SCHARF

2019

ANNUAL REPORT

SEVEN-YEAR COMPARISON OF KEY FINANCES

		2013	2014	2015	2016	2017	2018	2019
Income statement data								
Revenue	TEUR	63,251	47,820	50,303	42,565	**52,131**	**70,795**	**75,395**
Revenue share from outsite Germany	%	91	87	90	92	**95**	**98**	**97**
Operating output	TEUR	63,263	45,681	50,016	42,241	**53,114**	**71,028**	**74,837**
EBIT	TEUR	6,590	−1,511	2,263	2,473	**4,554**	**5,304**	**6,822**
EBIT margin	%	10.4	−3.3	4.6	5.9	**8.6**	**7.5**	**9.1**
Net income	TEUR	5,537	−1,082	1,472	1,873	**3,982**	**4,633**	**5,739**
Balance sheet data								
Total assets	TEUR	61,097	60,480	58,629	59,412	**72,267**	**83,120**	**95,835**
Equity	TEUR	39,381	36,869	37,025	39,297	**48,709**	**51,533**	**60,577**
Equity ratio	%	64	61	63	66	**67**	**62**	**63**
Cash and cash equivalents	TEUR	10,566	6,647	5,197	6,638	**12,886**	**5,410**	**5,230**
Personnel Data								
Average number of employees		296	284	280	298	**312**	**389**	**427**
Share of employees outside Germany	%	59	63	69	72	**73**	**74**	**70**
Share data								
Earnings per share	EUR	0.77	−0.26	0.36	0.45	**0.94**	**1.01**	**1.20**
Dividend	EUR	0.25	0.00	0.00	0.00	**0.00**	**0.00**	**0,00**

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TO OUR SHAREHOLDERS

LETTER TO THE SHAREHOLDERS

Ladies and gentlemen,
dear shareholders,

In the 2019 fiscal year, SMT Scharf AG continued to implement its growth strategy with consistency, bolstering its market position in key sales markets worldwide, despite the challenging market environment. In the period under review, we increased Group revenue by 6.5 % to EUR 75.4 million. In the Chinese market, despite the new China III approval requirements, some mining companies have opted for transport solutions with China II approval for the time being in order to make full use of their capacities. This gave our revenue and earnings performance an unexpectedly strong boost in the final quarter. Revenue in the new systems business amounted to EUR 36.0 million, while we improved overall revenue in our high-margin service business by 11.9 % to EUR 39.4 million. Furthermore, we grew profitably in 2019, reporting profit from operating activities (EBIT) of EUR 6.8 million, a significant increase on the previous year's EUR 5.3 million. Thanks to the unexpectedly strong business in China in the fourth quarter, we have thereby exceeded both our forecast that we adjusted downwards in the course of 2019 as well as our original forecast for the 2019 fiscal year.

Ongoing market distortions in China caused by the new regulation for engines (China III) meanwhile remain a challenge for the current fiscal year. We expect that the ongoing approval issue in China may still weigh on business in the first half of the year. More stringent regulations along with new licensing requirements are encouraging mining companies in China to replace their machines in order to avoid possible fines. These regulations will be mandatory for mining companies from 2021. For us, the direction of our thrust is clear: as a niche special machinery manufacturer, we are concentrating on the operating business and see great potential here to benefit from the modernisation of Chinese underground mining. Our order books are well filled. Given the aforementioned circumstances, however, we do not expect positive effects on our business until the second half of 2020 at the earliest, when delivery of the newly approved China III machines can likely commence.

Meanwhile, we believe that increasing signs are emerging that the spread of 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. In particular, the spread of the coronavirus could have a negative impact on business activities in China and further delay the approval of China III machines. In this dynamic crisis situation, we are monitoring developments very closely and will make the necessary decisions in the interests of our employees, customers and suppliers. We believe that SMT Scharf is strategically well positioned to navigate the company through these stormy times.

On the whole, SMT Scharf's market environment already proved much more complex last year than in the previous year. Commodity prices have come under tangible pressure, although they remain at an elevated level compared to their trough in 2016. As a consequence, the willingness to invest in mining equipment could diminish in SMT Scharf's key foreign markets. This downward trend could be exacerbated by the corona pandemic. In the medium and long term, we identify attractive growth opportunities in our business segments, driven by global urban development trends, high demand for economically strategic raw materials, and electric mobility. We see a trend towards replacing old mines worldwide with new, increasingly networked mines. As a niche special machinery manufacturer, we have increasingly broadened our range of services in recent years to provide mining companies with individual transport and logistics solutions, and to meet the more demanding requirements. We have long since arrived at the age of Mining 4.0, which is all about increasing efficiency through automation and increased data analysis. Firstly, the conversion to electrically driven machines and the associated improvement of working conditions underground is an issue.

Irrespective of our important coal business, which will remain indispensable for a successful energy revolution in the coming decades, we are increasingly turning our attention to other business areas. We identify further potential in the non-coal business through the expansion of our product range to include rubber-tyred vehicles. In the course of the integration, we identified major structural deficits at the Canadian subsidiary RDH Mining. In our view, considerable efforts are still required to create the conditions for sustained success in this area and to better exploit the existing potential in the market for rubber-tyred vehicles. Moreover, we aim to gain a foothold in tunnelling and other industries – in other words, wherever we can create added value with our customised transport and logistics solutions. In this respect, we took an important step for the future last year with our investment in ser elektronik. This company implements electronic control systems for various industries and has been an important supplier for our company for many years. Although access to the tunnel logistics market has proved difficult to date, we regard this as a business area that offers growth potential in the medium and long term. We will continue to work meticulously to expand and diversify our business – in hard coal mining, hard rock, tunnelling and, in the future, in other industries as well.

We would like to take this opportunity to thank you as an investor, business partner and customer for the trust you have placed in us. Special thanks are also due to our employees for their consistently high level of commitment, which makes a significant contribution to our business performance and success.

Hamm, on March 30, 2020

Kind regards

Hans Joachim Theiss Wolfgang Embert

MEMBERS OF THE MANAGING BOARD

Dipl.-Kfm. Hans Joachim Theiss

Chief Executive Officer

Compliance, Finance & Controlling,
Strategic Corporate Development,
M&A, Investor Relations,
IT and Sales (New Business)

Dipl.-Ing. Wolfgang Embert

Managing Board member

HR, Product Development,
Production Areas, Engineering
and Sales (Order Processing,
Service & After Sales)

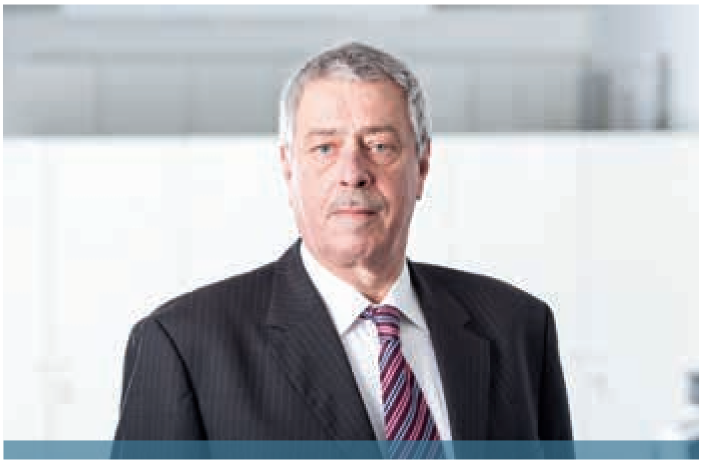
MEMBERS OF THE SUPERVISORY BOARD

Univ.-Prof. Dr. Louis Velthuis

Chairman

Mainz, Chair of Controlling at
Johannes Gutenberg University Mainz

Supervisory Board member at
Intershop Communications AG



Dr. Dipl.-Ing. Dirk Vorsteher

Werne, management consultant

No positions held at other companies

Dipl.-Volkswirtin
Dorothea Gattineau

Wuppertal, business manager

No positions held at other companies

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, up-to-the-minute, 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 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 December 9, 2019. The Supervisory Board meeting in September was held at the business premises of ser elektronik GmbH in Möhnesee. All of the other four 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 current business position of the SMT Scharf Group 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 program already 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 related requisite measures. 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 Möhnesee. 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 developments. In this context, the Managing Board and Supervisory Board discussed the outlook for 2019 and adopted 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. In addition, a discussion was held concerning the planned divestiture of a 30 percent interest in the wholly-owned subsidiary SMT Scharf Africa (Pty.) Ltd. to AERO AFRICA LEASINGS (Pty.) Ltd. 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 Möhnesee. 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, on March 30, 2020

Univ.-Prof. Dr. Louis Velthuis

FOCUS ON TRANSPORTATION SOLUTIONS FOR OUR CUSTOMERS IN MINING AND TUNNEL CONSTRUCTION

As an integrated system supplier, SMT Scharf offers transport solutions for underground mining personnel, equipment and materials. We are a German specialist engineering company at home in our core customers‘ domestic markets. Our products and services are world-class. We are the global market and technology leader in rail systems and chairlifts for underground mining. Our captivated railway systems as well as our other high-performance vehicles are deployed all over the world, primarily in hard coal mines as well as in mines for gold, platinum and other metals.

The technical performance data for our core product, the monorail, are unmatched worldwide. This rail system – which hangs from a single track and is deployed in both coal mines and hard rock mines – is easy to install and can transport loads of up to 48 tonnes on gradients of up to 35 degrees. Trained personnel can set up as such a track network quickly and inexpensively.

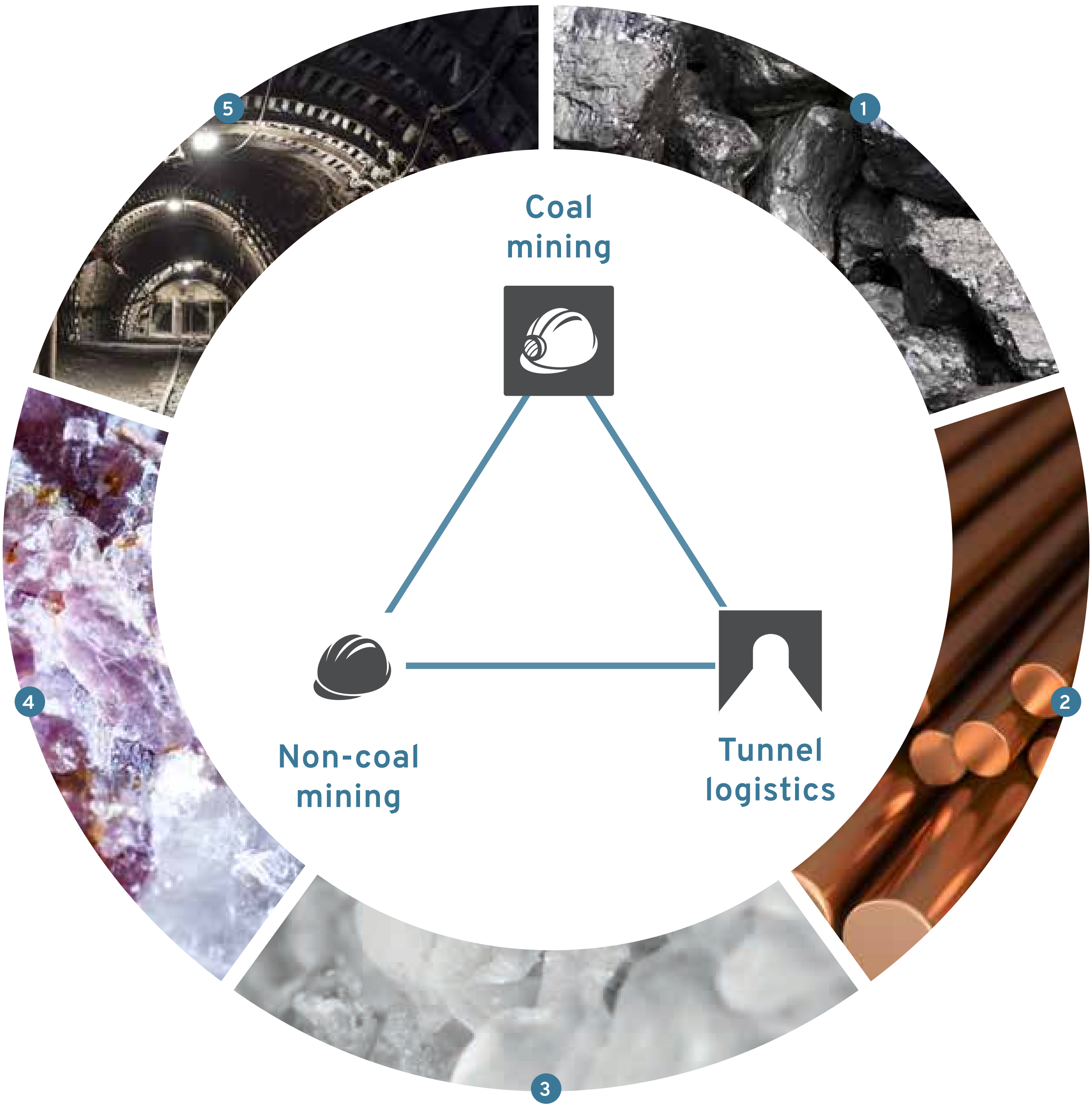
The SMT Scharf Group has its own subsidiaries in leading mining nations worldwide. These include the important foreign markets of China, Russia, Poland and South Africa. We are also expanding our activities in the South American market to include a sales office, and can now respond locally to our customers‘ needs.

SMT Scharf shunting trolley
in use underground

SPECIAL MACHINERY MANUFACTURER WITH GLOBAL PRESENCE

STABLE FOUNDATION AND STRATEGIC FARSIGHTEDNESS

The main segments of SMT Scharf AG



1 coal 2 copper 3 salt 4 lithium 5 hard rock in a tunnel

New SMT Scharf diesel trolley
ready for delivery at the test site

AT HOME IN MANY MARKETS

Coal mining

SMT Scharf continues to sell most of its products to operators of underground hard coal mines worldwide. In longwall mining, materials are mined in horizontal walls of considerable length – SMT Scharf‘s rail transport systems are most frequently deployed here. SMT Scharf has significantly internationalised itself over the past years and focused on major producer countries worldwide. Large emerging economies’ energy demand will still need to be covered by coal for the foreseeable future. Mine operators will continue to require our products over the coming decades as a consequence. Around 97 percent of our revenue today is generated from foreign markets.

The most important European market at present is Poland, which is regarded as particularly attractive given its above-average economic growth on a European comparison, combined with a high longwall share for SMT Scharf. Besides this, the most important markets for our rail systems and services include Russia, where the largest number of installed rail systems is located, and China, which offers the greatest future sales potential thanks to its enormous size. South Africa offers a bridgehead to sub-Saharan Africa. As the market leader for chairlifts in hard rock mining (non-coal mining), SMT Scharf is working to expand its business in Africa. Following the successful conclusion of a partnership agreement with a distributor in Zambia in 2018, a dealer in Ghana will also support local sales efforts from 2020. As a consequence, SMT Scharf is successively widening access to the African market for its product range, which has been expanded to include rubber-tyred vehicles.

Coal will remain an important energy source for the foreseeable future

AT HOME IN MANY MARKETS

Non-coal mining

The production of metals such as gold, platinum, copper, nickel and other raw materials such as salts is aggregated within the „Non-Coal Mining“ segment. Here, too, we deliver exclusively to underground mine operators. As easily tapped deposits in the hard rock mining area are becoming increasingly exhausted, a growing market exists for SMT Scharf products that are deployed underground. In contrast to coal mines, however, no expensive explosion protection is required in the mining of metals, thereby enabling electric locomotives to more easily replace diesel locomotives. Hard rock mining is varied and distributed globally: the world‘s largest platinum deposits are situated in South Africa. Russia is regarded as a leading producer country of nickel. Many copper mines are located in South America‘s Andean states and in Australia. As a consequence, even beyond coal, a number of opportunities exist for our company to expand its business with mine operators: by entering new geographic markets that are less relevant to coal mining, we can reduce our dependence on coal mine operators‘ investment cycles. We aim to grow organically in this area.

Raw materials such as lithium enjoy high demand from new trends such as electromobility

AT HOME IN MANY MARKETS

Tunnel logistics

SMT Scharf is working on expanding its business with tunnel logistics for large-scale construction sites to form a second business pillar, and on offering demand-based solutions based on SMT Scharf technology in this market. Through combining our core competencies, together with our partner we can tap a further business area lying outside our core positioning in mining.

We also aim to further stabilise our sales growth over the coming years and reduce our exposure to business cycles by expanding the tunnel segment. While mine operators – as our customers in both our other segments – depend on the megacycles of raw materials prices, infrastructure demand involving subway tunnels, for example, is independent of such cycles. Here, demand is more strongly driven by global demographic trends and the increasing density of conurbations requiring appropriate solutions. At the same time, many industrialised nations have a great need to renew their infrastructure for optimisation purposes.

Urbanisation and infrastructure development are driving tunnel construction worldwide

AT HOME IN MANY MARKETS

Other industries

With the acquisition of ser elektronik GmbH in April 2019, we have expanded our portfolio to include expertise in the electronics and control systems area. These systems, which are integrated into SMT Scharf‘s transport solutions for both coal and non-coal mining, are manufactured in-house. In addition to customer-specific solutions for transport systems in underground mining, ser elektronik realises electronic control systems for the food industry and in medical technology.

ser elektronik is specialized in electronic controls for machines of different industries

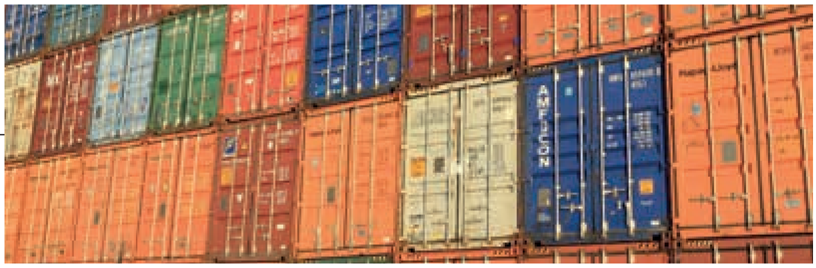
ATTRACTIVE GROWTH OPPORTUNITIES IN UNDERGROUND MINING

Energy revolution

The sustainability issue is becoming increasingly important and, with it, achieving the Paris climate targets. Demand for renewable energies is set to expand fivefold by 2040, according to calculations. This will necessarily entail rising demand for lithium, cobalt and rare earth metals, which will lend a further impetus to mining.

Urban planning trends

Increasing urbanisation requires an expansion of infrastructure networks. More than 30 megacities are currently under construction worldwide. Demand for transport and traffic routes entails not only expanding infrastructure within megacities but also their connections with each other. Tunnel projects are becoming increasingly important in this context. In China and India alone, 65 subway construction projects are currently being planned and implemented.



Global economic growth

The world's economy continues to grow, albeit at a somewhat slower pace recently. This increases demand for energy worldwide. An expansion of around one third is expected by 2030. For this reason, coal will remain an important energy source for the foreseeable future. At the same time, economic growth boosts the production of raw materials. The market value of diesel and electric underground construction vehicles will amount to USD 33 billion by 2023, according to market estimates.

Electromobility

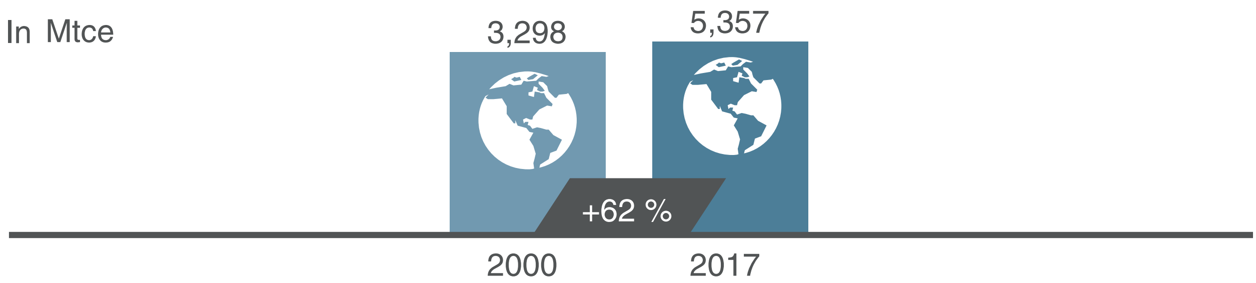
Rising demand for electric vehicles in road traffic is another driver for the mining of economically strategic raw materials such as lithium, cobalt and rare earth metals. Demand for electric vehicles is also increasing in underground mining. In addition to lower emissions, this leads to 15 % lower maintenance and repair costs on average compared with vehicles powered by internal combustion engines.

COAL WILL REMAIN INDISPENSABLE IN THE COMING DECADES

The continuing expansion of the global economy is driving demand for energy, and will make coal an important energy source in the coming decades. SMT Scharf supplies mine operators around the world with modern transport systems for mining hard coal, and also helps to improve working conditions underground.

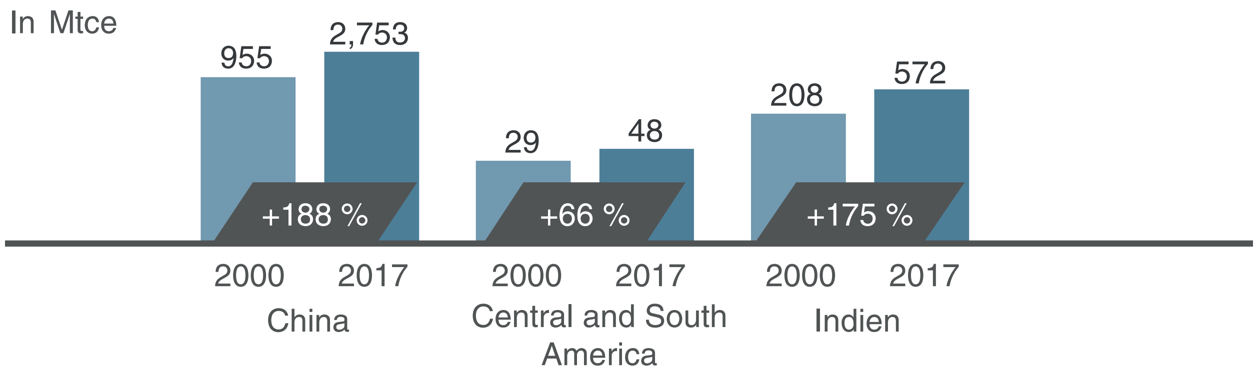
Coal consumption has increased by more than 60 % worldwide in recent years[1]

In the period from 2000 to 2017, annual world coal consumption rose from 3,298 Mtce to 5,357 Mtce, representing an overall increase of 62 percent.



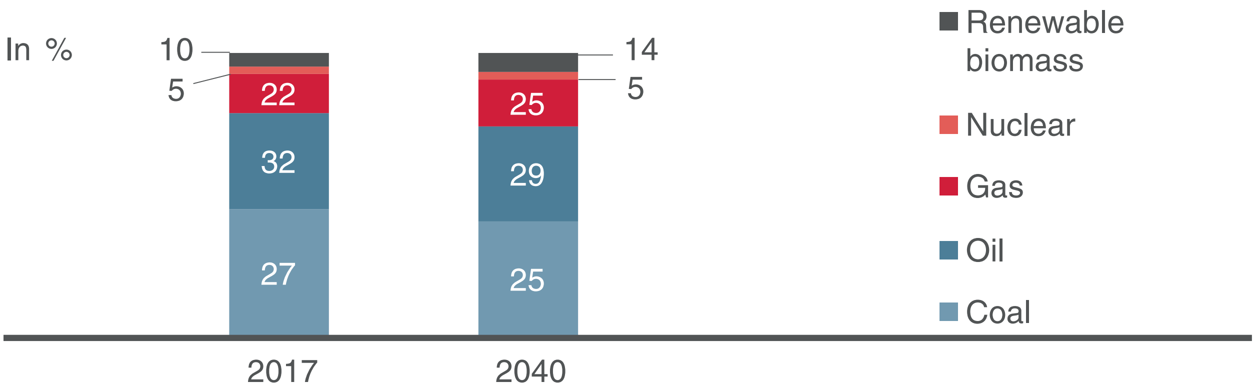
Emerging markets boost coal consumption[1]

Fast-growing emerging economies, in particular, are meeting their growing energy demand with coal. China and India report by far the most dynamic growth in consumption, with increases of 188 and 175 percent respectively between 2000 and 2017. Both countries are investing billions in the coal market. Central and South America are also considered a coal growth market, with consumption increasing by 66 %.



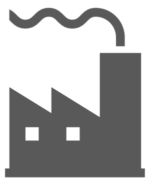
Main scenario IEA: Comparatively high coal consumption expected in 2040[2]

The IEA forecasts that global primary energy demand will rise by 38 % by 2040, compared to 2017. Coal is to cover 25 % of this demand. This would put the relative importance of coal at a similarly high level as in 2017.

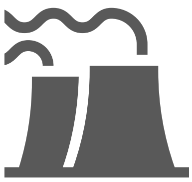


Rising number of coal-fired power plants worldwide

In 2018 alone, 1,400 new coal-fired power plants were under construction or in planning in 59 countries. This corresponds to a capacity of around 670 gigawatts. Considering the operating lifespan of 40 to 50 years, it is clear that coal will remain an important energy source worldwide for decades to come.



1,400 coal power plants in construction or planning



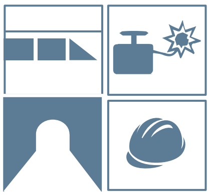
Newly installed capacity of 670 GW expected

Coal power plants with operating lifespans of 40–50 years

MODULAR PRODUCT RANGE FOR CUSTOMISED TRANSPORT SOLUTIONS

Customised transport solutions

As a specialist engineer, SMT Scharf develops transport solutions extending beyond its core product range, thereby meeting its customers' individual needs. In complex requirements and tasks – including special machines – we benefit from our many years of experience and high development expertise. Our international development teams listen constantly to what our customers have to say, and provide mining companies with on-site consulting. Our goal remains to meet customer requirements holistically through our range of products and services and to consistently leverage potentials by developing individual transport options for underground mining.

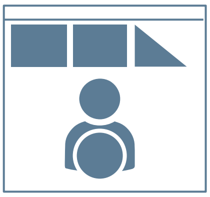


Core competencies

SMT Scharf develops individual transport solutions for its customers, meeting the special requirements of underground mining, such as the requisite explosion protection.

Customer requirements

SMT Scharf's customers require individual transport logistics for their mines. SMT Scharf is present in the most important mining regions and supplies customised solutions.



Product and service offering

With its comprehensive product and service offering, SMT Scharf supports its customers in machine maintenance.

In the BHP project with Sandvik, SMT Scharf is demonstrating that customer-specific requirements are implemented with a perfect fit.

Electric monorail

The EMTS (Electric Monorail Transportation System) was specially developed for the transportation of people and materials in ore mining not at risk of coal mine gas. The EMTS offers a load capacity of up to 30 tonnes and a climbing capacity of up to 30 degrees.

Diesel trolley

SMT Scharf has specially designed monorail hanging railways with diesel-hydraulic drives in order to transport people and materials in branched rail networks with varying gradients. The diesel trolley enables mining companies to tackle difficult transportation tasks underground.

Shunting trolley

The SCHARMAN RK-D-25-XX shunting trolley equipped with a diesel engine meets special underground safety standards. Equipped with friction wheels, it has a climbing capability of up to 25 degrees and features a simple control system.

Rubber-tyred electric vehicles

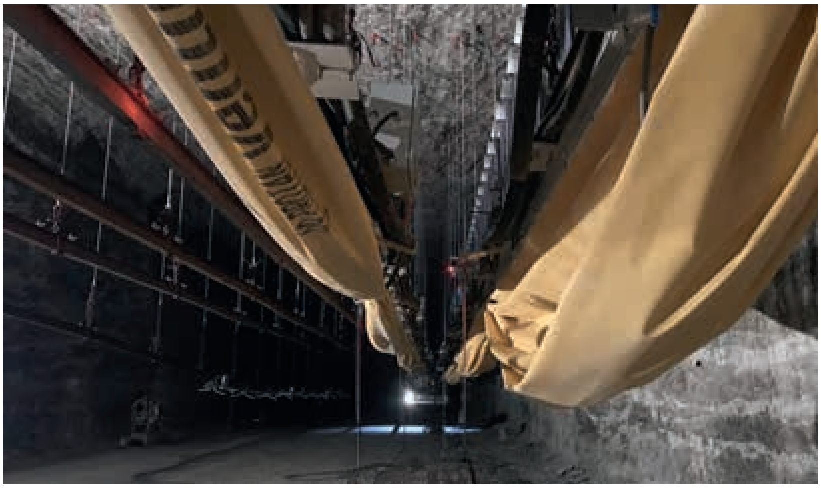
SMT Scharf's product range includes rubber-tyred vehicles with electric drives for drilling and anchoring or for loading and transporting heavy loads in underground mining. Battery-powered, emission-free vehicles are an increasing trend in mining.

Rubber-tyred vehicles

The Group's diverse product range includes RDH's rubber-tyred vehicles for underground mining. These include jumbo drilling rigs, load-haul-dump machines (LHDs), scissor lifts, low loaders and underground trucks.

Light electric mining vehicles

SMT Scharf offers light electric vehicles for underground mining. These are characterised by high energy efficiency, emission-free operation and significantly reduced heat radiation. This helps the mine operator to reduce underground ventilation costs.



Cable management system

SMT Scharf‘s cable and hose handling system is suspended from a sliding rail and permits fast longwall advancing and retreating. The system can be adapted to different cable and hose diameters as well as lengths to suit the individual application requirements.

Chairlift

For the African market, SMT Scharf has developed chairlift systems for safe passenger transport over long distances with horizontal and vertical curves. Depending on transport speed and chair distance, up to 900 individuals can be transported per hour.

Tunnelling vehicles

SMT Scharf monorails are ideally suited for the inspection and maintenance of infrastructures in deep tunnels. Each battery-powered vehicle can carry three people and an additional 300 kilograms of payload. Installed video cameras also make it possible to guide the train unmanned to the deployment site.

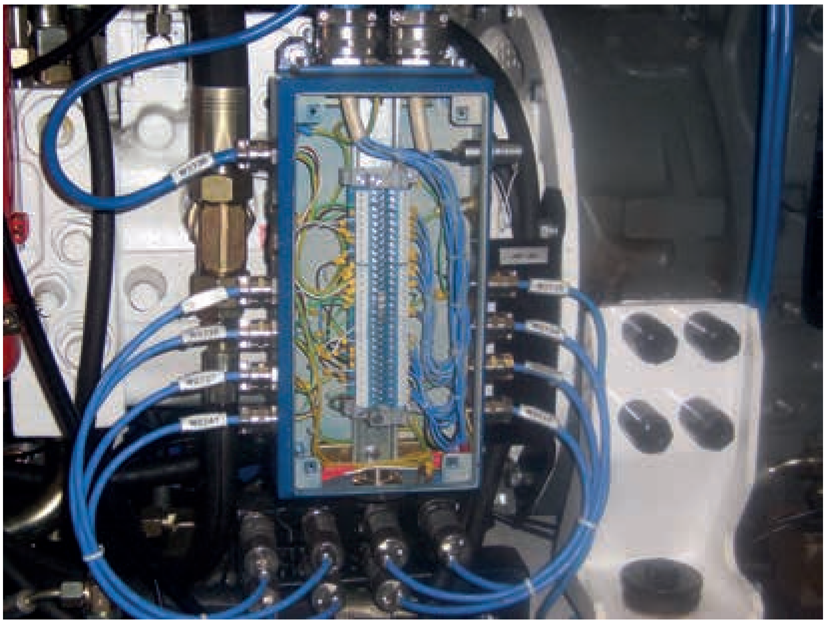
WELL EQUIPPED FOR THE FUTURE

Raw material prices were at an elevated level in 2019, but came under pressure over the course of the year. In addition to the aforementioned future market drivers, we anticipate solid sector business trends despite continued challenging market conditions. In the short term, we see growth opportunities especially in the Chinese market. Given the new regulation for engines in China (China III), Chinese mine operators are being forced to replace machines that fail to comply with the new China III Standard. Our leading market ranking, strategic positioning and innovative strength are enabling us to implement our growth strategy with success. Even with weaker demand for new plants, we see ourselves as well positioned to be profitable with our business. Our strong service and maintenance business helps us in this context.

Thanks to internal strategic measures as well as takeovers and partnerships, we are moving ourselves into a position to benefit from growth opportunities to an above-average extent. With the acquisition of ser elektronik in the past fiscal year, the Managing Board made crucial preparations to promote business growth and development.

In-house Mining 4.0 expertise widened

In April 2019, SMT Scharf AG acquired a 51 percent interest in ser elektronik GmbH, which is based in Möhnesee, and also secured an option to acquire further shares in the company. We have already been working together with this electronics specialist – a developer of customer-specific electronic controls and components – for more than 20 years. Its systems, which are integrated into SMT Scharf‘s transport solutions for both coal and non-coal mining, are manufactured in-house. This acquisition strengthens our range of competencies in the automation and data management areas. In electric vehicles, thanks to ser elektronik‘s specific expertise, we can now supplement our electronic controls with our 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.



VISION:

Expanded product range in underground logistics

Organic growth

We will further expand our second business pillar in the non-coal-mining area, tap new geographic markets and increasingly extend our product range. In the coming years, tunnel logistics will also be established as a third business area.

External growth

In the future too, we will remain actively on the lookout for opportunities to gain access to competences in adjacent business areas – also beyond our core positioning. Basically, both acquisitions and further strategic partnerships are possible in this context.

Operational excellence

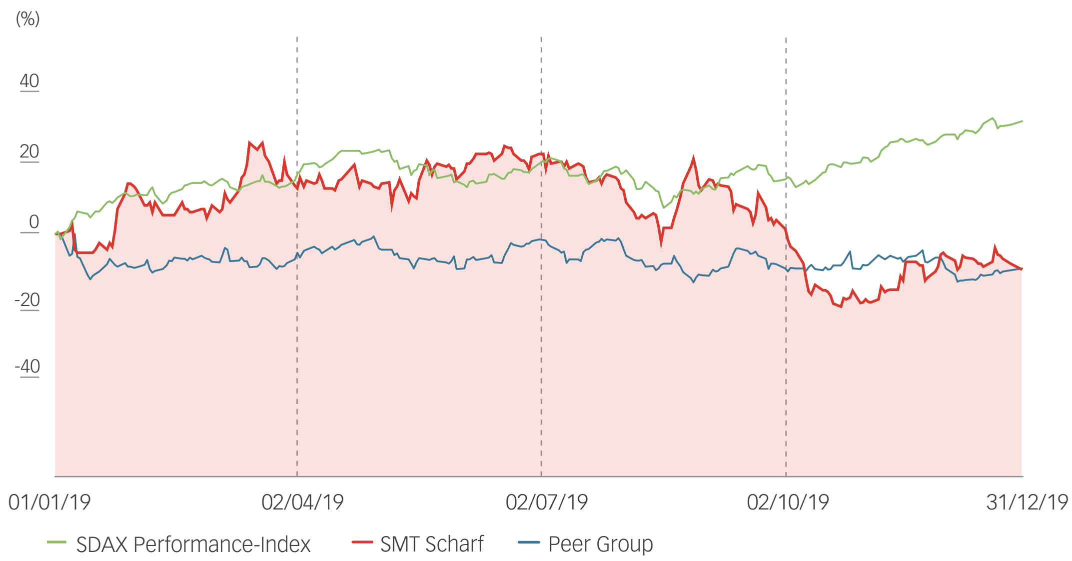
We aim to become even better in operational terms. We identify potential in the interaction of our international locations, in managing the value chain across all functions such as purchasing, development and assembly, as well as through the targeted analysis of specific markets and customer requirements.

Core competences

- Stable core business with sound margins and growth opportunities
- Evolved expertise in machine engineering with maximal customer focus
- Management expertise in the mining industry

INFORMATION ON THE SHARE

Share price performance 2019



Share price performance

The SMT Scharf share started 2019 at a level of EUR 11.80. In the first few months of 2019, the price of the Scharf share initially increased and reached its high for the year of EUR 14.30 on March 20, 2020. The share subsequently recorded an overall downward trend. The share reached its low for the year at EUR 9.08 on October 21, 2019. By the end of the year, the Scharf share had regained some ground and closed the year at a price of EUR 10.00. Compared with the start of 2019, the share depreciated by around 15 %. The peer group (equally weighted portfolio of Epiroc and Famur) underperformed over the same period and recorded a price decline of around 29 %. In contrast, the small cap SDAX index reported a clear upward trend over the course of the year and appreciated by 32 % during the period under review.

Share price data for 2019 (XETRA)	
Closing price 2018	EUR 11.80
High for the year (March 20, 2019)	EUR 14.30
Low for the year (October 21, 2019)	EUR 9.08
Closing price 2019	EUR 10.00

SMT Scharf's share price decreased by 21.0 % since the start of 2020 to EUR 7.90 (basis: Xetra closing prices, as of March 25, 2020).

In 2019, an average of 4,659 shares were traded on the Xetra trading platform of the Frankfurt Stock Exchange, compared with 3,782 shares in 2018.

Key data	
German Securities Identification Code (WKN)	575198
ISIN	DE0005751986
Ticker symbol	S4A
Trading segment	Prime Standard (Regulated Market)
Number of shares	4,620,000 no par bearer shares
Paying agent	Deutsche Bank AG, Taunusanlage 12, 60325 Frankfurt / Main
First listing	April 11, 2007

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 Weispfenning*	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.	3.28 %	118,014 shares

*After reporting date increase to 25.37 % / 1,172,098 shares (status: 05 / 03 / 2020)

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.

Investor relations activities

When the company went public in 2007, SMT Scharf AG opted for the Prime Standard, the most stringently regulated segment of the Deutsche Börse. The company attaches great importance to transparency, openness and reliability in its interaction with all capital market participants. Investors are regularly informed about current business trends through detailed financial information in German and English in the form of quarterly, half-yearly and annual reports as well as through the timely publication of press releases and ad hoc announcements.

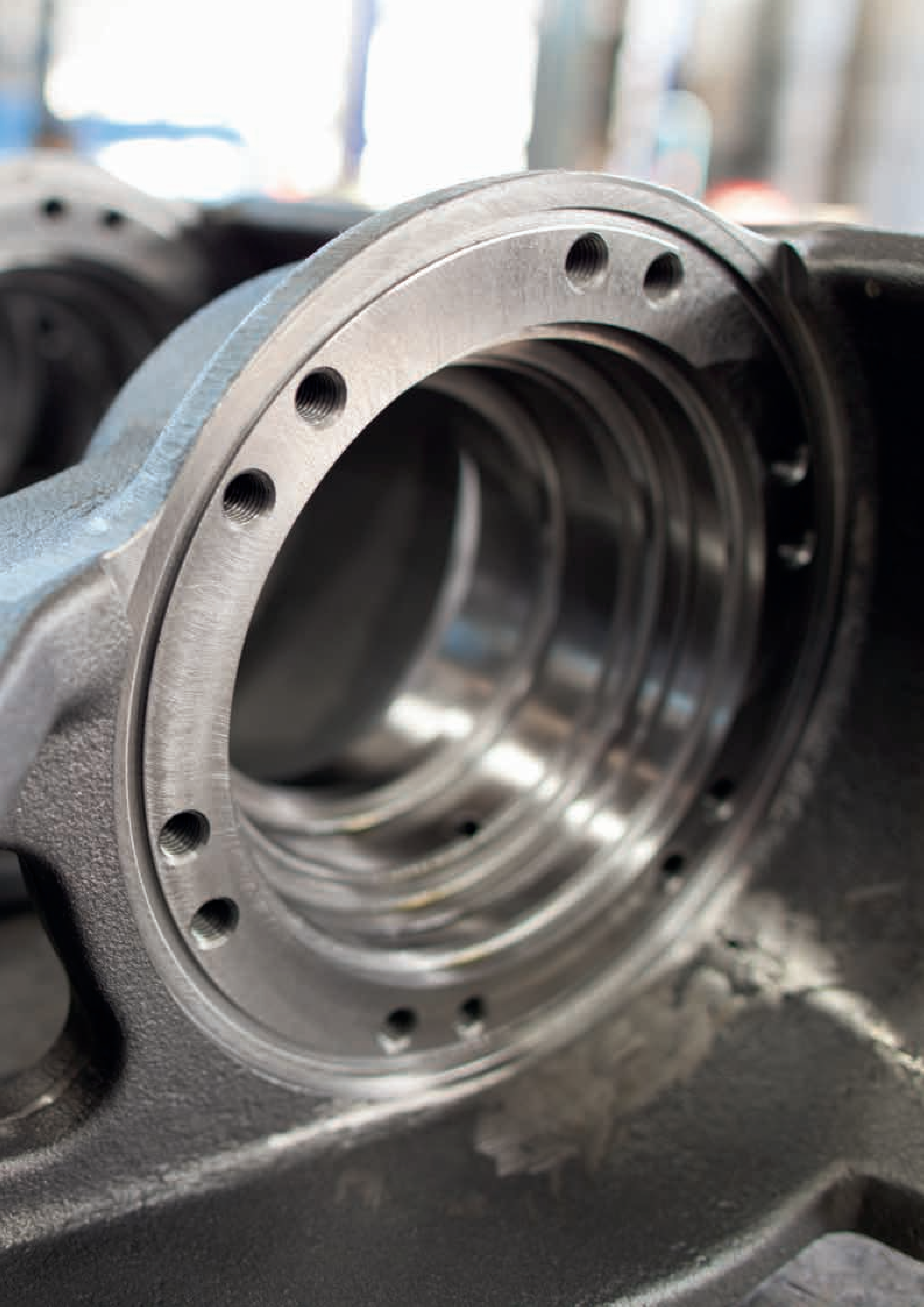
SMT Scharf's CEO participated in several investor conferences in the 2019 fiscal year, including the Equity Forum's spring conference in Frankfurt, the Munich Capital Markets Conference and the German Equity Forum in Frankfurt. At these conferences, questions from institutional investors and analysts were answered in detail in numerous one-on-one meetings and in each case as part of a presentation.

Over the course of the year, the Managing Board also takes the opportunity to report continuously on the development of SMT Scharf AG in discussions with investors, analysts and financial journalists.

Detailed information about the company and its share is available in the investor relations section of the company's website at www.smtscharf.com. It also includes financial reports from previous years, corporate announcements and other publications.

Annual General Meeting

The Ordinary Annual General Meeting of SMT Scharf AG for the 2018 fiscal year was held in Hamm on May 21, 2019. Around 48.56 % of the voting share capital was represented. The AGM approved all agenda items with a large majority, including the discharge of the members of the Managing and Supervisory boards for the 2018 fiscal year and the appointment of the auditor for the 2019 fiscal year. Furthermore, 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. At the constitutive meeting of the Supervisory Board, Prof. Dr. Louis Velthuis was reappointed Chairman of the Supervisory Board. In addition, a resolution was passed on the authorisation to purchase and utilise treasury shares with exclusion of subscription rights and exclusion of shareholders' tender rights. The detailed voting results are available in the investor relations area on the SMT Scharf AG website.



GROUP MANAGEMENT REPORT

GROUP MANAGEMENT REPORT

Basis of the Group

Business model and Group structure

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

Business areas: The SMT Scharf Group’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 45 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 Canadian mining specialist RDH Mining Equipment, Ltd., Alban / Kanada, SMT Scharf has extended 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.

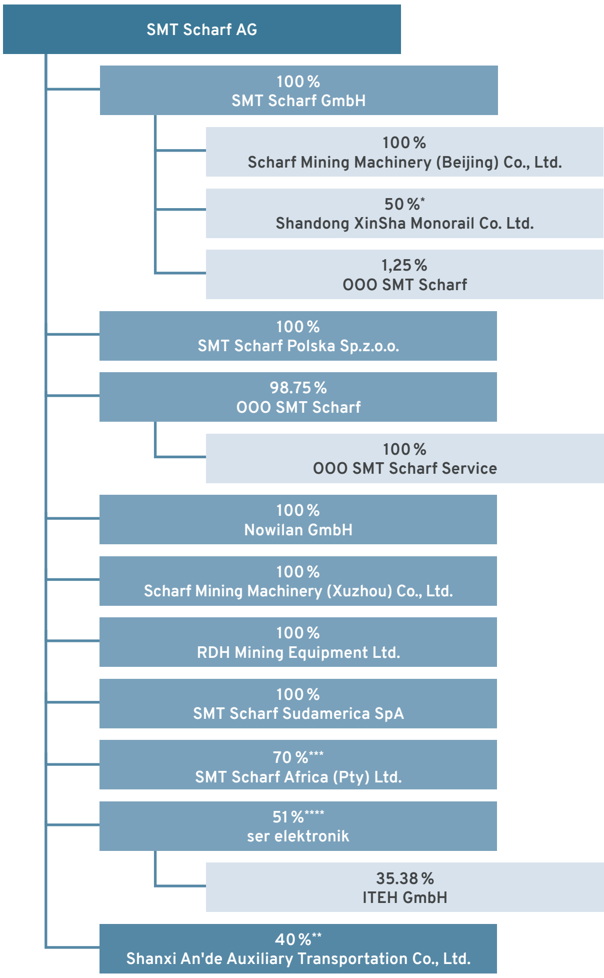
With the acquisition of ser elektronik GmbH, Möhnesee, in April 2019, SMT Scharf has expanded its portfolio to include expertise in the electronics and control systems area. These systems, which are integrated into SMT Scharf’s transport solutions for coal and non-coal mining, are manufactured in-house. In addition, ser elektronik develops customer-specific solutions for various industries, 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 offering includes 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 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.

Ownership interests within the SMT Scharf Group



* further 50 %: Shandong Liye Equipment Co. Ltd.

** a further 51 % held by Shanxi Lu'an Coal Technology Equipment Co., Ltd., and a further 9 % held by Shanxi Lu'an Haitong Industry & Trade Co., Ltd.

*** a further 30 % since August 8, 2019: AERO AFRICA LEASING (Pty.) Ltd.

**** a further 49 % since April 3, 2019: Ferdinand Eickhoff, Möhnesee

Corporate objectives and strategy

SMT Scharf pursues a strategy based on three areas of activity. To this end, the Managing Board team has defined an extensive list of measures that are being consistently addressed and implemented.

The three strategic areas of activity are:

- Organic growth: Development and launch of new products in the area of underground logistics in coal mining and, with increasing importance, in hard rock, development of new geographical markets, and development and establishment of tunnel logistics as a third business area. Furthermore, ser elektronik is responsible for business with electronic control systems and components in the “Other Industries” segment.

- External growth: Takeovers and partnerships aimed at promoting and securing SMT Scharf’s core positioning. Takeovers, strategic partnerships and joint ventures have already been brought to completion and established. This will remain a strategic thrust of SMT Scharf AG.

- Operational excellence: SMT Scharf is constantly working to improve its productivity, profitability and market position. Part of SMT Scharf’s permanent strategy is to leverage optimisation potential more effectively through the interplay of international locations as well as in the management of development processes. The targeted analysis of specific markets and customer requirements helps SMT Scharf further enhance its competitiveness in this context.

The Managing Board team deploys these strategies to advance its measures in order to further develop the company into a system supplier of logistics solutions, while at the same time positioning it in adjacent markets (through the core positioning in the mining supply market). The aim of this approach is to tap additional sales revenue potential and make sales trends less dependent on the traditionally cyclical business in mining, which remains SMT Scharf’s core market.

At the end of 2018, a decision was taken to introduce a uniform Group-wide Enterprise Resource Planning (ERP) system. The implementation of this system is to occur successively during 2020 to 2022, and will contribute to better coordination of process steps, to enhancing the quality of planning, and to further enhancing efficiency in relation to international cooperation within the Group. At the same time, the new ERP system will open up the possibility of identifying and realising optimisation potentials at an early stage in the future.

Management and control system

SMT Scharf AG steers its business by 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 as well as current forward planning are presented in the following tables. The medium-term targets reflect the background assumption that the market environment continues to normalise, especially on the basis of stable or a further uptrend in raw materials prices.

Financial performance indicators:

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

Non-financial performance indicators:

Key indicator	Calculation method	Target (medium-term, 3–5 years)
Employee numbers		
Employee turnover	$\frac{\text{Employee-related leavings (FTEs)}}{\text{annual average number of employees (FTEs)}}$	<10 %
Sickness rate	$\frac{\text{Number of work days lost due to sickness}}{\text{budgeted working days}}$	<5 %

In the year under review, the targets that had been set were improved year-on-year in many key indicators, despite the effects from IFRS 16. Nonetheless, potential for improvement continues to exist in many performance indicators. From the company's perspective, the key financial performance indicators are consolidated revenue growth and the EBIT margin.

Employees

SMT Scharf AG calculates the number of its employees in the form of full-time equivalents (FTEs). As of December 31, 2019, the SMT Scharf Group employed 432 staff (FTEs), including eleven trainees at the Hamm location. The Group had a workforce of 397 FTEs in the previous year (including eight trainees). In order to manage production capacity flexibly, SMT Scharf also draws on short-term and temporary staff in accordance with the three-layer model. In the event of sustainable growth, these temporary workers are then taken on accordingly in the respectively higher layer.

Continued international demand structure for SMT products has led to production capacity being expanded on a targeted basis, along with the workforce in the international companies. Due to the acquisition of ser elektronik GmbH as a further subsidiary with 18 FTEs as of the reporting date, the trend of an increasing number of employees continued. Furthermore, additional qualified staff members were hired in key target markets in the reporting period to enable the expansion of our local technical expertise in terms of service and development, as well as production. In Germany, SMT Scharf further expanded its personnel capacities so that the number of employees as of December 31, 2019 stood at 128 FTEs (previous year: 102 FTEs). Moreover, in order to cover higher demand in production, temporary workers were increasingly hired, particularly in Germany.

SMT Scharf Group employees

	2019	2018
Total employees	432	397
Employees in Germany	128	102
Employees abroad	304	295
Female employees	76	68
Male employees	356	329

The number of employees at foreign locations increased by 9 FTEs to 304 FTEs in the 2019 fiscal year. The proportion of staff employed abroad decreased slightly to 70 % (previous year: 74 %) due to the more pronounced increase in the number of employees in Germany. Outside Germany, the largest rises in staffing levels were in the target markets of Poland (from 52 FTEs to 57 FTEs) and Russia (from 114 FTEs to 120 FTEs). Employee turnover stood at 1.7 % in the year under review (previous year: 1.5 %), in line with the medium-term target of <10 %. In 2019, the workforce sickness rate was 3.9 % (previous year: 3.6 %), which continues to lie below the 5 % target.

Research and development

SMT Scharf continued to push ahead with establishing expertise centres with increasing vertical depth of manufacturing in 2019, particularly in Poland and China. In Russia, too, further endeavours are underway to establish expertise within the country. Here the site was completely restructured and redesigned for production and final assembly, and the facilities for repairs and service were optimised. The creation of synergies through further networking of the locations is a future-related topic for SMT Scharf and is to be additionally advanced by the approved introduction of a uniform ERP system and uniform development systems worldwide.

International project teams within the SMT Scharf Group drive key enhancements and new developments to the existing product range, which is tailored to respective demand in individual markets through targeted customer analysis. The communication of international project teams is facilitated mainly by digital media, as well as through regular personal meetings. At the same time, local production as well as a global supplier network ensures delivery times in line with requirements. Innovative, modular machine design enables flexible configuration options for sophisticated customer specifications while also optimising costs. Series production is benefiting from phased implementation applied to each individual machine model.

The SMT Scharf Group's core competences in tunnelling and the mining of further mineral resources enable new applications to be developed for innovative applications beyond underground coal mining. SMT Scharf is also working intensively on solutions for lower-emission drive systems for underground operation deploying modern engine concepts, including in-house control, through to emission-free drive concepts utilising electro-mobility. According to current estimates, electro-mobility will not replace the combustion engine in the short and medium term, but will play an increasingly important role in our industry, including due to changing legal conditions.

Expenses for research and development amounted to EUR 2.73 million in the 2019 fiscal year (2018: EUR 2.66 million). The share of development costs in overall research and development costs stood at EUR 972 thousand (2018: EUR 632 thousand), while write-downs on capitalised development costs amounted to EUR 294 thousand (2018: EUR 192 thousand) in the reporting period.

Economic and business report

Macroeconomic environment

The global economy grew 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 for SMT Scharf AG**

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 deploying 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 for SMT Scharf AG**

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.

Sector trends

During the period under review, the prices of energy commodities, especially coal and natural gas, decreased across the board. In addition, oil prices also fell in the face of weaker growth prospects, especially in emerging markets. While supply bottlenecks led to a recovery in iron ore and nickel prices, most base metal prices decreased due to continuing trade tensions and fears of a global economic slowdown.

The price of coal, which is relevant for SMT Scharf, recorded a clear downtrend in 2019. After the coal price had hovered around the USD 75 level (based on one tonne of hard coal) at the start of the year, it stood at only around USD 45 (based on one tonne of hard coal) by the end of December 2019. Meanwhile, the S&P GSCI Energy and Metals index, apart from some temporary outliers, rose in 2019 and was up by around 23 % by the end of the year.

In view of the corona pandemic, the IfW Kiel expects negative effects on the global economy in March 2020, with economic losses expected in particular for the emerging markets against the backdrop of sharply reduced commodity prices. Falling commodity prices could therefore burden the willingness to invest in important mining markets in the current fiscal year. In principal, SMT Scharf believes that it is well positioned to continue to benefit from demand for equipment from coal mine operators as well as projects investing in new conveyor systems, including the replacement of existing systems with modern conveyor and transport systems.

According to the Mining Association of the German Engineering Federation (VDMA), German mining machinery manufacturers are set to continue the growth trend they reported last year. For example, the VDMA expects that mining suppliers will increase their sales revenues by a significant rate of 38 percent to just under EUR 5 billion in 2019. The respective companies now generate around 98 % of their sales abroad. As a consequence, for the time being the industry is anticipated to have traversed its cyclical low point, which lasted from 2013 to 2017, and successfully handled the structural change required by the discontinuation of domestic hard coal production.

The OECD expects global demand for raw materials to almost double by 2060, which should exert a sustained positive impact on the mining supply industry's business. The VDMA expects higher demand especially from companies focusing on the extraction of raw materials utilised in alternative forms of energy generation. Lithium for batteries and accumulators as well as copper for use in electrical conduction and heat exchanger, for example, are among the raw materials in demand.

According to SMT Scharf's assessment, positive growth prospects also exist in the Tunnel segment: for example, the International Tunnelling and Underground Space Association (ITA) is retaining its positive forecast for the coming years. Accordingly, the worldwide tunnel construction market amounts to around EUR 86 billion per year (as of 2016), which corresponds to an increase of 23 % compared to 2013. Since 2013, an average of 5,200 km of tunnels have been built per year worldwide. The Asian market is reporting the fastest growth due to increasing urbanisation. The ITA predicts that China, for instance, with annual economic output worth EUR 37 billion, will represent around 50 % of the tunnel construction market in the next decade. Other growth regions include Southeast Asia and the Middle East. The study indicates that the European market is developing steadily at rates of between EUR 10 million and EUR 12 million per year. Strong demand is further fuelled by ongoing development in many cities and the linking of urban centres.

SMT Scharf supports a business model based on several pillars through its diversification by product, region, customer group and regional market. This approach serves to mitigate the impact of the coal mining business cycle on SMT Scharf's business development.

Business trends

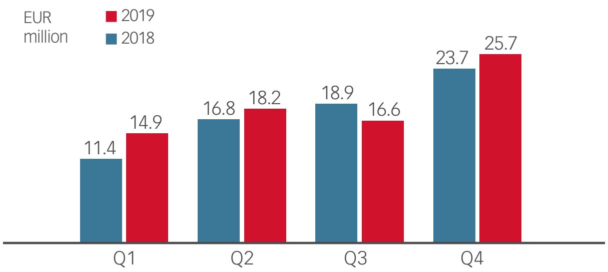
SMT Scharf AG reported a significant increase of 6.5 % in its consolidated revenue in the 2019 fiscal year to reach EUR 75.4 million (2018: EUR 70.8 million). Against the backdrop of a robust market environment, companies in the underground mining industry continue to invest in modern plant and equipment. In particular, the dynamic revenue growth in China was the key factor for this growth, where SMT Scharf also successfully processed additional orders in the final quarter of 2019, contrary to expectations. In order to make full use of their capacities, some mining companies have decided to use transport solutions with China II approval for the time being. This gave an unexpected boost to the revenue and earnings trends at the end of the year. The company ser elektronik, which was added in the year under review, contributed EUR 2.1 million to consolidated revenue.

Moreover, SMT Scharf significantly increased its operating result (EBIT) to more than EUR 6.0 million (2018: EUR 5.3 million). The high-margin after-sales business, which increased during the period under review, had a particularly positive effect on the operating result. By contrast, the capitalisation of development costs amounting to EUR 972 thousand also contributed to the increase in EBIT. As a consequence, SMT Scharf thereby exceeded its forecast for the 2019 fiscal year, which it had adjusted downwards in October. Accordingly, the Managing Board had most recently forecast consolidated revenue of EUR 65 million to EUR 67 million (originally EUR 72 million to EUR 75 million), with EBIT in a range between EUR 4.5 million and EUR 5.0 million (originally EUR 5.5 million to EUR 6.0 million).

With the exception of Africa, revenue volumes increased in SMT Scharf's important core markets. As a consequence, this applies above all to coal mining, where the company benefits from its coal logistics facilities, which have been successfully established on the market. Especially in the coal market, where SMT Scharf implements customised transport solutions with explosion protection for its customers, this creates close customer relationships with mine operators. These customers utilise SMT Scharf's expertise to service their machines, which has a positive impact on spare parts and service business.

The trend of steady revenue growth, which had temporarily weakened in the third quarter, peaked in the final quarter of 2019, largely thanks to the strong year-end business in China. SMT Scharf recorded revenues of EUR 25.7 million in the fourth quarter, up 8.4 % year-on-year (Q4 / 2018: EUR 23.7 million).

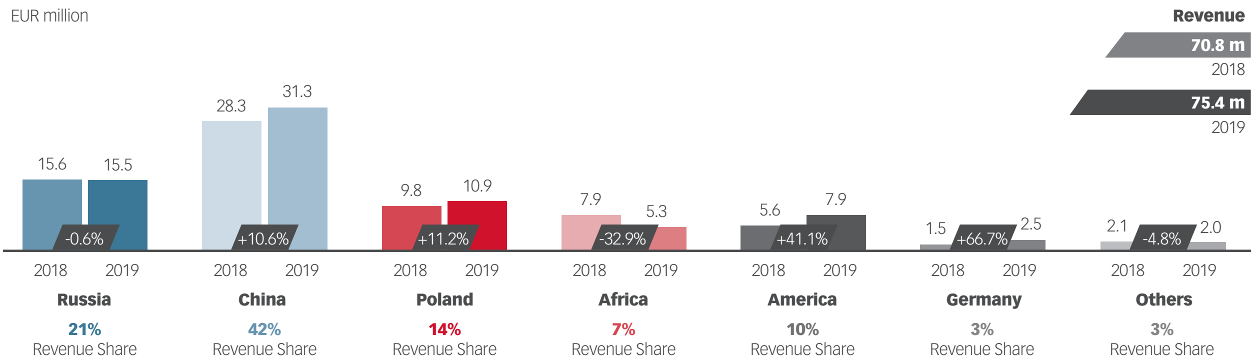
Quarter-by-quarter Group revenue



SMT Scharf generated almost 97 % of its revenue abroad in the reporting year (2018: 98 %). China underscored its continued significant role as the most important market with a share of 41.5 %, equivalent to EUR 31.3 million (2018: 40.0 % or EUR 28.3 million). The local mining industry in China continued to show strong demand for modern mining equipment, although current market estimates suggest that growth in the Chinese economy will slow slightly again in 2019.

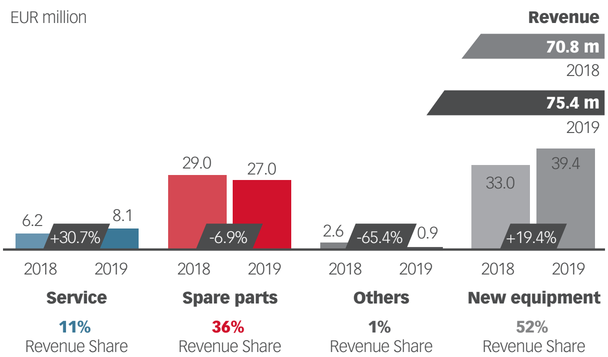
Russia (and CIS) follows as the second most important market with a share of 20.6 %, equivalent to EUR 15.5 million (2018: 22.0 % or EUR 15.6 million). Poland, which continues to be one of the countries in the Eurozone with above-average economic growth, also remains a key market for SMT Scharf. With a revenue share of 14.5 % and revenue of EUR 10.9 million (2018: 13.8 % and EUR 9.8 million, respectively), the business volume grew tangibly compared to the previous year. In fourth place now follows the American market, where the SMT Scharf Group is primarily active in the hard rock market, and with its portfolio of rubber-tyred vehicles for underground mining. Here, the Group generated revenue of EUR 7.9 million, with the American market thereby contributing 10.5 % of the Group's total revenue (2018: 7.9 % or EUR 5.6 million). The revenue remaining in Germany increased to EUR 2.5 million or 3.3 % (2018: 2.1 % or EUR 1.5 million). The reason for this is the contribution to revenue made by ser elektronik, a newly acquired company based in Germany.

Revenue by region

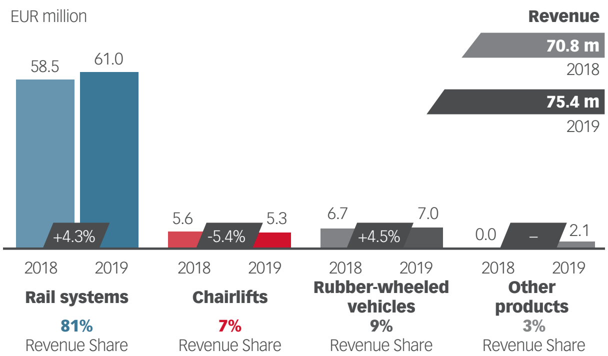


SMT Scharf further increased its revenues in its business with new systems in 2019. Against the backdrop of the challenging and at the same time highly competitive industry environment, the share of revenue of 52.3 % was above the 50 percent mark compared to the previous year (2018: 50.3 %). The share of spare parts and service business in relation to total revenue was 47.8 %, slightly down on the previous year (2018: 49.7 %).

Revenue by type



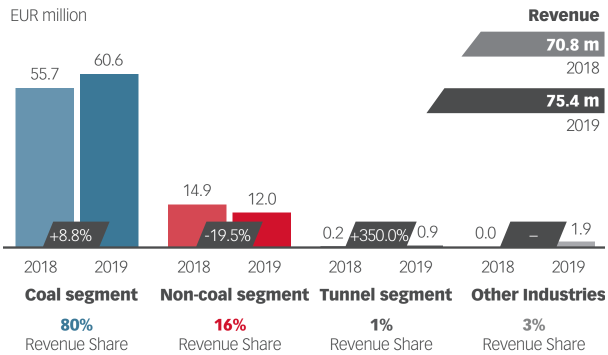
Revenue by product



At 80.9 %, as usual most of total revenue was attributable to the Railways product (2018: 82.6 %), while Chairlifts accounted for 7.9 % of SMT Scharf's revenue (2018: 8.9 %). The share of the "Other Industries" area, which was newly created with the acquisition of ser elektronik in April 2019, was 2.6 % in the reporting year.

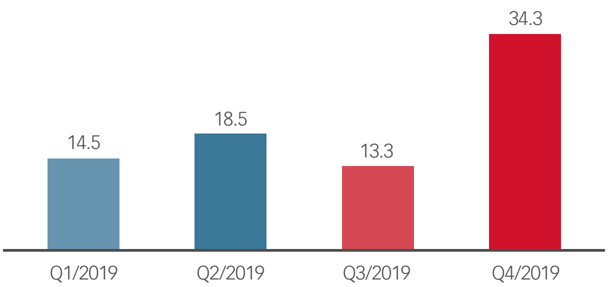
SMT Scharf continues to generate the largest share of its consolidated revenues in the Coal segment. Here, the company generated revenue of EUR 60.6 million, which corresponds to a share of 80.4 % (2018: 78.7 % or EUR 55.7 million). The share of revenue generated by the Non-Coal Mining segment decreased by 15.9 % and EUR 12.0 million, respectively, both in relative and absolute terms (21.0 % and EUR 14.9 million, respectively, in 2018). SMT Scharf increased its revenues in the Tunnel segment to EUR 0.9 million. This segment contributed 1.2 % of total revenue (2018: EUR 0.2 million, or 0.3 %). In 2019, the "Other Industries" area was added as the fourth segment, which covers the business of the interest acquired in ser elektronik. The new subsidiary generated revenue of EUR 2.1 million in the 2019 fiscal year, with the new segment contributing 2.8 % of total consolidated revenue.

Revenue by segment



New order intake amounted to EUR 80.6 million in the year under review (2018: EUR 75.3 million). The order book position of the SMT Scharf Group stood at EUR 24.9 million as of December 31, 2019 (December 31, 2018: EUR 19.7 million). As a consequence, the SMT Scharf Group has a solid foundation for the current 2020 fiscal year.

New order intake



Financial position and performance

Results of operations

In the 2019 fiscal year, the SMT Scharf Group generated consolidated revenue of EUR 75.4 million (2018: EUR 70.8 million). Total operating revenue (consolidated revenue plus changes in inventories) also improved to EUR 74.8 million (2018: EUR 71.0 million). Other operating income increased to EUR 4.2 million (2018 EUR 3.8 million), particularly due to payments received from impaired receivables. Miscellaneous other operating income mainly comprised the reversals of previously formed specific valuation allowances and rental income.

The cost of materials decreased by 5.0 % to EUR 39.5 million in the reporting period (2018: EUR 41.6 million), which resulted in a year-on-year increase in the cost of materials ratio (in relation to total operating revenue) to 52.8 % (2018: 58.6 %). Personnel expenses rose by 20.4 % to EUR 18.3 million, due to the higher number of employees (2018: EUR 15.2 million). This leads to a higher personnel expenses ratio (in relation to operating performance) of 24.5 %, which is thereby higher than the previous year's figure (2018: 21.4 %) in view of the increased number of employees in Germany – particularly owing to the new subsidiary ser elektronik.

Accumulated depreciation and amortisation reached EUR 2.8 million (2018: EUR 1.7 million). The increase in accumulated depreciation and amortisation in the reporting period primarily reflects the capitalisation of rights of use in accordance with IFRS 16 and capitalised development costs. Other operating expenses rose at a moderate rate of 5.5 % to EUR 11.6 million (2018: EUR 11.0 million). This was mainly due to higher expenses for services (EUR 4.0 million compared to EUR 2.5 million in the previous year), lower leasing expenses (EUR 0.2 million compared to EUR 0.8 million in the previous year) and lower exchange rate losses (EUR 1.0 million compared to EUR 1.6 million in the previous year). Overall in the fiscal year under review, exchange rate gains and exchange rate losses led to a positive net result of EUR +0.5 million (2018: EUR –0.2 million).

Results of operations

EUR million	2019	2018	Change
Revenue	75.4	70.8	5.6 %
Total operating revenue	74.8	71.0	5.4 %
EBIT	6.8	5.3	28.3 %
EBIT margin (in %)	9.1	7.5	
Consolidated net profit	5.7	4.6	23.9 %
Earnings per share undiluted (in EUR)	1.20	1.01	18.8 %

The SMT Scharf Group generated a significantly higher operating profit (EBIT) of EUR 6.8 million in the year under review (2018: EUR 5.3 million). The EBIT margin (in relation to total operating revenue) stood at 9.1 % (2018: 7.5 %). The increase reflects higher revenue and an improved cost of materials ratio. The net financial result amounted to EUR 0.4 million after EUR 0.9 million in the previous year, mainly due to lower income from investments. The final results of the Chinese joint ventures were not available by the time this report was prepared and were consequently only taken into consideration up to the end of the previous quarter. These amounted to EUR 0.9 million after EUR 1.2 million in the previous year. The net interest result deteriorated to EUR –0.5 million (2018 EUR –0.3 million) due to increased interest expenses.

On balance, the Group generated a profit before tax of EUR 7.2 million (2018: EUR 6.2 million). The tax expense of EUR 1.5 million in the reporting year was below the previous year's level (2018: EUR 1.6 million). Of this amount, EUR 1.8 million comprised current tax expenses (2018: EUR 1.2 million), and EUR –0.3 million deferred tax (2018: EUR 0.4 million). The Group tax rate was 32.1 % (2018: 32.1 %). In total, SMT Scharf AG recorded consolidated net income of EUR 5.7 million, up on the previous year (2018: EUR 4.6 million). This corresponds to earnings per share of EUR 1.20 (2018: EUR 1.01).

Net assets

The total assets of the SMT Scharf Group rose to EUR 95.8 million as of December 31, 2019 (December 31, 2018: EUR 83.1 million). On the assets side of the balance sheet, non-current assets increased to EUR 26.7 million (December 31, 2018: EUR 21.1 million). The recognition of property, plant and equipment rose primarily due to the inclusion of the new subsidiary ser elektronik in the scope of consolidation. This contributed land and buildings (EUR 0.6 million), technical equipment and machinery (EUR 266 thousand) and operating and office equipment (EUR 103 thousand) to the SMT Scharf Group. Property, plant and equipment increased to EUR 9.8 million in the year under review (December 31, 2018: EUR 6.9 million). In addition, intangible assets rose particularly due to externally acquired intangible assets of ser elektronik (EUR 456 million), which contributed significantly to the increase of EUR 1.3 million to EUR 6.1 million (December 31, 2018: EUR 4.8 million). Compared with the previous year's balance sheet date, deferred tax assets rose to EUR 2.7 million (December 31, 2018: EUR 2.5 million).

At EUR 69.2 million (December 31, 2018: EUR 62.0 million), current assets accounted for the largest share of assets. Inventories of EUR 28.6 million were clearly above the previous year's level (December 31, 2018: EUR 25.8 million). This in turn reflects the higher new order intake and order book position. At EUR 29.4 million (December 31, 2018: EUR 25.3 million), trade receivables were up on the previous year. This increase is due to a high number of deliveries at the year-end. In relation to consolidated revenue of EUR 75.4 million in the 2019 fiscal year (2018: EUR 70.8 million), average trade receivables outstanding of EUR 25.0 million (2018: EUR 21.9 million) and a 365-day year (2018: 365 days), days of sales outstanding rose to 121 days (2018: 112 days). The receivables portfolio, which mainly consists of receivables from Chinese customers, has been reduced as planned in relation to (higher) Group sales. The payment schedules concluded with major customers in previous years were adhered to as agreed. Cash and cash equivalents amounted to EUR 5.2 million as of December 31, 2019 (December 31, 2018: EUR 5.4 million) and have thereby reduced considerably. The investment in ser elektronik was financed from the company's own financial resources.

Given the significant increase in total assets and the equally strong growth in equity, the equity ratio as of the balance sheet date was 63.2 %, up 1.2 percentage points on the previous year (December 31, 2018: 62.4 %). Non-current provisions and liabilities decreased to EUR 10.6 million as of the balance sheet date (December 31, 2018: EUR 12.7 million). In the reporting period, non-current financial liabilities amounted to EUR 4.4 million due to the repayment of investment loans (December 31, 2018: EUR 7.7 million). Furthermore, pension provisions increased slightly to EUR 3.5 million (December 31, 2018: EUR 3.2 million).

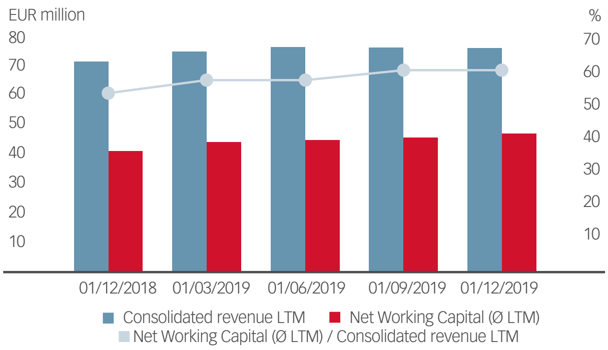
Current provisions and liabilities amounted to EUR 24.6 million as of the reporting date (December 31, 2018: EUR 18.9 million) and were thereby EUR 5.7 million higher than on the prior-year reporting date. Trade payables of EUR 6.5 million were slightly above the previous year's level (December 31, 2018: EUR 6.4 million). Current financial liabilities rose to EUR 9.5 million (December 31, 2018: EUR 4.4 million), mainly due to higher inventories in line with the good order book position. By contrast, current provisions of EUR 4.9 million were approximately at the previous year's level (December 31, 2018: EUR 5.4 million).

Net assets

EUR million	31/12/2019	31/12/2018
Total assets	95.8	83.1
Equity	60.6	51.5
Equity ratio (in %)	63.2	62.0
Non-current and current provisions and liabilities	35.2	31.6
Non-current assets	26.7	21.1
Current assets	69.2	62.0
Days of sales outstanding	121	112
Net working* capital on the balance sheet date	47.6	42.0
Net working* capital – year-average	46.7	40.7
Net working* capital intensity	61.9	57.5

*Calculation of net working capital: Year-average current assets – Year-average liquid assets – Year-average current liabilities (excluding current financial liabilities)

Net working capital



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

Equity and particular legal relationships

The subscribed capital of SMT Scharf AG increased from EUR 3.0 million to EUR 4.2 million against cash capital contributions as part of the IPO in April 2007. As part of the share capital increase completed in November 2017 with partial utilisation of Authorised Capital 2016, the share capital of SMT Scharf AG rose further by EUR 420,000.00, from EUR 4,200,000.00 to EUR 4,620,000.00, against cash capital contributions and under exclusion of shareholders' subscription rights. Since that date, it comprises 4,620,000 no-par value bearer shares, each with a notional interest of EUR 1 in the subscribed capital. After the capital increase, Authorised Capital 2018 still exists to issue a total of up to 2,310,000 further ordinary shares. With Supervisory Board approval, the Managing Board can utilise this authorised capital to raise the subscribed capital of SMT Scharf AG until May 22, 2023. Shareholders' subscription rights can be excluded in this context. In addition, Conditional Capital 2018 exists to issue additional ordinary shares up to a total of 462,000.

The company still held a total of 49,477 of these shares at the end of the year under review (1.07 % of the share capital).

The company is subject to general statutory restrictions on voting rights, in particular resulting from the German Stock Corporation Act (AktG) and the German Securities Trading Act (WpHG). The Managing Board is not aware of any restrictions on voting rights above and beyond the aforementioned, including any restrictions that could result from agreements between shareholders. In addition, the Managing Board is not aware of any restrictions relating to the transfer of the company's shares, including any restrictions resulting from agreements between shareholders.

The interest of the shareholders that held 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 affecting solely their wording. Otherwise, changes to the articles of incorporation require a resolution by the General Meeting in the meaning of Sections 133 and 179 of the German Stock Corporation Act (AktG), whereby pursuant to article 17 of the articles of incorporation, resolutions by the General Meeting are to be passed with a simple majority of votes cast, unless mandatory statutory requirements exist to the contrary, and – to the extent that the law prescribes a capital majority in addition to the majority of votes cast – with a simple majority of the share capital represented when the resolution is passed; this also applies to resolutions on amendments to the articles of incorporation.

Pursuant to 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.

Financial position

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

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

The SMT Scharf Group's financial position comprises all of the cash and cash equivalents carried on the balance sheet, in other words, cash on hand and bank balances, to the extent that these are available within three months (from the date of acquisition) without any notable fluctuations in value, as well as marketable securities less current financial liabilities and less the hardship and social funds. Committed credit lines of EUR 7.6 million exist, but have not been utilised.

Given the net profit of EUR 5.7 million generated in 2019, the SMT Scharf Group reported cash flows from operating activities of EUR 3.0 million in the year under review (2018: EUR –3.1 million). The positive cash flow from operating activities also mainly reflects the positive change in depreciation and amortisation as well as income taxes. Cash flow from investing activities amounted to EUR –2.9 million (2018: EUR –8.0 million) and is mainly attributable to payments for investments in property, plant and equipment and intangible assets as well as additions to the scope of consolidation. Cash flow from financing activities for the 2019 reporting period amounted to EUR –5.2 million (2018: EUR 7.0 million) reflecting outgoing cash flows to repay borrowings. In total, the cash and cash equivalents position reduced from EUR 3.2 million on December 31, 2018 to EUR –1.9 million on December 31, 2019.

Comparison of the actual financial position and performance with the forecast

In the forecast provided in the 2018 annual report, SMT Scharf anticipated 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 for the 2019 fiscal year. In view of the deteriorating market environment and delays in deliveries in the market in the context of the new regulation in China, the company adjusted its revenue and earnings targets downwards in October 2019 and now expects consolidated revenue of between EUR 65 million and EUR 67 million and EBIT in a range between EUR 4.5 million an 5.0 million for the 2019 fiscal year.

The actual figures at the end of the fiscal year even exceeded the original expectations regarding revenue and earnings:

- With actual consolidated revenues of EUR 75.4 million, SMT Scharf exceeded both its revenue forecast, which was adjusted downwards in October 2019 (EUR 65 million to EUR 67 million), and its original revenue forecast (EUR 72 million to EUR 75 million) as a result of unexpectedly strong business in China in the fourth quarter of 2019.
- With EBIT of EUR 6.8 million, SMT Scharf also succeeded in exceeding the EBIT forecast that was adjusted downwards in October (EUR 4.5 million to EUR 5.0 million) and its original EBIT forecast (EUR 5.5 million to EUR 6.0 million) thanks to strong business in China in the final quarter.

The expectations regarding the materials ratio, net working capital and equity ratio could not be met in part:

- The cost of materials ratio (in relation to total operating revenue) decreased to 52.8 % (2018: 58.6 %) despite the significant revenue growth. This still lies above the medium-term target of 50 %, although 5.8 percentage points below the previous year's figure.
- Contrary to expectations, working capital of EUR 47.6 million reflects an increase compared with the previous year (2018: EUR 42.0 million). Net working capital intensity rose by a tangible 4.4 percentage points to 61.9 % in the reporting period due to the significant growth in Group revenue. As a consequence, the target of a slight improvement in net working capital intensity in 2019 was not achieved.
- The equity ratio increased to 63.2 % as of the balance sheet date due to the disproportionately high increase in equity compared to the balance sheet total; the aim was to maintain the equity ratio at the previous year's level.

Overall statement on the company's business position

The SMT Scharf Group recorded a substantial year-on-year increase in revenue in the 2019 fiscal year. The main reason for this was the dynamic revenue growth in the Chinese market. Contrary to expectations, SMT Scharf's strong year-end business in China again provided a strong boost to its revenues, which was not reflected in earnings. With an improved EBIT margin of 9.1 % (2018: 7.5 %), the SMT Scharf Group has moved towards its medium-term target of 10.0 %. The better profitability enabled the company to consolidate its asset and financing situation. The equity ratio now stands at 63.2 %, while financial debt has risen, but stands at a comparatively low level in relation to revenue volumes and total assets. As a consequence, the SMT Scharf Group commands a solid financial structure, allowing it to continue its strategy of both organic and inorganic growth. With the acquisition of ser elektronik, SMT Scharf 2019 has taken a further key step to diversify its business in order to tap new markets and further develop its own portfolio. SMT Scharf believes that it is well positioned overall to benefit disproportionately from growth opportunities in the mining industry.

Risk and opportunities report and outlook

Risk report

Risk management

SMT Scharf operates a risk management system (RMS) that is fully integrated into the company's planning, management and control processes. As a consequence, the RMS forms a central component of value-oriented corporate management, and serves the targeted securing of both existing and future success and profitability potentials. The risk management system is aimed at the early identification of opportunities and risks for the purpose of initiating appropriate precautionary and securing measures without delay which are then subject to ongoing monitoring.

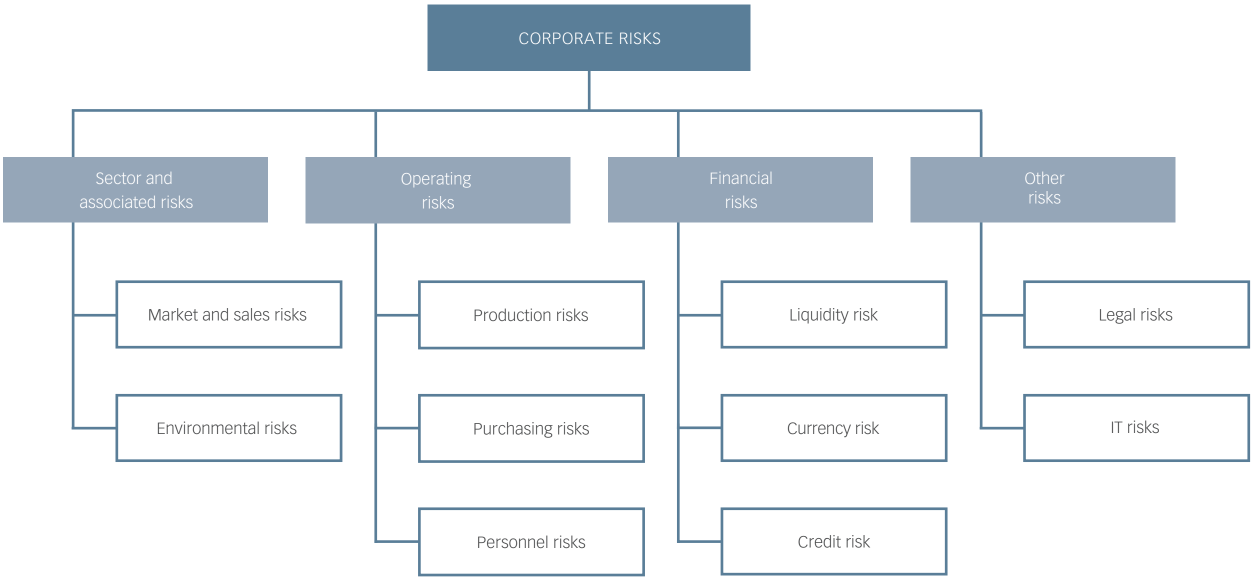
Risk management is based mainly on internal regulations set out in the form of guidelines and implemented in the process of corporate management and supervision. Key elements in this process include strategic and operational forecasting, the preparation of weekly, monthly and quarterly reports for the Managing Board, and preparing for investment decisions. Ongoing reporting serves the purpose of business performance management Groupwide as well as ongoing monitoring and communication about opportunities and risks. Risks arising 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 (ICS) 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.

Corporate risks

SMT Scharf is subject to a number of risks arising from the Group companies' business activities. To make the risk report clearer and provide better overview, it allocates the risks to different categories, where they are presented in summarised form. SMT Scharf differentiates between sector and associated risks, operating risks, financial risks, and other risks. The section entitled "Other disclosures" in the notes to the IFRS consolidated financial statements for the 2019 fiscal year includes detailed disclosures about financial risk management.



Sector and associated risks

Market and sales risks

SMT Scharf AG and its subsidiaries operate worldwide. They are exposed to different political, legal and economic conditions. SMT Scharf counters the resultant risks by carefully monitoring the environment and anticipating market trends as far as possible. In China, SMT Scharf has taken early action in light of more stringent emission standards for engines (China III) from 2021, in order to work towards the rapid approval of the new machines.

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

Environmental risks

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

Operating risks

Production risks

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

Purchasing risks

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

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

Financial risks

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

Currency risks
SMT Scharf is exposed to currency and default risks through its business activities. The Group counters such risks by deploying appropriate hedging instruments. This includes deploying forward currency transactions and options for the purpose of hedging open positions denominated in foreign currencies. The risk of higher product prices on foreign markets due to a strong Euro is weakened by a rising foreign proportion of purchased components. A total of 70 % of the workforce of SMT Scharf was employed outside the Eurozone as of the December 31, 2019 reporting date, thereby reducing the risk of higher personnel costs due to exchange rate effects (natural hedging).

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

Other risks

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

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

Report on opportunities

Positive effects of strategic measures

The extensive list of measures contained in the three strategic action areas of "Organic Growth", "External Growth" and "Operative 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, the manufacturing industry in emerging economies and industrialised nations will have 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 on 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 pursuing the objective of expanding its business in the non-coal mining segment, which is to grow to form 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 2018. 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 sales revenue and earnings trend 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 sales revenues in the medium term, and the opportunity of becoming less dependent on the raw materials price cycle, as demand for infrastructure is driven by other factors, such as growing population density in conurbation centres worldwide.

Summary of the opportunities and risk position

An overall assessment of the company's opportunities and risk position has shown that the identified risks, taking into 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 markets 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, 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 result of its hard rock business. For 2020, the IMF expects that economic growth in China and 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 %. Any effects from the corona problem have not yet been reflected in these figures.

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 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 forecast for the Group 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 business 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 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. 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 also based on the assumption that positive effects will arise on business in China 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 mining 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.

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 exploiting 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.

In addition, 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.

Corporate governance declaration

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

The current corporate governance declaration pursuant to Section 161 of the German Stock Corporation Act (AktG) is available on the SMT Scharf Group's website (www.smtscharf.com) under the "Investor Relations – Corporate Governance" section.

Working approach of the Managing and Supervisory Boards:

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

The Supervisory Board has three members, elected as shareholder representatives by the General Meeting of Shareholders. The Supervisory Board does not include any former Managing Board members. It has not formed any committees. The Supervisory Board advises and consults with the Managing Board, and supervises 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 consideration. 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 affecting solely 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 consideration. The Supervisory Board has set a 0 % target for the proportion at the first management level (Managing Board) and at 19 % for the management level below that (general managers of the subsidiaries and authorised signatories). For the Supervisory Board, the target for the proportion of women has been set at 33.3 %.

Since the first management level and the Supervisory Board 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.

The Managing Board of SMT Scharf AG comprised two members during the year under review. 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 systems for the Managing and Supervisory boards

The Supervisory Board's remuneration scheme was last supplemented by way of a resolution by the Annual General Meeting on 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 compensation in the form of a share in the consolidated net profit, calculated as follows: the annual performance-related compensation 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 result is determined on the basis of the IFRS consolidated financial statements for the fiscal 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 about 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 of the members of the Managing Board of SMT Scharf AG result from the following provisions:

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 % of 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. 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.

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 provisions on the remuneration of the members of the Managing Board are contained in the corresponding service contracts.

The above regulations for the remuneration of members of the Managing Board have been agreed in the corresponding employment contracts.

The remuneration of former members of the Managing Board or their surviving dependants includes pensions in the year under review. Details on the remuneration and shareholdings of individual members of the Supervisory and Managing boards can be found in the notes to the 2019 consolidated financial statements.

Hamm, March 30, 2020

The Managing Board

Hans Joachim Theiss Wolfgang Embert

IFRS CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31, 2019

EUR	Note	31/12/2019	31/12/2018
Assets			
Intangible assets	(9)	6,120,071.66	4,777,407.59
Property, plant and equipment	(9)	9,828,912.18	6,863,754.24
Loans	(10)	712,057.07	0.00
Equity accounted investments	(11)	6,745,581.18	5,823,789.08
Other investments		7,039.97	0.00
Deferred tax assets	(8)	2,664,885.62	2,512,077.08
Non-current lease receivables	(22)	584,898.37	1,136,266.75
Other non-current non-financial assets	(14)	11,232.94	9,267.14
Non-current assets		**26,674,678.99**	**21,122,561.88**
Inventories	(12)	28,613,822.34	25,825,979.97
Trade receivables	(13)	29,398,049.10	25,250,122.74
Contract asset	(13)	473,191.01	623,319.48
Current lease receivables	(22)	789,784.71	1,075,741.03
Other current non-financial assets	(14)	3,505,370.10	3,518,759.64
Other current non-financial assets in connection with employees' pension entitlements	(15)	1,150,722.49	293,503.08
Cash and cash equivalents	(16)	5,229,572.86	5,409,915.33
Current assets		**69,160,512.61**	**61,997,341.27**
Total assets		**95,835,191.60**	**83,119,903.15**

EUR	Note	31/12/2019	31/12/2018
Equity and liabilities			
Subscribed share capital		4,570,523.00	4,570,523.00
Capital reserve		16,732,172.20	16,597,437.33
Revenue reserves		40,739,242.48	35,293,141.44
Other reserves		–3,026,153.09	–4,927,868.50
Non-controlling interests		1,560,834.46	0.00
Equity	**(17)**	**60,576,619.05**	**51,533,233.27**
Provisions for pensions	(18)	3,479,813.56	3,151,198.17
Other non-current provisions	(19)	219,825.83	249,689.86
Deferred tax liabilities	(8)	595,155.98	696,561.95
Contract liabilities (previous year: advance payments received)	(20)	0.00	0.00
Leasing liabilities	(23)	1,112,251.30	172,899.57
Non-current financial liabilities	(24)	4,441,714.70	7,716,259.49
Other non-current financial liabilities	(20)	783,238.96	680,618.09
Non-current provisions and liabilities		**10,632,000.33**	**12,667,227.13**
Current income tax	(8)	198,341.04	187,344.91
Other current provisions	(19)	4,929,285.85	5,360,878.26
Contract liabilities (previous year: advance payments received)	(20)	932,539.97	996,069.51
Trade payables	(20)	6,542,683.00	6,389,671.80
Leasing liabilities	(23)	620,156.64	96,075.99
Current financial liabilities (cash and cash equivalents)	(24)	7,127,603.81	2,191,579.88
Current financial liabilities (not cash and cash equivalents)	(24)	2,366,042.17	2,171,464.92
Other current non-financial liabilities	(20)	1,909,919.74	1,526,357.49
Current provisions and liabilities		**24,626,572.22**	**18,919,442.76**
Total assets		**95,835,191.60**	**83,119,903.16**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FROM JANUARY 1 TO DECEMBER 31, 2019

EUR	Note	2019	2018
Revenue	(1)	75,394,644.27	70,794,634.71
Changes in inventories		–558,185.43	232,977.06
Total operating revenue (100 %)		74,836,458.84	71,027,611.77
Other operating income	(2)	4,216,968.24	3,774,194.42
Cost of materials	(3)	39,492,893.61	41,630,450.37
Personnel expenses	(4)	18,335,766.65	15,181,761.22
Depreciation, amortisation and impairment losses	(5)	2,844,435.72	1,674,440.69
Other operating expenses	(6)	11,558,197.67	11,011,631.75
Profit / loss from operating activities (EBIT)		**6,822,133.43**	**5,303,522.17**
Result from equity accounted investments	(7)	853,380.87	1,234,865.03
Interest income	(24)	417,966.84	266,016.38
Interest expenses	(24)	872,695.89	590,526.32
Financial result		**398,651.82**	**910,355.09**
Profit before tax		**7,220,785.25**	**6,213,877.26**
Income taxes	(8)	1,482,240.83	1,580,617.36
Consolidated net profit		**5,738,544.42**	**4,633,259.90**
Share of consolidated net profit attributable to shareholders of SMT Scharf AG		5,498,778.41	4,633,259.90
Share of consolidated net profit attributable to non-controlling interests		239,766.01	0.00

EUR	Note	2019	2018
Other comprehensive income items recycled later to profit or loss:			
Currency differences from translation of foreign financial statements		1,853,018.78	–1,869,482.55
Share of other comprehensive income attributable to equity accounted investments		69,523.56	–46,869.11
Other comprehensive income items not recycled later to profit or loss:			
Actuarial gains / losses	(18)	–386,689.00	112,920.00
Deferred taxes	(8)	124,127.17	–36,252.97
Other comprehensive income		**1,659,980.51**	**–1,839,684.63**
of which, share of other comprehensive income attributable to shareholders of SMT Scharf AG		1,639,153.58	–1,839,684.63
of which, share of other comprehensive income attributable to non-controlling interests		20,826.93	0.00
Total comprehensive income		**7,398,524.93**	**2,793,575.26**
of which, share of total comprehensive income attributable to shareholders of SMT Scharf AG		7,137,931.99	2,793,575.26
of which, share of total comprehensive income attributable to non-controlling interests		260,592.94	0.00
Earnings per share *			
Undiluted (basic)		1.20	1.01
Diluted		1.19	1.00

* Consolidated net income divided by an average number of 4,570,523 issued shares (previous year: 4,570,523) attributable to shareholders from SMT Scharf AG. The calculation of diluted earnings per share in 2019 also includes the denominator for the potential bonus shares of 38,496 from the Managing Board's share-based remuneration. See section 29 for details.

CONSOLIDATED CASH FLOW STATEMENT FROM JANUARY 1 TO DECEMBER 31, 2019

EUR	2019	2018
Consolidated net profit	5,738,544.42	4,633,259.89
+ / – Losses / income from equity accounted investments	–853,380.87	–1,234,865.03
+ Depreciation and amortisation of non-current assets	2,844,435.72	1,674,440.72
– / + Gain / loss from disposal of fixed assets	184,083.00	22,910.05
+ / – Increase / decrease in provisions	–893,068.85	1,074,781.85
– / + Increase / decrease in inventories, trade receivables and other assets not allocable to investing or financing activities	–5,170,231.35	–8,748,216.54
+ / – Increase / decrease in trade payables and other liabilities not allocable to investing or financing activities	593,779.78	–55,605.72
+ / – Other non-cash expenses / income	106,409.70	–161,840.80
+ / – Income tax	1,482,240.83	1,580,617.36
+ / – Financial expenses	454,729.04	324,509.94
– / + Income tax paid / received	–1,497,020.75	–2,198,799.57
Cash flow from operating activities	**2,990,520.70**	**–3,088,807.85**
+ Cash inflows from disposal of property, plant and equipment	189,822.14	28,005.70
– Capital expenditure on property, plant and equipment	–2,412,538.72	–1,747,915.45
– Capital expenditure on intangible assets	–1,493,841.35	–836,314.27
– Cash outflows from investments in financial assets	0.00	–508,625.80
– Cash outflows from acquiring consolidated companies	–201,652.22	–5,167,666.99
+ Interest received	378,701.05	259,082.00
Cash flow from investing activities	**–3,539,509.11**	**–7,973,434.81**
+ Cash outflows for the repayment of leasing liabilities	–596,772.93	–40,951.17
+ Cash inflows from disposal of non-controlling interests in subsidiaries	619,405.00	0.00
+ Cash inflow from borrowing	671,995.63	9,182,900.92
– Cash outflow for the repayment of loans	–4,155,314.42	–1,481,188.29
– Interest paid	–1,150,594.06	–658,107.00
Cash flow from financing activities	**–4,611,280.78**	**7,002,654.46**
Net change in cash and cash equivalents	**–5,160,269.19**	**–4,059,588.20**
Changes in cash and cash equivalents due to effects from exchange rates and consolidated Group	43,902.79	–563,409.28
Cash and cash equivalents at start of period	3,218,335.45	7,841,332.93
Cash and cash equivalents at end of period	**–1,898,030.13**	**3,218,335.45**

For details see (21) notes to the cash flow statement.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FROM JANUARY 1 TO DECEMBER 31, 2019

			Revenue reserves	
in EUR	Subscribed share capital	Capital reserve	Actuarial gains andlosses	Other revenue reserves
Balance on January 1, 2019	**4,570,523.00**	**16,597,437.33**	**–64,718.42**	**35,357,859.85**
Consolidated net profit	0.00	0.00	0.00	5,498,778.41
Currency difference from translating results from foreign annual financial statements	0.00	0.00	0.00	0.00
Share of other comprehensive income attributable to equity accounted investments	0.00	0.00	0.00	0.00
Recognition of actuarial gains / losses	0.00	0.00	–386,689.00	0.00
Deferred taxes on recognised actuarial gains / losses	0.00	0.00	124,127.17	0.00
Comprehensive income	0.00	0.00	–262,561.83	5,498,778.41
Changes in the scope of consolidation	0.00	0.00	0.00	–273,835.22
Changes due to reduction of bonds	0.00	0.00	0.00	483,719.69
Increase in equity due to shares to be issued	0.00	134,734.87	0.00	0.00
Balance on December 31, 2019	**4,570,523.00**	**16,732,172.20**	**–327,280.25**	**41,066,522.73**
Balance on January 1, 2018	**4,570,523.00**	**16,597,437.33**	**–141,385.45**	**30,693,682.13**
Transfer due to change in accounting regulations*	0.00	0.00	0.00	30,917.83
Consolidated net profit	0.00	0.00	0.00	4,633,259.89
Currency difference from translating results from foreign annual financial statements	0.00	0.00	0.00	0.00
Share of other comprehensive income attributable to equity accounted investments	0.00	0.00	0.00	0.00
Recognition of actuarial gains / losses	0.00	0.00	112,920.00	0.00
Deferred taxes on recognised actuarial gains / losses	0.00	0.00	–36,252.97	0.00
Comprehensive income	0.00	0.00	76,667.03	4,664,177.72
Balance on December 31, 2018	**4,570,523.00**	**16,597,437.33**	**–64,718.42**	**35,357,859.85**

* The new accounting standards IFRS 15 and IFRS 9 have been applied since January 1, 2018. The previous year's figures were not restated.

For further information, please refer to the section "Information about the consolidated financial statements".

Other reserves Currency translation difference	Equity attributable to SMT Scharf AG shareholders	Non-controlling interests	Total equity
–4,927,868.50	**51,533,233.26**	**0.00**	**51,533,233.26**
0.00	5,498,778.41	239,766.01	5,738,544.42
1,832,191.85	1,832,191.85	20,826.93	1,853,018.78
69,523.56	69,523.56	0.00	69,523.56
0.00	–386,689.00	0.00	–386,689.00
0.00	124,127.17	0.00	124,127.17
1,901,715.41	7,137,931.98	260,592.94	7,398,524.93
0.00	–273,835.22	483,200.82	209,365.60
0.00	483,719.69	817,040.70	1,300,760.39
0.00	134,734.87	0.00	134,734.87
–3,026,153.09	**59,015,784.59**	**1,560,834.46**	**60,576,619.05**
–3,011,516.84	**48,708,740.17**	**0.00**	**48,708,740.17**
0.00	30,917.83	0.00	30,917.83
0.00	4,633,259.89	0.00	4,633,259.89
–1,869,482.55	–1,869,482.55	0.00	–1,869,482.55
–46,869.11	–46,869.11	0.00	–46,869.11
0.00	112,920.00	0.00	112,920.00
0.00	–36,252.97	0.00	–36,252.97
–1,916,351.66	2,824,493.09	0.00	2,824,493.09
–4,927,868.50	**51,533,233.26**	**0.00**	**51,533,233.26**

NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS FOR THE 2019 FISCAL YEAR

Information about SMT Scharf AG and the SMT Scharf Group

SMT Scharf AG, Römerstrasse 104, 59075 Hamm, Germany (hereinafter also referred to as the "company") was formed on May 31, 2000, under German law. It is the management holding company for the companies in the SMT Scharf Group. All 4,620,000 shares of SMT Scharf AG are listed on the regulated market of the Frankfurt Stock Exchange (Prime Standard). The purpose of the companies in the SMT Scharf Group is to plan, produce, sell, install and maintain machinery and equipment to transport people, equipment and material and to hold participating interests. SMT Scharf AG has it registered offices in Hamm and is entered into the commercial register at the District Court of Hamm under Number HRB 5845.

Information about the consolidated financial statements

As SMT Scharf AG is admitted to the regulated market, it prepares its consolidated financial statements according to IFRS. The consolidated financial statements, comprising balance sheet, statement of comprehensive income, cash flow statement, statement of changes in equity, and supplementary disclosures in the notes to the financial statements of the SMT Scharf Group as of December 31, 2019, have been prepared in accordance with the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB) valid as of the reporting date and as applied in the EU. The term IFRS also includes the International Accounting Standards (IAS) and the interpretations of the Standing Interpretations Committee (SIC) and the International Financial Reporting Interpretations Committee (IFRIC) that are still valid. In addition, the requirements of Section 315e of the German Commercial Code (HGB) have been complied with.

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

The IFRS consolidated financial statements were examined by the Supervisory Board of SMT Scharf AG and will prospectively be approved by the Supervisory Board on March 23, 2020 and subsequently released for publication.

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

As of January 1, 2019, the Group applied the following new and revised standards and interpretations:

IFRS 16 "Leases"
IFRS 16 governs the recognition, measurement, reporting and disclosure requirements relating to leases. IFRS 16 replaces the standards and interpretations of IAS 17 "Leases", IFRIC 4 "Determining Whether an Agreement Contains a Lease", SIC 15 "Operating Leases – Incentives" and SIC 27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease", and required mandatory application as of January 1, 2019.

In terms of the lessee, the new standard provides for a uniform accounting model. This model will require the lessee to recognise on the balance sheet all assets and liabilities under leasing agreements unless the term is twelve months or less or the respective asset is of minor value (option in each case). For the purposes of accounting, the lessor continues to differentiate between finance and operating leases. The IFRS 16 accounting model does not differ significantly from IAS 17 "Leases" in this context. The SMT Scharf Group concludes leases in the capacity of both lessor and lessee.

As a lessor, the SMT Scharf Group has concluded both finance leases and rental leases. No material effects arose from IFRS 16 in this context.

Lease agreements in which the SMT Scharf Group is the lessee predominate over finance leases. The application of IFRS 16 in this area consequently led to an increase in assets and in financial liabilities at the SMT Scharf Group. In addition, the nature of the expenses associated with these leases changed as IFRS 16 replaces linear expenses for operating leases through depreciation expenses for right of use assets and interest expenses for liabilities arising from the lease. No material effects arose in relation to the finance leases.

The SMT Scharf Group utilises the option relating to current and low value leases. The lease payments associated with the leases are expensed either straight-line over the lease term or on another systematic basis.

The rights of use reported under property, plant and equipment are carried at cost less accumulated depreciation and any necessary impairment losses. The cost of the right of use is calculated as the present value of all future lease payments plus lease payments made at, or before, the commencement of the lease term, as well as the costs of concluding the agreement and the estimated costs of dismantling or restoring the leased asset. All leasing incentives received are deducted. In this context, the SMT Scharf Group makes use of the option to generally recognise payments for non-leasing components as lease payments. As a rule, depreciation is applied over the lease term. If a transfer of ownership at the end of the lease term has been agreed or if the lease payments taken into consideration assume the exercise of a purchase option, depreciation is applied over the economic life.

Lease liabilities are initially recognised at the present value of the lease payments to be made. In subsequent measurement, discounts applied to the carrying amount of lease liabilities are reversed and reduced to reflect lease payments made, without affecting profit or loss.

For agreements that were in force on the date of first-time application, the SMT Scharf Group has decided to apply the previous definition of a lease from IAS 17 and IFRIC 4 and consequently not to apply IFRS 16 to agreements that were not previously identified as leases according to IAS 17 and IFRIC 4.

As regards the transitional provisions, the SMT Scharf Group applied modified retroactive recognition. In so doing, it made use of the following facilitation provisions for lessees:

- For leases previously classified as rental leases in accordance with IAS 17, the lease liability was recognised at the present value of the outstanding lease payments, discounted at the marginal borrowing rate as of January 1, 2019. The associated right of use was recognised at the amount of the lease liability. The weighted average marginal borrowing rate was 4.08 %.
- Rights of use from previous rental lease agreements were not tested for impairment. In the absence of such provisions, offsetting by way of reducing the right of use to reflect provisions for onerous leases existing as of December 31, 2018, was not required.
- Previous leases expiring on or after December 31, 2019 were classified as current leases irrespective of the original lease term, so that no adjustment was recognised in the income statement.
- Previous leases' initial direct costs were not included in the valuation of the right of use as of January 1, 2019.
- Previous lease contracts' terms with renewal or termination options were determined on the basis of current knowledge.
- For leases previously classified as finance leases, the rights of use and the lease liability at the date of initial application were carried at the same amount as the previous treatment under IAS 17 immediately prior to the initial application date.
- In accordance with the transitional provisions, the prior-year figures were not adjusted.

As of the transition date, no adjustments were made for lessor relationships existing at the date of transition to IFRS 16.

Rights of use in the amount of EUR 1,546 thousand (including EUR 278 thousand from former finance leases) were reported as of January 1, 2019. As a consequence of the reclassification of leasing agreements previously treated as finance leases, property, plant and equipment decreased accordingly by EUR 278 thousand. A further EUR 1,241 thousand were added to leasing liabilities of EUR 266 thousand already existing from finance leases, with a total of EUR 1,507 thousand thereby being reported. Effects on revenue did not arise. The depreciation of rights of use in 2019 amounted to EUR 522 thousand. The interest expense from the leasing liabilities amounts to EUR 102 thousand. In contrast, actual lease payments of EUR 1,066 thousand were incurred.

This includes expenses for current leases and for leases of assets of minor value for which the option was exercised not to recognise them in accordance with IFRS 16, as well as expenses for variable lease payments not included in the measurement of lease liabilities.

As of December 31, 2018, the following reconciliation to the opening balance sheet value as of January 1, 2019 resulted:

Reconciliation to leasing liabilities according to IFRS 16	EUR thousand
Other financial obligations from operating leases in accordance with IAS 17 as of December 31, 2018	1,493
Application facilitation for current leases	–119
Simplified application for leases of low-value assets	0
Adjustments due to different estimates of extension and termination options	0
Payments for non-leasing components	0
Other	0
Obligations from operating leases (undiscounted)	1,374
Effect from discounting	–112
Obligations from operating leases (discounted)	1,262
Carrying amount of finance lease liabilities under IAS 17 as of December 31, 2018	261
Carrying amount of lease liabilities according to IFRS 16 as of January 1, 2019	1,522

Although the following standards or amendments were applicable as of January 1, 2019, they did not have any effect on the SMT Scharf Group:

Amendments to IAS 28: Investments in Associates and Joint Ventures
The amendments serve to clarify that a company applies IFRS 9 to investments in associates or a joint venture which are part of the net investment in this associate or joint venture but are not, however, recognised in application of the equity method. This amendment is to be applied to fiscal years starting from January 1, 2019. EU endorsement was issued on February 8, 2019. These amendments have no effects on the Group.

Amendments to IFRS 9 "Financial Instruments – Prepayment Features with Negative Compensation"
The IASB has published a narrow amendment to IFRS 9 that permits entities to measure certain prepayable financial assets with early repayment options and negative settlements at amortised cost. Otherwise, the assets concerned would have to be measured at fair value through profit or loss. The clarifications are to be applied to fiscal years starting from January 1, 2019. EU endorsement was issued on March 22, 2018. These clarifications have no effect on the Group.

Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement"
One of the mandatory requirements is that, in the event of a change, reduction or settlement of a defined benefit plan, the current service cost and the net interest for the remainder of the fiscal year must be recalculated applying the current actuarial assumptions utilised for the required revaluation of the net liability (asset). The amendments are to be applied to fiscal years starting from January 1, 2019. EU endorsement was issued on March 13, 2019. These clarifications have no effect on the Group.

Annual Improvements to IFRS (2015–2017 Cycle)
The IASB has published the annual improvements to IFRSs for the 2015–2017 cycle. This clarifies the following standards and topics:

- IFRS 3 and IFRS 11: The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it does not remeasure its previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, it does not remeasure its previously held interests in that business.

- IAS 12: The amendments clarify that the requirements in previous note 52B (recognition of income tax effects of dividends, where the transactions and events giving rise to the distributed profits are also recognised) apply to all income tax effects of dividends in light of preceding note 52A, which relates only to situations where there are different interest rates for distributed and undistributed profits.

- IAS 23: The amendments clarify that when an asset is ready for its intended use or sale, an entity treats any remaining borrowings that have been specifically incurred to obtain that asset as part of the borrowing generally incurred in calculating the capitalisation rate of the general borrowing.

This amendment is to be applied to fiscal years starting from January 1, 2019. EU endorsement was issued on March 14, 2019. These amendments have no effects on the Group.

IFRIC 23 "Uncertainty over Income Tax Treatments"
IFRIC 23 clarifies the accounting for uncertainty in income taxes. In assessing uncertainty, an entity shall assess whether it is probable that the tax jurisdiction will accept or modify the income tax treatment. The clarifications are to be applied to fiscal years starting from January 1, 2019. EU endorsement was issued on October 23, 2018. These clarifications have no significant effect on the Group.

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

The International Accounting Standards Board (IASB) and the IFRS Interpretations Committee (IFRS IC) have approved further standards and interpretations that do not yet require mandatory application for the 2019 fiscal year or that the EU has yet to recognise.

IFRS 17 "Insurance Contracts"
IFRS 17 includes rules on the accounting treatment of insurance contracts. It replaces the regulations under IFRS 4 Insurance Contracts. This standard is to be applied to fiscal years starting from January 1, 2021. EU endorsement is still outstanding. These amendments have no effects on the Group.

Amendments to References to the Conceptual Framework in IFRS Standards
This is an editorial adaptation of the previous references to the framework in various IFRS. The amendments are to be applied to fiscal years starting from January 1, 2020. The EU endorsement was announced on November 29, 2019. These clarifications have no effect on the Group.

Amendments to IAS 1 and IAS 8: "Definition of Material"
The IASB has issued a definition of "material" to specify and standardise the definition within the framework and standards. Information is material when it is reasonably expected that its omission, misstatement or concealment will affect the decisions of primary users of multi-purpose financial statements, which they make on the basis of such financial statements. The amendments are to be applied to fiscal years starting from January 1, 2020. EU endorsement was issued on 29-Nov-19. These clarifications have no significant effect on the Group.

Amendments to IFRS 3: "Business combinations"
The IASB provides for a change in the definition of a business operation. The amendments aim to resolve the problems that arise when an entity determines whether it has acquired a business or a group of assets. The amendments apply to business combinations for which the acquisition date is on or after January 1, 2020. The amendments have no effects on transactions that have already been completed. EU endorsement is still outstanding.

Amendments to IFRS 9, IAS 39 and IFRS 7: "Reform of LIBOR and other interest rate benchmarks (IBOR reform)"
The IASB is proposing amendments to IFRS 9, IAS 39 and IFRS 7, which provide certain reliefs in connection with the IBOR reform. The amendments relate to the problems affecting financial reporting in the periods prior to the replacement of an existing interest rate benchmark with an alternative interest rate. However, any ineffectiveness must still be recognised in the income statement. The amendment is effective from January 1, 2020; earlier application is permitted. EU endorsement was issued on 15-Jan-20. These clarifications prospectively have no effect on the Group.

Amendments to IAS 1 "Classification of liabilities as current or non-current"
The IASB has issued amendments to IAS 1 to introduce a more general approach to the classification of liabilities under IAS 1, based on the contractual arrangements that exist at the balance sheet date. The amendments relate only to the presentation of liabilities in the statement of financial position and not to the amount or timing of the recognition of assets, liabilities, income or expenses, or disclosures that entities make about those items. Among other matters, the amendments clarify that the classification of liabilities as current or non-current must be based on the rights that exist at the balance sheet date. The amendment is effective from January 1, 2022; earlier application is permitted. EU endorsement is still outstanding. These clarifications prospectively have no effect on the Group.

Information about subsidiaries

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

EUR thousand	Interest	Equity (IFRS) 31/12/2019	Profit/loss (IFRS) 2019
SMT Scharf GmbH, Hamm, Germany	100%	28,607,960.95	5,762,484.62
Nowilan GmbH, Dinslaken, Germany	100%	115,760.33	–30,362.75
ser elektronik GmbH, Möhnesee, Germany (since April 3, 2019)	51%	965,063.04	310,846.30
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
TOW SMT Scharf Ukrainia, Kiev, Ukraine	100%	0.00	0.00
SMT Scharf Sudamerica SpA, Santiago, Chile	100%	–294,185.57	–172,298.77
RDH Mining Equipment Ltd., 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

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

The following changes to the scope of consolidation occurred in the 2019 fiscal year:

1. Acquisition of the interest in ser elektronik GmbH

On April 3, 2019, we completed the acquisition of a 51 % interest in ser elektronik GmbH, Möhnesee. Since then, the company has been included in the consolidated financial statements by way of full consolidation due to the majority of voting rights. As part of the acquisition, SMT Scharf was granted a pre-emptive right to acquire the remaining shares and a call option to acquire the remaining shares in the event of a so-called leaver event when the previous shareholder leaves the company.

This acquisition adds valuable electronics and control expertise to SMT Scharf's portfolio. ser elektronik develops customer-specific electronic controls and components. The systems, which are integrated into SMT Scharf's transport solutions for coal and non-coal mining, are manufactured in-house. 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 purchase price was EUR 480 thousand in cash. The acquisition costs were allocated to the acquired assets and liabilities on the basis of a purchase price allocation on the acquisition date as follows:

EUR thousand	Carrying amount after acquisition
Intangible assets	456
Property, plant and equipment	962
Inventories	494
Trade receivables	400
Other assets	14
Cash and cash equivalents	278
Provisions	147
Deferred tax liabilities	156
Liabilities	1,315
Net assets	986
Of which a proportionate 51 %	502
Acquisition costs	480
Negative goodwill	22

The initial consolidation resulted in a negative difference of EUR 22 thousand, which led to immediate income and was recognised in other operating income. This derives from the fact that the consideration transferred was less than the fair value of the assets acquired and liabilities assumed. The portion attributable to non-controlling interests was not disclosed.

The gross amount of acquired trade receivables was EUR 400 thousand. No value adjustments were recorded for this.

In the 2019 fiscal year, non-controlling interests were allocated a share of earnings of EUR 137 thousand. On the acquisition date, non-controlling interests accounted for EUR 483 thousand, corresponding to 49 % of net assets on the acquisition date. As of December 31, 2019, the accumulated non-controlling interests of ser elektronik GmbH amounted to EUR 620 thousand.

Since its initial consolidation in April 2019, ser elektronik GmbH has contributed EUR 2,129 thousand to consolidated revenue and EUR 311 thousand to consolidated net profit. If ser elektronik GmbH had already been fully consolidated as of January 1, 2019, consolidated revenue in 2019 would have changed by EUR 478 thousand and consolidated net profit in 2019 by EUR 164 thousand, so that the total contribution to consolidated revenue in 2019 would have been EUR 2,607 thousand and the total contribution to consolidated net income in 2019 would have been EUR 475 thousand.

In the fiscal year under review, transaction costs in the amount of EUR 98 thousand were recognised in the income statement under other operating expenses.

The summarised financial information is given below and corresponds to the amounts in the (IFRS) reporting package of the subsidiary as of December 31, 2019, which has been included in the consolidated financial statements. The income statement figures relate to the period April 1 to December 31, 2019.

EUR thousand	31/12/2019
Non-current assets	852
Current assets	1,278
Non-current liabilities	854
Current liabilities	311

The assets and liabilities listed above include the following amounts:

EUR thousand	31/12/2019
Cash and cash equivalents	248
Current financial liabilities	70

EUR thousand	Apr–Dec 2019
Revenue	2,638
Profit from continuing operations	311
Other comprehensive income	0
Total comprehensive income	311

2. 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. As part of the acquisition, SMT Scharf was granted a pre-emptive right to acquire the remaining shares and a call option to acquire the remaining shares in the event of a so-called leaver event when the previous shareholder leaves the company.

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.

The reduction of the interest was realised without affecting profit and loss. Minority interests in the amount of the share of the subsidiary's net assets (excluding goodwill), corresponding to EUR 817 thousand, were allocated. The difference to the purchase price achieved was transferred to other reserves in the amount of EUR 484 thousand. A loan was issued in the amount of the difference between the selling price achieved and the cash component received in the amount of EUR 712 thousand (see section 10).

In the 2019 fiscal year, non-controlling interests were allocated a share of earnings of EUR 103 thousand and currency differences of EUR 21 thousand. As of December 31, 2019, the accumulated non-controlling interests of SMT Scharf Africa (Pty.) Ltd. amounted to EUR 941 thousand.

In the fiscal year under review, transaction costs in the amount of EUR 4 thousand were recognised in the income statement under other operating expenses.

In accordance with IFRS, the summarised financial information is provided below and corresponds to the amounts in the subsidiary's financial statements as of December 31, 2019.

EUR thousand	31/12/2019	31/12/2018
Non-current assets	157	111
Current assets	3,938	4,957
Non-current liabilities	34	0
Current liabilities	926	1,031

The assets and liabilities listed above include the following amounts:

EUR thousand	31/12/2019	31/12/2018
Cash and cash equivalents	495	3,234
Current financial liabilities	26	0

EUR thousand	2019	2018
Revenue	5,308	7,911
Profit from continuing operations	592	819
Other comprehensive income	0	0
Total comprehensive income	592	819

Information about joint ventures

1. Shandong Xinsha Monorail Co. Ltd., Xintai / China

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

In accordance with IFRS, the summarised financial information is provided below and corresponds to the amounts in the joint venture's financial statements as of September 30, 2019. Due to the effects of the coronavirus, the figures as of the balance sheet date were not yet available at the time this report was prepared.

EUR thousand	31 / 12 / 2019	31 / 12 / 2018
Non-current assets	432	373
Current assets	25,625	23,481
Current liabilities	13,604	13,224

The assets and liabilities listed above include the following amounts:

EUR thousand	31 / 12 / 2019	31 / 12 / 2018
Cash and cash equivalents	1,400	638
Current financial liabilities	12,301	11,358

EUR thousand	31 / 12 / 2019	31 / 12 / 2018
Revenue	15,913	24,108
Profit from continuing operations	1,862	3,215
Other comprehensive income	–9	–80
Total comprehensive income	1,853	3,135

The profit listed above includes the following amounts:

EUR thousand	31 / 12 / 2019	31 / 12 / 2018
Depreciation and amortisation	23	30
Interest expenses	79	50
Income taxes	463	873

Deliveries of merchandise worth EUR 906 thousand (previous year: EUR 522 thousand) were made to the joint venture in the reporting year. No open receivables arise from this as of the balance sheet date (previous year: 0).

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

EUR thousand	30/09/2019	31/12/2018
Net assets of the joint venture	12,453	10,630
Interest held	50 %	50 %
Carrying amount of the interest	6,226	5,315

2. Shanxi Ande Auxiliary Transportation Co. Ltd., Changzhi, Shanxi Province, China

SMT Scharf AG holds a 40 % interest in Shanxi Ande Auxiliary Transportation Co. Ltd., Changzhi, Shanxi Province, China. The main operating activity is the production, repair and marketing of machinery and equipment of any type, and trading in such assets. SMT Scharf AG also classifies this company as a joint venture in accordance with IFRS 11, since, together with its partner entity, it owns the rights to the net assets. Joint ventures are recognised on the date of addition at cost, and measured subsequently applying the equity method.

In accordance with IFRS, the summarised financial information is provided below and corresponds to the amounts in the joint venture's financial statements as of September 30, 2019. Due to the effects of the coronavirus, the values as of the balance sheet date were not yet available at the time this report was prepared.

EUR thousand	30/09/2019	31/12/2018
Current assets	4,584	1,922
Current liabilities	3,287	651

The assets and liabilities listed above include the following amounts:

EUR thousand	30/09/2019	31/12/2018
Cash and cash equivalents	239	730
Current financial liabilities	2,602	650

EUR thousand	2019	2018
Revenue	2,212	563
Profit from continuing operations	3	1
Total comprehensive income	3	1

The profit listed above includes the following amounts:

EUR thousand	30/09/2019	31/12/2018
Interest expenses	9	3
Income taxes	1	1

No deliveries of goods were made to the joint venture in the year under review. No outstanding receivables existed as of the balance sheet date.

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

EUR thousand	30/09/2019	31/12/2018
Net assets of the joint venture	1,298	1,271
Interest held	40 %	40 %
Carrying amount of the interest	**519**	**509**

Consolidation principles

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

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

Control can also arise in cases where SMT does not hold the majority of the voting rights, if the Group is able to unilaterally determine the significant activities of the investee. All facts and circumstances are taken into consideration when assessing whether control exists. These especially include the purpose and structure of the investee, identifying its significant activities and decisions relating to them, and the relationship of the company's own voting rights in comparison to the scope and distribution of other voting rights, potential voting rights and rights arising from other contractual arrangements. All facts and circumstances subject to the exercising of management discretion must be taken into consideration when assessing whether control exists. No such case arose in the 2019 fiscal year.

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

Results from subsidiaries acquired or sold during the course of the fiscal year are recognised in the consolidated income statement and in the consolidated statement of comprehensive income with effect of the actual acquisition or disposal date. In the year under review, a 51 % interest in ser Elektronik GmbH, Möhnesee, Germany was acquired. In order to meet the requirements of Broad-Based Black Economic Empowerment (B-BBEE), 30 % of the shares in the South African company SMT Scharf Africa were divested.

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

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

Currency translation

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

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

The exchange rates for the key currencies were:

	Closing rate		Average rate	
1 Euro =	31/12/2019	31/12/2018	2019	2018
Polish Zloty	4.2568	4.3014	4.2976	4.2615
South African Rand	15.7773	16.4594	16.1757	15.6186
Chinese Renminbi Yuan	7.8205	7.8751	7.7355	7.8081
Russian Rouble	69.9563	79.7153	72.4553	74.0416
Canadian Dollar	1.4598	1.5605	1.4855	1.5294

Accounting and valuation policies

The recognition, disclosure and measurement principles were applied unchanged from the application to the previous years’ annual financial statements, unless indicated otherwise in the following.

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

Since January 1, 2018, revenue has been recognised applying the 5-step model of IFRS 15. Revenue from the sale of new equipment and spare parts is generally recognised when the customer obtains control of the product. Depending on the contractual arrangement, this may be the case when the goods are transferred ex-works or also after acceptance or commissioning. If SMT provides other services of comparatively minor importance in a direct factual and temporal context that, from the customer’s perspective, are inseparably linked to the main service, such as training for the customer’s employees, these regular services do not constitute a separable service obligation but rather form part of the main service. The new systems and spare parts are usually standard products and catalogue goods, which are configured according to the customer’s wishes.

To the extent that SMT, in addition to supplying new systems whose customer-specific configuration does not extend beyond the usual scope, also provides extensive installation services, which is the case particularly with the construction of chairlifts, revenue is recognised over the period in which the service is provided after contractually agreed milestones have been reached, in deviation from the above principle. If no milestones have been agreed, revenue is recognised according to the stage of completion, on the basis of an output-oriented method, and according to the already delivered and installed parts (units produced or delivered).

In the case of customer-specific orders for which SMT has no alternative use for the product manufactured, but for which a legal claim exists to payment for the services already rendered, revenue is also recognised on a period basis. Revenue is recognised according to the percentage of completion, which is the ratio of the factor input already rendered to the expected total factor input. Where milestones have been agreed for which individual sales prices have been set and the setting of which reflects the progress of the project, separate performance obligations alternatively exist for which the respective agreed revenues can be realised at specific points in time.

SMT also provides services such as maintenance and repairs. If these are ordered by the customer, they are invoiced on an hourly basis. Revenue is recognised on a period basis. The progress of performance is determined on an output basis according to the units produced or delivered, i.e. hours worked.

SMT also offers its customers so-called operator models in which the customer receives a logistics service. In addition to the system, SMT also provides the personnel for its operation and performs the logistics services commissioned by the customer. Invoicing occurs monthly on the basis of the hours actually worked. Revenue is recognised according to the period in which it is generated or delivered, based on output.

In some countries, the SMT Scharf Group offers an extended warranty for new systems, the remuneration for which is already received along with the proceeds from the main product. The attributable revenues are determined on an input basis (cost-to-cost method), initially deferred as a contract liability and only recognised in income over the extended warranty period. No such agreements existed as of December 31, 2019.

SMT does not adjust the amount of the promised consideration for the effects of a significant financing component if, at the inception of the contract, it is expected that the period between the transfer of a promised product or service to the customer and its payment by the customer will not exceed one year. No uniform payment conditions exist within the Group, as agreements for equipment orders are concluded individually. However, customer’s payment terms of more than one year after fulfilment of the performance obligation are not agreed. Contractual assets or contractual liabilities arise from the divergence between revenue recognition and payment by the customer prior to full performance of the service obligation. Unconditional payment claims from contracts with customers constitute trade receivables.

Revenues also include income from rental and leasing transactions. Revenues from rental and leasing transactions result from operating leasing transactions and are recognised on a straight-line basis over the term of the contracts. In addition, proceeds are sometimes generated at the end of the contract term. Income from rental agreements was recognised under accrual basis accounting as other operating income in accordance with the provisions of the underlying agreements. Income from operating leases in the meaning of IFRS 16, and in the previous year IAS 17, was recognised under accrual basis accounting as revenue in accordance with the provisions of the underlying leases.

Interest income is accrued pro rata temporis applying the effective interest method. Interest income in the amount of the interest portion of the leasing payments received within the period resulted from finance leases.

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

The EUR 1,374 thousand of goodwill reported as of December 31, 2019 (previous year: EUR 1,332 thousand) is allocated to two cash generating units (CGU): EUR 996 thousand to SMT Africa (previous year: EUR 955 thousand) and EUR 377 thousand to Nowilan (previous year: EUR 377 thousand). These are recognised at amortised cost. Goodwill is tested for impairment annually and also if indications otherwise exist of potential impairment, as a matter of principle. The recoverable amount of this CGU is measured through calculating values in use by applying the discounted cash flow method, as a matter of principle. This approach utilises the planned after tax cash flow deriving from the five-year planning for the CGU, prepared on a bottom-up basis and approved by the Managing Board of SMT Scharf AG. Cash flows beyond the five-year horizon are calculated on the basis of the average for the five-year period, as a matter of principle. No growth rate is applied to extrapolate the five-year average. An interest rate of 18.8 % (previous year: 14.1 %) was applied for SMT Africa and 13.0 % (previous year: 8.9 %) for Nowilan in order to determine the present value.

No goodwill impairment losses were recognised in the year under review.

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

Separate internally generated intangible assets are capitalised as soon as IAS 38 criteria are fulfilled cumulatively. From this date, the development or historical costs that can be directly allocated to the individual intangible assets (mostly personnel expenses), including development-related overheads, are capitalised. The capitalised assets are amortised straight-line from the date that they are available for disposal (marketability) over the anticipated product life cycle of two to eight years. All capitalised internally generated intangible assets have a limited useful life. If an intangible asset developed in house cannot be capitalised or does not yet exist, the development costs are expensed the period in which they arise.

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

Property, plant and equipment utilised in operations is measured at cost less straight-line depreciation.

Depreciation is based on the following useful lives throughout the entire Group:

	In years
Buildings	10 to 50
Technical equipment and machinery	5 to 20
Technical equipment and machinery – rented	5 to 8
Other office equipment, fixtures and fittings	2 to 13
Other office equipment, fixtures and fittings – rented	4 to 7

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

Intangible assets and property, plant and equipment are impairment tested if there are indications of this based on cash-generating units.

Government grants are recognised if sufficient certainty exists that such subsidies will be granted, and that the company fulfils the conditions with which they are linked. Such grants were not received in 2019. As a lessee, the SMT Scharf Group has entered into leases (mostly for cars, office space and office equipment), which are subject to lease accounting in the meaning of IFRS 16. A lease is defined as an agreement or part of an agreement granting the right to utilise an asset for a specified period of time in return for payment. In the case of multi-component contracts, each separate lease component is accounted for separately. The SMT Scharf Group utilises the option to waive the right to separate non-leasing components.

The SMT Scharf Group recognises a right of use and a lease liability carried under property, plant and equipment on the date when the asset is delivered. The cost of the right of use at the inception of the lease is equal to the amount of the lease liability adjusted for the Group’s initial direct costs, an estimate of the cost of dismantling and removing the asset at the end of the lease, and the lease payments made before the inception of the lease, less any incentives. In subsequent periods, the right of use is amortised and tested for impairment. As a rule, amortisation is applied straight-line over the term of the lease. If a transfer of ownership at the end of the lease term is agreed or if the lease payments taken into consideration assume the exercise of a purchase option, amortisation is applied over the economic life.

The lease liability is measured as the present value of the lease payments to be made during the lease term. The marginal borrowing rate is applied for discounting. In subsequent measurement, discounts applied to carrying amount of the lease liability are reversed applying the interest rate used for discounting, and reduced by the lease payments made.

The lease payments included in the measurement of the lease liability comprise fixed payments (including de facto fixed payments), variable payments linked to an index or (interest) rate, payments expected to be made under residual value guarantees, and payments that will be made with reasonable certainty under purchase options. Penalties for termination are also taken into consideration if the term reflects the fact that the lessee will exercise a termination option, and corresponding penalties have been agreed. Changes in leases and revaluations of lease liabilities are generally recognised directly in equity against the right of use.

The SMT Scharf Group uses the facilitation options relating to current and low value leases. The lease payments associated with the leases are expensed either straight-line basis over the lease term or on another systematic basis.

For detailed information on the assumptions and estimates made in connection with leases, particularly concerning the determination of the lease term and the marginal interest rate on debt, please refer to the comments on accounting estimates and the exercising of discretion.

In the previous year, the agreements had to be classified as operating leases in accordance with IAS 17, as all material risks and rewards associated with ownership remain with the lessor. In the previous year, lease payments for these operating leases were carried as other operating expenses over the lease period. Furthermore, the SMT Scharf Group was the lessee of individual finance leases for office furniture and servers. In this case, the SMT Scharf Group was the economic owner of the leased assets and accounted for them in its non-current assets. At the time of addition, it recognised a debt item for its lease obligations in the same amount in accordance with the fair value of the leased asset and the present value of the minimum payments, whichever was lower. While the leased asset was written down over its useful life, the lease liability was reduced in instalments by the repayment component of the lease payments remitted. With the first-time application of IFRS 16, these contracts were also transferred to the new accounting model.

The SMT Scharf Group has also concluded leases as a lessor (mostly for diesel cats and heavy load units). Leases where the economic ownership has transferred to the lessee as well as operating leases where most of the opportunities and risks that are associated with ownership remain with SMT Scharf exist. In the case of finance leases, a receivable in the amount of the net investment is reported under other receivables. This is reduced proportionally by the lease payments received. The rented leased assets are capitalised as technical equipment and machinery. Lease payments for these operating leases are recognised as revenue over the lease period. The transition to IFRS 16 has not led to any material changes in this context.

The financial assets are classified on the basis of accounting and valuation according to IFRS 9. Classification depends on the underlying business model and the so-called cash flow criterion, which is considered to be met if the contractual cash flows consist exclusively of interest and principal payments on the outstanding principal amount of the financial instrument. The business model can be either to hold, to sell, or a combination of both. If the cash flow condition is met and the business model consists in holding the financial instrument, the financial asset is recognised at amortised cost. The SMT Scharf Group mostly has financial assets that are allocated to this category. Financial assets also exist that are measured at fair value through profit or loss. This measurement category applies if either the cash flow criterion is not met, or the business model is “for sale”.

Assets in the amortised cost category are measured at amortised cost applying the effective interest method, and are subject to IFRS 9 impairment regulations. The amount of the impairment loss is based on expected credit losses, which are generally recognised in three stages. For financial assets for which no significant increase in default risk has occurred since initial recognition, the impairment loss is measured at the amount of the expected 12-month credit loss (Stage 1). In the event of a significant increase in the default risk, the expected credit loss is calculated for the remaining term of the asset (Stage 2). Past due is considered to be an indication of a significant increase in the risk of default, with additional information based on individual cases. If objective evidence of impairment exists, the underlying assets are allocated to Stage 3 with the consequence that the effective interest rate is based on the net carrying amount instead of the gross carrying amount. Indications of impaired creditworthiness exist particularly if financial difficulties on the part of the debtor become known in conjunction with an increased probability of insolvency.

For receivables deriving from operating leases, for contract assets and for trade receivables, the SMT Scharf Group applies the simplified procedure in accordance with IFRS 9, according to which the amount of the allowance for doubtful accounts is measured from the initial recognition of the receivable on the basis of the expected credit losses over the term of the receivable. The SMT Scharf Group does not have any indications that the risk of default would have increased significantly or that impairment is required for any other financial assets subject to IFRS 9 impairment requirements. As the probability of default is also estimated to be correspondingly low, no significant expected credit losses exist for these assets.

The calculation of impairment losses on financial assets that are tested for impairment on the basis of the simplified approach is based primarily on historical experience of credit defaults and current data on overdue payments. Receivables denominated in foreign currencies are translated applying the closing rate of exchange, and any resultant exchange rate differences are carried under other operating income or expense. Where available, recourse is made to internal or external information that indicates that the contractual payments cannot be made in full. If objective evidence of impairment exists, an individualised estimate of expected credit losses is made, taking events that have become known into consideration.

Financial assets are regarded as defaulted and are derecognised if no reasonable expectation of future payment exists. Financial assets at fair value through profit or loss are carried at the value deriving from the current market valuation on the balance sheet date. This corresponds to level 1 of the fair value hierarchy and pertains exclusively to securities.

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

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

In determining the impairment of inventories, the net realisable value is estimated on the basis of inventory ranges. As of December 31, 2019, the measurement period for determining the ranges was extended from the previous one year to three years in order to compensate for business-related fluctuations in individual years and thereby achieve an improved estimate of the net realisable value that more accurately reflects the actual circumstances. The revised estimate of net realisable value represents a change in estimate in accordance with IAS 8 and is consequently recognised prospectively from the date of the change. The change described above leads to an increase in inventories of EUR 621 thousand as of December 31, 2019 and a decrease in the cost of materials for the 2019 fiscal year, resulting in an increase in consolidated net income of EUR 621 thousand).

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

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

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

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

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

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

Accounting estimates and the exercising of discretion

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

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

Goodwill

The SMT Group conducts a goodwill impairment test annually, and also whenever indications exist that goodwill might have become impaired. The recoverable amount of the cash-generating units is estimated for this purpose. This recoverable amount corresponds to the higher of fair value less costs of disposal, and value in use. Calculating value in use requires adjustments and estimates to be made in relation to the forecasting and discounting of future cash flows. Although the management assumes that the assumptions applied to calculate the recoverable amount are appropriate, any unforeseen changes to such assumptions could result in an impairment loss that could exert a sustainable negative effect on the company’s financial position and performance. The carrying amount of goodwill stands at EUR 1,374 thousand as of the balance sheet date (previous year: EUR 1,332 thousand).

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

At every fiscal year-end, the Group reviews the estimated useful lives of its other intangible assets, and of its property, plant and equipment. No modifications were required for such estimates in 2019 and 2018.

Term of lease agreements, amount of minimum lease payments and estimate of the discount rate

The Group determines the expected lease term, the minimum lease payments and the discount rate at the inception of each lease. Discretionary scope arises above all if the term is not clearly defined in the contract but depends on the exercise of termination, extension or purchase options. When determining the terms of leases, the SMT Scharf Group takes into consideration all of the key facts and circumstances that provide an economic incentive to exercise or not exercise options to extend or terminate the lease. The corresponding option periods are only taken into consideration during the term of the lease if sufficient certainty exists that termination options will not be exercised, or renewal options will be exercised. This also has a direct bearing on the amount of the minimum lease payments.

The discount rate represents a further parameter associated with discretion. The interest rate is based on the risk-free interest rate for the respective country in line with the term plus SMT Scharf AG's credit surcharge of 2.0 %. This surcharge is uniform throughout the Group, as there are no material differences with regard to the credit risk within the Group.

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

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

Impairment of receivables (expected loss)

Models suitable for implementing the regulations of IFRS 9 relating to impairment, in particular for calculating the default rates (expected loss model), were developed. For receivables deriving from leases, trade receivables and contract assets, the SMT Scharf Group applies the simplified procedure in accordance with IFRS 9, according to which the amount of the allowance for doubtful accounts is measured from the initial recognition of the receivable on the basis of the expected credit losses over the term of the receivable. The valuation allowances are mainly determined on the basis of historical experience on loan defaults and current data on overdue receivables.

Taxes on income

On each reporting date, the Group assesses whether the realisability of future tax benefits is sufficiently likely for the recognition of deferred tax assets. This requires management to assess, inter alia, tax benefits deriving from future available tax strategies and future taxable income, as well as to take further positive and negative factors into consideration. The reported deferred tax assets could diminish if the estimates of the planned tax income and tax benefits achievable through available tax strategies are reduced, or if changes to current tax legislation restrict the timeframe or scope of realisability of future tax benefits. A total of EUR 2,664 thousand of deferred taxes were capitalised as of December 31, 2019 (previous year: EUR 2,512 thousand), which were offset by deferred tax liabilities of EUR 595 thousand (previous year: EUR 697 thousand).

Employee benefits

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

Notes to the income statement

(1) Revenue

The revenues shown in the income statement include both revenues from contracts with customers and other revenues that are not within the scope of IFRS 15. Revenues are analysed by product type, service type and geographic region and are presented in the tables below. For a breakdown of revenues according to reportable segments, see section (27) on segment reporting. Revenue from contracts with customers in accordance with IFRS 15 is divided between the two segments "Sale of new equipment" and "Spare parts sales and services". Other revenues mainly comprise revenues from rental and leasing transactions (IFRS 16, and in the previous year IAS 17).

As of December 31, 2019, it is expected that future revenues of EUR 24,946 thousand (previous year: EUR 19,731 thousand) from performance obligations not (or not fully) fulfilled at the end of the reporting period will be realised within the next three years.

Revenue is composed of the following items:

EUR thousand	2019	2018
Sale of new equipment	*39,391*	*33,068*
Spare parts sales and services	*35,114*	*35,150*
Revenue from contracts with customers	74,505	68,218
Other revenue	890	2,577
Total	75,395	70,795

The following table shows the breakdown by time of realisation for 2019:

	2019		2018	
EUR thousand	Period-related	Date-related	Period-related	Date-related
Sale of new equipment	1,978	37,413	151	32,917
Spare parts	0	26,977	0	28,998
Services	8,137	0	6,152	0
Other revenue	890	0	2,577	0
Total	11,005	64,390	8,880	61,915

Revenue by region was as follows:

EUR thousand	2019	2018
China	31,318	28,329
Russia and other CIS states	15,459	15,571
Poland	10,928	9,764
Germany	2,458	1,473
Africa	5,314	7,938
America	7,861	5,632
Other countries	2,057	2,088
Total	75,395	70,795

In the reporting period, revenues in the amount of EUR 996 thousand (previous year: EUR 407 thousand) were recorded, which were included in the balance of contractual liabilities at the beginning of the period.

(2) Other operating income

Other operating income is composed of the following items:

EUR thousand	2019	2018
Capitalisation of development costs	972	824
Miscellaneous other operating income	215	1,164
Reversal of individual value adjustments	1,054	0
Exchange rate gains	1,619	1,504
Release of provisions	357	282
Total	4,217	3,774

Miscellaneous other operating income include the release of the negative goodwill of ser elektronik and other income.

(3) Cost of materials

The cost of materials is composed of the following items:

EUR thousand	2019	2018
Raw materials, supplies and purchased merchandise	32,463	32,471
Purchased services	7,030	9,159
Total	39,493	41,630

As a consequence of the transfer of temporary staff to permanent contracts, the cost of materials ratio (in relation to operating performance) fell to 52.8 % (previous year: 58.6 %).

(4) Personnel expenses

Personnel expenses are composed of the following items:

EUR thousand	2019	2018
Wages and salaries	15,272	12,794
Social security and pension contributions	3,064	2,388
Total	18,336	15,182

Expenses for defined contribution pension plans, especially statutory pension insurance, of EUR 124 thousand (previous year: EUR 66 thousand) were recognised during the fiscal year under review.

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

EUR thousand	2019	2018
Employees	427	389
of which trainees	9	7
Total	427	389

(5) Depreciation, amortisation and impairment losses

EUR thousand	2019	2018
Amortisation and impairment losses applied to intangible assets	497	345
Depreciation and impairment losses applied to equity, plant and equipment	2,347	1,329
Total depreciation, amortisation and impairment losses	2,844	1,674

(6) Other operating expenses

Other operating expenses are composed of the following items:

EUR thousand	2019	2018
Valuation allowances applied to receivables	701	517
Exchange rate losses	993	1,642
Special direct cost of sales	924	832
Third-party services	3,556	2,482
Travel expenses	1,347	1,547
Rent and leases	229	756
Maintenance costs	679	619
Advertising	349	186
Contributions / fees	244	269
Energy costs	437	364
Miscellaneous other operating expenses	2,099	1,798
Total	11,558	11,012

The miscellaneous other operating expenses mostly include additions to provisions, expenses for cleaning and disposal, insurance, further training and telecommunications. The auditors' fees incurred during the fiscal year are carried under third-party services. These are comprised as follows:

EUR thousand	2019	2018
Audit	55	81
Tax consulting	6	15
Other services	8	0
Total	69	96

Tax advisory services relate exclusively to tax declaration services.

(7) Result from equity accounted investments

Income from investments arises from the positive result of the first three quarters of 2019 of the Chinese company Shandong Xinsha Monorail Co. Ltd, Xintai, China, in the amount of EUR 852 thousand (previous year: EUR 1,234 thousand) and the Chinese company Shanxi Province, Shanxi Ande Auxiliary Transportation Co. Ltd, Changzhi, China, in the amount of EUR 1 thousand (previous year: EUR 1 thousand). Both companies were unable to provide audited financial statements as of December 31, 2019 at the time this report was prepared due to the exceptional situation (coronavirus).

The related items on the balance sheet and statement of comprehensive income were renamed for better comprehensibility.

(8) Income taxes

Income taxes are composed of the following items:

EUR thousand	2019	2018
Current tax expense	1,783	1,262
of which relating to the fiscal year under review	1,783	1,262
Deferred taxes	–301	319
of which creation or reversal of temporary differences	–510	999
of which increase / decrease in loss carryforwards	209	220
Total	1,482	1,581

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

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

EUR thousand	2019	2018
Deferred tax assets		
Pension provisions	538	434
Property, plant and equipment	117	126
Inventories	1,557	898
Trade receivables	146	153
Miscellaneous assets	72	143
Other provisions	402	429
Miscellaneous liabilities	263	43
Loss carryforwards	859	1,069
Offsetting with deferred tax liabilities	–1,289	–783
Total	2,665	2,512
Deferred tax liabilities		
Intangible assets	1,128	974
Property, plant and equipment	480	443
Miscellaneous assets	104	59
Miscellaneous liabilities	172	3
Offsetting with deferred tax assets	–1,289	–783
Total	595	696

Deferred tax assets and liabilities totalling EUR 1,289 thousand were netted as they relate to future charges or reductions for the same taxpayer to the same tax authority (previous year: EUR 783 thousand). Consolidation effects arise in deferred tax assets of EUR 914 thousand (previous year: EUR 537 thousand) (included in inventories, and this year also in trade receivables) and in deferred tax liabilities of EUR 148 thousand (previous year: 0) (mainly included in intangible assets). The deferred tax position relating to actuarial gains and losses recognised in other comprehensive income amounts to EUR 155 thousand (previous year: EUR 31 thousand) and has consequently declined by EUR 124 thousand. As of December 31, 2019, deferred tax assets were carried for tax loss carryforwards in an amount of EUR 859 thousand (previous year: EUR 1,069 thousand). According to the existing legal situation in Germany, the loss carryforwards can be carried forward indefinitely in terms of time and amount (deferred taxes of EUR 531 thousand) (previous year: EUR 1,496 thousand; thereof capitalised EUR 1,069 thousand) loss carryforwards in Canada can be utilised for more than five years (deferred taxes of EUR 328 thousand) (previous year: EUR 103 thousand, thereof capitalised 0). Some of these loss carryforwards are regarded as fully (previous year: partially) realisable on the basis of the tax planning. In the previous year, no deferred taxes were recognised for loss carryforwards of EUR 1,332 thousand in Germany. In Canada, the figure was EUR 392 thousand.

On the basis of tax planning, surpluses of deferred tax assets are regarded as fully realisable. In particular, it is expected that the loss carryforwards in Germany can be realised within the existing tax group on the basis of expected income surpluses. In 2019, overall positive taxable earnings were achieved repeatedly in succession. In Canada, it is expected that earnings surpluses can be achieved from 2021 onwards by expanding income volumes.

In connection with the acquisition of ser elektronik GmbH in 2019, deferred tax liabilities in the amount of EUR 156 thousand were recognised. The value is based on a purchase price allocation, which was finalised in the course of preparing the consolidated financial statements. Preliminary valuations were selected during the year.

In connection with the acquisition of RDH in the previous year, no deferred tax assets on loss carryforwards were recognised. As of December 31, 2019, deferred tax assets in the amount of EUR 328 thousand were also recognised for the first time on loss carryforwards of RDH, as these are considered realisable based on current tax planning. Of this amount, EUR 103 thousand is attributable to losses carried forward from the previous year.

The difference between the expected income tax expense (calculated using the tax rate applicable to SMT Scharf AG of 32.1 %) and the reported tax expense is attributable to the following factors:

EUR thousand	2019	2018
Profit before income taxes	7,221	6,214
Imputed tax expense	2,318	1,995
International tax rate differences	–545	–551
Non-tax-effective income from associates	–273	–396
Non-tax-effective income from associates (negative goodwill)	7	–52
Tax effects from minimum taxation in case of utilisation of loss carryforwards	114	0
Write-up / subsequent recognition of deferred taxes	–427	–120
Formation (previous year: write-down) of deferred taxes on loss carryforwards	–328	42
Tax expenses / income relating to other periods	131	0
Non-capitalisation of deferred taxes on losses carried forward	0	69
Reduction of deferred tax on temporary differences	0	323
Other differences	485	271
Reported income tax expense	1,482	1,581

Notes to the balance sheet

(9) Intangible assets, property, plant and equipment and leased items

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

Statement of changes in non-current assets from January 1 to December 31, 2019

EUR thousand		Opening balance 01/01/2019	Exchange rate difference	Additions IFRS 16 first-time application	Addition to scope of consoliation	Addition
Goodwill	Gross	1,439	44	0	0	0
	Impairments	107	0	0	0	0
	Net	**1,332**	**44**	**0**	**0**	**0**
Purchased intangible assets	Gross	1,798	94	0	456	523
	Impairments	553	13	0	0	203
	Net	**1,245**	**81**	**0**	**456**	**320**
Purchased intangible assets (IFRS 16)	Gross	0	0	0	0	0
	Impairments	0	0	0	0	0
	Net	**0**	**0**	**0**	**0**	**0**
Purchased intangible assets	Gross	1,798	94	0	456	523
	Impairments	553	13	0	0	203
	Net	**1,245**	**81**	**0**	**456**	**320**
Own work capitalised	Gross	5,772	3	0	0	972
	Impairments	3,573	0	0	0	294
	Net	**2,199**	**3**	**0**	**0**	**678**
Intangible assets	**Gross**	**9,009**	**141**	**0**	**456**	**1,495**
	Impairments	**4,233**	**13**	**0**	**0**	**497**
	Net	**4,776**	**128**	**0**	**456**	**998**
Land and buildings	Gross	8,827	131	0	593	356
	Impairments	6,041	53	0	0	168
	Net	**2,786**	**78**	**0**	**593**	**188**
Land and buildings (IFRS 16)	Gross	0	0	995	0	0
	Impairments	0	0	0	0	413
	Net	**0**	**0**	**995**	**0**	**–413**
Land and buildings	Gross	8,827	131	995	593	356
	Impairments	6,041	53	0	0	581
	Net	**2,786**	**78**	**995**	**593**	**–225**

	Disposal	Reclassification finance lease	Transfer	Reclassification	Closing balance 31/12/2019
	0	0	0	0	1,483
	0	0	0	0	107
	0	**0**	**0**	**0**	**1,376**
	0	0	–1	0	2,870
	0	0	0	0	769
	0	**0**	**–1**	**0**	**2,101**
	0	0	0	0	0
	0	0	0	0	0
	0	**0**	**0**	**0**	**0**
	0	0	–1	0	2,870
	0	0	0	0	769
	0	**0**	**–1**	**0**	**2,101**
	324	0	0	0	6,423
	87	0	0	0	3,780
	237	**0**	**0**	**0**	**2,643**
	324	**0**	**–1**	**0**	**10,776**
	87	**0**	**0**	**0**	**4,656**
	237	**0**	**–1**	**0**	**6,120**
	0	0	–533	0	9,374
	0	0	0	0	6,262
	0	**0**	**–533**	**0**	**3,112**
	0	0	529	6	1,530
	0	0	0	0	413
	0	**0**	**529**	**6**	**1,117**
	0	0	–4	6	10,904
	0	0	0	0	6,675
	0	**0**	**529**	**6**	**4,229**

EUR thousand		Opening balance 01/01/2019	Exchange rate difference	Additions IFRS 16 first-time application	Addition to scope of consolidation	Addition
Technical equipment and machinery	Gross	4,497	207	0	266	306
	Impairments	2,163	24	0	0	720
	Net	**2,334**	**183**	**0**	**266**	**–414**
of which leased	Gross	798	0	0	0	0
	Impairments	122	0	0	0	100
	Net	**676**	**0**	**0**	**0**	**–100**
Technical equipment and machinery (IFRS 16)	Gross	0	0	62	0	0
	Impairments	0	0	0	0	11
	Net	**0**	**0**	**62**	**0**	**–11**
Technical equipment and machinery	Gross	4,497	207	62	266	306
	Impairments	2,163	24	0	0	731
	Net	**2,334**	**183**	**62**	**266**	**–425**
Office equipment, fixtures and fittings	Gross	7,623	382	0	103	1,662
	Impairments	5,903	317	0	0	937
	Net	**1,720**	**65**	**0**	**103**	**725**
of which leased	Gross	1,047	0	0	0	1,273
	Impairments	544	0	0	0	551
	Net	**503**	**0**	**0**	**0**	**722**
Office equipment, fixtures and fittings (IFRS 16)	Gross	0	0	210	0	130
	Impairments	0	0	0	0	98
	Net	**0**	**0**	**210**	**0**	**32**
Office equipment, fixtures and fittings	Gross	7,623	382	210	103	1,792
	Impairments	5,903	317	0	0	1,035
	Net	**1,720**	**65**	**210**	**103**	**757**
Advance payments rendered	Gross	25	0	0	0	13
	Impairments	0	0	0	0	0
	Net	**25**	**0**	**0**	**0**	**13**
Property, plant and equipment	**Gross**	**20,972**	**720**	**1,267**	**962**	**2,467**
	Impairments	**14,107**	**394**	**0**	**0**	**2,347**
	Net	**6,865**	**326**	**1,267**	**962**	**120**

Disposal	Reclassification finance lease	Transfer	Reclassification	Closing balance 31/12/2019
174	–20	–62	417	5,437
147	0	–11	0	2,749
27	**–20**	**–51**	**417**	**2,688**
0	0	0	0	798
0	0	0	0	222
0	**0**	**0**	**0**	**576**
0	20	55	0	137
0	0	0	0	11
0	**20**	**55**	**0**	**126**
174	0	–7	417	5,574
147	0	–11	0	2,760
27	**0**	**4**	**417**	**2,814**
301	–259	4	0	9,214
265	–76	11	0	6,827
36	**–183**	**–7**	**0**	**2,387**
128	0	0	0	2,192
104	0	0	0	991
24	**0**	**0**	**0**	**1,201**
65	259	9	0	543
17	76	0	0	157
48	**183**	**9**	**0**	**386**
366	0	13	0	9,757
282	0	11	0	6,984
84	**0**	**2**	**0**	**2,773**
25	0	0	0	13
0	0	0	0	0
25	**0**	**0**	**0**	**13**
565	**0**	**2**	**423**	**26,248**
429	**0**	**0**	**0**	**16,419**
136	**0**	**2**	**423**	**9,829**

Statement of changes in non-current assets from January 1 to December 31, 2018

EUR thousand		Opening balance 01/01/2018	Exchange rate difference	Addition	Disposal	Addition to scope of consoliation	Closing balance 31/12/2018
Goodwill	Gross	1,546	-107	0	0	0	1,439
	Impairments	107	0	0	0	0	107
	Net	**1,439**	**-107**	**0**	**0**	**0**	**1,332**
Purchased intangible assets	Gross	446	-33	13	0	1,373	1,799
	Impairments	406	-6	153	0	0	553
	Net	**40**	**-27**	**-140**	**0**	**1,373**	**1,246**
Own work capitalised	Gross	4,954	-6	824	0	0	5,772
	Impairments	3,382	0	191	0	0	3,573
	Net	**1,572**	**-6**	**633**	**0**	**0**	**2,199**
Intangible assets	**Gross**	**6,946**	**-146**	**837**	**0**	**1,373**	**9,010**
	Impairments	**3,895**	**-6**	**344**	**0**	**0**	**4,233**
	Net	**3,051**	**-140**	**493**	**0**	**1,373**	**4,777**
Land and buildings	Gross	7,183	-74	105	7	1,620	8,827
	Impairments	5,406	-24	165	7	501	6,041
	Net	**1,777**	**-50**	**-60**	**0**	**1,119**	**2,786**
Technical equipment and machinery	Gross	3,976	-282	605	186	384	4,497
	Impairments	1,513	-102	601	160	311	2,163
	Net	**2,463**	**-180**	**4**	**26**	**73**	**2,334**
of which leased	Gross	798	0	0	0	0	798
	Impairments	22	0	100	0	0	122
	Net	**776**	**0**	**-100**	**0**	**0**	**676**
Office and operating equipment	Gross	6,596	-204	1,053	452	630	7,623
	Impairments	5,454	-183	563	442	512	5,904
	Net	**1,142**	**-21**	**490**	**10**	**118**	**1,719**
of which leased	Gross	828	0	531	312	0	1,047
	Impairments	624	-2	221	299	0	544
	Net	**204**	**2**	**310**	**13**	**0**	**503**
Advance payments rendered	Gross	15	0	25	15	0	25
	Impairments	0	0	0	0	0	0
	Net	**15**	**0**	**25**	**15**	**0**	**25**
Property, plant and equipment	**Gross**	**17,770**	**-560**	**1,788**	**660**	**2,634**	**20,972**
	Impairments	**12,373**	**-309**	**1,329**	**609**	**1,324**	**14,108**
	Net	**5,397**	**-251**	**459**	**51**	**1,310**	**6,864**

Land and buildings with a carrying amount of EUR 1,777 thousand (previous year: EUR 1,777 thousand) serve as collateral for loans taken out.

The production costs of intangible assets which must be capitalised pursuant to IAS 38 are initially expensed (especially personnel expenses) according to the nature of expense format, and then eliminated through other income in the relevant period. The amortisation of internally generated intangible assets is carried as amortisation expense. Amortisation of EUR 2,844 thousand does not include any impairment loss (previous year: EUR 1,674 thousand). In 2019, development costs for new product developments in the case of drive concepts as well as from the areas of diesel cats and emission-free electric cats which met the IAS 38 capitalisation criteria were expensed. A total of EUR 972 thousand (previous year: EUR 824 thousand) was capitalised. The sum total of research and development expenses stood at EUR 2,729 thousand in the reporting year (previous year: EUR 2,659 thousand). This includes capitalized costs of EUR 972 thousand (previous year: EUR 954 thousand).

The property, plant and equipment reported on the balance sheet with a carrying amount of EUR 9,829 thousand also includes rights of use under leases. In 2019, new rights of use amounting to EUR 130 thousand were acquired. The additions related to operating and office equipment.

The following table shows the composition of the rights of use to be accounted for since January 1, 2019. The rights of use include finance leases in the amount of EUR 279 thousand, which were reported under property, plant and equipment as of December 31, 2018:

EUR thousand		01/01/2019	Reclassification of finance lease	Additions from first-time application	Addition	Disposal	Transfer	Reclassification	Closing balance 31/12/2019
Land, land rights and buildings	Gross	0	0	995	0	0	529	6	1,530
	Impairments	0	0	0	413	0	9	0	413
	Net	**0**	**0**	**995**	**–413**	**0**	**529**	**6**	**1,117**
Technical equipment and machinery	Gross	0	20	63	0	0	55	0	137
	Impairments	0	0	0	11	0	0	0	11
	Net	**0**	**20**	**63**	**–11**	**0**	**55**	**0**	**126**
Other office equipment, fixtures and fittings	Gross	0	259	210	130	65	9	0	543
	Impairments	0	76	0	98	17	0	0	156
	Net	**0**	**183**	**210**	**32**	**48**	**9**	**0**	**387**
Total	Gross	0	279	1,267	130	65	593	6	2,210
	Impairments	0	76	0	522	17	0	0	580
	Net	**0**	**203**	**1,267**	**–392**	**48**	**593**	**6**	**1,629**

The SMT Scharf Group leases internally developed machines and heavy load units as a lessor in the context of finance leases. Leased assets amounted to EUR 40 thousand as of the balance sheet date (previous year: EUR 17 thousand). The carrying amount of lease receivables stands at EUR 1,375 thousand (previous year: EUR 2,212 thousand). The decline compared to the previous year is due to the scheduled expiry of leasing agreements in 2019. In addition, the SMT Scharf Group leases to a minor extent as a lessor as part of operating leases.

(10) Loans

Loans include an amount from the sale of a minority interest in SMT Scharf Africa (Pty.) Ltd. as a consequence of the requirements of Broad-Based Black Economic Empowerment (B-BBEE). A loan was issued in the amount of the difference between the sales price achieved and the cash component received (see also section 24).

(11) Equity accounted investments

For equity accounted investments, the company makes reference to the information on joint ventures in the first part of the Notes.

(12) Inventories

Inventories are comprised as follows:

EUR thousand	2019	2018
Raw materials, consumables and supplies	13,573	10,227
Work in progress	14,421	13,835
Finished goods and merchandise	620	1,764
Carrying amount	**28,614**	**25,826**

As of December 31, 2019, write-downs of inventories to their lower net realisable value totalled EUR 2,972 thousand (previous year: EUR 3,593 thousand).

EUR thousand	2019	2018
Inventories without impairment	16,123	17,861
Inventories with impairment	12,491	7,965
Carrying amount	**28,614**	**25,826**

As of 31 December 2019, a change in estimate was made with regard to the determination of the net realisable value. See the detailed description under accounting and valuation policies.

(13) Trade receivables

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

EUR thousand	2019	2018
Carrying amount of trade receivables	29,398	25,873
of which specific valuation allowances	1,052	1,405

Reconciliation of specific valuation allowances:

EUR thousand	2019	2018
Balance January 1	1,405	888
Reversals	1,054	-
Additions	701	517
Balance December 31	**1,052**	**1,405**

All specific valuation allowances presented here relate to impairment losses on receivables from contracts with customers.

The trade receivables listed in the table are allocated to the amortised cost (AC) category.

As required by IFRS 9, the SMT Scharf Group has adopted the simplified model of expected credit losses for its trade receivables. For further information on impairment in accordance with IFRS 9, see section 25.

The due dates of trade receivables are as follows:

EUR thousand	2019	2018
Receivables not overdue	23,562	20,574
Value-adjusted overdue receivables	1,052	1,405
of which due from 90 days	1,052	1,405
Due receivables not value-adjusted	4,784	3,271
of which due between 1 and 30 days	726	1,587
of which due from 31 days	4,058	1,684
Trade receivables, total	**29,398**	**25,250**

(14) Other non-financial assets

Other non-financial assets comprise receivables and assets that do not fall within the scope of IFRS 9 and largely include tax receivables and advance payments rendered.

(15) Other current non-financial assets

EUR thousand	2019	2018
Securities	1,151	293

SMT Scharf has acquired units in a money market-like fund to secure funding for early retirement schemes. The fund has an indefinite term and is subject to only minor value fluctuations. The units are measured at fair value through profit or loss on the balance sheet date.

Of the securities, EUR 121 thousand (previous year: EUR 269 thousand) are attributable to a hardship and social fund. This fund is managed in trust by a commission which includes both employer and employee representatives.

(16) Cash and cash equivalents

Cash and cash equivalents comprise cash positions and bank deposits available short term.

(17) Equity

The changes in the SMT Scharf Group's equity are shown in the statement of changes in equity. Accumulated comprehensive income in the statement of changes in equity amounts to EUR –3,353 thousand (previous year: EUR –4,993 thousand). It comprises actuarial gains and losses of EUR –327 thousand (previous year: EUR –65 thousand) and differences in currency translation of EUR –3,026 thousand (previous year: EUR –4,928). The changes in the individual components are shown in the statement of changes in equity.

In the 2019 reporting year, the average number of shares amounted to 4,570,523 (previous year: 4,570,523).

The capital reserve includes the premium from the capital increases in 2007 and 2017, less the transaction costs, taking tax effects into consideration and additions from the sale and transfer of treasury shares. An increase due to shares to be issued also arose in the year under review (see section 29).

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 changes in the fiscal year under review can be viewed in the statement of changes in equity.

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 acquire 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 acquire 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.

Revenue reserves include actuarial gains and losses including their tax effects and other revenue reserves from the cumulative consolidated net income for the year. As of January 1, 2018, amounts from the conversion to the new accounting standard IFRS 15 were also allocated to revenue reserves (EUR 31 thousand). No effects arose from the transition to IFRS 9. Details on the changes in revenue reserves are presented in the statement of changes in equity.

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 Annual General Meeting to be held on May 26, 2020 that this accumulated loss be carried forward to a new account.

(18) Provisions for pensions

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

The amount of the pension commitment (defined benefit obligation) was calculated applying actuarial methods. In addition to the assumptions on life expectancies according to the Heubeck Richttafeln 2018 G mortality tables, the following assumptions were applied:

in % p. a.	31/12/2019	31/12/2018
Qualifying trend	2.0	2.0
Rate of pension increases	1.0	1.0
Discount rate (DBO)	0.95	1.85

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

EUR thousand	2019	2018
Defined benefit obligation on January 1	3,152	3,285
Current service cost	–30	8
Past service cost	0	6
Interest cost	56	63
Pension payments and transfers	–164	–97
Actuarial gains / losses	387	–113
of which financial assumptions	401	44
of which experience adjustments	–14	–189
of which demographic assumptions	0	32
Defined benefit obligation on December 31	**3,401**	**3,152**

A –0.5 % change in the interest rate would result in an increase in the pension obligation of EUR 261 thousand. A 0.5 % increase in the interest rate would feed through to a EUR 233 thousand reduction in the pension obligation. Both sensitivity calculations were performed while keeping all other assumptions unchanged.

Sensitivities (IAS 19.145)	DBO 2019	Change 2019	DBO 2018	Change 2018
Actuarial interest rate + 0.5 %	3,169	–233	2,944	–209
Actuarial interest rate – 0.5 %	3,663	261	3,386	233
Pension trend + 0.5 %	3,619	218	3,345	192
Pension trend – 0.5 %	3,202	–199	2,976	–176
Life expectancy +1 year	3,610	209	3,326	174

The weighted average term of the defined benefit obligation as of December 31, 2019 is 12.28 years (previous year: 14.39 years). The following payments are due in the current fiscal year and in the next three years:

EUR thousand	
Pension payments 2019	106
Expected pension payments 2020	122
Expected pension payments 2021	124
Expected pension payments 2022	146

(19) Other provisions

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

The other non-current provisions mostly relate to obligations for personnel, in particular for early retirement agreements (term until 2021), and to long-term risks from litigation (term until 2022).

The interest effect from the discounting of other non-current provisions amounts to EUR 0 thousand (previous year: EUR 2 thousand).

The changes to other provisions in 2019 can be seen in the following statement of changes in provisions.

Consolidated statement of changes in other provisions from January 1 to December 31, 2019

EUR thousand	Opening balance 01/01/2019	Currency translation	Transfers	Consumption	Additions	Reversals	Closing balance 31/12/2019
Personnel area	2,148	66	0	–1,651	1,858	–172	2,249
Sales area	1,822	11	0	–1,054	482	–95	1,166
Other areas	1,391	20	0	–1,309	1,500	–88	1,514
Other current provisions	5,361	97	0	–4,014	3,840	–355	4,929
Other non-current provisions	250	0	0	–75	46	–2	220

Consolidated statement of changes in other provisions from January 1 to December 31, 2018

EUR thousand	Opening balance 01/01/2018	Currency translation	Transfers	Consumption	Additions	Reversals	Closing balance 31/12/2018
Personnel area	1,944	–79	0	–1,362	1,702	–57	2,148
Sales area	1,128	–8	0	–442	1,222	–78	1,822
Other areas	1,149	–50	0	–684	1,123	–147	1,391
Other current provisions	4,221	–137	0	–2,488	4,047	–282	5,361
Other non-current provisions	318	–1	–46	69	48	0	250

(20) Liabilities

As was the case in the previous year, none of the trade payables, advance payments received and other current liabilities have a term of more than one year. Advance payments are unusual in the mining industry and can only be realised in non-coal mining.

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

(21) Notes to the cash flow statement

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

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

EUR thousand	2019	2018
Interest received	379	259
Interest paid	1,151	658
Interest paid on capitalised assets (IFRS 16)	64	0
Income taxes paid	1,497	2,199

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

EUR thousand	31/12/2019	31/12/2018
Cash and cash equivalents	5,230	5,410
./. Current financial liabilities (overdrafts)	7,127	2,192
Net financial position	–1,897	3,218

The table below shows a reconciliation of the financial liabilities underlying the non-cash changes:

				Non-cash changes				
EUR thousand	01/01/19	Addition from first-time application of IFRS 16	Cash flows	Reclassification	Additions from business combinations	Exchange rate differences	Fair value changes	31/12/19
Non-current leasing liabilities	173	1,041	0	−620	522	−4	0	1,112
Non-current financial liabilities	7,716	0	−419	−3,214	263	96	0	4,442
Other non-current financial liabilities	681	0	0	0	0	61	41	783
Total non-current financial liabilities	**8,570**	**1,041**	**−419**	**−3,834**	**785**	**153**	**41**	**6,337**
Current leasing liabilities	96	536	−699	620	70	−3	0	620
Current financial liabilities (cash and cash equivalents)	2,192	0	4,861	0	0	75	0	7,128
Current financial liabilities (not cash and cash equivalents)	2,171	0	−3,254	3,405	0	44	0	2,366
Total current financial liabilities	**4,459**	**536**	**908**	**4,025**	**70**	**116**	**0**	**10,114**
Total financial liabilities	**13,029**	**1,577**	**489**	**191**	**855**	**269**	**41**	**16,451**

EUR thousand	01/01/18	Addition from first-time application of IFRS 16	Cash flows	Non-cash changes Reclassification	Additions from business combinations	Exchange rate differences	Fair value changes	31/12/18
Non-current leasing liabilities	198	0	0	–25	0	0	0	173
Non-current financial liabilities	1,489	0	8,973	–2,809	70	–6	0	7,716
Other non-current financial liabilities	0	0	0	0	671	–27	36	681
Total non-current financial liabilities	**1,687**	**0**	**8,973**	**–2,834**	**741**	**–33**	**36**	**8,570**
Current leasing liabilities	72	0	0	25	0	0	0	96
Current financial liabilities (cash and cash equivalents)	5,045	0	–3,448	–1	588	7	0	2,192
Current financial liabilities (not cash and cash equivalents)	0	0	–444	1,982	622	12	0	2,171
Total current financial liabilities	**5,117**	**0**	**–3,892**	**2,006**	**1,210**	**19**	**0**	**4,459**
Total financial liabilities	**6,803**	**0**	**5,081**	**–828**	**1,951**	**–15**	**36**	**13,029**

The reclassifications derive from a reclassification from trade payables.

(22) Other financial liabilities and contingent liabilities

At the end of the fiscal year under review, contingent liabilities existed from advance payment and warranty guarantees with a total value of EUR 67 thousand (previous year: EUR 41 thousand), as well as a registered land charge on the German operating land. The investment loan of EUR 9 million received in 2018 was secured by a guarantee from SMT Scharf GmbH, Hamm. The investment loan is redeemed by quarterly repayments. The guarantee continues to exist in full.

(23) Leases

The Group is a lessee under leases for cars, office premises and office equipment. The former distinction between operating leases and finance leases no longer applies with the introduction of IFRS 16 as of January 1, 2019.

The leases have terms of up to 26 years and in some cases include extension options and price adjustment clauses (e.g. to adjust to current interest rates). When determining the lease term, the term that appears sufficiently certain under the circumstances of the individual case was selected. Extension conditions as well as any existing tenant fixtures played a role in this context. Measured by the rights of use deriving from the leasing agreements, real estate represents the main group of contracts. Their share in the rights of use as of December 31, 2019 amounts to 67.1%. The real estate contracts have the longest terms (up to 26 years) and in some cases contain extension options and price adjustment clauses. The general remarks apply to the determination of the leasing period. Leasing relationships for intangible assets did not exist on the balance sheet date.

Liabilities of EUR 1,732 thousand from the leases existed as of the reporting date (previous year: EUR 266 thousand, related only to finance leasing). They are disclosed separately under leasing liabilities and measured at amortised cost. The carrying amount of the rights of use on the balance sheet date was EUR 1,629 thousand. For more information on rights of use, see section 9.

In the previous year, finance leases related exclusively to operating and office equipment and, for the first time, to technical equipment and machinery. They had terms of up to five years. They were classified as finance leases mainly on the basis of the present value criterion (IAS 17.10 (d)) or the fact that ownership of the asset is transferred to the lessee at the end of the term (IAS 17.10 (a)). Liabilities of EUR 266 thousand from the leases existed as of the reporting date. They were disclosed under other liabilities and measured at amortised cost. Their fair value stood at EUR 265 thousand as of the previous year's balance sheet date. The carrying value of the assets capitalised in the context of finance leases totalled EUR 275 thousand on the previous year's reporting date.

As of December 31, 2019, the liabilities from leases are composed as follows:

EUR thousand	Future lease payments	Interest portion	Present value of future leasing instalments
Due within one year	641	10	631
Due in one to five years	902	62	840
Due after more than five years	263	23	240
Total	1,806	95	1,711

Lease liabilities (finance leases only) relating to the comparable period as of December 31, 2018 were as follows:

EUR thousand	Future lease payments	Interest portion	Present value of future leasing instalments
Due within one year	99	4	95
Due in one to five years	178	7	171
Due after more than five years	0	0	0
Total	277	11	266

In the previous year, the operating leases had terms of up to nine years and in some cases included extension options and price adjustment clauses. In 2018, the rental and lease agreements resulted in payments totalling EUR 756 thousand being recognised in other operating expenses. The total nominal amount of the future minimum lease payments under operating leases was composed as follows by term:

EUR thousand	31/12/2018
Due within one year	517
Due in one to five years	484
Due after more than five years	0
Total	1,001

In 2019, the rental and lease agreements resulted in payments totalling EUR 1,066 thousand (previous year: EUR 756 thousand). Some of these payments do not represent interest or principal payments, but were expensed instead. The following table shows the expenses for leases that were not included in the measurement of lease liabilities:

EUR thousand	31/12/2019
Expenses for short-term leases	367
Expenses for leases on assets of minor value	0
Variable lease payments recognised as expenses	0
Total	367

In connection with the lease liability, interest expenses of EUR 102 thousand were recognised in the income statement in 2019.

As of December 31, 2019, the Group was committed to short-term leases for which the corresponding relief option is exercised. The total commitment at this point in time amounts to EUR 0 thousand.

For further information on lessee relationships and the effects of IFRS 16 in this context, please refer to the section "Information on the consolidated financial statements".

The Group is also a lessor as part of finance and operating leases. In both cases, the assets concerned are drive units. Parking spaces are also rented as part of an operating lease agreement. In the case of finance leases, classification is essentially based on the transfer of ownership criterion and the lease term criterion. In the case of operating leases (drive machines), the leased property can be acquired by purchase after a leasing period by the lessee.

Receivables from finance leases of EUR 1,375 thousand (previous year: EUR 2,212 thousand) existed as of the reporting date. They are disclosed under lease receivables and measured at amortised cost. These led to interest income of EUR 71 thousand in the reporting year (previous year: EUR 79 thousand). No capital gains arose. The decline in lease receivables is due to the scheduled expiry of leasing agreements in 2019.

There fair value on the balance sheet date amounted to EUR 1,375 thousand (previous year: EUR 2,140 thousand). The following information is provided on receivables from finance leases:

Sum total of future minimum leasing payments (gross investment) EUR thousand	31/12/2019	31/12/2018
Due within one year	839	1,091
Due in one to two years (previous year: 1–5 years)	582	1,187
Due in two to three years	17	0
Due in three to four years	0	0
Due in four to five years	0	0
Due after more than five years	0	0
Total	1,438	2,278

Present value of outstanding minimum lease payments EUR thousand	31/12/2019	31/12/2018
Due within one year	818	1,004
Due in one to two years (previous year: 1–5 years)	541	1,136
Due in two to three years	16	0
Due in three to four years	0	0
Due in four to five years	0	0
Due after more than five years	0	0
Total	1,375	2,140
Unrealised financial income included in the outstanding minimum lease payments	63	138

The total nominal amount of the future minimum lease payments under operating leases where the Group is the lessor is composed as follows by term:

EUR thousand	31/12/2019	31/12/2018
Due within one year	269	256
Due in one to two years (previous year: 1–5 years)	214	26
Due in two to three years	112	0
Due in three to four years	0	0
Due in four to five years	0	0
Due after more than five years	0	0
Total	595	282

In the 2019 fiscal year, leasing income from rental leases amounting to EUR 382 thousand was realised.

(24) Other disclosures about financial instruments

The valuation of financial assets and liabilities is discussed in the section on accounting and valuation methods. SMT Scharf Group did not hold any held-to-maturity or available-for-sale financial instruments in either 2019 or 2018. No regroupings were implemented.

The fair values of the financial assets and liabilities were measured by applying the following hierarchy: If available, fair value is determined based on listed market prices (level 1). If no such market prices were available, the fair value was determined in accordance with generally recognised valuation models based on DCF analyses, current market transactions, and traders' listings for similar instruments. Securities measured at fair value were measured in accordance with level 1. For the other financial instruments, the carrying value corresponds to an appropriate approximation for fair value.

The fair values are presented in the following table:

31/12/2019 Balance sheet items in EUR thousand	IAS 9 category	Carrying amount	Fair value
Loans	AC	712	712
Securities	FVTPL	1,151	1,151
Cash and cash equivalents	AC	5,230	5,230
Trade receivables	AC	29,398	29,398
Lease receivables	n.a.	1,375	1,375
Non-current financial liabilities	FLAC	4,442	4,442
Trade payables	FLAC	6,543	6,543
Current financial liabilities	FLAC	9,494	9,494
Leasing liabilities	n.a.	1,732	1,732

31/12/2018 Balance sheet items in EUR thousand	IAS 39 category	Carrying amount	Fair value
Securities	FVTPL	294	294
Cash and cash equivalents	AC	5,410	5,410
Trade receivables	AC	25,873	25,873
Lease receivables	n.a.	2,212	2,212
Non-current financial liabilities	FLAC	7,716	7,716
Trade payables	FLAC	6,390	6,390
Current financial liabilities	FLAC	4,363	4,363
Leasing liabilities	n.a.	269	269

Note: FVTPL = fair value through profit or loss (financial assets at fair value through profit or loss), AC = financial assets at amortised cost, FLAC = financial liabilities at amortised cost

The securities are securities that must be carried forward in the FVTPL category as they are held in a near-money market fund that neither pays fixed interest nor makes scheduled repayments. Income derives purely from the sale of fund units.

As in the previous year, no reclassifications were implemented during the period under review.

Net gains or losses by individual IFRS 9 category

EUR thousand	2019	2018
Financial assets measured at fair value through profit or loss (FVTPL)	7	–4
Financial receivables measured at amortised cost (FLL)	353	0
Financial liabilities measured at amortised cost (FLAC)	–42	–36
Total	318	–40

Net gains comprise value allowances and currency translation.

Interest expenses of EUR 873 thousand in the fiscal year under review (previous year: EUR 591 thousand) mainly reflect the overall interest expense calculated in application of the effective interest method for financial instruments measured at amortised cost, in an amount of EUR 102 thousand leasing liabilities measured at amortised cost, and only to a minor extent accrued interest on provisions. In the previous year, only a small portion was attributable to the compounding of finance lease liabilities.

Interest income of EUR 418 thousand in the year (previous year: EUR 266 thousand) is mainly attributable to total interest income calculated by applying the effective interest method for financial instruments measured at amortised cost.

The contractual cash flows for financial liabilities are as follows:

Balance sheet items as at December 31, 2019	Carrying amount in EUR thousand	Contractually agreed cash flows	Up to 1 year	1 – 5 years	More than 5 years
Loan	348	quarterly	155	196	0
Loan	125	quarterly	126	0	0
Loan	305	quarterly	311	0	0
Loan	884	quarterly	243	537	0
Loan	1,856	quarterly	401	1,457	94
Loan	1,017	quarterly	207	801	48
Loan	1,288	quarterly	262	1,015	61
Loan	504	quarterly	117	399	0
Loan	481	quarterly	481	0	0
Total	6,808		2,303	4,405	203

Balance sheet items as at December 31, 2018	Carrying amount in EUR thousand	Contractually agreed cash flows	Up to 1 year	1 – 5 years	More than 5 years
Loan	503	quarterly	164	339	0
Loan	250	quarterly	129	128	0
Loan	611	quarterly	313	308	0
Loan	1,002	quarterly	249	807	0
Loan	3,593	quarterly	628	2,512	785
Loan	1,852	quarterly	325	1,299	406
Loan	1,852	quarterly	325	1,299	406
Loan	42	quarterly	0	42	0
Loan	183	quarterly	183	0	0
Total	9,888		2,316	6,734	1,597

Financial liabilities allocated to cash and cash equivalents are repayable at any time.

As in the previous year, value allowances applied to financial instruments did not exist, with the exception of valuation allowances applied to trade receivables.

(25) Capital management

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

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

	31/12/2019		31/12/2018	
	EUR thousand	in %	EUR thousand	in %
Equity	60,577	63.2	51,533	62.0
Non-current liabilities	10,632	11.1	12,667	15.2
Current liabilities	24,626	25.7	18,920	22.8
Total assets	95,835	100.0	83,120	100.0

(26) Financial risk management

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

Liquidity risks: The Group manages its liquidity risks by maintaining sufficient reserves, monitoring and maintaining its credit agreements, as well as forecasting and coordinating its cash inflows and outflows. The Group has access to credit lines. The undrawn amount totalled EUR 8,971 thousand on the balance sheet date (previous year: EUR 8,159 thousand). The Group also has access to guarantee credit lines. Management anticipates that the Group will be able to fulfil its other financial liabilities from its cash flow from operating activities, and from the proceeds from maturing financial assets. In addition, the Group has further funds available from the capital increase for promoting the internal and external growth of the SMT Scharf Group.

For an overview of payment obligations from lease liabilities, see Note 23, and for payment obligations from other financial liabilities, see Note 24.

Credit risks: The maximum risk of default is represented by the carrying amount of the financial assets, less impairment losses, as recognised in the consolidated financial statements. It relates to the following balance sheet items: loans, leasing receivables, trade receivables, contract assets, other current non-financial assets in the meaning of employees' pension entitlements and cash and cash equivalents.

Default risk categories: (values in EUR thousand)	Category	2019	2018
Loans	1	712	0
Trade receivables	2	29,397	23,845
Individually adjusted receivables	3	1,052	1,405
Contract assets	2	473	623
Lease receivables	2	1,375	2,212
Other current assets	n/a	1,151	294
Cash and cash equivalents	n/a	5,230	5,410

Risk management in this area is based on the principle that business relationships are entered into only with creditworthy counterparties, if necessary by obtaining collateral to mitigate default risk. The Group obtains information from independent rating agencies, other available financial information, and its own trade notes to assess creditworthiness, in particular for key accounts. Credit risks are controlled using limits for each party. These limits are reviewed and approved at least once per year. Open items are also monitored.

From this, conclusions are drawn for the amount of expected loss, which is decisive for the measurement of trade receivables. To the extent that no indications exist that the debtor's credit standing is impaired, the SMT Scharf Group does not believe that it is exposed to any material default risks from a contractual party or group of contractual parties with similar characteristics. Trade receivables exist which are due from a large number of customers distributed over various regions. As a consequence of historically low or non-existent credit defaults, the expected loss for trade receivables without any indication of an impaired credit rating of the debtor on the reporting date is EUR 0 as in the previous year.

In the SMT Scharf Group, contract assets exhibit essentially the same risk characteristics in terms of payment profile, collateral etc. as trade receivables deriving from similar contracts. The SMT Scharf Group consequently concluded that the expected loss rates for trade receivables are an appropriate approximation of the loss rates for contract assets. If, in exceptional cases, this approach is not deemed appropriate, different expected credit losses are calculated for the contractual assets. As in the previous year, the expected loss for contract assets without impaired creditworthiness of the debtor was EUR 0 on the reporting date.

For leasing receivables without indications of a deterioration of the debtor's creditworthiness, the historical default rates are also at a very low level, so that the expected credit losses amount to EUR 0 as in the previous year.

The loans received in 2019 are tested for impairment in accordance with the three-step model under IFRS 9 and are grouped in Level 1 of this model. As the probability of default is considered negligible, no expected credit loss is recognised for these loans. For information on the procedure for determining expected credit losses, see the comments on accounting policies.

If indications exist that the debtor's creditworthiness, such as if financial difficulties in connection with an increased probability of insolvency become known, recoverability is assessed on a case-by-case basis, taking into consideration the specific customer characteristics, with the corresponding assets being allocated to category 3 of the default risk categories. On the balance sheet date, doubtful trade receivables with impaired debtor credit ratings existed in an amount totalling EUR 1,566 thousand gross (previous year: EUR 1,405 thousand). The value adjustments on these receivables amount to EUR 1,566 thousand (previous year: EUR 1,405 thousand). In accordance with the fact that the expected credit loss is zero, no valuation allowances were recognised for the other trade receivables in the amount of EUR 4,784 thousand (previous year: EUR 3,271 thousand). This also includes trade receivables that were overdue as of the balance sheet date, as no significant changes in the creditworthiness of the contractual partners were identified and, in line with past experience, payment of the outstanding amounts is expected in the future. The Group does not hold collateral for these open items.

As in the previous year, no contractual assets and leasing receivables impaired debtor credit ratings exist, so that, as in the previous year, no valuation allowances were recognised for these assets. These assets, as well as trade receivables with no impaired creditworthiness of the debtor, are consequently assigned to default risk category 2.

<u>Market risks:</u> Market risks can result from changes to exchange rates (exchange rate risk) or interest rates (interest rate risk). SMT Scharf counters such risks by deploying suitable hedging and management instruments. Management and control is realised by constantly monitoring cash flow, and monthly reporting to Group management. Exchange rate risks are limited insofar as the Group mostly issues its invoices in Euros or in local currency. Otherwise, exchange rate hedges are agreed for significant transactions taking cost benefit aspects into consideration. As in the previous year, no hedging of this nature existed as of December 31, 2019. The Group is not exposed to any major interest-rate risks at present as it borrows at fixed interest rates.

(27) Segment reporting

In line with IFRS 8, the identification of reportable operating segments is based on the "management approach". According to this, the external segment reporting is performed based on the Group's internal organisation and management structure as well as the internal financial reporting to the highest management body ("chief operating decision maker"). In the SMT Scharf Group, the Managing Board of SMT Scharf AG is responsible for the assessment and control of the performance of the segments, and is the chief operating decision maker in the meaning of IFRS 8.

The Group reports on four operating segments, which are managed independently by segment boards by types of products and services, brands, sales channels and customer profiles.

The operating segments each combine their respective activities in the areas of Coal Mining, Non-Coal Mining and Tunnel.

In the Coal Mining segment, SMT Scharf sells captivated railway systems and chairlifts for underground mining. Transport equipment and logistics systems are deployed in hard coal mines around the world and feature sophisticated explosion protection. The monorail, suspended from a single track and used in mining operations in coal mines, is offered as a core product.

In the Non-Coal Mining segment, SMT Scharf sells rail systems and high-performance vehicles equipped with rubber wheels to operators of underground mines for the production of metals such as gold, platinum, copper and other raw materials. The company sells customised transport and logistics solutions for hard rock mining which, in contrast to coal mining, does not require special explosion protection.

In the Tunnel segment, SMT Scharf focuses on the tunnel logistics business for large-scale construction sites. The company offers a wide range of vehicles equipped with rubber wheels which can be deployed in the realisation of infrastructure projects in tunnel construction. Intersegment revenues and inputs are of minor significance, and are not reported separately.

The new Other Industries segment covers business outside the scope of underground mining and tunnel logistics. With the acquisition of ser elektronik GmbH, SMT Scharf has expanded its portfolio to include expertise in electronics and control systems, which are integrated into SMT Scharf's transport solutions. In addition, ser elektronik develops customer-specific solutions for various sectors, including the food industry and medical technology.

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

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

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

The degree of dependence on key customers is low as SMT Scharf products can be modified for other customers with a minimum amount of effort.

Unallocated assets and liabilities relate to deferred taxes.

Segment reporting 31/12/2019

	Coal mining		Non-Coal mining		Tunnel		Other industries		Not allocated		SMT Scharf Group	
EUR thousand	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Revenue	60,591	55,659	11,983	14,889	891	247	1,930	-	-	-	75,395	70,795
of which new equipment	32,008	27,412	4,679	8,234	774	-	1,930	-	-	-	39,391	35,646
of which spare parts	22,798	22,500	4,063	6,251	117	247	-	-	-	-	26,978	28,998
of which others	4,895	3,170	3,241	404	-	-	-	-	-	-	8,136	3,574
of which service	890	2,577	-	-	-	-	-	-	-	-	890	2,577
Operating result (EBIT)	7,790	5,212	(770)	257	(143)	(166)	(56)	-	-	-	6,822	5,304
Earnings from equity accounted companies	853	1,235	-	-	-	-	-	-	-	-	853	1,235
Segment assets	75,589	67,755	15,275	13,640	176	213	2,130	-	2,665	2,512	95,835	84,120
Segment liabilities	24,856	27,698	8,632	3,126	61	67	1,115	-	595	697	35,259	31,587
Segment investments	4,831	3,032	315	19	20	-	1,482	-	-	-	6,648	3,051
of which IFRS 16	1,115	-	88	-	-	-	64	-	-	-	1,267	-
Interests in equity accounted companies	6,746	5,824	-	-	-	-	-	-	-	-	6,746	5,824
Scheduled amortisation	2,319	1,373	394	292	33	9	98	-	-	-	2,844	1,674
FTEs	411	317	-	77	3	3	18	-	-	-	432	397

Segment reporting 31/12/2018

	Coal mining		Non-Coal mining		Tunnel		Not allocated		SMT Scharf Group	
EUR thousand	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Revenue	55,659	43,555	14,889	8,424	247	152	-	-	70,795	52,131
of which new equipment	27,412	18,115	8,234	4,576	-	-	-	-	35,646	22,691
of which spare parts	22,500	20,925	6,251	3,497	247	152	-	-	28,998	24,574
of which others	5,747	4,515	404	351	-	-	-	-	6,151	4,866
Operating result (EBIT)	5,212	3,944	257	919	(166)	(308)	-	-	5,304	4,554
Earnings from equity accounted companies	1,235	585	-	-	-	-	-	-	1,235	585
Segment assets	66,755	64,150	13,640	4,902	213	123	2,512	3,092	83,120	72,267
Segment liabilities	27,698	22,024	3,126	1,048	67	35	697	452	31,587	23,559
Segment investments	3,032	1,854	19	13	-	1	-	-	3,051	1,868
Interests in equity accounted companies	5,824	4,127	-	-	-	-	-	-	5,824	4,127
Scheduled amortisation	1,373	1,233	292	61	9	4	-	-	1,674	1,298
FTEs	314	283	80	31	3	3	-	-	397	317

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

Of the non-current assets, EUR 7,060 thousand (previous year: EUR 4,979 thousand) are attributable to Germany and EUR 7,109 thousand (previous year: EUR 5,369 thousand) to other countries.

(28) Supervisory Board

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 Controling 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 compensation in the form of a share in the consolidated net profit, calculated as follows: the annual performance-related compensation 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 result is determined on the basis of the IFRS consolidated financial statements for the fiscal 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 recognised as expenses for the 2019 fiscal year:

	2019			2018		
EUR thousand	Velthuis	Vorsteher	Gattineau	Velthuis	Vorsteher	Gattineau
Fixed remuneration	36	18	18	36	18	18
Variable remuneration	24	12	12	24	12	12
Meeting fees	10	5	5	10	5	5
Total	70	35	35	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).

(29) Managing Board

During the fiscal year under review, the Managing Board of SMT Scharf AG consisted of Mr. Hans Joachim Theiss (Managing Board Chairman / CEO) and Mr. Wolfgang Embert.

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 229 thousand exist for former Managing Board members (previous year: EUR 213 thousand). Pension commitments of EUR 34 thousand exist for current Managing Board members (previous year: EUR 3 thousand). 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:

	Theiss			Embert		
EUR thousand	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 2018	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-related remuneration 2018	188			123		

	Theiss			Embert			Oberhaus		
EUR thousand	2018	Min 2018	Max 2018	2018	Min 2018	Max 2018	2018	Min 2018	Max 2018
a) Non-performance-related remuneration	268	268	268	201	201	201	173	173	173
b) Performance-related remuneration 2018	172	0	252	119	0	189	119	0	189
Total remuneration (a+b)	440	268	520	320	201	390	292	173	362
Payment from performance-related remuneration 2017	165			104			104		

Last year, all of the Managing Board members of SMT Scharf AG received share-based remuneration. Each annual increase in the share price was rewarded with a bonus of a contractually agreed amount for each EUR 1. This was included in the provision at the end of the previous year's report, but was not transferred to the Managing Board. The information contained in the table for the basic remuneration, fringe benefits and the part of the bonus based on the achievement of EBIT and sales growth targets corresponded to each other in terms of the amount of the provision and inflow.

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 of 0.2 % (Theiss) and 0.15 % (Embert) is based on the growth of revenue in accordance with the IFRS consolidated financial statements for the fiscal year in question, 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 net profit excluding other comprehensive income (OCI), less interest on equity, 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 is 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 September 3, 2018 grant date was decisive for the valuation of the additional compensation. This amounted to EUR 17.50 and remains constant for the period over which the compensation expense is distributed. The resultant total compensation expense of EUR 673,680 is distributed pro rata temporis over the January 1, 2019 to December 31, 2023 period. This led to expenses of EUR 134,735 in the 2019 fiscal year (Theiss EUR 85 735, Embert EUR 49 000). The booking is applied to 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.

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 (previous year: 10,000), and Wolfgang Embert 14,000 shares (previous year: 1,000).

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.

(30) Related party disclosures

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

Business transactions between the parent company and its subsidiaries which are regarded as related enterprises are eliminated through consolidation and are not explained in these notes to the financial statements. Concerning at equity exchange relationships, reference is made to the explanations on joint ventures.

Along with these business relationships, no transactions occurred in the current fiscal year under review. In the previous year, EUR 7 thousand of consulting services were purchased from a key management member. No open liabilities exist as of the balance sheet date (previous year: 0). No services were provided to related parties.

For further details on the remuneration of key management personnel, please refer to the information on the Managing and Supervisory boards as only they are defined as such.

(31) 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 IFRS consolidated financial statements of SMT Scharf AG as of December 31, 2019, give a true and fair view of the Group's financial position and performance, and the Group management report for the 2019 fiscal year presents the Group's business including its results and the Group's position such as to give a true and fair view, and describes the major opportunities and risks pertaining to the Group's anticipated growth and development.

Hamm, March 30, 2020

The Managing Board

Hans Joachim Theiss　　　Wolfgang Embert

CERTIFICATE OF THE INDEPENDENT AUDITOR

to SMT Scharf AG, Hamm

Certificate concerning the audit of the annual financial statements and management report

Short-form audit opinions

We have audited the consolidated financial statements of SMT Scharf AG, Hamm, and its subsidiaries (the Group) – consisting of the consolidated balance sheet as of December 31, 2019, the consolidated statement of income, the consolidated statement of changes in equity and the consolidated cash flow statement for the financial year from January 1 to December 31, 2019, as well as the notes to the consolidated financial statements, including a summary of significant accounting policies. We have also audited the Group management report of SMT Scharf AG, Hamm, 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 Group management report mentioned in the annex.

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

- the accompanying consolidated financial statements comply in all material respects with IFRSs as adopted by the EU, the additional requirements of German law pursuant to Section 315e (1) of the German Commercial Code (HGB) and give a true and fair view of the net assets and financial position of the Group as of December 31, 2019, and of its results of operations for the fiscal year from January 1 to December 31, 2019, in accordance with these requirements, and
- the attached Group management report provides a suitable understanding of the Group's position. In all material respects, this Group management report is consistent with the consolidated financial statements, complies with German legal requirements and suitably presents the opportunities and risks relating to future developments. Our audit opinion on the Group management report does not extend to the contents of the components of the Group management report listed in the annex.

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

Basis for the audit opinions

We conducted our audit of the consolidated financial statements and the Group 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 consolidated financial statements and the Group management report" of our audit opinion. We are independent of the Group companies 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 consolidated financial statements and the Group management report.

Particularly important audit issues in the audit of the consolidated 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 consolidated 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 consolidated 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 matters set out below were the most significant matters arising from our audit.

1. The value retention of trade receivables

Reasons for designation as a particularly important audit subject

Trade receivables represent a material item in the consolidated financial statements, and amount to EUR 29.4 million as of December 31, 2019 (December 31, 2018: EUR 25.2 million). This corresponds to 31 % of total assets (previous year: 30 %).

Due to the SMT Scharf Group's business activities, receivables are mainly due from customers abroad. In previous financial years, Chinese customers, in particular, repeatedly failed to meet payment targets. By agreeing payment plans with these customers, the receivables portfolio is being successively reduced.

In addition to the age structure of trade receivables, the assessment of the need for impairment is based primarily on estimates and assessments of the creditworthiness of the respective customer, country-specific risks, and current economic developments as well as an analysis of historical bad debt losses. The value adjustments on trade receivables are determined on a case-by-case basis based on an analysis of the ratios of actual collectability. The special customer characteristics are taken into consideration of operators of mines that are predominantly operated by companies in which the state holds an interest or which are under state control. This applies, in particular, to customers in China, Poland and Russia.

The assessment of recoverability, especially in relation to trade receivables from the operating companies of mines (Coal segment), is subject to particular judgment and depends on the legal representatives' estimates and assumptions. Accordingly, a risk exists that value adjustments on trade receivables may not have been applied in sufficient amounts.

Our approach to the audit

As part of our audit of the financial statements, we examined the procedures and underlying controls for the subsequent measurement of trade receivables. Our audit procedures included, in particular, an examination of the existence and correctness of the trade receivables and an assessment of their valuation as of the balance sheet date. We examined the receivables portfolio for their existence by means of balance confirmation requests and also performed audit procedures to verify the internal control system in the areas of sales and receivables management.

We have assessed the appropriateness of significant assumptions and judgements applied in the determination of impairment. The SMT Scharf Group's assessment of the respective customers' creditworthiness and of current economic trends was implemented at the level of the operating companies. We also analysed the age structure of trade receivables. For overdue trade receivables for which long-term payment schedules have been agreed, we examined compliance with these schedules on a case-by-case basis. In addition, we examined overdue trade receivables on a sample basis based on risk considerations.

We compared the procedure with the accounting and valuation policies applied by the Company and performed random arithmetic checks. We continued to assess the value adjustments determined against the background of past experience by means of analytical comparisons with the write-downs applied in previous years to individual accounts receivable and to the total trade accounts receivable position.

Reference to related information

For the accounting and valuation policies applied, please refer to the notes to the consolidated financial statements in the section "Accounting and valuation policies". Information on term structure and value retention is presented in note 13 to the consolidated financial statements.

2. Implementation of the introduction of IFRS 16 – Leases

Reasons for designation as a particularly important audit subject

In the consolidated financial statements of SMT Scharf AG, the first-time application of the new accounting standard for the accounting of leases (IFRS 16) has led to effects on the opening balance sheet values, and the accounting treatment of leases has necessitated a direct recognition of the relevant contracts, as well as the Group-wide evaluation of contractual bases in relation to the new accounting regulations, which entail discretionary decisions. The subsequent determination of the effects of first-time application also required assumptions and estimates on the part of the Company. As a consequence, new rights-of-use and lease liabilities were recognised as of January 1, 2019. SMT Scharf AG applied IFRS 16 – Leases as of January 1, 2019 on a modified retrospective basis, in other words, without retrospective adjustment of the comparative period.

In our opinion, this audit issue is of particular importance as the first-time application of IFRS 16 – Leases in the 2019 fiscal year is particularly complex due to the necessary Group-wide assessment of contractual bases in relation to the new criteria relevant to accounting, and the discretionary decisions and estimates to be made.

Our approach to the audit

As part of our audit of the financial statements, we discussed the methods, procedures and control mechanisms for assessing leases that are defined internally within the Company, and the approach of SMT Scharf AG in connection with the first-time application of IFRS 16 – Leases. We have fully recognised leases at the date of transition to IFRS 16 – Leases by comparing the number of contracts with those previously classified as operating leases under IAS 17. Our audit procedures also included a comparison of the data utilised for the valuation of rights-of-use and lease liabilities with the underlying contract data. We determined our selection on the basis of qualitative and quantitative characteristics in a risk-oriented manner. We retraced the procedure of the tool used by SMT Scharf to determine the value of rights-of-use and lease liabilities. We verified the resultant bookings with our own calculations and checked the plausibility of the discount rates applied by comparing them with market data. We also satisfied ourselves that the assumptions made have been adequately documented.

Moreover, we also assessed whether SMT Scharf AG has adequately presented the first-time application of IFRS 16 – Leases, including the key discretionary decisions and estimates in the notes to the financial statements.

Reference to related information

For information on the accounting and valuation policies applied, including information on the first-time application, please refer to the notes to the consolidated financial statements in the section “Changes in accounting and valuation policies”. In relation to rights-of-use and lease liabilities, we refer to the information on composition and valuation in the notes to the consolidated financial statements under notes 9 and 23.

3. Changes in estimates of raw materials, consumables and supplies (IAS 8)

Reasons for designation as a particularly important audit subject

Inventories form a key item in the SMT Scharf Group's consolidated financial statements and amount to a total of EUR 28.6 million as of December 31, 2019 (December 31, 2018: EUR 25.8 million). This corresponds to 30 % of total assets (previous year: 31 %).

The high proportion of service business leads to a comparatively high level of inventories in order to be able to realise deliveries when required. New systems are usually only manufactured when a corresponding sales order is received.

Inventories are always valued at cost of production on a system-supported basis. Inventory risks arising from the storage period and / or reduced usability are reflected by means of appropriate value adjustments. The assessment of the need for a value adjustment is essentially based on a days-of-inventory analysis. The assessment of recoverability is based on a standardised procedure and is consequently only subject to a limited degree of discretion. Historical transaction data form the basis for the days-of-inventory analysis.

The valuation of raw materials and supplies was modified in the 2019 financial year. The assessment of the need for an impairment loss has been modified in that the horizon for historical transaction data on consumption and sales has been extended. The days-of-inventory analysis has been extended from one year to three years and the first-time formation of new inventories is taken into consideration.

A prospective adjustment was applied due to the material change in an accounting estimate, as this change is material and can influence the addressee's financial decisions.

Our approach to the audit

As part of our audit of the financial statements, we examined the procedures and underlying controls for the measurement of inventories. Our audit procedures included, in particular, an examination of the existence and correctness of the inventory position and an assessment of its valuation as of the balance sheet date. We checked the stock on hand for its existence by means of inventory observation. In addition, we conducted audit procedures to verify the internal control system in the purchasing and materials management areas. We assessed the appropriateness of the assumptions relevant for the valuation. We appraised the suitability of the IT-supported write-down procedure for determining inventory risks. To this end, we assessed the implementation of the write-down procedures in the system. We compared the calculation logic of the model applied by the Company and performed random arithmetic checks. Furthermore, we assessed the write-downs determined against the background of past experience by means of analytical comparisons with the write-downs applied in previous years to individual articles and to the total position.

We analysed the appropriateness of the material change in accounting estimate by applying the previous valuation method. We compared the write-downs calculated to date from previous years with the newly calculated write-downs and retraced them based on elements selected on a risk-oriented basis. Furthermore, we gained an understanding of the consumption of raw materials and supplies, which we also retraced based on elements selected on a risk-oriented basis.

The SMT Scharf Group's valuation of inventories was assessed at operating company level, as was the correct execution of stocktaking.

Reference to related information

For the accounting and valuation policies applied, please refer to the notes to the consolidated financial statements in the section "Accounting and valuation policies". Information on the composition and valuation of inventories is provided in note 12 to the consolidated financial statements.

Other information

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

- the corporate governance declaration,
- the remaining parts of the annual report, with the exception of the audited consolidated financial statements, the Group management report and our audit opinion,
- the statements in the Group management report on the legal requirements of Broad-Based Black Economic Empowerment in South Africa (B-BBEE),
- the Corporate Governance Report in accordance with No. 3.10 of the German Corporate Governance Code and
- the assurance pursuant to Section 297 (2) Clause 4 HGB relating to the consolidated financial statements and the assurance pursuant to Section 315 (1) Clause 6 HGB relating to the Group management report.

Our audit opinions on the consolidated financial statements and the Group 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 consolidated financial statements, with the Group 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 that fact. We have nothing to report in this context.

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

The legal representatives are responsible for the preparation of the consolidated financial statements in accordance with IFRS as adopted by the EU, and the additional requirements of German law pursuant to Section 315e (1) HGB, and for the presentation of the Group's financial position and performance in accordance with these requirements. In addition, the legal representatives are responsible for internal controls relevant to the preparation of financial statements that are free of material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the legal representatives are responsible for assessing the Group'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. Furthermore, they are responsible for financial accounting under the going concern assumption unless an intention exists to liquidate the Group or to discontinue operations, or no realistic alternative exists.

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

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

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

Our objective is to obtain reasonable assurance as to whether the consolidated financial statements as a whole are free of material misstatement, whether intentional or unintentional, and whether the Group management report as a whole provides a suitable view of the Group's position and is consistent, in all material respects, with the consolidated 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 consolidated financial statements and the Group 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 economic decisions of users made on the basis of these consolidated financial statements and the Group 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 consolidated financial statements and the Group management report, plan and perform the audit procedures in response to those 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 consolidated financial statements and the precautions and measures relevant to the audit of the Group management report in order to plan audit procedures that are appropriate in the circumstances, but 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 Group'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 consolidated financial statements and on the Group 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 Group no longer being able to continue its business activities.

- we assess the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements give a true and fair view of the Group's financial position and performance in accordance with IFRS as adopted by the EU and the additional requirements of German law pursuant to Section 315e (1) HGB.

- we obtain sufficient suitable audit evidence for the financial accounting information of the companies or business activities within the Group to express an opinion on the consolidated financial statements and the Group management report. We are responsible for the direction, monitoring and performance of the audit of the consolidated financial statements. We bear sole responsibility for our audit opinions.

- we assess the Group management report's consistency with the consolidated financial statements, its legal conformity, and the view it conveys of the Group's position.

- we perform audit procedures on the forward-looking statements made by management in the Group 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 consolidated 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.

OTHER STATUTORY AND OTHER LEGAL REQUIREMENTS

Other information pursuant to Article 10 EU Audit Regulation No. 537 / 2014

We were appointed as auditors of the consolidated financial statements by the Annual General Meeting on May 21, 2019. We were engaged by the Supervisory Board on August 9, 2019. We have been the auditors of the consolidated financial statements of SMT Scharf AG, Hamm, on an uninterrupted basis since the 2016 fiscal year.

We declare that the audit opinions contained in this opinion are consistent with the additional report to the Supervisory Board pursuant to Article 11 EU Audit Regulation No. 537 / 2014 (Auditor's Report).

CERTIFIED PUBLIC AUDITOR

The certified public auditor responsible for the audit is Peter Stramitzer.

Cologne, March 30, 2020

Rödl & Partner GmbH

Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

[signed] Groll	[signed] Stramitzer
Certified Public Auditor	Certified Public Auditor

APPENDIX TO THE AUDITOR'S REPORT: COMPONENTS OF THE GROUP MANAGEMENT REPORT NOT AUDITED FOR CONTENT

We have not audited the content of the following components of the Group management report:

- the corporate governance declaration, and
- the statements in the Group Management Report on the legal requirements of Broad-Based Black Economic Empowerment in South Africa (B-BBEE).

DECLARATION BY THE MANAGING AND SUPERVISORY BOARDS OF SMT SCHARF AG PURSUANT TO SECTION 161 WPHG RELATING TO THE RECOMMENDATIONS OF THE "GERMAN CORPORATE GOVERNANCE CODE GOVERNMENT COMMISSION" IN THE VERSION DATED FEBRUARY 7, 2017

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

- Section 5.3 of the Code
  The Supervisory Board has not established any committees because it consists of only three members. As all pending issues and decisions are dealt with by the board, the Supervisory Board does not believe that the formation of committees would be expedient. The tasks assigned to the Audit Committee are performed by the plenary Supervisory Board as a whole.

- Section 5.1.2 of the Code
  Diversity did not form a separate criterion in the composition of the Managing Board. This may also be the case in the future. This is because the Supervisory Board is convinced that with a Management Board consisting of only two members, the selection of Management Board members should be based solely on the candidates' professional and personal suitability.

- Sections 5.1.2 and 5.4.1 of the Code
  No age limits are in place at present for members of the Management and Supervisory boards, as this would generally restrict the selection of qualified candidates.

- Section 3.8 of the Code
  A deductible in the D&O insurance for the Supervisory Board has not been agreed, as the company does not believe that such a deductible would exert a motivating or responsibility-enhancing effect on the Supervisory Board members' conduct. In addition, the new version of the Code dated May 9, 2019 no longer recommends that D&O insurance should include a deductible

Hamm, December 9, 2019

(Prof. Dr. Louis Velthuis)	(Dr. Dirk Vorsteher)	(Dorothea Gattineau)
(Hans Joachim Theiss)	(Wolfgang Embert)	

FINANCIAL CALENDAR

May 14, 2020	Publication of the financial report for the 1st quarter 2020
May 26, 2020	Annual general meeting
August 14, 2020	Publication of the 6-month report 2020
November 12, 2020	Publication of the financial report for the 3rd quarter 2020
December 31, 2020	End of the fiscal year

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LEGAL NOTICE

This annual report contains forward-looking statements based on estimates of future trends on the part of the Executive Board. The statements and estimates have been made in view of all information available at present. Should the assumptions underlying such statements and estimates fail to materialize, actual results May differ from current expectations.

This annual report and the information contained therein do not constitute an offer for sale either in Germany or in any other country; nor do they constitute a demand to purchase securities of SMT Scharf AG, in particular if this type of offer or demand is prohibited or not authorized. Potential investors in shares of SMT Scharf AG must obtain information on any such restrictions and adhere to these.

The annual financial reports of SMT Scharf AG and of the SMT Scharf Group are published in Geman and English. In case of discrepancies the German version prevails. The graphics in the section “Group management report” do not form part of the Group management report audited by SMT Scharf AG’s auditors.

Photos:

iStock:
Page 14, page 17: 172129431, jerryhat; page 14: 519131718, svet110
Shutterstock:
Page 14: 102564176, Sopotnicki; Cover, page 14, Seite 19: 1046352697, Nyura; page 14 502127542, Aksenenko Olga Pixabay:
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