

SMT Scharf AG

Annual financial report 2019

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Management report for the 2019 fiscal year

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

- **Business areas:** SMT Scharf’s core product continues to comprise captivated railway systems that are deployed in underground mining. These systems are technically capable of transporting personnel and materials up to 48 tonnes on gradients of up to 35 degrees. As an ancillary product, SMT Scharf offers chairlifts for the mining industry. 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. With the acquisition of the Canadian mining specialist RDH Mining Equipment Ltd., Alban / Canada, SMT Scharf has expanded its portfolio to include rubber-wheeled vehicles, thereby advancing the implementation of its strategy to position itself in the market as an integrated system provider in the underground logistics area. The establishment of the Tunnel Logistics business segment also forms part of this process. This additional pillar promises additional sales potential in the coming years.

With the acquisition of ser elektronik GmbH in April 2019, SMT Scharf has expanded its portfolio to include expertise in the electronics and control systems area. These systems, which are integrated into SMT Scharf’s transport solutions for coal and non-coal mining, are manufactured in-house. In addition, ser elektronik GmbH, Möhnesee, develops customer-specific solutions for various sectors, including the food industry and medical technology. Business outside the scope of underground mining and tunnel logistics is reported within the newly created “Other Industries” segment.

- **Type of business:** The production and installation of new equipment forms the core of the operating activities. SMT Scharf also concentrates on downstream services. The offerings include the provision of spare parts, maintenance, repairs or maintenance work. SMT Scharf occasionally acts as a railway operator in response to customer demand.
- **Customer groups:** SMT Scharf products are deployed mainly in hard coal mining (the Coal Mining segment), as well as increasingly in producing gold, platinum, copper, nickel (hard rock) and salts (aggregated within the Non-Coal Mining segment). In the Tunnel Logistics business segment, companies from the tunnel construction sector represent a relevant customer group. Following the acquisition of ser elektronik last year, companies from various sectors in the “Other Industries” segment also include potential customer groups that require electronic control systems for their machines.
- **Regions:** SMT Scharf sells its own products in its main markets through subsidiaries located in the world’s most important mining nations. These especially include foreign markets in Russia, Poland, China, South Africa and, with the company’s its own sales subsidiary in Chile, increasingly also South America. With the addition of RDH Mining Equipment, SMT Scharf is also concentrating on the North American market. The Group’s new subsidiary ser elektronik also supplies customers in Switzerland, some of which were not previously part of the SMT Scharf Group’s sales regions. The German domestic mining market plays only a minor role nowadays. In smaller markets, SMT Scharf works together with dealers or agents.

The global economy expanded by 2.9 % in 2019, significantly more slowly than in the previous year (3.6 %), according to preliminary estimates from the International Monetary Fund (IMF). Economists attribute the slowdown in economic momentum to trade policy uncertainties, geopolitical tensions as well as idiosyncratic influences in key emerging markets, where they exerted a negative impact on domestic demand. These factors continued to weigh on global economic activity in the second half of 2019, particularly in the manufacturing and retail sectors.

In China, according to the IMF, the slowdown in growth reflected not only escalating tariffs but also the slowdown in domestic demand owing to the necessary debt reduction measures. In Russia, growth weakened tangibly in 2019. According to the IMF, a continuation of the

consolidation of the Russian banking sector is requisite, as well as further structural reforms to boost growth potential. These include measures to foster competition, improve public procurement and reform the labour market. As with Russia, the IMF expects the economy in South Africa to pick up again in the next two years after weaker economic growth in 2019. Due to the unexpectedly significant impact of the strikes and energy supply problems in the mining industry combined with weak agricultural production, South Africa's economy stalled in 2019. Poland continues to rank among Europe's most dynamic markets. In the wake of the global economic slowdown, however, growth in the Polish economy also declined noticeably last year, but remains at a comparatively high level.

China, Russia, Poland and South Africa comprise SMT Scharf's key sales markets. Together, the customers that are situated there regularly account for more than 75 % of Group sales.

GDP growth in the most important sales markets* (in %)	2019	2018
World	2.9	3.6
China	6.1	6.6
Poland**	4.0	5.1
Russia	1.1	2.3
South Africa	0.4	0.8

Sources: * IMF World Economic Outlook, January 2020; **IMF World Economic Outlook, October 2019

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 reported some significant fluctuations in the period under review:

Exchange rate changes in the most important sales markets* (in %)	2019	2018
Yuan Renminbi (China) / Euro	+0.6	+0.5
Zloty (Poland) / Euro	-0.4	+3,0
Rouble (Russia) / Euro	-8.3	+15,0
Rand (South Africa) / Euro	+1.5	+18,0

*Source: European Central Bank, change during the year

While the weakness of the South African Rand against the Euro continued in 2019, the Rouble appreciated against the Euro last year. The Polish Zloty also gained ground against the Euro. Here, the Euro depreciated slightly by -0.4 % last year. At the same time, the European currency gained further purchasing power against China in 2019. The Euro appreciated by 0.6 % against the Chinese Renminbi.

Management and control system

SMT Scharf AG steers its business applying financial and non-financial performance indicators whose trends exert a positive influence on the company's value 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 for the SMT Scharf Group 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. From the perspective of SMT Scharf AG as the management holding company, no specific financial or non-financial performance indicators exist.

Financial performance indicators:

Key indicator	Calculation method	Target (medium-term, 3–5 years)
Key income statement figures		
Consolidated sales revenue growth (organic and inorganic)	$(\text{Group revenue in reporting year} / \text{Group revenue in previous year}) - 1$	>5 %
Tunnel revenue share	$\text{Tunnel segment revenue} / \text{Group revenue}$	>10 %
EBIT margin	$\text{Earnings before interest and tax (EBIT)} / \text{Group revenue}$	>10 %
Cost of materials ratio	$\text{Cost of materials} / \text{total operating revenue}$	~50 %
Key balance sheet indicators		
Net working capital	$\text{Year-average current assets} - \text{Year-average liquid assets} - \text{Year-average current liabilities (excluding current financial liabilities)}$	EUR 20 million
Equity ratio (on reporting date)	$\text{Equity} / \text{total assets}$	>=30 %
Key efficiency figures		
Net working capital intensity	$\text{Net working capital} / \text{Group revenue}$	<50 %
Days of sales outstanding	$\text{Number of days in reporting year} * (\text{Annual average trade receivables} / \text{Group revenue})$	<150 days

Non-financial performance indicators:

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

Supervisory Board:

At the Ordinary Annual General Meeting in May 2019, all items on the agenda were approved by a large majority. The Management and Supervisory boards were discharged for the 2018 financial year by a large majority at the Annual General Meeting. As part of the election of the new Supervisory Board, the Annual General Meeting confirmed Prof. Dr. Louis Velthuis, Dr. Dirk Vorsteher and Ms. Dorothea Gattineau in their positions as members of the current Supervisory Board. Prof. Dr. Louis Velthuis was reappointed Chairman of the Supervisory Board at the constitutive meeting of the Supervisory Board.

Personnel:

SMT Scharf AG does not have its own operating business. It is the management holding company for companies in SMT Scharf Group. In the year under review, the Managing Board of SMT Scharf AG had two members and one Chair. In addition to the two members of the Managing Board, three other employment relationships exist (previous year: 2).

Net assets, results of operations and financial position

Equity and particular legal relationships

On December 31, 2019, 4,570,523 ordinary bearer shares of SMT Scharf AG were issued in the form of no-par value shares with a notional value of EUR 1 per share (previous year: 4,570,523). All shares have been fully paid up and grant the holders the same rights.

The 2018 Annual General Meeting authorised the company, with the approval of the Supervisory Board, to increase the share capital in the period up to May 22, 2023, on one or more occasions by a total of up to EUR 2,310,000.00 by issuing up to 2,310,000 new no-par value bearer shares in return for cash and/or non-cash capital contributions (Authorised Capital 2018). Shareholders' subscription rights can be excluded in this context. At the same time, the company was authorised to purchase treasury shares totalling up to 10 % of the share capital existing at the time of the resolution by the Annual General Meeting.

The 2019 Annual General Meeting cancelled this authorisation, but again authorised the company to purchase treasury shares totalling up to 10 % of the share capital existing at the time of the resolution by the Annual General Meeting. In this context, the resolution of the 2019 Annual General Meeting also extended the term of the authorisation, which is now valid until May 20, 2024.

The company held 49,477 treasury shares on December 31, 2019, 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 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 arise 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 shares 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 Shareholders' General Meeting in the meaning of Sections 133 and 179 of the German Stock Corporation Act (AktG), whereby pursuant to article 17 of the company's articles of incorporation, resolutions by the Shareholders' 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 section 8 of the articles of incorporation, the company's Managing Board comprises one or several members, including in the event that the share capital exceeds EUR 3.0 million, whereby the Supervisory Board determines the number of members of the Managing Board, and can appoint a Chair (CEO) as well as a Deputy Chair (Deputy CEO) of the Managing Board, and also deputy Managing Board members. In all other respects, the statutory regulations apply to the appointment and discharge of Managing Board members. The company has not concluded any key agreements that are subject to the condition of a change in control as a result of an acquisition offer.

Net assets:

The subscribed share capital of SMT Scharf AG amounts to EUR 4,620 thousand. At the end of the reporting period, EUR 49 thousand was attributable to treasury shares, as a consequence of which the amount carried on the balance sheet stood at EUR 4,571 thousand. To this is added the share premium account in an amount of EUR 17,119 thousand. Equity including the net profit for the year as well as treasury shares amounts to EUR 26,632 thousand as of December 31, 2019 (previous year: EUR 22,708 thousand). This corresponds to 75 % of total assets (previous year: 67 %). Assets primarily comprise participating interests in, and receivables due from, companies in the SMT Scharf Group. On the liabilities side, a decrease in liabilities to banks of EUR 2,868 thousand was recorded. These reduced from EUR 8,548 thousand to EUR 5,680 thousand, mainly due to early redemption payments. The decline in other provisions reflects lower personnel provisions owing to the reduction in the number of Management Board members compared with the previous year.

Results of operations:

SMT Scharf AG achieved net income of EUR 3,789 thousand in 2019 (previous year: loss of EUR 1,414 thousand).

Financial position:

Cash and cash equivalents reduced to EUR 111 thousand (previous year: EUR 555 thousand). The company's financial management aims to secure financial flexibility and achieve capital cost optimisation.

Capital expenditure:

As a consequence of the acquisition of a 51 % interest in ser elektronik GmbH, Möhnesee, Germany, on April 3, 2019, and the divestiture of a 30 % interest in SMT Scharf Afrika (Pty.), Germiston, South Africa, at the start of July 2019, as well as loans granted and loan repayments within the SMT Group, financial assets changed from EUR 22.1 million to EUR 20.9 million. With this divestiture, SMT Scharf meets the requirements of Broad-Based Black Economic Empowerment (B-BBEE), with which the South African government aims to promote equal economic opportunities for previously disadvantaged citizens in South Africa.

SMT Scharf's stable asset and financial situation means that it is well positioned to face further challenges in the coming fiscal years.

Corporate governance declaration

Corporate governance declaration pursuant to Section 161 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 "Investor relations" and "Corporate governance".

Working approach of the Managing and Supervisory Boards:

The boards of SMT Scharf AG see their central task as managing the company in a responsible and value-oriented manner. The following principles apply in this regard:

The Supervisory Board has three members. 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 rules of business procedure require prior Supervisory Board approval. The Supervisory Board can implement changes to the articles of incorporation that affect only their wording. The members of the Supervisory Board are obligated 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 its members' professional qualifications and industry background, the Supervisory Board members have various other important areas of expertise. This promotes the diversity of points of view in the internal discussion. 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 %. As the first management level and the Supervisory Board comply with the current quotas, these targets were already achieved when they were set.

In order to ensure the auditor's independence, the Supervisory Board obtains a declaration from the auditor in relation to existing reasons for exclusion or bias. When issuing the audit mandate, it is agreed that the auditor is to inform the Supervisory Board without delay of any possible reasons for exclusion or bias that arise during the audit, about all findings that are material for the Supervisory Board's tasks that arise during the audit, and about all findings that result in the declaration on the German Corporate Governance Code as issued by the Managing and Supervisory boards being incorrect. No such facts or reasons for exclusion or bias were ascertained in the past fiscal year.

In the year under review, the Managing Board of SMT Scharf AG had two members and one Chair. The board has not formed any committees. The Managing Board's members are jointly responsible for managing the company's business, based on rules of business procedure as issued by the Supervisory Board. The Managing Board determines business targets, the company's policy and the Group's organisation. The Managing Board informs the Supervisory Board regularly, promptly and comprehensively about all questions of relevance for the company relating to planning, business development and risk management. Transactions

requiring Supervisory Board approval are submitted in good time to the Supervisory Board. The Managing Board members are obligated to disclose conflicts of interest to the Supervisory Board without delay, and to only assume additional activities, especially supervisory board mandates at companies outside the Group, with Supervisory Board approval. No conflicts of interest existed in relation to the members of the Managing Board of SMT Scharf AG during the past fiscal year.

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 schemes for the Managing and Supervisory boards

The Supervisory Board's remuneration scheme was last supplemented by way of a resolution by the Annual General Meeting on May 23, 2018, based on the articles of incorporation of SMT Scharf AG. The Supervisory Board members receive fixed and variable remuneration for each fiscal year plus reimbursement of their out-of-pocket expenses, as well as meeting fees of EUR 1 thousand per Supervisory Board meeting, with the Supervisory Board Chair receiving twice the meeting fee per meeting. The fixed remuneration totals EUR 18 thousand, and the Chair receives twice this amount. In addition, each member of the Supervisory Board receives variable remuneration in the form of a share in the consolidated net profit, calculated as follows: the annual performance-related remuneration corresponds to an amount calculated by multiplying a bonus factor of 0.4 % (or 0.8 % for the Supervisory Board Chair) by the residual profit. The consolidated net profit of the SMT Scharf Group less interest on equity is regarded as the residual profit, whereby the interest rate corresponds to the applicable base interest rate plus 2 percentage points. The consolidated earnings are determined on the basis of the IFRS consolidated financial statements for the financial year in question, which have been audited by the auditor and approved by the Supervisory Board. If a member of the Supervisory Board can prove on the day before the Annual General Meeting that approves the appropriation of profits that he or she holds shares in the company cumulatively in the amount of one third (the purchase price being the decisive factor to this extent) of the respective fixed remuneration per year of his or her membership in the Supervisory Board, the bonus factor for the (basic) member of the Supervisory Board providing proof of investment increases to 0.8 % and for the Supervisory Board Chair to 1.6 %. The variable remuneration amounts to a maximum of EUR 9 thousand (without personal investment) or EUR 12 thousand (with personal investment) per ordinary member of the Supervisory Board and EUR 18 thousand (without personal investment) or EUR 24 thousand (with personal investment) for the Supervisory Board Chair. Remuneration is paid pro rata if members leave the Supervisory Board during the course of the fiscal year. No emoluments or pension obligations were rendered for former members of the Supervisory Board or their surviving dependents in the year under review.

Decisions concerning the Managing Board's remuneration fall within the Supervisory Board's scope of responsibility. Managing Board members receive remuneration comprising a fixed basic annual salary and a performance-based annual bonus. 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 individual components of the variable remuneration for all members of the Managing Board of SMT Scharf AG arise from the following regulations:

1. Revenue growth: the annual bonus payable of 0.2 % (Theiss) and 0.15 % (Embert) is based on the growth in revenue in accordance with the IFRS consolidated financial statements for the respective fiscal year, as audited by the auditor and approved by the Supervisory Board.

2. Residual profit: bonus payable annually in the amount of 3 % (Theiss) and 2.25 % (Embert) of the reported residual profit. Residual profit is the SMT Scharf Group's consolidated profit excluding OCI (other comprehensive income) less interest payments in relation to equity capital, with the interest rate being set at 1.5 %.
3. Share price performance: this is paid after three years during the five-year appointment period, and after five years. The basis for the bonus is the share price appreciation in the first three or last two years of the appointment period. This is included in the provision as of the fiscal year-end, but has not yet been paid out to the Managing Board members.
4. The members of the Managing Board are entitled to one bonus share for each share that they have acquired by February 28, 2019, and that they have held for at least five years and without interruption until December 31, 2023, albeit at least five years. In accordance with a Supervisory Board resolution, remuneration will be paid in the form of equity instruments and not in cash. The number of shares is limited. The stock market price on the grant date of September 3, 2018 was decisive for the valuation of the additional remuneration. This amounted to EUR 17.50 and remains constant for the period over which the remuneration expense is distributed. The resultant total remuneration expense is distributed pro rata temporis over the period from January 1, 2019 to December 31, 2023. The booking is applied against the capital reserve. The market price on the balance sheet date is EUR 10. The entitlement may vary according to the number of shares held.

The figures in the table for basic salary, additional benefits and part of the performance-based bonus tally in terms of the provisioning and accrual amounts.

The members of the Managing Board are entitled to one bonus share for each share that they have acquired by February 28, 2019 and that they have held for at least five years and without interruption until December 31, 2023, albeit for a period of at least five years. In accordance with a Supervisory Board resolution, remuneration is paid in the form of equity instruments and not in cash. The entitlement is capped. The stock market price on the September 3, 2018 grant date was decisive for the valuation of the additional remuneration. This amounted to EUR 17.50 and remains constant for the period over which the remuneration expense is distributed. The resultant total remuneration expense is distributed pro rata temporis over the period from January 1, 2019 to December 31, 2023. The booking is applied against the capital reserve. The market price of the share on the balance sheet date amounted to EUR 10. The entitlement may vary according to the number of shares held.

Pension obligations exist only for members of the Managing Board arising from the conversion of salary components. 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 remuneration in the event of a takeover bid. The above regulations for the remuneration of members of the Managing Board have been agreed in the corresponding employment contracts.

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

Risk report

SMT Scharf operates a **risk management system (RMS)** that is fully integrated into the company's planning, management and control processes. As a consequence, the RMS forms a central component of value-oriented corporate management, and serves the targeted securing of both existing and future success and profitability potentials. The aims of risk management are

the early identification of opportunities risks in order to launch directly appropriate precautionary and securing measures, which are then monitored constantly.

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 short-term are communicated immediately and by direct routes to those organisational units responsible for the early identification, management and communication of the respective risks. Risk management 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** forms an integral element of risk management at SMT Scharf. The main objective of the ICS is to ensure that all business transactions are accurately reflected in the reporting. This is intended to prevent deviations from internal or external regulations. In terms of external financial accounting and reporting, this primarily entails ensuring financial statements conform to applicable accounting standards. To this end, the internal controlling system and risk management function is organised in line with accounting units. Standard financial accounting regulations 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 installed in the company. This is intended to detect and prevent potential rule violations in good time. 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.

The **primary risks** for SMT Scharf AG relate to changes in the underlying legal framework in the countries where it operates through its subsidiaries. Capital controls, changes in disposal rights for equity interests or tax law can negatively affect the possibility to control the companies in SMT Scharf Group. Changes of government, changes in mine ownership structures or other factors can have a major impact on subsidiaries' earnings. The Managing Board counters these risks by constantly monitoring the markets and their underlying political conditions. SMT Scharf AG currently only deploys financial instruments to invest liquid funds on a short-term basis and to hedge against exchange-rate risks; as a result no material risks from the deployment of financial instruments exist.

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 Excellence" aims to make SMT Scharf even more productive and more competitive overall. These measures place SMT Scharf in a stronger position to benefit from a robust phase in the sector business cycle and from a resumption of the mining industry's willingness to commit to capital investments. SMT Scharf is tapping new markets and customer groups through further developing the company to become a system supplier of logistics solutions in underground mining and for tunnel construction sites. This policy is creating additional potential to generate sales revenues.

Global economic growth

In the medium term, manufacturing industries in emerging economies and industrialised nations will exhibit greater demand for raw materials energy, thereby driving continued economic growth forward. After the end of the last super-cycle and the subsequent trough, commodity prices have now returned to an elevated level, which makes mining more profitable for mine operators. The business growth during the period under review, against the backdrop of the current robust phase in the industry's business cycle, confirms the assessment of the Managing Board of SMT Scharf AG that mining companies will successively make up for postponed or cancelled investments in mining infrastructure. This is evident in the continued upturn in demand for mining equipment, which is expected to lead to further revenue growth for SMT Scharf.

Higher demand in local markets

After the current realignment of China's economy and the continued benign climate in its domestic economy, 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 diminished 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. Around a half of global consumption is attributable to China. 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 % of global energy supplies in 2035, according to estimates.

Rising global demand for raw materials

Following the trough in mining in 2016, mining companies are once again increasingly investing in modern infrastructures. Following weaker global economic growth in 2019, the global economy is expected to pick up again in the short term. In particular, emerging markets are generating rising demand for raw materials. In turn, this is stimulating demand for coal and other raw materials, so that mine operators have incentives to continue to invest more in new equipment.

Trend towards Mining 4.0

Against the backdrop of dynamically advancing digitalisation, operators of mines and production sites worldwide are becoming increasingly interested in innovations in all areas of mining equipment and technology, as well as in optimising the efficiency of their processes and organisational structures. Automation and data management form the focus of the mining companies. One trend in underground mining is the integration of machines into mine operators' networks. Mining companies wish to have information about drivers, oil levels and underground temperatures. Such direct data transfer will help to improve maintenance and work processes in underground mining in the future. SMT Scharf identifies attractive growth prospects in Mining 4.0 thanks to its expertise in electrical engineering, control, measurement technology, electrification and data management.

More complex geological locations of raw materials deposits

In the medium term, mining raw materials deposits worldwide will occur in increasingly inaccessible locations. This gives the mining industry a growing incentive 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-coal mining segment, which is to grow to become a segment equivalent to that of the coal segment in the medium to long term. Deploying rail transportation and logistics systems in platinum, gold and copper mines will increase, and consequently exert a positive effect on the sales revenue contribution from this business. SMT Scharf is moving closer to its customers in this segment by expanding its sales in new global regions such as the Andes, by setting up new subsidiaries, or by expanding its sales network in the African market via local commercial agents. Above and beyond this, salt deposits also offer opportunities to deploy SMT Scharf products.

Attractive growth opportunities in the coming year arise from the takeover of the Canadian company RDH Mining Equipment, which was completed in the fiscal year under review. RHD specialises in 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 revenue and earnings trends in the current fiscal year and in the future.

The investment in ser elektronik, which was completed in 2019, also contributes to the further diversification and development of the business. Firstly, it strengthens the company's expertise in electromobility. In electric vehicles, thanks to ser elektronik's specific expertise, SMT Scharf can also supplement its electronic controls with its own battery management systems tailored to customer requirements. SMT Scharf can thereby offer mining operators optimised batteries, and provide advice on operating concepts for the machines. ser elektronik also implements electronic control systems for industries far removed from mining, such as the food industry. This will generate further growth opportunities for SMT Scharf in the future.

Moreover, the new tunnel logistics segment promises the potential for significant 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 consideration 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

According to the International Monetary Fund (IMF), the global economy will regain momentum in 2020 thanks to improved production activity and more dynamic world trade. Meanwhile, the coronavirus pandemic is developing into a factor for the global economy whose consequences cannot yet be fully assessed. In January 2020, the IMF had forecast growth of 3.3 percent for the current fiscal year. Due to the spread of the coronavirus since the end of 2019, the IMF reduced its global growth expectations by 0.1 percentage points in February 2020. This reduced forecast is based on the assumption that the economic situation in China will normalise in the second quarter and that the impact on the global economy will consequently be relatively minor and of short duration.

In principle, according to the IMF, the shift towards an accommodative monetary policy and the positive news from the negotiations between the USA and China in the trade dispute are contributing to a brightening of market sentiment. At the same time, economists expect an

upward trend in important emerging economies against the backdrop of monetary policy easing. The IMF notes nonetheless that significant downside risks remain which could quickly lead to a deterioration in market sentiment. Risk factors include increasing geopolitical tensions, especially between the USA and Iran, the intensification of social unrest, a further intensification of relations between the USA and its trading partners as well as the deepening of economic tensions between other countries.

Potential direct effects from Brexit, which occurred on January 31, 2020, are not expected. Indirect effects on the world economy from Brexit, trade disputes between the USA and China with possible punitive tariffs, and other exogenous areas of influence are still not anticipated, reflecting their low probabilities.

At the start of 2020, the IMF forecasts the following GDP growth rates in SMT Scharf's target markets:

GDP growth in the most important sales markets for SMT Scharf AG* (in %)	2020e	2019
World	3.3	2.9
China	6.0	6.1
Poland**	3.1	4.0
Russia	1.9	1.1
South Africa	0.8	0.4

Sources: *IMF World Economic Outlook Update, January 2020; **IMF World Economic Outlook, October 2019

SMT Scharf will continue to concentrate on the core markets of China, Russia, Poland and South Africa. In addition, America is also a relevant target market for the SMT Scharf Group as a consequence of its hard rock business. For 2020, the IMF expects that economic growth in not only China but also Poland will slow slightly. In contrast, the Russian economy is expected to pick up tangibly again, with the IMF forecasting growth of 1.9 % for 2020. The economy in South Africa is also expected to recover, with forecast GDP growth of 0.8 %. Expected effects from the coronavirus problem have not yet been reflected in the estimates for the individual markets.

In view of the signals being observed in the market, the Managing Board assumes that, against the background of a robust industry environment, business will continue to develop stably in 2020, although the coronavirus problem will pose significant risks to business figures. In particular, the spread of the coronavirus could have a negative impact on business activities in China and further delay the approval process (China III) that has been ongoing in the Chinese market since last year. SMT Scharf believes that in general the ongoing approval issues in China will continue to affect business during the first half of 2020.

The Managing Board is monitoring developments surrounding the coronavirus very closely and will, if necessary, initiate appropriate continuous measures in the interests of its employees and customers. As of the date of the publication of the report, the Managing Board notes the following:

- As of the end of March 2020, no coronavirus infections have been identified across the entire SMT Scharf Group.
- The SMT Scharf Group's supply chains are not interrupted at present. Slight delays have not yet led to any significant effects.
- All conceivable preventive measures are being implemented within the SMT Scharf Group in order to stem the coronavirus. It goes without saying that SMT Scharf is complying with all official instructions.

- The sites in South Africa and Canada were closed during calendar week 13 in compliance with an official order.
- Between January and the end of March 2020, restrictions to contain coronavirus led to a shutdown of the business operations in China. For this reason, no significant sales revenues are anticipated in China for the first quarter.
- As part of its strategy, SMT Scharf will work intensively over the course of the year to recoup the sales revenues that have been lost as a consequence of the coronavirus pandemic.

For the 2020 fiscal year, the Managing Board of SMT Scharf AG anticipates consolidated revenue in a range between EUR 72 million and EUR 75 million, and EBIT in a range between EUR 5.5 million and EUR 6.0 million. The Managing Board made this Group forecast on the basis of the information available on the date the report was published in March 2020, at which time no specific economic impact on SMT Scharf's figures from the coronavirus pandemic could be quantified. At the same time, the Managing Board believes that increasing signs are emerging that the spread of the coronavirus could exert a significantly negative effect on economic growth in SMT Scharf's target markets as a whole, and on the company's own business activities during the remainder of 2020. Given how dynamically the crisis is unfolding, the Managing Board consequently does not rule out the possibility that the Group forecast will have to be adjusted further over the course of the year to reflect the current rapid and sharply changing economic situation.

This forecast is based on the assumption that positive effects on business in China will emerge from the second half of 2020, when delivery of the newly approved China III machines can likely commence. Irrespective of this, SMT Scharf has expanded its expertise in a targeted manner thanks to the recent acquisitions of the Canadian company RDH Mining Equipment, and of ser elektronik, a specialist in electronic control systems. Consequently, the company sees itself as generally well positioned in this niche market to implement tailor-made transport and logistics solutions for its customers worldwide.

In view of the new approval situation for underground diesel engines in China (China III) and the projects already acquired in this segment, the SMT Scharf Group in cooperation with its principal banks has adequately expanded its financial scope in the form of ongoing funding lines.

The Tunnel segment is still in the phase of being established, so that the company continues to expect that it will not yet deliver any significant revenues in 2020. For this reason, the Managing Board does not anticipate major revenue growth in this segment until the medium to long term.

In terms of the cost of materials ratio (based on total operating revenue), a figure at the previous year's level is anticipated, although it will continue to lie above the medium-term target of 50.0 %. Net working capital for 2020 is expected below the previous year's level, assuming a further slight improvement in net working capital intensity in relation to revenue. Days of sales outstanding in 2020 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 2020. The medium-term target range for the equity ratio between 35 % and 40 % is subject to the background assumption of leveraging further opportunities in the area of external growth over the coming years, and of potentially financing such transactions with debt.

Medium- to long-term, the management expects further improvements in the worldwide market for mining equipment. The trough in mining has been traversed for the time being. In China, in particular, it is becoming apparent that more modern mines are being commissioned, and mine operators are optimising their infrastructures and investing in innovative transport 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 leverage future growth opportunities thanks to its battery and electrical expertise. SMT Scharf's expertise

as an integrated system supplier also enables the Group to retrofit electric vehicles for coal mining purposes.

Commodity production will increase thanks to the long-term sustainable expansion of the global economy. Against the backdrop of increasing trade policy conflicts and a turnaround in international capital flows, economic expansion in emerging markets has recently slowed. In particular, emerging economies such as China or India, where prosperity will continue to grow in the long term, are significantly boosting coal consumption. Between 2000 and 2017, these countries increased their coal consumption by 188 % and 175 % respectively. Worldwide coal consumption grew by 60 % over this period. Global economic growth is leading to a sustained increase in energy demand worldwide. International Energy Agency (IEA) experts forecast a significant expansion by 2040 in the share that renewable energies will contribute to achieve the international climate targets agreed in Paris. At the same time, this will drive demand for economically strategic raw materials such as lithium, cobalt and rare earths, which will boost mining.

Moreover, demand for coal in China remains the greatest by far in terms of absolute figures, although it is also declining further. Coal is expected to account for around 45 % share of China's energy mix by 2040. In order to diversify to a greater extent 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 second and third business pillars in the medium to long term. In 2019, SMT Scharf took a further key step to diversify its business with the acquisition of ser elektronik, thereby systematically expanding its scope of expertise. As part of its corporate strategy, the company will continue to focus in the future on operative excellence, as well as on both external growth and organic growth, in order to further strengthen SMT Scharf's market position.

Hamm, March 30, 2020

The Managing Board

Hans Joachim Theiss

Wolfgang Embert

Balance sheet as of 31/12/2019

Assets (in EUR)	31/12/2019	31/12/2018
A. Non-current assets		
I. Intangible assets	488,488.00	
Advance payments rendered for intangible assets	488,488.00	
II. Property, plant and equipment	20,358.10	5,033.50
Factory and office equipment	20,358.10	5,033.50
III. Financial assets	20,888,073.18	22,109,248.54
1. Interests in affiliated companies	18,043,376.80	19,160,752.08
2. Loans to affiliated companies	1,623,963.39	2,439,820.54
3. Participating interests	508,675.92	508,675.25
4. Other loans	712,057.07	0.00
	21,396,919.28	22,114,282.04
B. Current assets		
I. Receivables and other assets	13,942,147.39	11,084,149.34
1. Receivables due from affiliated companies	13,255,102.41	10,522,882.15
2. Other current assets	687,044.98	561,267.19
II. Cash and cash equivalents	111,338.23	554,681.86
	14,053,485.62	11,638,831.20
C. Prepayments and accrued income	23,846.96	5,970.00
Total assets	35,474,251.86	33,759,083.24

Equity and liabilities (in EUR)	31/12/2019	31/12/2018
A. Equity		
I. Subscribed capital	4,570,523.00	4,570,523.00
Total nominal value	4,620,000.00	4,620,000.00
Nominal value of treasury shares	-49,477.00	-49,477.00
(Conditional capital: 462,000.00; previous year: 462,000.00)		
II. Share premium	17,119,381.86	16,984,646.99
III. Retained earnings	103,093.70	103,093.70
1. Statutory reserve	1,648.70	1,648.70
2. Other retained earnings	101,445.00	101,445.00
IV. Unappropriated net profit	4,838,791.01	1,049,295.34
	26,631,789.57	22,707,559.03
B. Provisions		
1. Pension provisions	189,549.00	256,214.17
2. Tax provisions	186,581.04	72,918.04
3. Other provisions	744,127.40	993,363.17
	1,120,257.44	1,322,495.38
C. Liabilities		
1. Liabilities to banks	5,679,742.05	8,548,360.00
2. Trade payables	686,835.03	151,524.03
3. Liabilities to affiliated companies	587,993.25	321,793.13
4. Other liabilities	767,634.52	707,351.67
of which from tax: 22,996.01 (previous year: 21,561.80)		
	7,722,204.85	9,729,028.83
Total equity and liabilities	35,474,251.86	33,759,083.24

Income statement for the fiscal year from January 1 to December 31, 2019

EUR	2019	2018
1. Revenue	1,226,099.94	1,071,792.11
2. Other operating income of which from currency translation: EUR 45,539.71 (previous year: EUR 39,923.47)	402,084.98	129,583.78
3. Personnel expenses		
a) Wages and salaries	-1,181,571.52	-1,302,551.64
b) Social security contributions of which for pensions: EUR 67,758.88 (previous year: EUR 21,624.00)	-136,405.56	-82,337.10
4. Depreciation and impairment losses applied to property, plant and equipment	-5,996.83	-4,975.93
5. Other operating expenses of which from currency translation: EUR 29,477.00 (previous year: EUR 27,087.86)	-2,780,274.39	-1,569,124.85
6. Income from participating interests of which from associated companies: EUR 1,581,790.28 (previous year: EUR 562,886.46)	1,581,790.28	562,886.46
7. Income from profit transfer agreements of which from associated companies: EUR 4,937,022.90 (previous year: 2,572,992.45)	4,937,022.90	2,572,992.45
8. Expenses from assumption of losses of which from associated companies: EUR 30,327.48 (previous year: EUR 0.00)	-30,327.48	0.00
9. Other interest and similar income of which from associated companies: EUR 248,561.85 (previous year: EUR 266,702.25)	270,770.23	266,702.25
10. Other interest and similar expenses	-260,193.02	-152,858.13
11. Profit before tax	4,022,999.52	1,490,818.40
12. Taxes on income	-232,419.85	-72,918.04
13. Earnings after tax	3,790,579.67	1,417,900.36
14. Other taxes	-1,084.00	-4,697.99
15. Net income for the year	3,789,495.67	1,414,493.37
16. Profit/loss carried forward	1,049,295.34	-365,198.03
17. Unappropriated net profit	4,838,791.01	1,049,295.34

Notes to the financial statements for the 2019 fiscal year

Accounting and valuation policies

These annual financial statements have been prepared pursuant to the relevant regulations contained in Sections 242 et seq., 264 et seq. of the German Commercial Code (HGB). The company is classified as a large corporation pursuant to Section 267 (3) Clause 2 HGB. SMT Scharf AG has its registered offices in Hamm and is entered into the commercial register at the District Court of Hamm under Number HRB 5845.

The income statement is structured according to the nature of expense method.

Measurement is performed on the basis of German commercial law valuation regulations applicable for incorporated firms, taking into account the going concern assumption. The accounting and valuation policies applied to the previous annual financial statements were retained unchanged.

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

The following specific accounting policies are applied:

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

Interests in affiliated companies as well as participating interests are carried at acquisition cost including incidental acquisition costs, or at fair value, whichever is lower. Loans were recognised at the lower of nominal value or fair value.

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

Bank balances are carried at their nominal value.

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

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

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

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

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

Pension provisions were measured in accordance with recognised actuarial principles applying the projected unit credit method and based on the "Richttafeln 2018G" mortality tables. Calculations applied the average market interest rate for the last ten years (the Bundesbank rate of interest), which amounts to 2.71 % per annum as of December 31, 2019, assuming a remaining 15-year term. The calculation imputes a pension increase rate of 1.0 % per annum. The difference pursuant to Section 253 (6) HGB amounts to EUR 16 thousand as of December 31, 2019, which is subject to the block on being paid out as a distribution.

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

Liabilities are recognised at their settlement amount.

Notes to the balance sheet

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

	Purchase costs	01/01/2019	Additions	Disposals	31/12/2019
I. Intangible assets		0.00	488,488.00	0.00	488,488.00
Other equipment, factory and office equipment		29,566.68	21,321.43	0.00	50,888.11
Property, plant and equipment		29,566.68	21,321.43	0.00	50,888.11
1. Interests in affiliated companies		19,241,289.88	578,495.29	1,695,870.57	18,123,914.60
2. Loans to affiliated companies		2,439,820.54	607,871.04	1,423,728.19	1,623,963.39
3. Participating interests		508,675.92	0.00	0.00	508,675.92
4. Other loans		0.00	712,057.07	0.00	712,057.07
III. Financial assets		22,189,786.34	1,898,423.40	3,119,598.76	20,968,610.98
Total		22,219,353.02	1,919,744.83	3,119,598.76	21,507,987.09

	Depreciation, amortisation and impairment losses	01/01/2019	Additions	Disposals	31/12/2019
I. Intangible assets		0.00	0.00	0.00	0.00
Other equipment, factory and office equipment		24,533.18	5,996.83	0.00	30,530.01
Property, plant and equipment		24,533.18	5,996.83	0.00	30,530.01
1. Interests in affiliated companies		80,537.80	0.00	0.00	80,537.80
2. Loans to affiliated companies		0.00	0.00	0.00	0.00
3. Participating interests		0.00	0.00	0.00	0.00
4. Other loans		0.00	0.00	0.00	0.00
III. Financial assets		80,537.80	0.00	0.00	0.00
Total		105,070.98	5,996.83	0.00	111,067.81

Receivables from affiliated companies include, in particular, receivables from loans to SMT Scharf GmbH, from group allocations and receivables from profit and loss transfer agreements with SMT Scharf GmbH. Other assets include VAT receivables of EUR 630 thousand (previous year: EUR 561 thousand).

SMT Scharf AG reports no deferred tax as of December 31, 2019 (previous year: EUR 0 thousand). Deferred tax assets derive almost exclusively from loss carryforwards. Of the existing loss carryforwards (EUR 1,760 thousand or EUR 1,550 thousand for corporation tax or trade tax; previous year: EUR 4,662 thousand and EUR 4,660 thousand respectively), the calculation of deferred taxes includes loss carryforwards that the company expects to utilise in the next five years (EUR 3,311 thousand; previous year: EUR 3,329 thousand). Deferred tax liabilities in the amount of EUR 404 thousand derive primarily from temporary differences from the capitalisation of development costs at the level of the subsidiary SMT Scharf GmbH, Hamm. As in the previous year, measurement was applied at the 32.1 % tax rate for corporation and trade tax valid for the fiscal year under review. The notional resultant tax relief of EUR 143 thousand (previous year: EUR 1,048 thousand) was not capitalised by applying the option available under Section 274 of the German Commercial Code (HGB).

On December 31, 2019, 4,570,523 ordinary bearer shares of SMT Scharf AG were issued in the form of no-par value shares with a notional value of EUR 1 per share (previous year: 4,570,523). All shares have been fully paid up 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 May 22, 2023, by up to EUR 2,310 thousand against cash or non-cash capital contributions (Authorised Capital). Shareholders' subscription rights can be excluded in this context. The Authorised Capital was extended through to May 22, 2023, through a resolution passed by the Annual General Meeting of May 23, 2018. In addition, Conditional Capital 2018 exists up to EUR 462 thousand to issue a further up to 462,000 ordinary shares.

Furthermore, the previous authorisation to purchase and sell treasury shares was revoked and a new authorisation was granted by resolution of the Annual General Meeting on 21 May 2019. The authorisation makes provision whereby the acquisition of treasury shares is limited to 10 % of the share capital existing at the time of the resolution of the Annual General Meeting. The purchase may also be realised using equity derivatives, i.e. call and/or put options. The authorisation is valid until 20 May 2024.

The company held 49,477 treasury shares on December 31, 2019, 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), disclose an unappropriated net profit of EUR 4,839 thousand. The Managing and Supervisory boards will propose to the Ordinary AGM to be held on May 26, 2020, that it carries this unappropriated net profit forward to a new account.

Shareholder structure

A total of 67.18 % of the shares of SMT Scharf AG comprise its free float, according to the Deutsche Börse definition. This includes all interests below 5 % except treasury shares. Based on voting rights notifications submitted to the company pursuant to the German Securities Trading Act (WpHG), the following shareholder structure was derived as of December 31, 2019:

Shareholder pool: Shareholder Value Beteiligungen AG/ Share Value Stiftung/Christiane Weispenning	21.07 %	973,616 shares
Investmentgesellschaft mit variablem Kapital (SICAV)	5.62 %	259,526 shares
Axxion S.A.	5.06 %	233,896 shares
Overseas Asset Management (Cayman), Ltd.	4.88 %	225,301 shares
Wallberg Invest S.A.	2.81 %	130,000 shares
Hauck & Aufhäuser Fund Services S.A.	2.55 %	118,014 shares

The holding of treasury shares amounts to 1.07 % (49,477 shares). As of December 31, 2019, Hans Joachim Theiss, Chairman of the Management Board, held a total of 24,651 shares, while COO Wolfgang Embert held 14,000 shares.

Provisions reported the following changes in the fiscal year:

EUR thousand	Pension provisions	Tax provisions	Other personnel provisions	Miscellaneous other provisions
Balance 01/01/2019	256	73	623	370
Consumption	57	0	452	332
Additions	8	114	325	414
Reversals	18	0	171	33
Balance 31/12/2019	189	187	325	419

With the exception of liabilities to banks, the liabilities' remaining terms are of less than one year. The liabilities to banks have a remaining term of up to six years and have the following terms:

EUR thousand	as of 31 December 2019
up to one year	1,294
from one to five years	4,183
of more than five years	203
Total	5,680

Liabilities to affiliated companies include current VAT from the existing tax unit and the oncharging of overheads, as well as liabilities from the profit and loss transfer agreement with Nowilan GmbH. Other liabilities include the share component from the acquisition price of RDH Mining Equipment Ltd., Alban / Canada. Guarantees and liens on real estate exist.

Notes to the income statement

Revenues of EUR 1,266 thousand arise from Group cost transfers and the oncharging of external consulting costs.

Other operating income mainly includes income from the passing on of other costs to subsidiaries in the amount of EUR 95 thousand and income of EUR 222 thousand from the reversal of provisions.

SMT Scharf AG does not have its own operating business. It is the management holding company for companies in SMT Scharf Group. During the fiscal year under review, the Managing Board of SMT Scharf AG consisted of Mr. Hans Joachim Theiss (Managing Board Chairman / CEO) and Mr. Wolfgang Embert. In addition to the two members of the Managing Board, three other employment relationships exist.

Other disclosures

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

Period from January 1 to December 31, 2019:

Prof. Dr. Louis Velthuis, Mainz (Chairman)	Professor of Controlling at the Johannes Gutenberg University of Mainz, Germany	Intershop Communications AG, member of the Supervisory Board
Dr. Dipl.-Ing. Dirk Vorsteher, Werne (Deputy Chairman)	Management consultant	(no positions held at other companies)
Dipl. Volkswirtin Dorothea Gattineau, Wuppertal	Business executive	(no positions held at other companies)

The Supervisory Board members receive fixed and variable remuneration for each fiscal year plus reimbursement of their out-of-pocket expenses, as well as meeting fees of EUR 1 thousand per Supervisory Board meeting, with the Supervisory Board Chair receiving twice the meeting fee per meeting. The fixed remuneration totals EUR 18 thousand, and the Chair receives twice this amount. In addition, each member of the Supervisory Board receives variable remuneration in the form of a share in the consolidated net profit, calculated as follows: the annual performance-related remuneration corresponds to an amount calculated by multiplying a bonus factor of 0.4 % (or 0.8 % for the Supervisory Board Chair) by the residual profit. The consolidated net income of the SMT Scharf Group less interest on equity is regarded as the residual profit, whereby the interest rate corresponds to the applicable base interest rate plus 2 percentage points. The consolidated net result is determined on the basis of the IFRS consolidated financial statements for the financial year in question, which have been audited by the auditor and approved by the Supervisory Board. If a member of the Supervisory Board can prove on the day before the Annual General Meeting that approves the appropriation of profits that he or she holds shares in the company cumulatively in the amount of one third (the purchase price being the decisive factor to this extent) of the respective fixed remuneration per year of his or her membership in the Supervisory Board, the bonus factor for the (basic) member of the Supervisory Board providing proof of investment increases to 0.8 % and for the Supervisory Board Chair to 1.6 %. The variable remuneration amounts to a maximum of EUR 9 thousand (without personal investment) or EUR 12 thousand (with personal investment) per ordinary member of the Supervisory Board and EUR 18 thousand (without personal investment) or EUR 24 thousand (with personal investment) for the Supervisory Board Chair.

Remuneration is paid pro rata if members leave the Supervisory Board during the course of the fiscal year. The following remuneration was expensed for the 2019 fiscal year:

EUR thousand	Velthuis	Vorsteher	Gattineau
Fixed remuneration	36	18	18
Variable remuneration	24	12	12
Meeting fees	10	5	5
Total	70	35	35

No remuneration exists for former members of the Supervisory Board or their surviving dependents. No advances, loans or contingent liabilities exist in favour of members of the Supervisory Board. Prof. Dr. Louis Velthuis, Chairman of the Supervisory Board, held a total of 4,000 shares (previous year: 1,750 shares) in the company as of December 31, 2019. Dr. Vorsteher 1,600 shares (previous year: 900 shares) and Mrs. Gattineau 910 shares (previous year: 410 shares).

Managing Board

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. In addition, the members of the Management Board are entitled to a certain number of bonus shares if they meet certain conditions. Pension commitments of EUR 187 thousand exist for former Managing Board members. Pension commitments of EUR 3 thousand exist for current Managing Board members. The bonus for a fiscal year is set and becomes due in the following fiscal year in each case; a related provision is formed at the end of the fiscal year.

The following remuneration was recognised in the reporting year:

EUR thousand	Theiss			Embert		
	2019	Min 2019	Max 2019	2019	Min 2019	Max 2019
a) Non-performance-related remuneration	340	340	340	255	255	255
b) Performance-related remuneration 2019	171	0	480	128	0	405
c) Bonus shares	86	86	86	49	49	49
Total remuneration (a+b+c)	597	426	906	432	304	709
Payment from performance-based remuneration 2018	188			123		

The individual components of the variable remuneration for all members of the Managing Board of SMT Scharf AG arise from the following regulations:

1. Revenue growth: the annual bonus payable is based on the growth in revenue in accordance with the IFRS consolidated financial statements for the respective fiscal year, as audited by the auditor and approved by the Supervisory Board.
2. Residual profit: bonus payable annually in the amount of 3 % (Theiss) and 2.25 % (Embert) of the reported residual profit. Residual profit is the SMT Scharf Group's consolidated profit excluding OCI (other comprehensive income) less interest payments in relation to equity capital, with the interest rate being set at 1.5 %.

3. Share price performance: this is paid after three years during the five-year appointment period, and after five years. The basis for the bonus is the share price appreciation in the first three or last two years of the appointment period. As of the fiscal year-end, this is included in the provision, but has not yet been paid out to the Managing Board members.
4. The members of the Managing Board are entitled to one bonus share for each share that they have acquired by February 28, 2019, and that they have held for at least five years and without interruption until December 31, 2023, albeit at least five years. In accordance with a Supervisory Board resolution, remuneration will be paid in the form of equity instruments and not in cash. The number of shares is limited; of Mr. Theiss' share portfolio 24,496 shares are entitled, and of Mr. Embert's share portfolio 14,000 shares. The stock market price on the grant date of September 3, 2018 was decisive for the valuation of the additional remuneration. This amounted to EUR 17.50 and remains constant for the period over which the remuneration expense is distributed. The resultant total remuneration expense of EUR 673,680 is distributed pro rata temporis over the period from January 1, 2019 to December 31, 2023. This led to expenses of EUR 134,735 in fiscal year 2019 (Theiss: EUR 85,735 EUR, Embert EUR 49,000 EUR). The booking is applied against the capital reserve. The market price on the balance sheet date is EUR 10. The entitlement may vary according to the number of shares held.

The figures in the table for basic salary, additional benefits and part of the performance-based bonus tally in terms of the provisioning and accrual amounts. As of December 31, 2019, Hans Joachim Theiss, Management Board Chairman (CEO), held a total of 24,651 shares, and Wolfgang Embert 14,000 shares.

The remuneration of former members of the Managing Board or their surviving dependants includes pensions in the year under review. No advances, loans or contingent liabilities exist in favour of members of the Managing Board.

The company has assumed secondary liability to banks for EUR 14.5 million of its subsidiaries' credit lines. The Managing Board gauges the risk of utilisation as low thanks to the subsidiaries' creditworthiness.

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

	31/12/2019	31/12/2018
up to 1 year	45	55
1 - 5 years	84	72

Information about the independent auditor is presented in the consolidated financial statements of SMT Scharf AG. For this reason, on the basis of the group exempting clause pursuant to Section 285 No. 17 HGB, the company refrains from publishing this information here. The tax consultancy services provided by the auditor are attributable to tax declaration services.

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

	Interest held	Equity (IFRS) 31/12/2018	Profit/loss (IFRS) 2019
SMT Scharf GmbH, Hamm, Germany	100 % ****	28,607,960.95	5,762,484.62
Ser Elektronik GmbH, Möhneseesee, Germany (since April 3, 2019)	51 %	965,063.04	310,846.30
Nowilan GmbH, Dinslaken, Germany	100 % ****	115,760.33	-30,362.75
SMT Scharf Polska Sp. z o. o., Tychy, Poland	100 %	7,963,603.24	1,495,503.21
SMT Scharf Africa (Pty.) Ltd., Germiston, South Africa	70 %	3,135,368.58	592,308.63
SMT Scharf Sudamerica SpA, Santiago, Chile	100 %	-294,185.57	-172,298.77
RDH Mining Equipment, Alban Ontario, Canada	100 %	3,911,753.73	-1,104,323.72
OOO SMT Scharf, Novokuznetsk, Russian Federation	100 % *	9,423,794.86	1,645,722.55
OOO SMT Scharf Service, Novokuznetsk, Russian Federation	100 % ***	288,582.07	116,053.69
Scharf Mining Machinery (Beijing) Co., Ltd., Beijing, China	100 % **	1,922,699.01	-454,150.02
Scharf Mining Machinery (Xuzhou) Ltd, Xuzhou, China	100 %	3,954,480.62	543,975.23

* of which 1.25 % indirectly through SMT Scharf GmbH

** indirectly through SMT Scharf GmbH

*** indirectly through OOO SMT Scharf

**** exemption pursuant to Section 264 (3) HGB

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.

Acquisition of the interest in ser elektronik GmbH

On April 3, 2019, we completed the acquisition of a 51 % interest in ser elektronik GmbH, Möhneseesee. Since then, the company has been included in the consolidated financial statements by way of full consolidation.

With this investment, SMT Scharf is expanding its portfolio to include valuable expertise in the electronics and controls area. The acquisition of ser elektronik helps to reinforce SMT Scharf's in-house expertise in automation, data management and networking, and to align transport systems faster and better to customer requirements in underground mining. The acquisition price amounted to EUR 480 thousand, together with additional acquisition costs of EUR 98 thousand.

Divestiture of a minority interest in SMT Scharf Africa (Pty) Ltd.

At the start of July 2019, we completed the divestiture of a 30 % interest in SMT Scharf Africa (Pty) Ltd., Germiston, South Africa. The company continues to be included in the consolidated financial statements by way of full consolidation due to the majority of voting rights. The shares were sold for proceeds of EUR 1,301 thousand, with a loss on disposal of EUR 395 thousand. The value of the remaining shares is supported by a company valuation (discounted cash flow method), and sufficient distributable profits exist.

With this disposal, SMT Scharf is meeting the requirements of Broad-Based Black Economic Empowerment (B-BBEE), with which the South African government aims to promote equal economic opportunities for previously disadvantaged citizens in South Africa.

Liquidation of the company TOW SMT Scharf Ukraina

For the company TOW SMT Scharf Ukraina, Kiev, Ukraine, an application was made to retire the company from the register after the end of the liquidation period. The Ukrainian authorities have not yet implemented this retirement. As a consequence, the company will no longer form part of the Group in the future.

Pursuant to Section 161 of the German Stock Corporation Act (AktG), SMT Scharf AG is required as a listed public stock corporation to state the extent to which it complies with recommendations of the "German Corporate Governance Code Government Commission". The Managing and Supervisory boards issued this statement on December 9, 2019. It has been made available to shareholders at www.smtscharf.com.

Events after the balance sheet date

Effects of the coronavirus

In the first quarter of 2020, the coronavirus (COVID-19) has been spreading from China to all continents. A further worsening of the situation is expected. As part of its growth strategy, the SMT Scharf Group has a global presence in key mining markets. In China, the company operates production and sales activities and provides individual transport solutions for mining companies in the coal market. The company believes that developments surrounding the coronavirus could impact SMT Scharf's business activities. In particular, the spread of the coronavirus could have a negative impact on business activities in China and further delay the approval process (China III) that has been ongoing in the Chinese market since last year. SMT Scharf believes that China III will continue to affect business there during the first half of 2020. According to the Managing Board's assessment in March 2020, increasing signs are emerging that the spread of the coronavirus could have a significantly negative effect on economic growth in SMT Scharf's target markets as a whole and on the company's own business activities during the remainder of 2020.

Effects of the new approval situation in China on financing

In view of the new approval situation for underground diesel engines in China (China III) and the projects acquired in this segment, the SMT Scharf Group in cooperation with its principal banks has adequately expanded its financial scope in the form of ongoing funding lines.

Hamm, March 30, 2020

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 annual financial statements of SMT Scharf AG as of December 31, 2019, provide a true and fair view of the company's financial position and performance, and the management report for the 2019 fiscal year presents the company'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 the company's anticipated growth and development.

Hamm, March 30, 2020

The Managing Board

Hans Joachim Theiss

Wolfgang Embert

Report of the Supervisory Board for the 2019 fiscal year

In the 2019 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 an ongoing basis. The Supervisory Board received regular, prompt, comprehensive written and oral reports from the Managing Board about the development of the business of SMT Scharf AG and its Group companies, the company's strategic orientation, as well as the 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.

The Supervisory Board convened for five regular meetings on February 7, March 28, May 20, September 24 and on December 9, 2019. The Supervisory Board meeting in September was held at the business premises of ser elektronik GmbH in Möhnese. All of the four other meetings were held at the business premises of SMT Scharf AG in Hamm. All three Supervisory Board members Professor Dr. Louis Velthuis, Dr. Dirk Vorsteher and Dorothea Gattineau attended all meetings. At its meetings, the Supervisory Board concerned itself with all matters of relevance for the company. In advance of such meetings, the Managing Board of SMT Scharf AG regularly informed the Supervisory Board about the SMT Scharf Group's current business position by way of written reports.

Given continuing solid sector business trends, the 2019 reporting year included a particular focus on trends in the core markets and the implementation of the corporate strategy as driven by the Managing Board. In this context, the Supervisory Board noted that the structural programme that has already been initiated in the 2015 fiscal year was successfully continued. SMT Scharf faced challenging market conditions during the 2019 fiscal year, with commodity prices coming under noticeable pressure during the course of 2019. Nevertheless, the Managing and Supervisory boards dealt with the tighter regulation of engines in China, intensively discussing the related effects and measures required. Overall, the Supervisory Board believes that the progress made in recent years puts the company in a good position to grow successfully and profitably even in a challenging market environment.

During the past fiscal year, the Supervisory and Managing boards intensively discussed trends in the Group's core sales markets with the aim of further developing the SMT Scharf Group's structures. For example, the Supervisory Board welcomes the fact that the introduction of a new Enterprise Resource Planning (ERP) system has been successfully initiated, and its implementation within the Group is now to be successively implemented. The Supervisory Board believes that the new ERP system can help to enhance the SMT Scharf Group's international cooperation efficiency and optimise its operating processes. In addition, SMT Scharf has secured access to the valuable expertise of its long-standing business partner by acquiring ser elektronik GmbH, based in Möhnese. SMT Scharf is thereby strengthening its automation and data management capabilities, and creating the preconditions to develop innovative mine modernisation solutions for mining companies.

- At the meeting on February 7, the Managing Board reported on current business trends. In this context, the Managing Board and Supervisory Board discussed the outlook for 2019 and approved the budget for the 2019 fiscal year. The preparation of the upcoming Annual General Meeting was also a major topic. The strategic focus was on the planned investment in ser elektronik GmbH, which specialises in electronic control systems for machines in underground mining, among other products. The Managing and Supervisory boards agreed to remain in an intensive dialogue concerning the possible conclusion of a contract.
- The Supervisory Board held its second meeting in the 2019 fiscal year on March 28. The annual and consolidated financial statements of SMT Scharf AG for fiscal year 2018 were discussed in the presence of Rödl & Partner GmbH Wirtschaftsprüfungsgesellschaft

Steuerberatungsgesellschaft. After extensive discussion, the Supervisory Board approved the separate and consolidated annual financial statements. The Managing and Supervisory boards also concerned themselves with the planning and preparation for the forthcoming Annual General Meeting. After discussion of the draft resolutions, the invitation to the Annual General Meeting was completed on time. The Managing Board then reported on current business performance. Particular attention was paid on this occasion to developments in the personnel area. Moreover, the planned disposal of a 30 percent interest in the wholly-owned subsidiary SMT Scharf Africa (Pty.) Ltd. to AERO AFRICA LEASINGS (Pty.) Ltd. was discussed. This divestiture supports the Managing Board's growth strategy and helps SMT Scharf to reinforce its market position in South Africa. It also corresponds to Broad-Based Black Economic Empowerment (B-BBEE) in this context.

- The meeting on May 20 included a lively discussion concerning AGM agenda items. In particular, topics and questions relating to the preparation of the AGM were discussed. The Managing Board also informed the Supervisory Board about the current business situation. In relation to further personnel development, the participants welcomed the preparation of a master's thesis on ESG reporting. A workshop on the subject of tunnels was also considered in order to discuss in detail further business strategy in this segment.
- For the Supervisory Board meeting on 24 September, the Managing and Supervisory boards met at the business premises of ser elektronik GmbH in Möhnensee. The focus was on the presentation to introduce the newly acquired company, and the effects of new accounting guidelines on the preparation of the financial statements. The Managing and Supervisory Boards also discussed changes to the legal framework in China (China III) and the resulting need to adapt transport systems to local approval requirements. The participants decided to make a final assessment of the impact of tighter regulation in China on 2019 earnings based on a new forecast. Further measures concerning the further integration of RDH Mining Equipment were discussed with the Managing Board, and proposals were discussed to further raise the Canadian engineering company's quality standards in production and technology.
- At the last meeting of the past fiscal year on December 9, the Managing Board informed the Supervisory Board about the current business situation. In this context, strategic and operational topics from the areas of personnel/production, technology/sales and market were discussed in detail. In addition, the Managing and Supervisory boards discussed with Rödl & Partner GmbH Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft the status of the preparation of the annual financial statements and further procedure.

The separate financial statements and separate management report, as well as the IFRS consolidated financial statements and Group management report for the 2019 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 23, 2020, 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 2019 fiscal year. After thorough discussion and based on its own review, the Supervisory Board concurs with the results of the audit of the separate 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 2019 fiscal year on March 30, 2020. 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 2019 fiscal year given the continued challenging market situation, the difficult-to-assess risks arising from the spread of the corona virus, 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 new Managing Board and the employees continuing success in meeting the challenges posed in the new fiscal year.

Hamm, March 30, 2020

Univ.-Prof. Dr. Louis Velthuis

Certificate of the independent auditor

to SMT Scharf AG, Hamm

CERTIFICATE CONCERNING THE AUDIT OF THE SEPARATE ANNUAL FINANCIAL STATEMENTS AND MANAGEMENT REPORT

Short-form audit opinions

We have audited the annual financial statements of SMT Scharf AG, comprising the balance sheet as of December 31, 2019, the income statement for the fiscal year from January 1 to December 31, 2019 and the notes to the financial statements, including the presentation of the accounting policies. We have also audited the management report of SMT Scharf AG for the fiscal year from January 1 to December 31, 2019. In accordance with German statutory regulations, we have not audited the content of the parts of the management report mentioned in the annex.

In our assessment, and based on the knowledge gained from the audit

- the attached annual financial statements comply in all material respects with the German commercial law provisions applicable to corporations and give a true and fair view of the Company's net assets and financial position as of December 31, 2019 and of its results of operations for the fiscal year from 1 January to December 31, 2019 in accordance with German principles of proper accounting, and
- the attached management report provides a suitable understanding of the Company's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and suitably presents the opportunities and risks relating to future developments. Our audit opinion on the management report does not extend to the contents of the components of the management report listed in the annex.

Pursuant to section 322 (3) Clause 1 of the German Commercial Code (HGB), we declare that our audit has not led to any objections to the correctness of the annual financial statements and the management report.

Basis for the audit opinions

We conducted our audit of the annual financial statements and the management report in accordance with Section 317 HGB and the EU Audit Regulation No. 537/2014 and German generally accepted standards for the audit of financial statements as promulgated by the Institute of Public Auditors in Germany (Institut der Wirtschaftsprüfer [IDW]). Our responsibility under these rules and principles is further described in the section "Auditor's responsibility for the audit of the annual financial statements and the management report" of our audit opinion. We are independent of the Company in accordance with European law and German commercial and professional regulations and have fulfilled our other German professional obligations in accordance with these requirements. In addition, we declare pursuant to Article 10 (2) (f) EU Audit Regulation No. 537/2014 that we have not provided any prohibited non-audit services pursuant to Article 5 (1) EU Audit Regulation No. 537/2014. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the annual financial statements and the management report.

Particularly important audit issues in the audit of the annual financial statements

The matters of particular importance in our audit are those matters which, in our dutiful judgement, were most significant in our audit of the financial statements for the fiscal year from January 1 to December 31, 2019. These matters have been considered in connection with our

audit of the annual financial statements as a whole and in the determination of our audit opinion in relation to them; we do not express a separate opinion on these matters.

In our opinion, the matter set out below was the most significant matter arising from our audit.

The retention of the value of interests held in affiliated companies

Reasons for designation as particularly important audit issue. Interests in affiliated companies represent a significant item in the financial statements, amounting to EUR 18.0 million as of December 31, 2019 (as of December 31, 2018: EUR 19.2 million). This corresponds to 51 % of total assets (previous year: 57 %). The legal representatives' assessment of the value of interests in affiliated companies is based primarily on estimates and assessments of the companies' future profitability on the basis of discounted cash flows. In addition, net asset value is also applied as the lower value limit for such assessment. The assessment of the retention of value is particularly discretionary and depends on the legal representatives' estimates and assumptions. Accordingly, a risk exists that value adjustments in relation to interests in affiliate companies may not have been applied in sufficient amounts.

Our approach to the audit

As part of our audit of the financial statements, we reviewed the interests in affiliated companies in a structured sequence. Starting from the overall portfolio, we identified the valuations in a risk analysis. These valuations were subjected to a thorough examination. Our audit procedures included, in particular, an examination of the completeness, accuracy and plausibility of the underlying planning assumptions and the assessment of other estimates made by the legal representatives. We reviewed participating interests that have already been written down in terms of a potential requirement to reverse such write-downs. We compared the procedure with the accounting and valuation policies applied by the Company.

Reference to related information

For the accounting and valuation policies applied, please refer to the notes to the annual financial statements in the section "Accounting and valuation policies". Information about the subsidiaries is provided in the notes to the financial statements, in the section "Information about subsidiaries".

Other information

The legal representatives are responsible for the other information. Other information includes

- the corporate governance declaration,
- the statements in the management report on the legal requirements of Broad-Based Black Economic Empowerment in South Africa (B-BBEE),
- the assurance pursuant to Section 264 (2) Clause 3 HGB relating to the annual financial statements and
- the assurance pursuant to Section 289 (1) Clause 5 HGB relating to the management report.

Our audit opinions on the annual financial statements and the management report do not extend to the other information and, accordingly, we do not express an opinion or any other form of audit conclusion in relation to them. In connection with our audit, we have the responsibility to read the other information and to assess whether the other information is free of material misstatement

- exhibit material discrepancies with the annual financial statements, with the management report or with the knowledge obtained during the audit, or
- appear to be presented incorrectly in some other way.

If, based on the work we performed, we conclude that a material misstatement of such other information exists, we are required to report such a fact. We have nothing to report in this context.

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

The legal representatives are responsible for the preparation of the annual financial statements, which comply in all material respects with German commercial law applicable to corporations, and for ensuring that the annual financial statements give a true and fair view of the Company's net assets, financial position and results of operations in accordance with German generally accepted accounting principles. Furthermore, the legal representatives are responsible for the internal controls that they have deemed necessary in accordance with German generally accepted accounting principles to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, the legal representatives are responsible for assessing the Company's ability to continue as a going concern. They are also responsible for disclosing matters relating to the continuing operation of the entity, if relevant. Moreover, they are responsible for preparing the accounts on the basis of the going concern principle, unless factual or legal circumstances exist that prevent this.

Furthermore, the legal representatives are responsible for the preparation of the management report, which as a whole provides a suitable view of the Company's position and is consistent with the annual financial statements in all material respects, complies with German legal requirements and suitably presents the opportunities and risks pertaining to future development. Moreover, the legal representatives are responsible for the precautions and measures (systems) they have deemed necessary to prepare a management report in accordance with the applicable German legal provisions and to provide sufficient and suitable evidence for the statements in the management report.

The Supervisory Board is responsible for monitoring the Company's financial accounting process for preparing the annual financial statements and the management report.

Auditor's responsibility for the audit of the annual financial statements and management report

Our objective is to obtain reasonable assurance as to whether the annual financial statements as a whole are free of material misstatement, whether intentional or unintentional, and whether the management report as a whole provides a suitable view of the Company's position and is consistent, in all material respects, with the annual financial statements and the findings of our audit, complies with German legal requirements and suitably presents the opportunities and risks of future development, and to express an opinion that includes our audit opinion on the annual financial statements and the management report.

Sufficient assurance is a high level of assurance, but not a guarantee, that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation No. 537/2014 as well as German generally accepted standards for the audit of financial statements as promulgated by the Institut der Wirtschaftsprüfer (IDW) will always reveal a material misstatement. Misstatements can arise from violations or inaccuracies and are regarded as material if it could reasonably be expected that they will individually or collectively influence the financial decisions of users made on the basis of these annual financial statements and the management report.

During the audit, we exercise our professional judgement and maintain a critical attitude. In addition

- we identify and evaluate the risks of material misstatement, whether intentional or unintentional, in the annual financial statements and the management report, plan and perform the audit procedures in response to such risks, and obtain sufficient and appropriate

audit evidence to form the basis of our audit opinions. The risk that material misstatements will not be detected is greater for violations than for inaccuracies, as violations may involve fraudulent collusion, falsification, intentional incompleteness, misrepresentation, or the overriding of internal controls.

- we gain an understanding of the internal control system relevant to the audit of the annual financial statements and the precautions and measures relevant to the audit of the management report in order to plan audit procedures that are appropriate in the circumstances, although not with the aim of expressing an opinion on the effectiveness of such systems.
- we assess the appropriateness of accounting and valuation policies applied by the management and the reasonableness of accounting estimates made by management, and related disclosures.
- we draw conclusions about the appropriateness of the going-concern accounting policy applied by the legal representatives and, on the basis of the audit evidence obtained, whether any material uncertainty exists in connection with events or circumstances that could cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to express an opinion on the related annual financial statements and on the management report or, if the information is inappropriate, to modify our respective audit opinion. We draw our conclusions on the basis of the audit evidence obtained up to the date of our audit opinion. Future events or circumstances can, however, result in the Company no longer being able to continue its business activities.
- we assess the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in such a way that the annual financial statements give a true and fair view of the Company's net assets, financial position and results of operations in accordance with German generally accepted accounting principles.
- we assess the management report's consistency with the annual financial statements, its legal conformity, and the view it conveys of the Company's position.
- we perform audit procedures relating to the forward-looking statements made by management in the management report. On the basis of sufficient and suitable audit evidence, we verify, in particular, the significant assumptions on which the legal representatives' forward-looking statements are based, and assess the proper derivation of the forward-looking statements from such assumptions. We do not express an independent opinion on the forward-looking statements or the underlying assumptions. The significant unavoidable risk exists that future events will differ materially from the forward-looking statements.

Among other matters, we discuss the planned scope and timing of the audit and significant findings of the audit with those individuals responsible for monitoring, including any deficiencies in the internal control system that we identify during our audit.

We make a declaration to those individuals responsible for monitoring that we have complied with the relevant independence requirements and discuss with them all relationships and other matters that are reasonably believed to affect our independence and the safeguards that have been put in place to that effect.

From among the matters discussed with those individuals responsible for monitoring, we identify those matters that were most significant in the audit of the annual financial statements for the current reporting period and are consequently the most important matters for the audit. We describe these matters in the auditor's report unless required to do so by law or other regulations.

