positive demand-side growth in 2007. This is reflected in the further price increases for many commodities. For example, the price for hard coal (CIF ARA) increased by 21% during the course of 2007 to US$ 81 per ton, the gold price was up 31% to US$ 831 per fine ounce, and the price of platinum lifted 36% to US$ 1536 per fine ounce. In addition, the production of key commodities has increased further in line with demand. For example, the increase in global hard coal production in 2007 is again estimated at around 5 to 7% after increasing at an average rate of 7.4% annually over the past five years.

This growth takes place in particular in countries undergoing strong economic growth, and which thus have increasing requirements for energy, steel and other metals. These countries include China and Russia, and also South Africa, India and other countries. As a result, the increasing demand for the SMT Scharf Group's products is being fueled by countries such as these, and not by developed economies such as OECD countries. Economic downturns, as can currently be observed in the USA, do not have any direct impact on the business at the SMT Scharf Group's companies. There might be an indirect impact if, for example, a downturn in the USA's demand for imports perceptibly slows economic growth in China.

The strong demand for commodities is not the only force shaping the positive climate for capital expenditure among mine operators, in particular hard coal mine operators. The latter is also driven by many mine operators specifically investing in technologies to boost their productivity. The products of the SMT Scharf Group's companies play a key role in this regard when it comes to transport materials in underground mining operations.

Human resources

SMT Scharf AG does not conduct any operating business of its own – it is a management holding for the SMT Scharf Group companies. It does not have any staff except for the two members of the Managing Board.

Financial position and results of operations

Equity and particular legal relationships: SMT Scharf AG's subscribed capital was increased against cash contributions from EUR 3,000 thousand to EUR 4,200 thousand as part of the IPO in April 2007. Since then it comprises 4,200,000 no-par value bearer shares, each with a notional interest of EUR 1 in the subscribed capital. In addition, the company also has Authorized Capital I and II to issue a total of up to 2,100,000 further ordinary shares. With the approval of the Supervisory Board, the Managing Board can use this authorized capital to increase SMT Scharf AG's subscribed capital until February 1, 2012. Shareholders' subscription rights can be excluded during this process. There is no authorization over and above the general statutory regulations to buy back SMT Scharf AG's own shares.

The company is subject to the general statutory restrictions on voting rights, in particular resulting from the *Aktiengesetz* (German Public Limited Companies Act) and the *Wertpapierhandelsgesetz* (German Securities Trading Act). The Managing Board is not aware of any further restrictions on voting rights, including any restrictions that could result from agreements between shareholders.

According to the notifications of voting rights received by SMT Scharf AG, the pre-IPO shareholders held the following interests directly after the IPO:

MS Mining Solutions GmbH, Schondorf	1,350,000 voting rights (32.1%)
Marfleet Ltd., Douglas	90,000 voting rights (2.1%) directly and 1,350,000 voting rights (32.1%) via MS Mining Solutions GmbH, for a total of 1,440,000 voting rights (34.2%)
Field Point (Luxembourg) II S.a.r.l., Luxembourg	960,000 voting rights (22.9 %)
Field Point (Europe) I, LLC, Greenwich	960,000 voting rights (22.9 %) via Field Point (Luxembourg) II S.a.r.l.
Strategic Value Global Opportunities Master Fund, LP, George Town	960,000 voting rights (22.9 %) via Field Point (Luxembourg) II S.a.r.l. and Field Point (Europe) I, LLC
Strategic Value Partners GP II, LLC, Greenwich	960,000 voting rights (22.9 %) via Field Point (Luxembourg) II S.a.r.l., Field Point (Europe) I, LLC and Strategic Value Global Opportunities Master Fund, LP
Victor Khosla, Greenwich	960,000 voting rights (22.9 %) via Field Point (Luxembourg) II S.a.r.l., Field Point (Europe) I, LLC, Strategic Value Global Opportunities Master Fund, LP and Strategic Value Partners GP II, LLC.

SMT Scharf AG has not received any more recent notifications of voting rights from its pre-IPO shareholders. No new participating interests have been reported to SMT Scharf AG since the IPO that directly or indirectly exceed more than 10% of the voting rights. The existing shareholders have made an undertaking to Baader Wertpapierhandelsbank AG, which supported the IPO, that they will not sell any shares before April 9, 2008 without Baader's approval. Dr. Trautwein has entered into the same lock-up agreement for the shares he acquired. The Managing Board is not aware of any other restrictions relating to the transfer of the company's shares, including any restrictions resulting from agreements between shareholders.

There are no shares with extraordinary rights that grant the holders controlling powers. The company is not aware of any equity interests held by employees who do not exercise their controlling rights directly. The Supervisory Board can make changes to the articles of incorporation that only affect the wording. Otherwise, changes to the articles of incorporation require a resolution by the General Meeting within the meaning of Sections 133, 179 of the *Aktiengesetz*. According to Article 17 of the articles of incorporation resolutions by the General Meeting are passed with a simple majority of votes cast, to the extent that there are not compulsory statutory requirements to the contrary, and, to the extent that the law prescribes a capital majority in addition to the majority of votes cast, with a simple majority of the share capital represented when the resolution is passed; this also applies to resolutions on changes to the articles of incorporation.

According to Article 8 of the articles of incorporation, the company's Managing Board comprises one or several members, including in the event that the share capital exceeds EUR 3,000 thousand. The Supervisory Board determines the number of members of the Managing Board and can appoint a Chairman as well as a Deputy Chairman of the Managing Board and also deputy members of the Managing Board. In all other respects, the statutory regulations apply to the appointment and discharge of members of the Managing Board. The company has not concluded any key agreements that are subject to the condition of a change in control as a result of an acquisition offer.

<u>Net assets</u>: The equity base increased substantially as a result of the successful IPO in April 2007. SMT Scharf AG's subscribed capital now totals EUR 4,200 thousand compared to EUR 3,000 thousand in the previous year. There is also a share premium of EUR 10,200 thousand. Equity on December 31, 2007 totaled EUR 17,496 thousand (previous year: EUR 3,033 thousand) or 92% of total assets. The assets mostly comprise cash and cash equivalents and participating interests in the SMT Scharf Group's companies.

<u>Earnings position</u>: In 2007, SMT Scharf AG recorded pre-tax earnings of EUR 3,048 thousand (previous year: EUR 62 thousand). These include investment income totaling EUR 3,962 thousand and costs totaling EUR 998 thousand in connection with the IPO.

<u>Financial position</u>: The company's cash and cash equivalents increased to EUR 10,400 thousand due to the positive growth in its business and due to the IPO, which resulted in proceeds of EUR 11,400 thousand for the company before issuing costs. There are also loans to affiliated companies amounting to EUR 1,280 thousand.

<u>Capital expenditure</u>: During the course of 2007, SMT Scharf AG acquired SMT Scharf GmbH's interest in SMT Scharf Polska Sp. z.o.o. and a 94% interest in SMT Scharf Saar GmbH. This increased financial assets to EUR 5,610 thousand from EUR 3,003 thousand. There were no other investments.

Remuneration systems for the Managing and Supervisory Board

The Supervisory Board's remuneration was defined by way of a resolution by the General Meeting on February 1, 2007 based on SMT Scharf AG's articles of incorporation. The members of the Supervisory Board receive a fixed remuneration for each fiscal year plus reimbursement of their out-of-pocket expenses.

The Supervisory Board is responsible for decisions on the Managing Board's remuneration. Members of the Managing Board receive remuneration comprising a fixed basic annual salary and an annual bonus. The basic salary is paid monthly and, in part, quarterly in arrears. The members also receive non-cash remuneration from the private use of their company cars, life insurance coverage, and the reimbursement of out-of-pocket expenses. The basic remuneration is to be reviewed at regular intervals to ensure that this is in line with the market and that it is reasonable. Remuneration was not adjusted in 2007. The amount of the annual bonus is based on the extent to which specific personal targets have been reached. These targets are agreed at the start of each year based on the company's forecasts for the respective fiscal year. There are only pension obligations at one subsidiary for members of the Managing Board from the conversion of salary components for previous fiscal years. The company regulations for the conversion of salaries up to and including fiscal year 2007 provide for a fixed upper age limit of 65 years and 6% interest on the converted salary components. There are no agreements for compensation in the event of an acquisition offer. The above regulations for the remuneration of members of the Managing Board have been agreed in the Board members' employment contracts. These contracts run until December 2009 and can only be terminated for cause by both parties prior to this date.

There is no remuneration for former members of the Managing or Supervisory Boards or their survivors, nor are there any pension obligations for this group of people.

Risk report

SMT Scharf's risk management system is based on including risk management in the existing forecasting, management and control workflows. This means that it is a central component of our value-oriented company management and it serves to specifically secure existing and future potentials for success. Our risk management system aims to identify opportunities and risks at an early stage, to estimate their impact and to start suitable preventative and security activities, including monitoring these activities.

The internal regulations for our risk management system are set out in our risk management guidelines and implemented in our company's management and monitoring process. Key elements in this process are strategic and operational forecasting, weekly, monthly and quarterly reporting, and preparing investment decisions. Periodic reporting is used throughout the group to communicate ongoing opportunities and risks and also to control our company's success. In addition, risks which arise on short notice are communicated directly to the responsible management members, irrespective of the standard reporting channels. We follow the principle that our organizational units are the first link in the chain when it comes to taking responsibility for risks, and these units are responsible for the early identification, control and communication of the respective risks. Risk management officers in our organizational units are responsible for coordinating the respective risk management activities and ensuring that risks are communicated to the next highest level.

Key risks for SMT Scharf AG stem from changes to the underlying legal conditions in the countries in which it operates via its subsidiaries. Controls on the transfer of capital, changes to property rights in equity interests or tax law changes could impact the possibilities to control the SMT Scharf Group's companies in a negative way. A change of government, a change in the ownership of mines or other influences could have a material impact on subsidiaries' earnings. We counter these risks by permanently observing the markets and their underlying political conditions. At present, with the exception of the short-term investment of available funds, SMT Scharf AG does not use any financial instruments; as a result there are no risks from the use of financial instruments.

An overall assessment of our risk position has shown that the existing risks, taking into account the measures taken and planned, do not – either individually or in combination with each other – have any impact on SMT Scharf AG which could endanger our continued existence.

Report on events after the balance sheet date

There were no events of particular importance after the balance sheet date.

In January, SMT Scharf AG resolved to implement an employee equity participation program within the meaning of Section 71 (1) No. 2 of the *Aktiengesetz*. Up to 14,400 shares will be acquired from January to March 2008. The purchases will be published under www.smtscharf.com. The program will be implemented in accordance with Regulation (EC) No. 2273/2003.

Forecast

As the management holding company for the companies in the SMT Scharf Group, the anticipated growth of SMT Scharf AG depends on the subsidiaries' growth. The SMT Scharf Group's continued successful international expansion in 2007 has confirmed our expectations that we will be able to record further increases in investment income and management fees from our subsidiaries in 2008 and the years thereafter.

Hamm, February 1, 2008

(Dr. Trautwein) (Schulze-Buxloh)

Balance sheet as of December 31, 2007

Assets (in EUR)		31.12.2007		31.12.2006
A. Non-current assets				
I. Financial assets		5,610,275.95		3,003,434.10
1. Interests in affiliated companies	5,610,275.95		3,003,434.10	
		5,610,275.95		**3,003,434.10**
B. Current assets				
I. Receivables and other assets		3,050,351.77		108,557.45
1. Receivables from affiliated companies	1,284,750.00		100,000.00	
2. Other current assets	1,765,601.77		8,557.45	
II. Cash and cash equivalents		10,399,775.62		50,023.95
		13,450,127.39		**158,581.40**
C. Accruals		14,588.00		0.00
Total assets		**19,074,991.34**		**3,162,015.50**

Liabilities and shareholders' equity (in EUR)		31.12.2007		31.12.2006
A. Equity				
I. Subscribed capital	4,200,000.00		3,000,000.00	
II. Share premium	10,200,000.00		0.00	
III. Retained earnings (statutory reserve)	1,648.70		1,648.70	
IV. Net retained profit	3,094,449.91		31,325.34	
		17,496,098.61		**3,032,974.04**
B. Provisions				
1. Provisions for taxes	11,000.00		26,000.00	
2. Other provisions	561,500.00		41,000.00	
		572,500.00		**67,000.00**
C. Liabilities				
1. Trade payables	20,004.77		62,041.46	
2. Payables to affiliated companies	968,464.24		0.00	
3. Other liabilities Thereof from taxes 5.882,82 EUR (previous year 0,00 EUR)	17,923.72		0.00	
		1,006,392.73		**62,041.46**
Total liabilities and shareholders' equity		**19,074,991.34**		**3,162,015.50**

Income statement for the period from January 1 to December 31, 2007

In EUR		2007	2006
1.	Other operating income	813,199.90	103,242.33
2.	Personnel expenses		
	a) Wages and salaries	631,622.92	0.00
	b) Social security contributions	6,556.68	0.00
3.	Other operating expenses	1,378,098.58	41,428.58
4.	Investment income Thereof from affiliated companies 3,962,136.23 EUR (previous year 0.00 EUR)	3,962,136.23	0.00
5.	Interest income and similar proceeds Thereof from affiliated companies: 29,562.36 EUR (previous year 0.00 EUR)	288,978.40	281.66
6.	**Profit before tax**	**3,048,036.35**	**62,095.41**
7.	Income taxes	-15,088.22	26,088.22
8.	**Net income**	**3,063,124.57**	**36,007.19**
9.	Profit/loss carried forward	31,325.34	-3,033.15
10.	Additions to statutory reserves	0.00	1,648.70
11.	**Net retained profit**	**3,094,449.91**	**31,325.34**

Notes for fiscal year 2007

These financial statements have been prepared within the meaning of Sections 242 et seq., 264 et seq. of the *Handelsgesetzbuch* (German Commercial Code) and the relevant provisions of the *Aktiengesetz*. The company classifies as a large corporation within the meaning of Section 267 (3) sentence 2 of the *Handelsgesetzbuch*.

The income statement is prepared using the total cost (type of expenditure) method.

Accounting and valuation policies

The following accounting and valuation methods applied for the preparation of the financial statements, as was also the case in the previous year:

Interests in affiliated companies are carried at cost including incidental acquisition costs.

Receivables and other assets are carried at their face values.

There were no receivables and liabilities denominated in foreign currencies on December 31, 2007. Income and expenses in foreign currencies are converted in Euro at the current day's market rate.

Provisions for taxes and other provisions take all uncertain liabilities into account. The amounts allocated to these provisions are determined using prudent commercial judgment.

Liabilities are carried at their repayment amount.

Notes to the balance sheet

Non-current assets exclusively comprise the interests in subsidiaries carried under financial assets (see below). They developed in 2007 and 2006 as follows:

in EUR thousand	gross	net
As of Jan. 1, 2007	3,003	3,003
Additions 2007	2,607	2,607
As of Dec. 31, 2007	5,610	5,610
As of Jan. 1, 2006	0	0
Additions 2006	3,003	3,003
As of Dec. 31, 2006	3,003	3,003

Receivables from affiliated companies comprise current loans (EUR 1,280 thousand) and trade receivables (EUR 5 thousand). Other current assets include tax receivables totaling EUR 1,762 thousand (including EUR 968 thousand VAT). Receivables and other assets all have a residual term of less than one year.

As at December 31, 2007, 4,200,000 ordinary bearer shares of SMT Scharf AG have been issued in the form of no-par value shares with a notional value of EUR 1 per share. All shares have been fully paid in and grant the holders the same rights. The shares from the capital increase executed in 2007 carry full dividend rights for fiscal year 2007. The Managing Board was authorized, by way of a resolution of the General Meeting on February 2, 2007 to increase the share capital with the approval of the Supervisory Board until February 1, 2012 against cash and/or non-cash contributions on one or several occasions by a total of up to EUR 2,100 thousand (Authorized Capital I EUR 1,500 thousand and Authorized Capital II EUR 600 thousand). Shareholders' subscription rights can be excluded for such capital increases.

The share premium at the end of the fiscal year totaled EUR 10,200 thousand. This stems exclusively from the capital increase against cash contributions on April 3, 2007 which formed part of the IPO.

Retained earnings comprise the statutory reserve formed in the previous year totaling 5% of the net income for that period.

SMT Scharf AG's annual financial statements include net retained profits of EUR 3,094 thousand. The Managing and Supervisory Boards will propose to the ordinary General Meeting, which is to be held on April 10, 2008, to pay a dividend of EUR 0.70 per share from these net retained profits for fiscal year 2007. This will result in a distribution of EUR 2,940 thousand, payable in 2008. The remaining amount of EUR 154 thousand will be carried forward to new account.

Other provisions mostly include the provision for bonuses for the fiscal year to be paid in 2008 (EUR 392 thousand).

Payables to affiliated companies comprise ongoing VAT from the group scheme which exists in Germany.

All liabilities are due within one year. There are no liabilities secured by liens.

Notes to the income statement

Other operating income includes EUR 812 thousand from intra-group management fees.

Personnel expenses include salary payments as well as additions to the provision for bonuses for the Managing Board members. The company does not have any other employees.

Other operating expenses mostly comprise the IPO costs (EUR 998 thousand). They also include the auditor's fees for auditing the financial statements (EUR 36 thousand) and other services (EUR 56 thousand) which were recorded as an expense.

Interest income stems from investing liquid funds and from loans that SMT Scharf AG granted to its subsidiaries SMT Scharf GmbH and SMT Scharf Saar GmbH during the course of the year.

Other information

The members of the Supervisory Board of SMT Scharf AG in fiscal year 2007 were:

Dr. Dirk Markus, Feldafing (Chairman)	CEO of Aurelius AG	AURELIUS Beteiligungs AG, Munich, Chairman of the Supervisory Board (to 12/2007) AUR Beteiligungsberatungs AG, Munich, Chairman of the Supervisory Board Compagnie de Gestion et des Prêts S.A., Saran (France), Member of the Board Geyer AG, Nuremberg, Chairman of the Supervisory Board (to 08/2007) Investunity AG, Munich, Chairman of the Supervisory Board, Lotus AG, Feldafing, Chairman of the Supervisory Board Quelle La Source S.A., Saran (France), Member of the Board
Florian Kawohl, Frankfurt am Main, (Deputy Chairman)	Director Research	(no other mandates)
Ulrich Radlmayr, Schondorf a. A.	Lawyer, in addition from January 1, 2008 member of Aurelius AG's Managing Board	AUR Beteiligungsberatungs AG, Munich, Member of the Supervisory Board Geyer AG, Nuremberg, member of the Supervisory Board (to 08/2007) Quelle La Source S.A., Saran (France), Member of the Board

The members of the Supervisory Board receive fixed remuneration of EUR 10 thousand and the Chairman receives EUR 15 thousand for each fiscal year. In addition, their out of pocket expenses are reimbursed. Remuneration was paid for the first time in fiscal year 2007; it is paid on a pro rata basis if members leave the Supervisory Board during the year. As of December 31, 2007, the members of the Supervisory Board did not hold any shares of the Company.

There is no remuneration for former members of the Supervisory Board or their survivors, nor are there any pension obligations for this group of people. There are no advances, loans or contingent liabilities in favor of the members of the Supervisory Board.

The members of the Managing Board of SMT Scharf AG in fiscal year 2007 were:
Dr. Friedrich Trautwein, Cologne (CEO from February 1, 2007),
Heinrich Schulze-Buxloh, Werl (from February 1, 2007).

Dr. Trautwein is Chairman and Mr. Schulze-Buxloh is a member of the Supervisory Board of SMT Scharf Polska Sp. z o. o..

Members of the Managing Board receive remuneration comprising a fixed basic annual salary and an annual performance-related bonus, plus reimbursement of their out-of-pocket expenses. The bonus for a fiscal year is set and becomes due in the following fiscal year in each case; a provision is formed in this regard at the end of the fiscal year. The following remuneration was recognized as an expense for the company and its subsidiaries in fiscal year 2007:

in EUR thousand	Dr. Trautwein	Schulze-Buxloh
Basic remuneration	120	118
Bonus	360	32
Insurance	0	14
Total	480	164

There are pension commitments to Mr. Schulze-Buxloh at one of the subsidiaries totaling EUR 70 thousand from the conversion of salary components for previous fiscal years. There are no share-based payments, no commitments to make payments in the event that the employment relationship ends, and no agreements for compensation in the event of a takeover offer. On December 31, 2007, Dr. Trautwein held 39,400 shares of the company, and Mr. Schulze-Buxloh held 1,000 shares.

There is no remuneration for former members of the Managing Board or their survivors, nor are there any pension obligations for this group of people. There are no advances, loans or contingent liabilities in favor of the members of the Managing Board.

As a listed company, SMT Scharf AG has to issue a declaration within the meaning of Section 161 of the *Aktiengesetz* as to the extent to which it corresponds to the recommendations of the "German Corporate Governance Code Government Commission". The Managing and Supervisory Boards issued this declaration on December 14, 2007. It will be published together with the 2007 annual financial statements and consolidated financial statements, and made available to shareholders at the same time at www.smtscharf.com.

Group companies

SMT Scharf AG, Hamm, is the listed parent company for the companies listed below and prepares consolidated financial statements according to IFRS as these are to be applied in the EU as of December 31, 2007 as well as a group management report for fiscal year 2007. The consolidated financial statements include SMT Scharf AG and the following subsidiaries:

	Interest	Equity Dec.31,2007 in EUR thousand	Net income 2007 in EUR thousand
SMT Scharf GmbH, Hamm, Germany	100 %	4,096	3,980
SMT Scharf Polska Sp. z o. o., Tychy, Poland	100 %	3,315	1,688
SMT Scharf Saar GmbH, Neunkirchen, Germany (before transfer of results)	100 %*	450	0
SMT Scharf Sales and Services GmbH, Hamm, Germany	100 %**	23	-1
SMT Scharf Africa (Pty.) Ltd., Kya Sands, South Africa	100 %**	1	11
SMT Scharf International OU, Tallinn, Estonia	100 %**	274	272
SMT Scharf Mining Machinery (Beijing) Co., Ltd., Beijing, China	100 %**	68	-33

* Of which 5.7% indirectly via SMT Scharf GmbH
** Indirectly via SMT Scharf GmbH

The figures from the annual financial statements of the foreign subsidiaries are translated to Euros at the closing rate (equity) or at the average annual rate of exchange (earnings).

The management report states the participating interests above 10 % in the company that have been communicated to the company according to the *Aktiengesetz* or the *Wertpapierhandelsgesetz*.

Hamm, February 1, 2008

(Dr. Trautwein) (Schulze-Buxloh)

Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the company's financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the company, and the management report includes a fair review of the development and performance of the business and the position of the company, together with a description of the principal opportunities and risks associated with the expected development of the company.

Hamm, February 1, 2008

(Dr. Trautwein) (Schulze-Buxloh)

Auditor’s Report and Opinion on the Annual Financial Statements

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the management report of SMT Scharf AG for the business year from January 1, 2007 to December 31, 2007. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law (and supplementary provisions of the articles of incorporation) are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with Art. 317 HGB (German Commercial Code) and German generally accepted standards for the audit of financial statements promulgated by the IDW (Institute of Public Auditors in Germany). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with German principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

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

Duesseldorf, February 1, 2008

Verhülsdonk & Partner GmbH
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Dr. Michael Hüchtebrock
Auditor

Rainer Grote
Auditor

Declaration by the Managing and Supervisory Boards of SMT Scharf AG for 2007 according to Section 161 *Aktiengesetz* concerning the recommendations of the "German Corporate Governance Code Government Commission" in the versions dated June 12, 2006 and June 14, 2007

The Managing and Supervisory Boards of SMT Scharf AG declare that up to and including today's date they have corresponded to the respective applicable recommendations of the "German Corporate Governance Code Government Commission" in the versions dated June 12, 2006 and June 14, 2007 with the following exceptions:

- The recommendations and suggestions for holding the General Meeting were not applicable in 2007 as the General Meeting in 2007 was held before the company became a listed company.
- The Supervisory Board did not form any committees, as it comprises three members. This number of members appears reasonable given the company's size.
- The company did not prepare a separate remuneration report and a corporate governance report in 2007. The corresponding information was provided in the securities offering prospectus – insofar as this was required by EU prospectus regulation no. 809/2004 dated April 29, 2004.
- The remuneration for the members of the Supervisory Board does not include a performance-related component. This is balanced by the fact that their remuneration is at the lower end of the scale when compared to other companies of a comparable size.
- At present there is no succession planning and no upper age limit for members of the Managing Board. There is also no upper age limit for the members of the Supervisory Board. The contracts with both members of the Managing Board run until the end of the year after next. Not including an upper age limit upholds the German law on equal opportunities.
- To date, members of the Supervisory Board have neither been elected on different dates nor for different periods of office. It is intended to bear this in mind upon future elections for the Supervisory Board.
- The company's D&O insurance policy does not include any agreement on a deductible. A deductible does not appear particularly pertinent to further enhance the management's risk consciousness; in addition, a deductible does not result in a significantly lower premium.
- The interim reports were published within 60 days of the end of the period under review. The company aims to publish these within 45 days.

Hamm, December 14, 2007

(Dr. Markus) (Kawohl) (Radlmayr)

(Dr. Trautwein) (Schulze-Buxloh)

Report of the Supervisory Board for fiscal year 2007

In fiscal year 2007, SMT Scharf AG's Supervisory Board thoroughly performed the tasks required of it by law and the articles of incorporation. It constantly monitored and advised the management. It received regular, up-to-the minute, comprehensive written and verbal reports from the Managing Board on at the direction of SMT Scharf AG and the Group's companies, the company's strategic orientation and its planned acquisitions, as well as the implementation status of the strategy.

In its four ordinary meetings on February 1, April 23, August 2 and October 30, 2007, all of which were attended by all of its members, the Supervisory Board dealt in depth with all issues of relevance for the company. The Supervisory Board held in-depth discussions of ongoing business growth, strategic concepts, short and medium-term company forecasts, capital expenditure forecasts, income and liquidity developments, actual risks and risk management as well as key organizational and staff changes with the Managing Board. The Supervisory Board also dealt thoroughly with corporate governance issues including a review of its own efficiency.

The Supervisory Board received in-depth information on the course of the fiscal year in all of its meetings. Key transactions and the development in financial indicators were also discussed at all of the Supervisory Board meetings. The meeting on February 1, 2007 focused on the annual financial statements and the IFRS consolidated financial statements for fiscal year 2006 together with the associated management reports and on preparations for the company's IPO. The meeting on April 23, 2007 included an in-depth discussion of the subsequent obligations resulting from listing and questions regarding the group's structure. The meeting on August 2, 2007 focused on internationalizing the sales and service activities while the meeting on October 30, 2007 served, in particular, to discuss the company's forecast for 2008.

The Managing Board also informed the Supervisory Board of plans of major importance or particular urgency in between its meetings. If necessary, it also passed resolutions in writing. The approval requirements for certain transactions as defined in the Managing Board's bylaws were upheld. This related, in particular, to staffing issues, issues concerning the group's structure and agreeing the company's forecast. In addition, the Chairman of the Supervisory Board was in regular contact with the Managing Board, in particular the CEO, and discussed strategic issues, business growth, key staff issues and risk management with him. The CEO always informed the Chairman of the Supervisory Board without delay of extraordinary events of key importance in assessing the position and growth of the SMT Scharf Group.

There were no changes to the members of Supervisory Board during the course of fiscal year 2007. There were no committees. In its Meeting on February 1, 2007, the Supervisory Board appointed Mr. Heinrich Schulze-Buxloh as a member of the Managing Board. Dr. Friedrich Trautwein was appointed as CEO on this date.

The members of the Supervisory Board fulfilled and continue to fulfill the independence criteria stipulated by the German Corporate Governance Code. Conflicts of interest within the meaning of the Corporate Governance Code were avoided. The Managing and Supervisory Boards issued a declaration of conformity according to Section 161 of the *Aktiengesetz* (German Public Limited Companies Act) on December 14, 2007. This will be published together with the annual financial report and the group’s annual financial report for fiscal year 2007 and made available to shareholders at www.smtscharf.com.

The annual financial statements and management report as well as the IFRS consolidated financial statements and group management report prepared by the Managing Board for fiscal year 2007 were audited by Verhülsdonk & Partner GmbH, Düsseldorf, and issued with an unqualified auditors' opinion. According to the requirements of the *Gesetz zur Kontrolle und Transparenz im Unternehmensbereich* (German Act on Control and Transparency in Business), the SMT Scharf Group's risk management system was also covered by the audit.

Prior to issuing the mandate to audit the financial statements and consolidated financial statements, the Chairman of the Supervisory Board discussed the focus of the audit, the content of the audit and the costs in detail with the auditor. The auditor reported to the Chairman of the Supervisory Board on the pre-audit results. He also made certain to report immediately on any findings that are material for the Supervisory Board's work that he might become aware of while conducting the audit.

In its meeting on February 28, 2008, also attended by the auditor, the Supervisory Board reviewed the annual financial statements and the management report as well as the IFRS consolidated financial statements and group management report for fiscal year 2007. The audit reports were available to all members of the Supervisory Board in good time prior to its meeting to adopt the financial statements. The auditor reported in depth to the Supervisory Board and was available for extensive questions. After a thorough discussion, the Supervisory Board concurs with the results of the audit of the annual financial statements and the consolidated financial statements by the auditor as a result of its own review. As a final result of its review, the Supervisory Board does not have any objections to the annual financial statements or the consolidated financial statements. The Supervisory Board expressly approves the annual financial statements and management report prepared by the Managing Board for fiscal year 2007. The annual financial statements are thus adopted. The Supervisory Board also approves the IFRS consolidated financial statements and group management report prepared by the Managing Board for fiscal year 2007.

In this meeting, the Supervisory Board also discussed the current situation of hard coal mining in Germany’s Saar region and possible consequences for SMT Scharf Saar GmbH.

The company's Managing Board proposes to distribute a dividend of EUR 0.70 per share from the company's net retained profits totaling EUR 3,094 thousand. This corresponds to a total disbursement of EUR 2,940 thousand. The remaining amount of EUR 154 thousand will be carried forward to new account. The Supervisory Board has reviewed and approved this proposal.

The Supervisory Board would like to thank all members of the Managing Board and all of the employees for their dedication and commitment during the past fiscal year, and wishes them the very best success for the challenges they will face in 2008.

Hamm, February 28, 2008

(Dr. Dirk Markus)
Chairman of the Supervisory Board