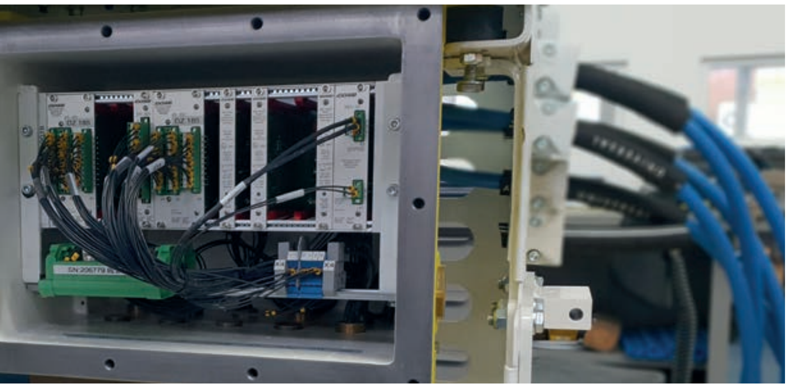


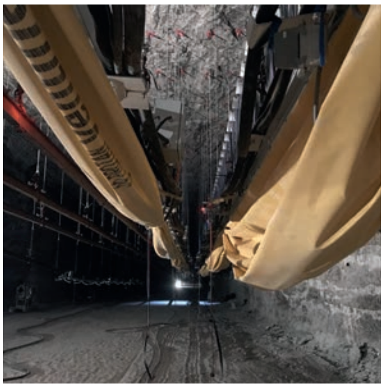
2020
ANNUAL REPORT












SCHARF

SEVEN-YEAR COMPARISON OF KEY FINANCIALS

		2014	2015	2016	2017	2018	2019	2020
Income statement data								
Revenue	TEUR	47,820	50,303	42,565	52,131	70,795	75,395	50,180
Revenue share outside Germany	%	87	90	92	95	98	97	96
Operating output	TEUR	45,681	50,016	42,241	53,114	71,028	74,837	56,331
EBIT	TEUR	–1,511	2,263	2,473	4,554	5,304	6,822	-8,130
EBIT margin	%	–3.3	4.6	5.9	8.6	7.5	9.1	-14,4
Net income	TEUR	–1,082	1,472	1,873	3,982	4,633	5,739	-8,054
Balance sheet data								
Total assets	TEUR	60,480	58,629	59,412	72,267	83,120	95,835	83,543
Equity	TEUR	36,869	37,025	39,297	48,709	51,533	60,577	48,453
Equity ratio	%	61	63	66	67	62	63	58
Cash and cash equivalents	TEUR	6,647	5,197	6,638	12,886	5,410	5,230	4,402
Personnel Data								
Average number of employees		284	280	298	312	389	427	418
Share of employees outside Germany	%	63	69	72	73	74	70	69
Share data								
Earnings per share	EUR	–0.26	0.36	0.45	0.94	1.01	1.20	-1.79
Dividend	EUR	0.00	0.00	0.00	0.00	0.00	0,00	0

CONTENTS

TO OUR SHAREHOLDERS

INTERVIEW WITH THE MANAGING BOARD

How do you assess business trends in 2020?

Hans Joachim Theiss: The performance of the SMT Scharf Group in 2020 was noticeably different to what was assumed at the start of the year. Business trends last year were significantly impacted by the economic effects of the coronavirus pandemic, which considerably affected both our new equipment and after-sales businesses. This was unique in this form in our company's long history. Our sites in China, Canada and South Africa were closed temporarily, and government restrictions made it difficult to do business in our target markets on an continuing basis. In combination with the impairment charges and the delayed approval of the China III machines, which was also caused by coronavirus, this ultimately led to a significant decrease in both revenue and earnings in the past fiscal year.

What significance does "China III" have for your business? And are you adjusting to this in terms of production and development?

Wolfgang Embert: We worked hard at an early stage in product development to create a completely revised generation of machines for the Chinese market in the form of the DZK3500, which we transferred to series production after successfully passing the engine test in 2020. An optimised engine with an intelligent management system forms the heart of the system. This complies with the China III emissions directive, which has been in force since January 1, 2021. The engine also offers 15 % higher drive power. From 2021, more stringent requirements will be mandatory for mining companies in China. Due to the expected high demand, we have planned for corresponding production capacities at our individual locations, particularly including at our home location in Hamm. Consequently, we are well prepared for a successful market launch.

Hans Joachim Theiss: The pandemic delayed the approval process beyond the year-end. We expect that approval for China III machines will be granted in the first half of 2021. We already have some orders on our books, but we have not yet been able to process and deliver them on a large scale. We expect China III will give a strong boost to revenue over the course of the year and create attractive growth opportunities for our company in the near future. China is the world's largest coal producer, new high-tech mines are being built there constantly, and the country's declared political aim is to equip both old and new mines with efficient, safe transport technology that is optimised for employees' needs. As in the important foreign markets of Russia and Poland, we intend to supply Chinese mining companies that wish to equip their mines for hard coal extraction with modern and specific transport solutions.

The Managing Board of SMT Scharf AG

Coal as an energy source is viewed in an increasingly critical light. Everyone is talking about the need for sustainability. What are SMT Scharf's prospects in the coal market?

Hans Joachim Theiss: The desired energy revolution will not be possible without coal. Recent studies by the International Energy Agency (IEA) forecast that coal will continue to be indispensable in the coming decades if the world's growing energy needs are to be met. For example, coal consumption has increased by over 60 % over the last 18 years to 5,357 Mtce in 2017, in line with an expanding global economy. In its main scenario, the IEA forecasts coal consumption in 2040 comparable to that in 2017. As a consequence, the coal market will remain a relevant market for SMT Scharf for the time being, with good money to be earned. On the other hand, with our activities we will continue to make the company broader and more independent of the coal market.

Wolfgang Embert: Speaking of sustainability, as a specialist engineering company we contribute to better working conditions in mining raw materials underground with our innovations and customised transport solutions. In mining, the reduction of pollutants and associated improvement of working conditions underground is becoming increasingly important. Many companies are now looking intensively at using electric vehicles in underground mining. These vehicles significantly reduce the impact of heat, particulate matter, noise, and pollutants such as NOx and CO2. Electric vehicles are locally emission-free. This reduces the need for fresh air, in other words, the costly supply of fresh air and cooling underground, in the long term. This is of particular interest where additional cooling of fresh air is necessary due to large depths. This is the case in South Africa's gold and platinum mines, for example.

Hans Joachim Theiss: Electric vehicles require significantly less maintenance than vehicles with combustion engines, and thereby contribute to cost savings long-term. Electric vehicles offer one disadvantage: they are much more expensive to buy than diesel vehicles, so mine operators give careful consideration to converting to vehicles with electric drive systems. Although the maintenance effort for electric vehicles is significantly reduced compared to conventional drive systems, electromobility poses significant challenges for the operators' day-to-day business in terms of infrastructure and employee qualifications.

What is SMT Scharf doing to meet demand for electric vehicles?

Wolfgang Embert: In principle, we have proven battery and electrical expertise within the company and we can meet demand for electrically powered drive systems. One advantage of our modular product concept is that we can act flexibly and are able to equip and develop the vehicles individually according to customer requirements. In order to be able to meet the demand for electric vehicles that is anticipated, we have made considerable efforts in order to provide personnel with the necessary qualifications, as well create the requisite production facilities.

In addition to our core business, we are investigating whether with such emission-free transport solutions we can also enter new application areas outside mining. As these vehicles have a significantly better net ecological impact than combustion vehicles, they are increasingly becoming the focus of local authorities, for example, in order to counteract emission problems in a manner that attracts positive attention from the public.

Hans Joachim Theiss: Last year, we entered into a strategic partnership with Polymetal International in order to develop underground electric vehicles. As part of the first order worth a total of more than EUR 4 million, we are developing and producing electric-powered drive loaders as well as medium-duty underground trucks as prototypes for Polymetal. The vehicles that have been ordered will be deployed for underground gold mining in Russia and will be tested there as a basis for further vehicle deliveries of the same type. We aim to develop further electric commercial vehicles in the future.

What is your forecast for 2021?

Hans Joachim Theiss: For the time being we expect that the economic effects of the COVID-19 pandemic will continue to impact the SMT Scharf Group's business activities in the global mining equipment market. It is important that we see SMT Scharf as continuing to be well positioned as a niche specialist. We identify attractive long-term growth

opportunities in our business areas, not least due to urban developments worldwide, high demand for economically strategic raw materials and, of course, electromobility. On the basis of conservative assumptions, we anticipate Group revenue in a range between EUR 65 million and EUR 70 million for the 2021 fiscal year, and EBIT in a range between EUR 2.5 million and EUR 3.0 million. We will continue to work on the important strategic issues in order to leverage the next upturn in mining after the coronavirus crisis, and to return to the profitable growth of the years before coronavirus.

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, Head of Finance

No positions held at other companies

REPORT OF THE SUPERVISORY BOARD FOR THE 2020 FISCAL YEAR

In the 2020 fiscal year, the Supervisory Board of SMT Scharf AG diligently performed the tasks required of it by law and the company's articles of incorporation. It supervised and consulted with the Managing Board on an ongoing basis. The Supervisory Board received regular, prompt, comprehensive written and oral reports from the Managing Board about the business trends of SMT Scharf AG and its Group companies, the company's strategic orientation, as well as the status of strategy implementation. 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 eight regular meetings on February 7, February 28, March 23, March 30, May 25, August 24, October 5 and on December 7, 2020. The Supervisory Board meeting on March 30 was held in the combined form of a face-to-face meeting and a meeting by video conference; the meetings in October and December were both held by video conference. All of the other meetings were held at the business premises of SMT Scharf AG in Hamm. The three Supervisory Board members Professor Dr. Louis Velthuis, Dr. Dirk Vorsteher and Dorothea Gattineau attended all meetings in full, with the exception of the first meeting, from which Dr. Dirk Vorsteher was excused. 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 a sector economy that continued to be affected by the coronavirus pandemic, the main focus in the 2020 reporting year was on trends in the core markets as well as on the implementation of the corporate strategy, which the Managing Board is continuing to drive forward. SMT Scharf AG faced a challenging market environment in the 2020 fiscal year. The pandemic impeded activity in the global mining equipment market. In addition to the temporary closure and reduced operations at numerous mines and the associated drop in demand for transport solutions, both the new equipment and after-sales business decreased. The trend was reinforced by turbulence in commodity markets in the course of 2020. Given the general economic situation, the Managing Board focused on analysing country-specific measures in order to minimise risk. In addition, the Managing and Supervisory Boards dealt, in particular, with the more stringent regulation for engines in China (China III) and the merger of Nowilan GmbH with SMT Scharf GmbH. Over the course of the year, current developments at RDH Mining Equipment and the strategic realignment of the business segment were also regular topics for intensive and constructive discussion between the Managing and the Supervisory boards.

During the past fiscal year, the Supervisory Board and Managing Board regularly discussed trends in the Group's core sales markets with the aim of further developing the structures within the SMT Scharf Group. In light of the exceptional economic developments in 2020, the Supervisory Board welcomed the Managing Board's planning in relation to earnings and liquidity, and approved the planned country-specific measures to minimise risk.

At the meeting on February 7, the Managing and Supervisory boards dealt with the amendments to the German Corporate Governance Code. Important topics also arose from current ESG issues, which were discussed between the Supervisory and Managing boards. After Rödl & Partner GmbH Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft had reported on the status of the preparation of the annual financial statements, the Managing Board presented an overview of the current business situation. The difficult situation of the Group subsidiary RDH Mining Equipment in Canada was also discussed in detail.

The Supervisory Board held its second meeting in the 2020 fiscal year together with the Managing Board on February 28. The thematic focus of the meeting was on the strategic development of RDH Mining Equipment in Canada. In this context, the Managing and Supervisory boards discussed in detail possible options for action in relation to the continuation of the company, which was approved in principle.

The Supervisory Board held its third meeting in the 2020 fiscal year on March 23. Auditors Steuerberatungsgesellschaft Rödl & Partner GmbH presented the annual and consolidated financial statements of SMT Scharf AG for the 2019 fiscal year. The final annual report was made available to the Supervisory Board by Rödl & Partner. The Managing Board then reported on current business performance. The Managing and Supervisory boards also dealt with the planning and preparation for the upcoming Annual General Meeting, which, given the coronavirus pandemic, was held for the first time in virtual form, on May 26, 2020. In connection with the current coronavirus crisis, topics such as applying for short-time working and dealing with absences due to illness were also discussed from a preventive standpoint.

The meeting on March 30, 2020 was held in a combined format of face-to-face meeting and meeting by video conference. The Managing and Supervisory boards discussed the annual and consolidated financial statements in the presence of Rödl & Partner GmbH Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft. After extensive discussion, both the annual and consolidated financial statements for the 2019 fiscal year were approved by the Supervisory Board. The Managing and Supervisory boards then consulted concerning further planning for the Annual General Meeting. After a thorough review, the Supervisory Board concurred with the proposed resolutions as submitted by the Managing Board and proposed that Rödl & Partner GmbH Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft be appointed as auditors for the 2020 financial year. Given the restrictions on public life, the Managing and Supervisory boards considered organising a virtual Annual General Meeting, which was to be approved in a separate resolution for final implementation.

For the Supervisory Board meeting on May 25, the Managing and Supervisory boards convened at the business premises of SMT Scharf AG in Hamm. The Managing Board reported in detail on the current business situation under the impact of the coronavirus pandemic, and the related adjustment to the budget for 2020. With a view to minimising risks in the future, the Managing Board presented country-specific measures in detail. The Supervisory Board welcomed the Managing Board's business development plan for earnings and liquidity. In addition to the relocation of the administrative functions of SMT Scharf GmbH to the Römerstrasse location, the course of the first virtual General Meeting and Nowilan's merger with SMT Scharf AG were also discussed.

At the meeting on August 24, the Managing Board informed the Supervisory Board about the current business situation. Subsequently, the Managing and Supervisory boards again discussed strategic options and measures regarding the further restructuring of RDH Mining in Canada.

The meeting on October 5 was held by video conference as a consequence of developments surrounding a coronavirus hotspot in Hamm. With a look to the adverse effects of the rampant pandemic, the Managing Board presented current business trends and discussed its assessments of the current "coronavirus budget". In this context, the still outstanding approval of the new engines for the Chinese market (China III) and associated high order volume were also discussed. The Managing and Supervisory boards also held intensive discussions on the further development of RDH Mining in Canada, and the future manufacture of products from the RDH program.

At the last meeting of the past fiscal year, which was also held by video conference on December 7, the Managing Board informed the Supervisory Board about the current business situation. In addition to the budget planning for 2021, operational and strategic topics from the areas of personnel / production, technology / sales and market were discussed intensively. Moreover, the Managing and Supervisory boards exchanged views on the current status of the preparation of the annual financial statements for the 2020 financial year. Furthermore, the new provisions in the German Corporate Governance Code, as well as in connection with Act Implementing the Second Shareholders' Rights Directive (ARUG II) and resultant requirements for SMT Scharf AG, were discussed.

The separate financial statements and separate management report, as well as the IFRS consolidated financial statements and Group management report for the 2020 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 its data system, were also covered by the audit. At its meeting on March 26, 2021, 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 2020 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 2020 fiscal year on March 26, 2021. The corresponding financial statements have been adopted as a consequence.

In light of the consolidated net loss recorded in the 2020 fiscal year, the continued challenging market situation, and the risks for the SMT Scharf Group that still cannot be fully assessed due to the spread of the coronavirus, as well as the strategic further development of the company, the Supervisory Board, together with the Managing Board, is waiving the proposal of a dividend for the 2020 fiscal year.

The Supervisory Board thanks all of the members of the Managing Board and all of the employees for their tireless dedication and commitment during this extraordinary 2020 fiscal year. The Supervisory Board would like to wish the new Managing Board and the employees continuing success in meeting the challenges posed in the new fiscal year.

Hamm, March 26, 2021

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 mineral 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 such a track network quickly and inexpensively. Last year, we entered into a strategic partnership with Polymetal International in order to develop underground electric vehicles. Our electrical expertise enables us to meet market demand for electrically operated railway systems and rubber-tyred vehicles, and to expand our range of products and services in the future for further areas of demand.

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 also have a sales office in Chile, through which we manage our activities in the South American market.

SPECIAL MACHINERY MANUFACTURER WITH GLOBAL PRESENCE

Headquarters

Subsidiaries

Joint Ventures

Sales Regions

STABLE FOUNDATION AND STRATEGIC FARSIGHTEDNESS

COAL MINING

SMT Scharf sells 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. With its international positioning, SMT Scharf focuses on the major producing countries around the world, where further high-tech mines are being created. The energy demand of large emerging economies will still need to be covered by coal for the foreseeable future. As a consequence, demand for our products from mining companies will continue in the coming decades.

The most important European market today is Poland, where a high proportion of longwall mining is considered particularly attractive 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 attractive sales potential thanks to its enormous size.

MINERAL MINING

The production of metals such as gold, platinum, copper, nickel and other raw materials such as salts is aggregated within the Mineral mining segment (previously the Non-coal mining segment). Here, too, we deliver exclusively to underground mine operators. A growing market for SMT Scharf's underground products exists thanks to two factors. Firstly, deposits that are easy to develop are increasingly being exhausted, and, secondly, new high-tech mines are being created that require specific transport solutions.

In contrast to coal mines, however, no expensive explosion protection is required in the mining of metals, thereby enabling electric locomotives to replace diesel locomotives more easily. Hard rock mining is diverse and globally distributed: the largest platinum deposits in the world are located in South Africa which offers a bridgehead to sub-Saharan Africa. As the market leader for chairlifts in hard rock mining (mineral mining), SMT Scharf is working to further expand its business in Africa. In addition to Zambia, a dealer in Ghana has been supporting local sales since 2020. Russia is regarded as a leading producer country of nickel. Many copper mines are located in South America's Andean states and in Australia. In other words, beyond coal, a number of opportunities exist for our company in the expansion of business with mine operators: by tapping new geographic markets that are less relevant to coal mining, we can reduce our dependence on the investment cycles of coal mine operators. Moreover, the company places a strategic focus on expanding the development and sale of electric-powered transport solutions.

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. Thanks to our core competencies, we also consider ourselves well positioned in this business area to provide adequate support to external partners in large-scale projects.

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 the construction of subway tunnels, for example, is independent of such cycles. Rather, global demographic trends and the increasing density of conurbations are key drivers for tunnel construction. At the same time, many industrialised nations have a great need to renew their infrastructure for optimisation purposes.

OTHER INDUSTRIES

The Other Industries segment mainly comprises the business activities of the subsidiary ser elektronik GmbH, which was acquired in April 2019, and adds expertise in the electronics and controls area to our portfolio. The systems – which are integrated into our transport solutions for coal and mineral mining – are manufactured in-house. For electric vehicles, we can add our own battery management systems tailored to the customer's needs in addition to electronic controls. We can thereby offer the mining operator optimised batteries, and provide advice on operating concepts for the machines.

In addition to customer-specific solutions for transport systems in underground mining, ser elektronik produces electronic controls for the food industry and medical technology, as well as measuring devices for building acoustics, which are used to identify construction defects. These revenues are allocated to the Other Industries segment.

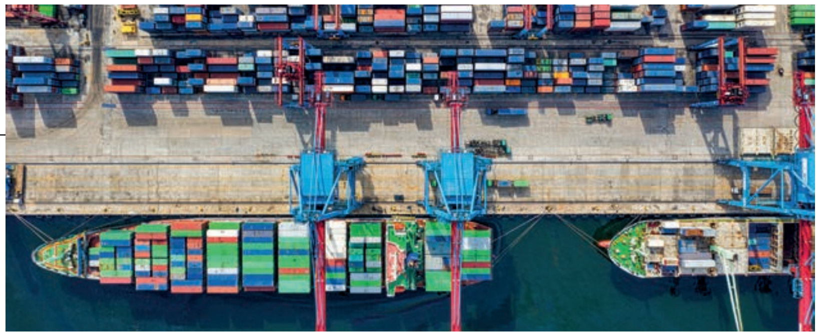
ATTRACTIVE GROWTH OPPORTUNITIES IN UNDERGROUND MINING

ENERGY REVOLUTION

EU electricity generation shows that growth in renewables continues unabated, including during the COVID-19 pandemic. In 2020, electricity generated from renewables exceeded that from fossil fuels for the first time: renewables accounted for 38 percent of the European electricity mix, while fossil fuels accounted for 37 percent. Rising demand for renewable energies will necessarily entail greater 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. The UN expects there to be a total of 41 megacities by 2030, each with more than ten million inhabitants. 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

Although global economic output is expected to decrease in 2020 due to the COVID-19 pandemic, global economic growth is expected to pick up noticeably in 2021. Accordingly, demand for energy is rising again 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

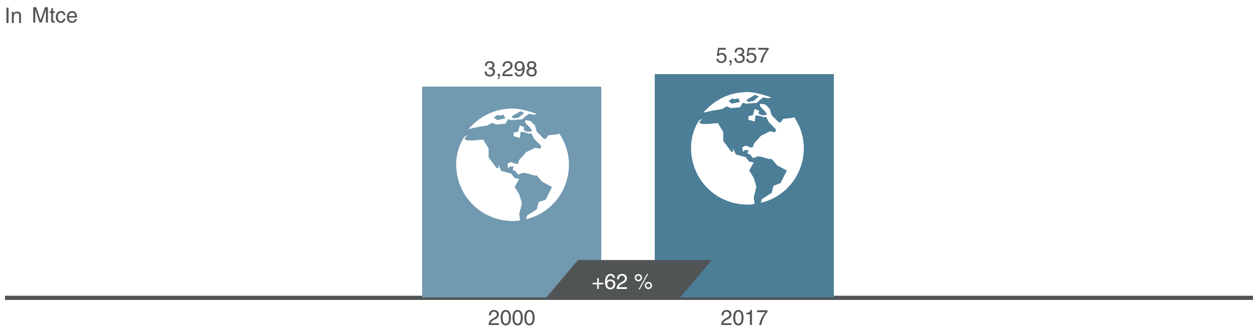
Rising demand for electric vehicles in road traffic is a further driver for the mining of economically strategic raw materials such as lithium, cobalt and rare earth metals. Demand for electric vehicles is also increasing in underground mining. In addition to lower emissions, this leads to 15 % lower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

COAL WILL REMAIN INDISPENSABLE IN THE COMING DECADES

Apart from 2020, a year impacted by coronavirus, 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

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.



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 forty to fifty years, it is clear that coal will remain an important energy source worldwide for decades to come.

1,400

COAL POWER STATIONS BEING BUILT OR PLANNED

670

NEWLY INSTALLED CAPACITY OF 670 GW EXPECTED

40 – 50

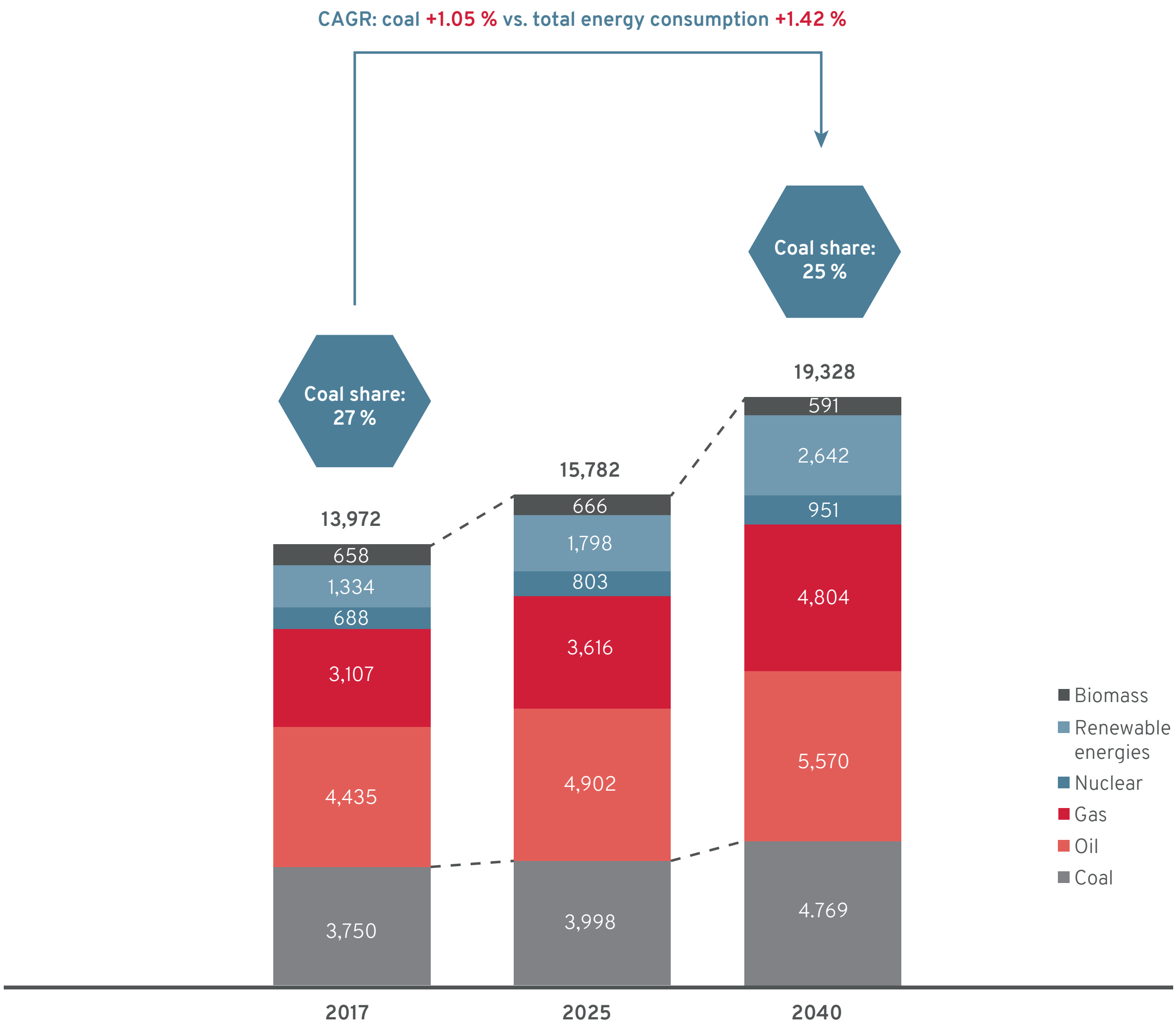
-YEAR LIFETIMES OF COAL-FIRED POWER PLANTS

Source: IEA World Energy Outlook 2018

MAIN SCENARIO IEA: COMPARATIVELY HIGH COAL CONSUMPTION EXPECTED BY 2040

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.

In Mtoe



Source: International Energy Agency: World Energy Outlook 2018

In absolute terms, the IEA expects total energy consumption in 2040 to amount to 19,328 Mtoe, while coal consumption is expected to amount to 4,769 Mtoe. As a consequence, for the period from 2017 to 2040, the forecast is that coal will grow at an average annual rate of 1.05 % and total energy consumption will expand at a rate of 1.42 %.

SUCCESSFUL IMPLEMENTATION OF THE GROWTH STRATEGY

In the short term, we believe the global mining equipment market will be impacted by the economic consequences of the coronavirus pandemic. At the same time, we are of the opinion that attractive growth opportunities exist for SMT Scharf in the Chinese market in the current fiscal year and beyond, arising from the new regulation for engines in China (China III) that will come into force in 2021. This new regulation is forcing Chinese mine operators to replace machines that do not meet 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. We are focusing on the development and production of electrically powered vehicles. Here, we have taken an important step for the future by entering into a strategic partnership with Polymetal International.

VISION:
EXPANDED PRODUCT RANGE IN UNDERGROUND LOGISTICS

ORGANIC GROWTH

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

EXTERNAL GROWTH

We are always actively on the lookout for opportunities to gain access to expertise in adjacent business areas – also beyond our core positioning. In principle, 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 COMPETENCIES

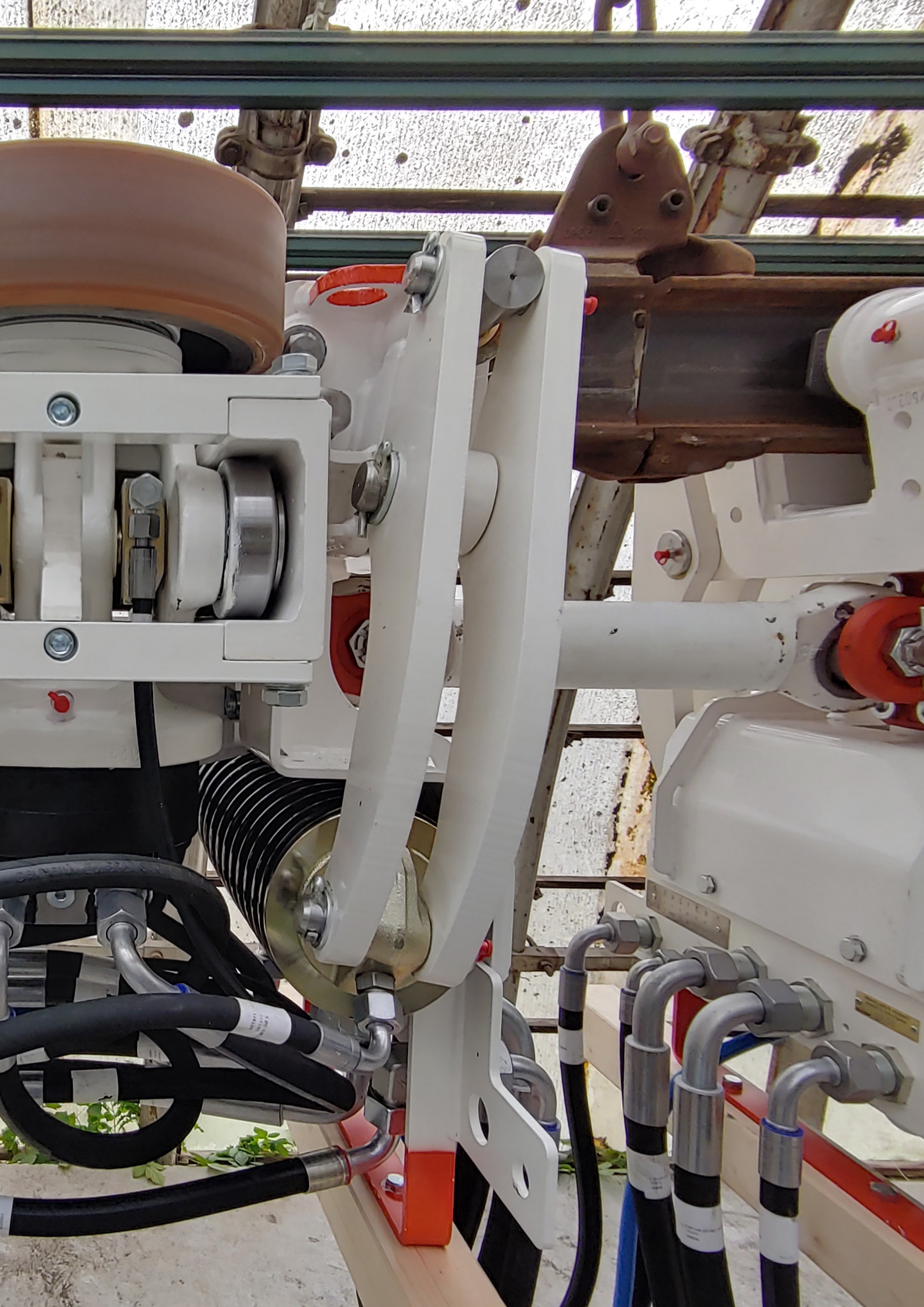
Stable core business with sound margins and growth opportunities

Evolved expertise in machine engineering with maximal customer focus

Management expertise in the mining industry

DZK3500 – THE NEW MACHINE GENERATION FOR CHINA

China is the world's largest coal producer. Following consolidation in the market, new high-tech mines are constantly being built there. The times of smaller mines, where work was still performed with picks and hammers, are finally numbered. With its large number of hard coal mines, China is a market offering great potential for SMT Scharf, which specialises in individual transport solutions deploying state-of-the-art technology. Additional growth opportunities are now provided by the China III emissions directive, which has been mandatory for mining companies since January 1, 2021. With the DZK3500, SMT Scharf has created a completely revised generation of machines for the Chinese market that meets the more stringent emission standards for machines utilised in underground mining. An optimised engine with an intelligent management system as well as 15 % higher drive power forms core of the DZK3500. SMT Scharf has transferred the DZK3500 to series production after successfully passing the engine test in 2020. To this end, the company has planned corresponding production capacities at individual locations in order to meet the high demand that is expected. SMT Scharf expects final approval for the China III machines to be granted in the first half of 2021. The pandemic had led to a delay in the approval process beyond the end of 2020. Given full order books, China III is now expected to give a strong boost to revenues.



PARTNERSHIP WITH POLYMETAL – GOLD MINING GOES ELECTRIC

The reduction of pollutants in underground mining is becoming significantly more important. Companies are now thinking hard about the use of electric-powered vehicles, as these significantly reduce the impact of heat, particulate matter, noise, and pollutants such as NOx and CO2. Electric vehicles are locally emission-free, thereby sustainably reducing the need for fresh air, in other words, the costly supply of fresh air and cooling underground. With its electric-powered transport solutions, SMT Scharf is helping to improve working conditions underground. In order to develop new innovations for mineral mining and to eventually transfer these to production, SMT Scharf entered into a strategic cooperation with Polymetal International in 2020 in order to develop underground electric vehicles. As part of the first order totalling more than EUR 4 million, SMT is developing and producing electric-powered loaders as well as underground trucks in the mid-range performance class as prototypes for Polymetal. These are to be delivered to the company by October 2021. The vehicles ordered will be deployed for underground gold mining in Russia and will be tested there as a basis for further vehicle deliveries of the same type. In the long term, the development of further electric-powered commercial vehicles is a declared objective.


SCHARF
MUCKMASTER 600EB

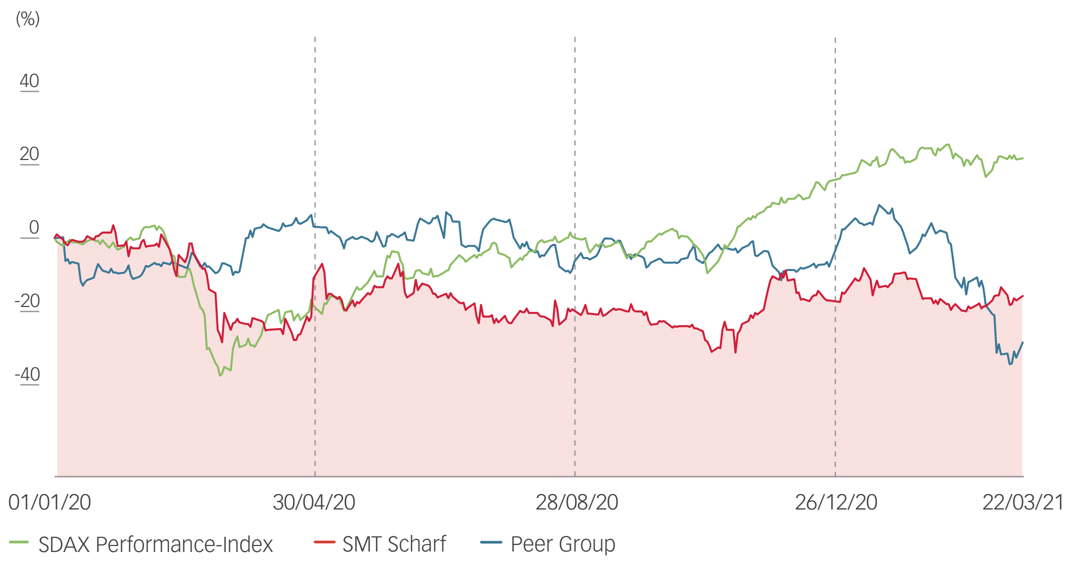
SCHARF LEV – ELECTRICAL EXPERTISE FOR THE CHILEAN COPPER MINING INDUSTRY

El Teniente is a special copper mine in Chile. SMT Scharf's LEV, one of the first fully electric trucks in the country's mining industry, has been in operation there since last year. SMT Scharf's electric vehicle is versatile and can cover long distances both outside and inside the El Teniente underground copper mine. The "light electric vehicle" (LEV) manages a range of 150 km and requires a charging time of two hours. It is also characterised by a high safety standard. The battery cells are cooled by a special coolant so that each individual cell is always kept at the optimum operating temperature. The advantage for the mine operator is that electric vehicles require significantly less maintenance than vehicles with combustion engines, thereby contributing to cost savings in the long term, even if diesel vehicles are initially cheaper to purchase. SMT Scharf is continuously examining whether, with such emission-free transport solutions, it can also move into new areas of application outside mining. Finally, the reduction of emissions continues to gain relevance, making a conversion of vehicle fleets inevitable across all industrial sectors.


SCHARF

INFORMATION ON THE SHARE

Share price performance 2020



Share price performance

The SMT Scharf share started 2020 at a price level of EUR 10.00, from where it initially increased and reached its high for the year of EUR 10.55 on January 29, 2020. Given the COVID-19 pandemic and associated turbulence on stock markets, the share price came under sustained pressure in the course of the year. The share lost ground and finally recorded its low for the year of EUR 6.94 on October 30, 2020. By the end of the year, the Scharf share had regained some ground overall, closing the year at a price of EUR 8.68. Compared with the start of 2020, the share depreciated by around 13 %. The peer group (equally weighted portfolio of Epiroc and Famur) outperformed significantly over the same period and recorded a price decline of around just 2 %. After a significant price slide in the spring, the SDAX small cap index made steady gains again, rising by around 17 % over the year as a whole.

Share price data for 2020 (XETRA)	
Closing price 2019	EUR 10.00
High for the year (January 29, 2020)	EUR 10.55
Low for the year (October 30, 2020)	EUR 6.94
Closing price 2020	EUR 8.68

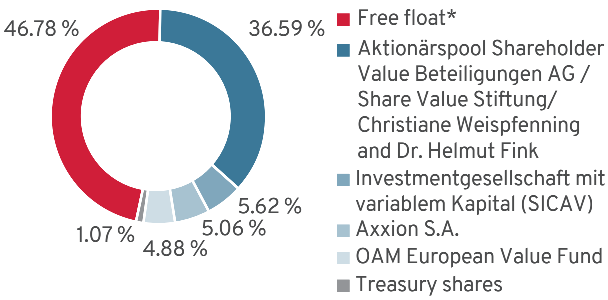
SMT Scharf's share price decreased by 0.7 % since the start of 2021, from EUR 8.68 to EUR 8.62 (basis: Xetra closing prices, as of March 22, 2021).

In 2020, an average of 41,861 shares were traded on the Xetra trading platform of the Frankfurt Stock Exchange.

Key data	
German Securities Identification Code (WKN)	575198
ISIN	DE0005751986
Ticker symbol	S4A
Trading segment	m:access (Over-the-counter market Munich Stock Exchange)
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

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 February 28, 2021:



*Shareholders with interests below 3 % are included in the free float (exception: treasury shares).

The holding of treasury shares amounts to 1.07 % (49,477 shares). As of December 31, 2020, Hans Joachim Theiss, Chairman of the Management Board, held a total of 24,651 shares, while COO Wolfgang Embert held 14,000 shares.

Major shareholders acquire control of SMT Scharf AG and make mandatory offer

The shareholders Shareholder Value Beteiligungen AG, Share Value Stiftung and Ms. Christiane Weispfenning have exceeded the 30 % threshold as a result of Dr. Helmut Fink joining a shareholder agreement concluded on January 11, 2021 to cooperate in exercising ownership rights including voting rights in relation to the bearer shares of SMT Scharf AG, and have thereby gained control of SMT Scharf AG pursuant to Sections 35 (1) and 29 (2) of the German Securities Acquisition and Takeover Act (WpÜG). As a consequence, the major shareholders held a total of 1,397,295 voting rights out of a total of 4,620,000 voting rights in SMT Scharf AG. This corresponds to around 30.24 % of the voting rights and share capital of SMT Scharf AG. As bidders with discharging effect for Ms. Weispfenning and Dr. Fink, Shareholder Value Beteiligungen AG and Share Value Stiftung submitted a mandatory offer in the meaning of Section 35 (2) WpÜG to acquire all of the bearer shares of SMT Scharf AG, after approval by the German Federal Financial Supervisory Authority (BaFin) of the publication of an offer document. The offer price corresponds to EUR 8.22 per share. The total number of shares for which the offer was accepted by the reporting date of 2 March 2021, plus the shares in SMT Scharf AG held by the major shareholders on the reporting date, amounts to 1,690,230 shares. This corresponds to around 36.59 % of SMT Scharf AG's share capital and voting rights.

Switch to m:access segment of the Munich Stock Exchange

With Supervisory Board approval, the Managing Board of SMT Scharf AG passed a resolution on February 5, 2021 to downlist the company's shares to the m:access quality segment of the Regulated Unofficial Market (Freiverkehr) of the Munich Stock Exchange. The decision to downlist was made in connection with the mandatory offer submitted by the shareholders Shareholder Value Beteiligungen AG and Share Value Stiftung pursuant to Section 35 (2) of the German Securities Acquisition and Takeover Act (WpÜG), which also constitutes a delisting offer (Section 39 (2) and (3) of the German Stock Exchange Act [BörsG]). The shares of SMT Scharf AG have been included in the m:access quality segment of the Munich Stock Exchange's Regulated Unofficial Market since February 17, 2021. Since March 3, 2021, the shares have also been included in the Quotation Board of the Regulated Unofficial Market of the Frankfurt Stock Exchange, thereby forming a seamless transition following the termination of the admission to the Regulated Market. The shares' XETRA listing continues regardless of this transition.

The company expects significant cost savings from the downlisting. At the same time, the inclusion in the Regulated Unofficial Market of the Munich Stock Exchange and the Quotation Board of the Frankfurt Stock Exchange will continue to ensure tradability and – due to the follow-up obligations associated with this inclusion – a high level of transparency for shareholders.

Investor relations activities

SMT Scharf AG attaches great importance to transparency, openness and reliability in its interaction with all capital market participants. Investors were 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 2020 fiscal year, including montega's 4th Hamburg Investor Day as well as the Equity Forum's Online Summer Summit and the virtual German Eigenkapitalforum (Equity Forum). At these conferences, CEO Hans Joachim Theiss answered in detail questions from institutional investors and analysts in numerous one-on-one meetings and in each case as part of a presentation. Over the course of the year, the Managing Board has also taken 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 2020

SMT Scharf AG successfully held its Annual General Meeting on May 26, 2020. On the basis of the act passed by the legislator to mitigate the consequences of the COVID-19 pandemic (Act on Measures in Corporate, Co-operative, Association, Foundation and Home Ownership Law to Combat the Effects of the COVID-19 Pandemic [C19-AuswBekG]), this AGM was held as a virtual AGM. The presence of the represented share capital amounted to 36.28%. All items on the agenda were adopted with large majorities. As part of the AGM, the Managing Board reported on the operative and strategic development of SMT Scharf AG in the 2019 fiscal year, which was characterised by significant revenue and earnings growth. The Managing Board also issued guidance for the 2020 fiscal year, which was considerably affected by the coronavirus pandemic and associated general economic consequences and restrictions in mining markets worldwide. Rödl & Partner GmbH Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Cologne branch, was appointed as the auditor for the 2020 fiscal year. The voting results for the respective agenda items are available online at www.smtscharf.com in the Investor Relations section.

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. In addition, SMT Scharf has a portfolio of rubber-tyred vehicles and is positioning itself as an integrated system provider in the area of underground logistics. 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.

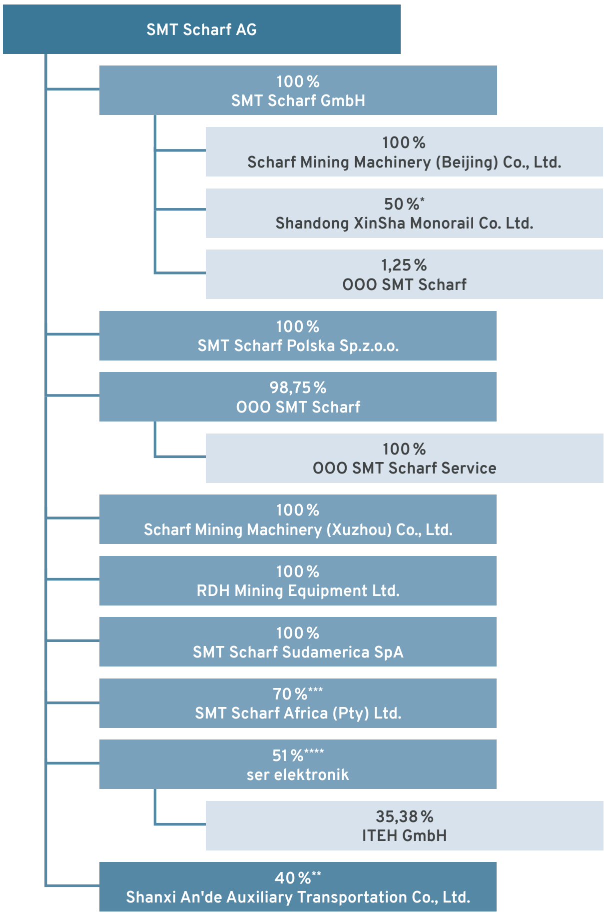
SMT Scharf can draw on in-house expertise in electronics and controls via its subsidiary ser elektronik GmbH, Möhnesee. These systems, which are integrated into SMT Scharf's transport solutions for both coal and mineral mining (formerly non-coal mining), are manufactured in-house. In addition, ser elektronik 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 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 and salts (aggregated within the mineral mining, formerly Non-Coal Mining, segment). In the Tunnel Logistics business segment, companies from the tunnel construction sector represent a relevant customer group. Through the business of ser elektronik, 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 include especially the foreign markets in Russia, Poland, China and South Africa. In addition, SMT Scharf also operates in South America with its own sales subsidiary in Chile and in North America via RDH Mining Equipment. The Group's 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 mineral mining, 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.

After the decision was taken in 2018 to introduce a uniform Group-wide Enterprise Resource Planning system (ERP system), SMT Scharf will implement this at the German locations of SMT Scharf Group in 2021. The full implementation of the ERP system is scheduled for completion in 2023. The aim is to better coordinate process steps, improve planning quality and further enhance 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 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 revenue growth (organic and inorganic)	$\left(\frac{\text{Consolidated revenue in reporting year}}{\text{Consolidated revenue in previous year}}\right)-1$	>5 %
Tunnel revenue share	$\frac{\text{Tunnel segment revenue}}{\text{Consolidated revenue}}$	>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	$\frac{\text{Net working capital}}{\text{Consolidated revenue}}$	<50 %
Days of sales outstanding	$\text{Number of days in reporting year} \times \left(\frac{\text{annual average trade receivables}}{\text{Consolidated revenue}}\right)$	<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 goals set were partially improved compared to the previous year. 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, 2020, the SMT Scharf Group employed 410 staff (FTEs), including nine trainees at the Hamm location. The Group had a workforce of 432 FTEs in the previous year (including eleven 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.

In light of the continued international demand structure, SMT Scharf is focusing on selectively increasing production capacity and consequently staffing levels at its foreign companies. To this end, 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. The decrease in the number of employees compared to the previous year's reporting date arose from the restructuring of RDH Mining, primarily due to the reduction in personnel at the Canadian location.

In Germany, SMT Scharf further expanded its personnel capacities so that the number of employees as of December 31, 2020 stood at 133 FTEs (previous year: 128 FTEs). Moreover, in order to cover higher demand in production, temporary workers were increasingly hired, particularly in Germany.

SMT Scharf Group employees

	2020	2019
Total employees	410	432
Employees in Germany	126	128
Employees abroad	284	304
Female employees	68	76
Male employees	342	356

The number of employees at foreign locations decreased by 20 FTEs to 284 FTEs in the 2020 fiscal year. The proportion of staff employed abroad decreased slightly to 69 % (previous year: 70 %) due to the reduction in the number of employees in Canada. While a slight increase in personnel occurred at the individual foreign locations, the number of employees in Canada decreased from 46 FTEs to 16 FTEs due to restructuring. Employee turnover stood at 1.2 % in the year under review (previous year: 1.7 %), in line with the medium-term target of < 10 %. In 2020, the workforce sickness rate was 5.4 %, including due to coronavirus (previous year: 3.9 %), slightly above the 5 % target.

Research and development

SMT Scharf continues to focus on establishing local expertise centres with increasing vertical range of manufacture, particularly in Poland and China. Given the coronavirus pandemic and associated interim restrictions at the sites in China, South Africa and Canada, no significant activities occurred in this regard in the 2020 fiscal year. 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. A supporting pillar here is the switch of design and production to a modular system, which has already been implemented and which holds out the prospect of significant efficiency enhancements both in production planning and, in the future, in assembly and acceptance.

In 2020, SMT Scharf focused on launching series production of the DZK3500, a completely revised generation of machines. At its core is a new engine with an intelligent engine management system that meets or exceeds the new China III emissions directive, which will be mandatory for mining companies in China from 2021. The engine also offers a 15 % higher drive power. As a consequence of the high demand that is anticipated, SMT Scharf is planning corresponding production capacity at its individual locations to successfully launch series production. The approval process was significantly delayed in 2020 given the coronavirus pandemic, with approval now expected in the first half of 2021. A recent partial success to be mentioned is the successful emission measurement of the engine (8-step test) on officially accredited test benches, which already occurred at the end of 2020.

The diesel trolley DZ66 developed at SMT Scharf Polska, which was specially designed for the specific requirements of the Polish mining industry, was successfully put into operation. This machine type enables SMT Scharf to occupy a new market segment in Polish mining.

In addition, SMT Scharf has already delivered to the end-customer new bottom flange rack and pinion low-power drives, including new rack and pinion rails and rail connections developed for this purpose. An adaptation is planned in the medium term for the use of larger rack and pinion drives.

In light of the ongoing digitalisation of mines, SMT Scharf is intensively developing solutions for lower-emission, more intelligent drive systems for underground transport technology, which communicate with their environment. Ongoing product support within the SMT Scharf Group and the development of sustainable solution concepts contribute to enhanced benefits for customers. One example is the wireless transmission of operating data, the evaluation of which makes it possible, for example, to plan and perform maintenance measures in line with requirements, or to optimise the stocking of consumables and spare parts.

Last year, we concluded an agreement concerning a strategic partnership with Polymetal International to develop underground electric vehicles. As part of the first order worth a seven-digit amount, we are developing and producing electric-powered drive loaders as well as medium-duty underground trucks as prototypes for Polymetal. The vehicles ordered will be deployed for underground gold mining in Russia and will be tested there as a basis for further vehicle deliveries of the same type. We aim to develop further electric commercial vehicles in the future. These vehicles are designed and manufactured at our new site in Johannesburg, South Africa.

Expenses for research and development amounted to EUR 2.67 million in the 2020 fiscal year (2019: EUR 2.73 million). The share of development costs in overall research and development costs stood at EUR 632 thousand (2019: EUR 972 thousand), while write-downs on capitalised development costs amounted to EUR 198 thousand (2019: EUR 294 thousand) in the reporting period.

Economic and business report

Macroeconomic environment

The International Monetary Fund (IMF) estimates that the global economy contracted by -4.4 % in 2020. The record slump in the economy is mainly due to policy measures to combat the coronavirus pandemic worldwide. With its October 2020 estimates, the IMF is already more confident than it was in June 2020. The main reason for this is the faster than anticipated recovery in highly developed economies.

The outlook for developing and emerging countries, where infection rates are rising rapidly, remains critical, with the exception of China. The IMF expects that the economic output of these countries, when compared to 2019 levels, will suffer far greater losses than those of advanced economies. In addition, recent increases in Covid-19 infections, including in previously less affected areas, are making it more difficult to return to normality.

With a forecast growth rate of 1.9 %, China recovered comparatively quickly from the consequences of the coronavirus pandemic. China's economy benefited particularly from its specialisation on the consumer goods sector and increased demand for personal and medical protective equipment. Moreover, international trade in goods increased significantly. While the gap in relation to the pre-crisis level still amounted to 17 % in May, it stood at just 2 % in September. Reports of a shortage of shipping and container capacity suggest a further upward trend. In Russia, the significant reduction in crude oil production agreed with OPEC had a particularly negative effect on production. Accordingly, industrial production remained well below the previous year's level. The manufacturing sector, by contrast, continued the previous year's performance. However, the rise in infection figures in the autumn is likely to put a damper on this.

Poland's economy was also hit by the effects of the pandemic. The restrictions imposed in the spring had a particularly negative effect on the service sector, leading to a 7.9 % slump in gross domestic product (GDP) in the second quarter of 2020. With the onset of the second wave of infections in the autumn, stringent restrictions were imposed once again, with the consequence that a significant decrease in gross domestic product is expected in the fourth quarter.

The South African economy also achieved a better than expected recovery in the third quarter. A long and highly restrictive lockdown was one of the main reasons for this. In particular, rising exports of platinum metals, iron ores, gold and manganese as well as good harvests provided new momentum for industry. In contrast, tourism and gastronomy have reported only a weak recovery. However, South Africa's economic outlook is difficult to forecast due to a pending second wave of infections combined with weak growth momentum from previous years.

The four aforementioned countries represent SMT Scharf's most important sales markets. Together, the customers that are situated there regularly account for more than 85 % of Group sales.

*GDP growth in the most important sales markets for SMT Scharf AG**

in %	2020	2019
World	-3.5	2.8
China	2.3	6.0
Poland**	-3.6	4.0
Russia	-3.6	1.3
South Africa	-7.5	0.2

Sources: *IMF World Economic Outlook Update, January 2021;
**IMF World Economic Outlook, October 2020

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.

Given the pandemic-related economic turbulence in the countries reviewed, some very strong movements occurred in the four key currencies of SMT Scharf AG in the period under review:

*Exchange rate changes in the most important sales markets for SMT Scharf AG**

in %	2020	2019
Yuan Renminbi (China) / Euro	+2.6	+0.6
Zloty (Poland) / Euro	+7.1	-0.4
Rouble (Russia) / Euro	+30.7	-8.3
Rand (South Africa) / Euro	+14.2	+1.5

*Source: European Central Bank, change during the year

As in the previous year, the Euro continued to appreciate against the Chinese Renminbi. At 2.6 %, the European currency gained significantly more purchasing power than in 2019. The Polish Zloty also weakened by 6.7 % against the Euro, after appreciating in 2019. Particularly strong fluctuations occurred in the Russian Rouble and South African Rand. The Euro appreciated by 30.7 % and 14.2 % in this context.

Sector trends

During the period under review, the prices of energy commodities, especially coal and natural gas, rose, putting price levels approximately in the range of early 2019. In contrast, oil prices fell sharply in early 2020, but recovered over the course of the year. According to estimates by the Kiel Institute for the World Economy (IfW Kiel), this was due, in particular, to lower oil consumption, sharp production cuts by OPEC countries and a drop in production in the USA. The prices of precious metals and base metals have risen across the board.

The price of coal, which is relevant for SMT Scharf, showed a clear upward trend in 2020, rising from USD 45 to around USD 70 (based on one tonne of hard coal). The S&P GSCI Energy and Metal Index, which is important for the sector, fell heavily in the spring, but recovered some of its losses towards the end of the year, and was ultimately down by around 10 %.

According to the Mining Association of the German Engineering Federation (VDMA), in the period under review German mining machinery manufacturers failed to match the previous year's growth trend. Accordingly, the VDMA anticipates sales of EUR 4.5 billion to EUR 5 billion for mining suppliers, corresponding to a reduction of around 10 to 15 percent. A total of 96 % of these sales were generated abroad, representing a slight decrease compared to the previous year.

Analysts at PriceWaterhouseCoopers assess the economic situation of the world's largest mining companies as still stable, despite the coronavirus pandemic, thanks to their moderate cash flows and balance sheets. PWC estimates that sales have fallen by 6 % on average, which is likely to be mainly due to lower product prices. Once the situation has recovered, analysts expect an increase in invested capital within the construction sector.

Given the further wave of infections that occurred in autumn 2020 and associated policy measures to contain them, IfW Kiel expects the recovery of the global economy to slow down in December 2020, but production to remain on an upward trend overall. In its economic report of December 2020, IfW Kiel states that, unlike in the spring, no serious effects on international trade in goods and on commodity prices have been discernible to date. This, in turn, would have a positive effect on investment propensity in important mining markets worldwide. 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.

The OECD expects global demand for raw materials to almost double by 2060, which should exert a sustained positive effect 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 upbeat forecast for the coming years. Accordingly, the worldwide tunnel construction market is worth 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 bases its business model 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

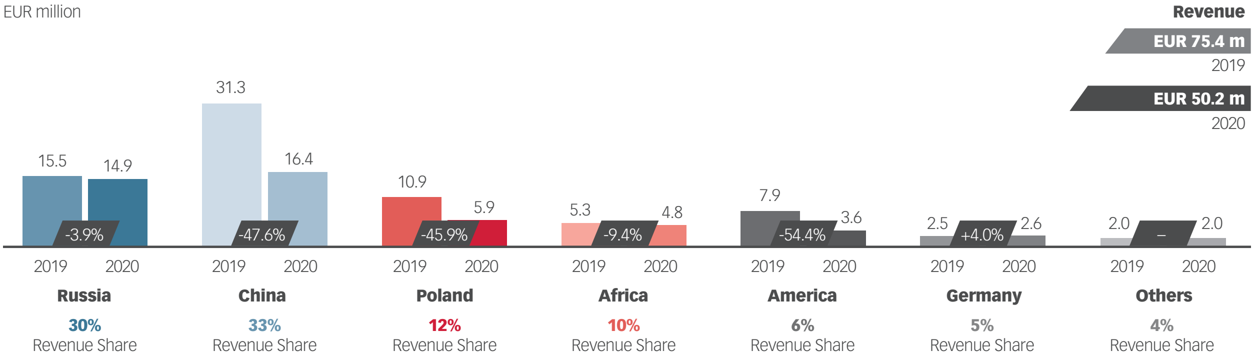
In 2020, the SMT Scharf Group's business growth was significantly affected by the coronavirus pandemic and associated economic consequences. The resultant impeding of business activities in key target markets worldwide continued to lead to a significant decrease in revenue and earnings in the final quarter. Over the year as a whole, SMT Scharf generated consolidated revenue of EUR 50.2 million (2019: EUR 75.4 million). The 33.4 % reduction in revenue is mainly due to lower demand for new equipment, as well as service and maintenance, as a consequence of the pandemic. Many mines were closed temporarily, or reduced to minimal operation. Consequently, lower investment demand was evident in the global mining equipment market.

In the 2020 fiscal year, EBIT amounted to EUR -8.1 million, after a positive operating result of EUR 6.8 million in the previous year. The significant decrease in the result mainly reflects impairment charges in a total amount of EUR 6.6 million which were applied as of the third quarter. As part of the ongoing restructuring process at the Canadian subsidiary RDH Mining Equipment Ltd., which has been rendered more difficult by coronavirus, inventories were also reviewed and, in some cases, classified as impaired in terms of their value. The revaluation of assets leads to an impairment charge of some EUR 5.1 million. In addition, impairment charges totalling EUR 1.5 million were recognised in relation to internally generated intangible assets for a total of three development projects. In all cases, these entailed prototypes for which customer orders are no longer expected due to new insights.

Given the pandemic, all of SMT Scharf's key core markets recorded a downturn in revenue during the period under review. This also applied to the coal mining sector, where the delayed approval of the new China III generation of machines also affected SMT Scharf's revenue growth. In principle, the company benefits in the coal market from its coal logistics systems, which are successfully established on the market, and the close customer relationships it enjoys there with mine operators, which also rely on SMT Scharf's expertise in order to maintain their machines.

Revenue by region

EUR million

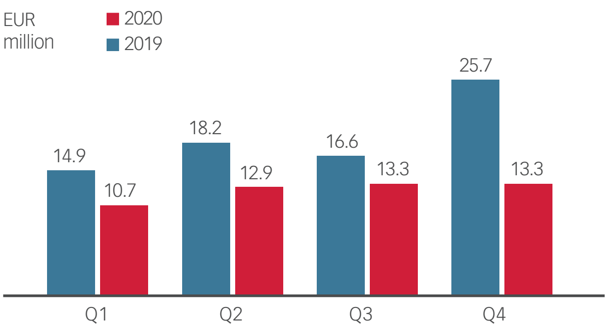


SMT Scharf generated almost 95 % of its revenue abroad in the reporting year (2019: 97 %). China just maintained its role as the most important market with a share of 32.7 %, equivalent to EUR 16.4 million (2019: 41.5 % or EUR 31.3 million). Local mining in China exhibited high demand for modern mining equipment before the pandemic, which was dampened by the impact of the pandemic last year. New growth impetus is likely to come from the new China III regulation, which will be mandatory from 2021, and will require underground mining fleets to be refitted.

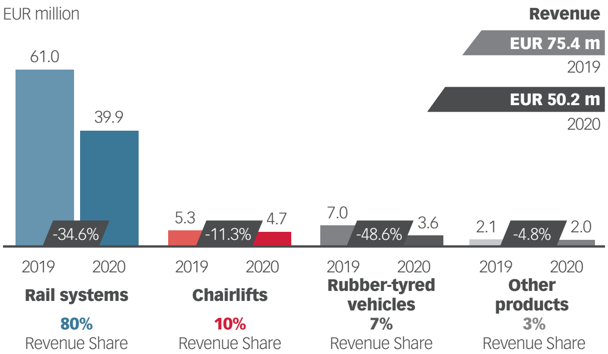
Russia (and CIS) follows as the second most important market with a share of 29.7 %, equivalent to EUR 14.9 million (2019: 20.6 % or EUR 15.5 million). Poland also remains a significant market for SMT Scharf. Here, too, the pandemic led to a subdued business climate. With a revenue share of 11.8 % and revenue of EUR 5.9 million (2019: 14.5 % and EUR 10.9 million, respectively), the business volume decreased tangibly compared to the previous year. Africa follows with revenue of EUR 4.8 million, or 9.6 % (2019: 7.0 % or EUR 5.3 million). In fifth place now follows the American market, where the SMT Scharf Group is primarily active in mineral mining, and with its portfolio of rubber-tyred vehicles for underground mining.

Here, the Group generated revenue of EUR 3.6 million in 2020, with the American market thereby contributing 6.5 % of the Group's total revenue (2019: 10.5 % or EUR 7.9 million). The revenue remaining in Germany increased to EUR 2.6 million or 5.2 % (2019: 3.3 % or EUR 2.5 million). The reason for this is the contribution to revenue made by ser elektronik, a company based in Germany, which was acquired in 2019.

Quarter-by-quarter consolidated revenue



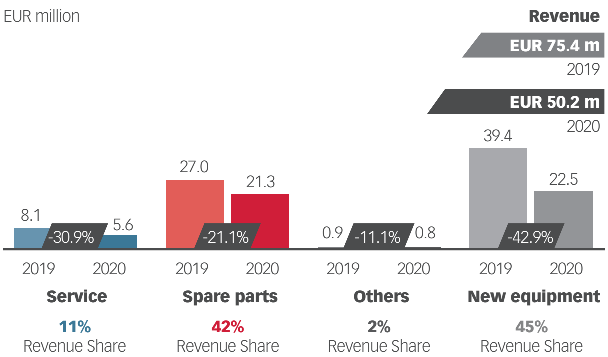
Revenue by product



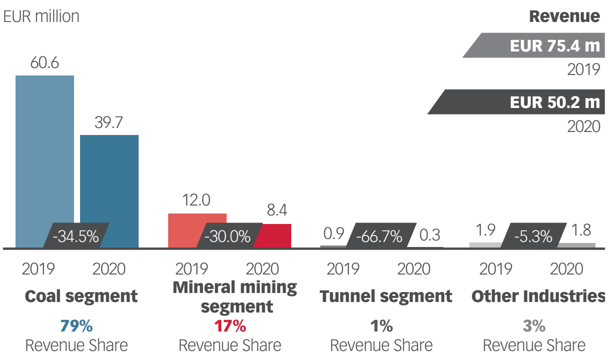
In the final quarter of 2020, SMT Scharf continued the trend in the third quarter and achieved revenue of EUR 13.3 million (Q4 / 2019: EUR 25.7 million). While the fourth quarter of the previous year was characterised by strong year-end business in China, no additional growth impetus came at the end of 2020 in light of the fact that the new China III machines had not yet been approved.

At 80.5 %, as usual most of total revenue was attributable to the Railways product (2019: 80.9 %), while Chairlifts accounted for 10.4 % of SMT Scharf's revenue (2019: 7.0 %). The share of the Other Industries division, which was newly created with the acquisition of ser elektronik in April 2019, amounted to 3.0 % in the year under review (2019: 2.6 %).

Revenue by type



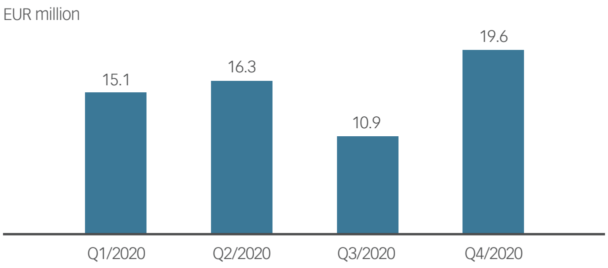
Revenue by segment



In 2020, revenue in the new equipment business decreased significantly. Given the coronavirus pandemic and lower investment willingness in the global mining equipment market, the revenue share decreased year-on-year to 44.8 % to stand below the 50 percent level (2019: 52.3 %). Spare parts and service business accounted for 53.6 % of total revenue, significantly higher year-on-year (2019: 47.8 %).

SMT Scharf continues to generate the largest share of its consolidated revenue in the Coal segment. Here, the company generated revenue of EUR 39.7 million, which corresponds to a share of revenue of 79.1 % (2019: 80.4 % or EUR 60.6 million). The Mineral mining segment (formerly Non-Coal Mining) accounted for 16.7 % or EUR 8.4 million of revenue (2019: 15.9 % or EUR 12.0 million). In the Tunnel segment, revenue decreased to EUR 0.3 million. This segment thereby contributed 0.6 % of total revenue (2019: EUR 0.9 million, or 1.2 %). The fourth segment added in 2019 is Other Industries, which includes the business of the subsidiary ser elektronik. It generated revenue of EUR 1.8 million in the 2020 fiscal year; accordingly, the new segment contributes 2.6 % to total consolidated revenue (2019: EUR 2.1 million or 2.8 %).

New order intake



New order intake amounted to EUR 61.9 million in the 2020 reporting year (2019: EUR 80.6 million). The order book position of the SMT Scharf Group stood at EUR 36.6 million as of December 31, 2020 (December 31, 2019: EUR 24.9 million). The high order backlog reflects the delayed order processing against the backdrop of the coronavirus crisis, as well as the pending delivery of the China III machines following approval by the Chinese regulatory authority. At the same time, it represents a good basis for the current fiscal year.

Financial position and performance

Results of operations

The SMT Scharf Group generated consolidated revenue of EUR 50.2 million in the 2020 fiscal year (2019: EUR 75.4 million), which corresponds to a 33.4 % decrease in revenue. Total operating revenue (consolidated revenue plus changes in inventories) reduced to EUR 56.3 million (2019: EUR 74.8 million). Other operating income amounted to EUR 4.2 million (2019: EUR 4.2 million) due to cash inflows from impaired receivables. Miscellaneous other operating income mainly comprised the reversals of previously formed specific valuation allowances and rental income.

Given the significantly lower total operating revenue, the cost of materials reduced by 11.9 % to EUR 34.8 million in the reporting period (2019: EUR 39.5 million). Accordingly, the cost of materials ratio (as a percentage of total operating revenue) increased year-over-year to 61.8 % (2019: 52.8 %). Personnel expenses in the year under review decreased by 7.7 % to EUR 16.9 million (2019: EUR 18.3 million). This leads to a higher personnel expense ratio of 30.0 % in relation to total operating revenue, which thereby stands significantly higher than the previous year's figure (2019: 24.5 %) despite the lower number of employees – due to the reduction in the number of staff at the Canadian site.

Accumulated depreciation and amortisation reached EUR 6.7 million (2019: EUR 2.8 million). The increase in the reporting period is primarily due to the impairment charges recognised in connection with the business policy realignment and the restructuring of the Canadian subsidiary RDH as well as impairment charges recognised for three development projects. Other operating expenses decreased by 11.2 % to EUR 10.3 million (2019: EUR 11.6 million). This was mainly due to reduced third-party services and travel expenses.

Overall in the fiscal year under review, exchange rate gains and exchange rate losses led to a negative net result of EUR 1,695 thousand (2019: EUR +0.5 million).

Results of operations

EUR million	2020	2019	Change
Revenue	50.2	75.4	-33.4 %
Total operating revenue	56.3	74.8	-24.7 %
EBIT	-8.1	6.8	-219.1 %
EBIT margin (in %)	-14.4	9.1	-258.2 %
Consolidated net profit	-8.1	5.7	-242.1 %
Earnings per share undiluted (in EUR)	-1.79	1.20	-250.8 %

In the 2020 reporting year, a significantly lower operating result (EBIT) of EUR -8.1 million was posted (2019: EUR 6.8 million). The considerable decrease in the result mainly reflects impairment charges in a total amount of EUR 6.6 million which were applied as of the third quarter. As part of the ongoing restructuring process at the Canadian subsidiary RDH Mining Equipment Ltd., which has been rendered more difficult by coronavirus, inventories were also reviewed and, in some cases, classified as impaired in terms of their value. The revaluation of assets leads to an impairment charge of some EUR 5.1 million. In addition, impairment charges totalling EUR 1.5 million were recognised in relation to internally generated intangible assets for a total of three development projects. In all cases, these involved prototypes for which customer orders are no longer expected due to a new status of knowledge. Accordingly, the EBIT margin (in relation to total operating revenue) was negative at -14.4 % (2019: 9.1 %).

The net financial result amounted to EUR 1.4 million after EUR 0.4 million in the previous year. This was mainly due to higher income from investments. In addition, the interest result deteriorated to EUR -0.6 million (2019: EUR -0.5 million) due to a slight increase in interest expenses.

On balance, the Group generated a profit before tax of EUR -6.7 million (2019: EUR 7.2 million). The tax expense of EUR 0.2 million in the reporting year was slightly below the previous year's level (2019: EUR 1.5 million). Of this amount, EUR 1.0 million comprised current tax expenses (2019: EUR 1.8 million), and EUR 0.3 million deferred tax (2019: EUR -0.3 million). The Group tax rate was 32.1 % (2019: 32.1 %). In total, SMT Scharf AG recorded consolidated net income of EUR -8.1 million, significantly below the previous year's level (2019: EUR 5.7 million). This corresponds to earnings per share of EUR -1.79 (2019: EUR 1.20).

Net assets

The total assets of the SMT Scharf Group amounted to EUR 83.5 million as of December 31, 2020 (December 31, 2019: EUR 95.8 million). On the assets side of the balance sheet, non-current assets stood at EUR 25.5 million (December 31, 2019: EUR 26.7 million). The amount of property, plant and equipment decreased mainly due to the restructuring measure at RDH. As a consequence, property, plant and equipment reduced to EUR 9.1 million as of the reporting date (December 31, 2019: EUR 9.8 million). In addition, intangible assets decreased to EUR 4.4 million (December 31, 2019: EUR 6.1 million), which is mainly due to the impairment charges of EUR 1.5 million recognized on a total of three development projects as of the third quarter. No more customer orders are expected for these due to a new status of knowledge. Compared with the previous year's balance sheet date, deferred tax assets rose to EUR 2.8 million (December 31, 2019: EUR 2.7 million).

At EUR 58.1 million (December 31, 2019: EUR 69.2 million), current assets accounted for the largest share of assets. Inventories of EUR 29.5 million were slightly above the previous year's level (December 31, 2019: EUR 28.6 million). This is due to the higher level of new order intake and order book position, which includes, in particular, China III orders that have not yet been processed. At EUR 19.3 million, trade receivables were down significantly on the previous year (December 31, 2019: EUR 29.4 million). This decrease is due to a lower number of deliveries in the year under review. In relation to consolidated revenue of EUR 50.2 million in the 2020 fiscal year (2019: EUR 75.4 million), average trade receivables outstanding of EUR 21.5 million (2019: EUR 25.0 million) and a 365-day year (2019: 365 days), days of sales outstanding rose to 156 days (2019: 121 days). The receivables portfolio, which mainly consists of receivables due from Chinese customers, has been reduced in relation to Group sales, as planned. The payment schedules concluded with major customers in previous years were adhered to as agreed. Cash and cash equivalents amounted to EUR 4.4 million as of December 31, 2020 (December 31, 2019: EUR 5.2 million) and have thereby reduced considerably.

Given the significant reduction in total assets and the equally strong decrease in equity, the equity ratio as of the balance sheet date was 58.0 %, up 5.2 percentage points on the previous year (December 31, 2019: 63.2 %). This reflects, on the one hand, the negative Group result and, on the other hand, the exchange rate changes in the course of currency translation. Non-current provisions and liabilities increased to EUR 11.0 million as of the balance sheet date (December 31, 2019: EUR : 10.6 million). As of the reporting date, non-current financial liabilities decreased by EUR 1.3 million to EUR 3.1 million due to the repayment of investment loans (December 31, 2019: EUR 4.4 million). Pension provisions also reduced slightly to EUR 3.4 million (December 31, 2019: EUR 3.5 million).

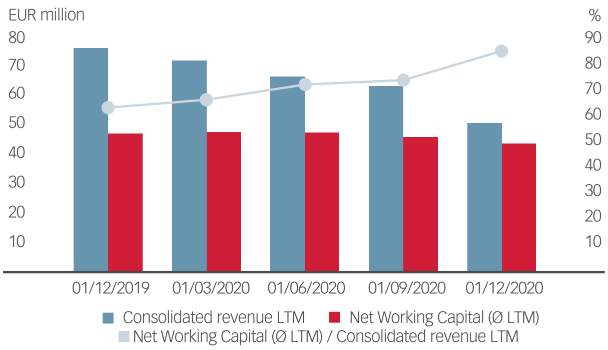
Current provisions and liabilities decreased to EUR 24.1 million as of the reporting date, a reduction of EUR 0.5 million compared to the prior year reporting date (December 31, 2019: EUR 24.6 million). Similarly, trade payables decreased to EUR 4.9 million as of the reporting date (December 31, 2019: EUR 6.5 million). Current financial liabilities, by contrast, rose to EUR 10.3 million (December 31, 2019: EUR 9.5 million), primarily due to higher inventories as a consequence of the extraordinarily high order book position. In addition, current provisions of EUR 3.3 million stood significantly below the previous year's figure (December 31, 2019: EUR 4.9 million), partly due to lower earnings-related personnel provisions.

Net assets

EUR million	31/12/2020	31/12/2019
Total assets	83.5	95.8
Equity	48.5	60.6
Equity ratio (in %)	58.0	63.2
Non-current and current provisions and liabilities	35.1	35.2
Non-current assets	25.5	26.7
Current assets	58.1	69.2
Days of sales outstanding	156	121
Net working* capital on the balance sheet date	38.8	47.6
Net working* capital – year-average	43.2	46.7
Net working* capital intensity	86.2	61.9

*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 interests in SMT Scharf AG before the IPO fell below the 10 % voting rights threshold in January 2010, and these shareholders left the shareholder base fully in February 2010. Since then, only the overall pool arising from Shareholder Value Beteiligungen AG / Share Value Stiftung / Christiane Weispfenning exceeds 10 % of the voting rights, whether directly or indirectly. The shareholders Shareholder Value Beteiligungen AG, Share Value Stiftung and Ms. Christiane Weispfenning have exceeded the 30 % threshold as a result of Dr. Helmut Fink joining a shareholder agreement concluded on January 11, 2021, in order to cooperate in exercising ownership rights including voting rights in relation to the bearer shares of SMT Scharf AG, and have thereby gained control of SMT Scharf AG pursuant to Sections 35 (1) and 29 (2) of the German Securities Acquisition and Takeover Act (WpÜG). Shareholder Value Beteiligungen AG and Share Value Stiftung, as bidders with discharging effect for Ms. Weispfenning and Dr. Fink, have accordingly published a public mandatory offer and delisting offer to the shareholders of SMT Scharf AG to acquire the no-par value bearer shares of SMT Scharf AG in return for payment of a consideration of EUR 8.22 per share. The total number of shares for which the offer was accepted by the reporting date of March 2, 2021, plus the shares of SMT Scharf AG held by the major shareholders on the reporting date, amounts to 1,690,230 shares. This corresponds to around 36.59 % of the share capital and voting rights of SMT Scharf AG.

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

Pursuant to section 8 of the articles of incorporation, the company's Managing Board comprises one or several members, including in the event that the share capital exceeds EUR 3.0 million, whereby the Supervisory Board determines the number of members of the Managing Board, and can appoint a Chair (CEO) as well as a Deputy Chair (Deputy CEO) of the Managing Board, and also deputy Managing Board members. In all other respects, the statutory regulations apply to the appointment and discharge of Managing Board members. The company has not concluded any key agreements that are subject to the condition of a change in control as a result of an acquisition offer.

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 18.8 million exist, but have not been utilised.

Given the negative result of EUR -8.1 million in 2020, the SMT Scharf Group reported cash flows from operating activities of EUR 2.8 million in the year under review (2019: EUR 3.0 million). The cash flow from operating activities also mainly reflects the change in depreciation and amortisation. Cash flow from investing activities amounted to EUR -2.8 million (2019: EUR -2.9 million) and is mainly attributable to payments for investments in intangible assets and in property, plant and equipment.

Cash flow from financing activities amounted to EUR -2.0 million for the 2020 reporting period (2019: EUR 5.2 million), which was mainly due to outflows from the repayment of financial loans. In total, the cash and cash equivalents position reduced from EUR -1.9 million on December 31, 2019 to EUR 4.1 million on December 31, 2020.

Comparison of the actual financial position and performance with the forecast

In the forecast provided in the 2019 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 2020 fiscal year. Against the backdrop of the Coronavirus pandemic and on the basis of preliminary figures for the first quarter of 2020, the Managing Board adjusted its forecast for the 2020 fiscal year and now expects consolidated revenue of EUR 55 to 57 million for the 2020 fiscal year. Furthermore, the Managing Board forecasted 2020 EBIT in a range between EUR -1.4 million and EUR -1.6 million.

In November, a further adjustment was made to forecasts, as the economic impact of the COVID-19 pandemic significantly affected the SMT Scharf Group's business activities in the global mining equipment market during the course of the year, and the regulatory authorities' approval of the new China III machines was also delayed further. Given this, SMT Scharf further corrected its forecast for consolidated revenue to between EUR 48 million and EUR 50 million for the 2020 fiscal year. In view of the impairment charges recognised in the third quarter and associated one-off effect, the Managing Board also revised its earnings forecast again and now expects EBIT for the full year 2020 to lie in the range of EUR -6.0 million to EUR -6.5 million.

The actual figures at the end of the fiscal year were as follows:

- With actual consolidated revenue of EUR 50.2 million, SMT Scharf achieve its revenue forecast of EUR 48 to 50 million, which had been adjusted further downwards in November 2020, and marginally exceeded this forecast.
- Most recently, in November 2020, the Managing Board had anticipated EBIT for the full year 2020 in the range between of EUR -6.0 million to EUR -6.5 million. With EBIT of EUR -8.1 million, SMT Scharf was thereby unable to meet its forecast expectations.

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

- The cost of materials ratio (in relation to total operating revenue) rose to 61.8 % (2019: 52.8 %) in light of the significant reduction in revenue. As a consequence, it still stands above the medium-term target value of 50 %, from which SMT Scharf again moved further away in the past fiscal year.

- At EUR 37.3 million (2019: EUR 47.6 million), net working capital was significantly lower than in the previous year, so that expectations were met in this context. Net working capital intensity in relation to the significantly reduced Group revenue rose by a tangible 23.6 percentage points to 85.5 % in the reporting period. As a consequence, the target of a slight improvement in net working capital intensity in 2020 was not achieved.

- The equity ratio decreased to 58.0 % as a consequence of the significant reduction in equity as of the reporting date; the target had been an equity ratio at the previous year's level.

Overall statement on the company's business position

The SMT Scharf Group recorded a significant year-on-year decrease in revenue in the 2020 fiscal year. Business in key target markets was significantly affected by the coronavirus pandemic and associated economic consequences, impacting the new equipment business as well as the spare parts and service business in equal measure. At the same time, the impairment charges totalling EUR 6.6 million led to a significant decrease in the operating result. With an EBIT margin of -14.4 % (2019: 9.1 %), the SMT Scharf Group has moved significantly away from its medium-term target of 10.0 %. The company's asset and financing situation continues to be robust. The equity ratio stands at 58.0 % as of the reporting date, 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. By entering into a partnership with Polymetal International, SMT Scharf has taken a further important step towards diversifying its business in order to advance its business with electrically powered vehicles and meet demand in this market. Although the extraordinary economic situation in 2020 had a strong impact on SMT Scharf's business activities, the company still believes that it is well positioned to benefit disproportionately from the growth opportunities on offer in the mining sector.

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 element of value-oriented corporate management, and serves to secure existing and future success and profitability potentials in a targeted manner. The risk management system is aimed at the early identification of opportunities and risks for the purpose of initiating appropriate precautionary and securing measures without delay which are then subject to ongoing monitoring.

Risk management is based mainly on internal regulations set out in the form of guidelines and implemented in the process of corporate management and supervision. Key elements in this process include strategic and operational forecasting, the preparation of weekly, monthly and quarterly reports for the Managing Board, and preparing for investment decisions. Ongoing reporting serves the purpose of business performance management Group-wide 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) (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 are organised in line with accounting units. Standard financial accounting regulations are applied within the SMT Scharf Group, and compliance with these regulations is monitored on an ongoing basis. In some cases, recourse is made to external specialists to manage specific accounting risks, such as in the case of actuarial valuations.

A Compliance Management System (CMS) has been successfully installed within 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.

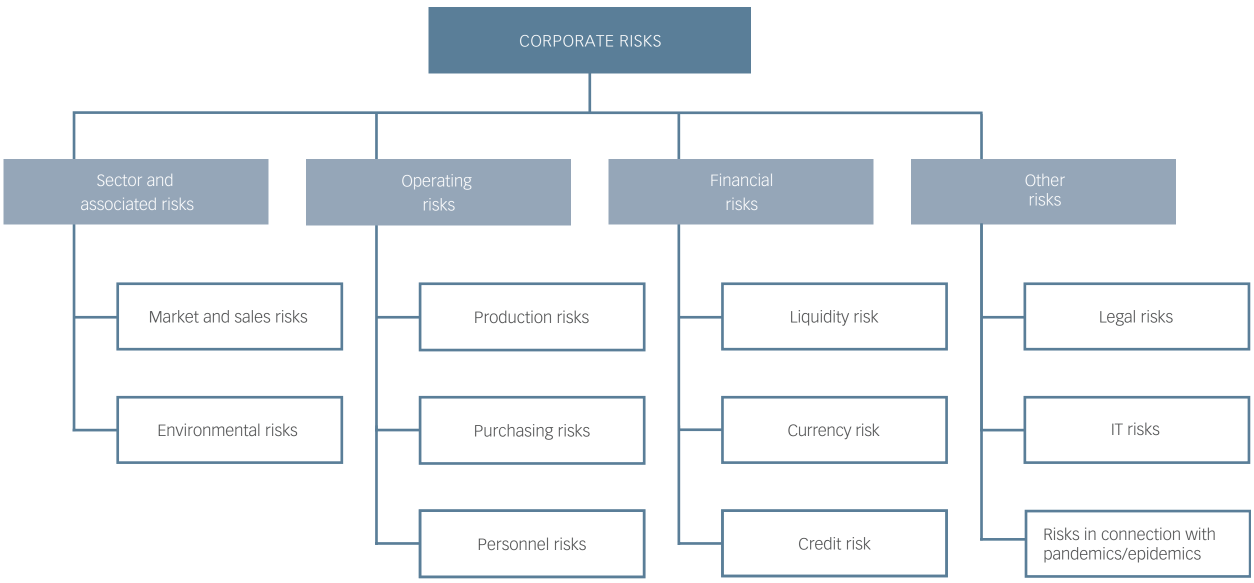
Corporate risks

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 2020 fiscal year includes detailed disclosures about financial risk management.

Environmental and sector risks

Market and sales 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. For the Chinese market, SMT Scharf took early action given more stringent emission standards for engines (China III) from 2021, and has developed a completely revised generation of machines in the form of the DZK3500. Due to the COVID-19 pandemic, the approval of the new machines has been delayed beyond the end of 2020.

In macroeconomic terms, a recession or downturn in demand among individual customer groups could exert a negative effect on SMT Scharf's business. In addition, political continuity and stability in mine ownership play a role in many countries. 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 this risk by constantly monitoring the market and further diversifying its business by entering 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. As a consequence, the SMT Scharf Group commands a solid financial structure, allowing it to continue its strategy of both organic and inorganic growth.

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

Personnel risks
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 69 % of the workforce of SMT Scharf was employed outside the Eurozone as of the December 31, 2020 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 exist at present.

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 deploys up-to-date and application-specific technical protection in order to ensure the highest possible data security.

Risks in connection with pandemics / epidemics

The SMT Scharf Group operates internationally and is represented in key mining markets worldwide. In this context, a pandemic / epidemic could have a negative effect on the processing of business in affected regions. As a consequence, further policy measures to contain the COVID-19 pandemic could mean that business activities in key foreign markets can only be implemented to a limited extent or, in the worst case, a renewed shutdown could bring business activities to a complete standstill – as happened at the start of 2020 in SMT Scharf's key market in China. Similarly, the spread of coronavirus could have a negative effect on employee health and availability for work. This could have the overall effect of impairing the SMT Scharf Group's financial position and performance.

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. It enables SMT Scharf to benefit from the growth opportunities in the mining industry. SMT Scharf is tapping new markets and customer groups through further developing the company to become a system supplier of logistics solutions in underground mining and for tunnel construction sites. In addition to its core business, SMT Scharf is also examining the extent to which the company can enter new application areas outside mining with emission-free transport solutions. As electrically powered vehicles have a significantly better net ecological impact than combustion vehicles, they are increasingly becoming the focus of local authorities. This can lead to additional revenue potential.

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 traded at an elevated level again. However, the coronavirus crisis also caused turbulence in the prices of such assets. SMT Scharf believes that commodity prices will pick up again, leading to a resumption of better profitability for mine operators. It is also expected that mining companies will now proceed again with investments in mine infrastructure that were initially postponed or cancelled in light of the pandemic. This should be reflected in a pick-up in demand for mining equipment, which should generate a positive impetus for the SMT Scharf Group's revenue.

Higher demand on local markets

After the imposed shutdown affected the economy at the beginning of 2020, the Chinese economy has now returned to normality. SMT Scharf believes that Chinese mines will once again increasingly extract coal and other raw materials in order to meet the local economy's high demand for resources – including in the case of diminished growth momentum. Similarly, SMT Scharf expects that the more stringent standards for machinery in underground mining (China III), which come into force in 2021, will stimulate demand growth as Chinese mine operators are forced to convert their fleets. 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 for the foreseeable future one of the most important energy sources 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

The COVID-19 pandemic and resultant economic consequences in 2020 led to a significant reduction in the willingness to invest in the mining equipment market. SMT Scharf expects that mining groups will once again invest more heavily in modern infrastructure as a consequence of the increasing easing of restrictions in mining markets. After global economic output reported a significant contraction in 2020, it is expected to expand again in 2021. 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 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 for 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. This 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 Mineral 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 years will also arise from electric-powered rubber-tyred vehicles. Electric vehicles require significantly less maintenance than vehicles with combustion engines, and thereby contribute to cost savings long-term. They are still much more expensive to buy than diesel vehicles, so mine operators are carefully considering converting to vehicles with electric drive systems. In principle, SMT Scharf has proven battery and electrical expertise and can meet demand for electrically powered drive systems. In this respect, new growth opportunities also arise from the strategic partnership concluded with Polymetal International to develop underground electric vehicles.

Last year we entered into a partnership with Polymetal International. As part of an order in 2021, electric-powered loaders and medium-duty underground trucks will be produced as prototypes for Polymetal. In the future, further growth potential may derive from the development of additional electric-powered commercial vehicles.

The investment in ser elektronik, which has existed since 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 revenue 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 – whether 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 2021 thanks to improved manufacturing activity and more dynamic global trade, following a decrease in global economic output in 2020 as a result of the COVID-19 pandemic. The ongoing pandemic remains a major factor for the global economy in 2021, and the final consequences are still not fully assessable. In the World Economic Outlook that it published in January 2021, the IMF forecasts growth of 5.5 %, which is then expected to slow somewhat to 4.2 % in 2022. The strength of the recovery is expected to vary considerably between countries, depending, for example, on access to medical interventions and the effectiveness of policies.

Several vaccine approvals and the start of vaccination in some countries in December give hope that the pandemic will soon end, according to the IMF. Compared to the World Economic Outlook published in October 2020, economic activity in the second half of 2020 is now expected to be stronger than forecast in all regions on average. Despite the large and increasing number of people affected by the pandemic, economic activity appears to be adjusting over time to a subdued level of contact-intensive activities. Furthermore, the IMF expects that additional policy measures announced at the end of 2020, particularly by the US and Japan, will further support the global economy in the coming years.

At the start of 2021, 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 %	2021e	2020
World	5.5	-3.5
China	8.1	2.3
Poland **	4.6	-3.6
Russia	3.0	-3.6
South Africa	2.8	-7.5

Sources: * IMF World Economic Outlook Update, January 2021
** IMF World Economic Outlook, October 2020

SMT Scharf will continue to concentrate on the core markets of China, Russia, Poland and South Africa. In addition, America is also a relevant target market for the SMT Scharf Group as a consequence of its hard rock business. Apart from China, for which the IMF is forecasting growth of 2.3 % in 2020, economic output is forecast to decrease in all of SMT Scharf's other key sales markets. South Africa, in particular, has been hit particularly hard by the effects of the pandemic, with a decrease of 7.5 %. The IMF again expects economic growth for all of SMT Scharf's key sales markets in 2021.

Given the market conditions at the start of 2021, the Managing Board anticipates that a return to a higher level of activity in the mining industry may occur in the current fiscal year. However, significant risks to the Group's business remain as a consequence of the pandemic. In particular, the spread of coronavirus could have a negative effect on business activities in China and further delay the approval process (China III) that has been ongoing in the Chinese market since last year. In principle, SMT Scharf expects that the final approval for the new generation of machines could be granted in the first half of 2021.

For the 2021 fiscal year, the Managing Board of SMT Scharf AG is conservatively forecasting consolidated revenue in a range between EUR 65 million and EUR 70 million, with EBIT in a range between EUR 2.5 million and EUR 3.0 million. The Managing Board has made this consolidated forecast on the basis of the facts available at the time when this report was published in March 2021. This forecast is based on the assumption that no further significant restrictions are imposed due to the coronavirus pandemic. As a consequence, it still cannot be ruled out that the ongoing spread of coronavirus could exert a significant negative effect on economic growth in SMT Scharf's target markets as a whole, and on the company's own business activities. Given this, the Managing Board does not rule out the possibility that the Group forecast will have to be adjusted further over the course of the year in order to reflect an economic situation that at present is undergoing rapid and sharp changes.

In principle, the company sees itself 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 revenue in 2021. 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 2021 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 2021 are expected to lie slightly above the medium-term target of 150 days. An equity ratio at the previous year's level is also anticipated for 2021. The medium-term target range for the equity ratio between 35 % and 40 % is subject to the background assumption of the company's being able to exploit 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 an improvement in the worldwide market for mining equipment. 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, including on the basis of the new government regulation. 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. This was further strengthened by the strategic partnership with Polymetal International. 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 and 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 around 60 % over this period. Global economic growth is leading to a sustained increase in energy demand worldwide. Experts at the International Energy Agency (IEA) 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 businesses with hard rock mine operators as well as with tunnel logistics develop into second and third business pillars in the medium to long term. As part of its corporate strategy, the company will continue to focus in the future on operative excellence, as well as on both external growth and organic growth, in order to further strengthen SMT Scharf's market position.

Hamm, March 26, 2021

The Managing Board

Hans Joachim Theiss   Wolfgang Embert

IFRS CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31, 2020

EUR	Note	31/12/2020	31/12/2019
Assets			
Intangible assets	(9)	4,417,436.18	6,120,071.66
Property, plant and equipment	(9)	9,103,955.99	9,828,912.18
Loans	(10)	636,579.30	712,057.07
Equity accounted investments	(11)	8,543,230.97	6,745,581.18
Other investments		7,039.97	7,039.97
Deferred tax assets	(8)	2,750,778.93	2,664,885.62
Non-current lease receivables	(23)	15,991.52	584,898.37
Other non-current non-financial assets	(14)	9,154.24	11,232.94
Non-current assets		**25,484,167.10**	**26,674,678.99**
Inventories	(12)	29,533,834.62	28,613,822.34
Trade receivables	(13)	19,342,403.09	29,398,049.10
Contract asset	(13)	1,030,780.18	473,191.01
Current lease receivables	(23)	547,255.87	789,784.71
Other current non-financial assets	(14)	3,052,053.61	3,505,370.10
Other current non-financial assets in connection with employees' pension entitlements	(15)	150,806.55	1,150,722.49
Cash and cash equivalents	(16)	4,401,912.03	5,229,572.86
Current assets		**58,059,045.95**	**69,160,512.61**
Total assets		**83,543,213.05**	**95,835,191.60**

EUR	Note	31/12/2020	31/12/2019
Equity and liabilities			
Subscribed share capital		4,570,523.00	4,570,523.00
Capital reserve		16,866,909.32	16,732,172.20
Revenue reserves		32,564,048.38	40,739,242.48
Other reserves		-6,975,958.38	-3,026,153.09
Non-controlling interests		1,427,397.78	1,560,834.46
Equity	**(17)**	**48,452,920.10**	**60,576,619.05**
Provisions for pensions	(18)	3,392,926.64	3,479,813.56
Other non-current provisions	(19)	197,178.17	219,825.83
Deferred tax liabilities	(8)	505,124.46	595,155.98
Contract liabilities		3,230.85	0.00
Leasing liabilities	(23)	2,375,831.87	1,112,251.30
Non-current financial liabilities	(24)	3,099,367.34	4,441,714.70
Other non-current financial liabilities	(20)	1,453,994.65	783,238.96
Non-current provisions and liabilities		**11,027,653.98**	**10,632,000.33**
Current income tax	(8)	108,932.84	198,341.04
Other current provisions	(19)	3,298,939.94	4,929,285.85
Contract liabilities	(20)	1,478,993.58	932,539.97
Trade payables	(20)	4,870,956.54	6,542,683.00
Leasing liabilities	(23)	790,110.66	620,156.64
Current financial liabilities (cash and cash equivalents)	(21)	8,529,775.66	7,127,603.81
Current financial liabilities (not cash and cash equivalents)	(24)	1,780,269.63	2,366,042.17
Other current non-financial liabilities	(20)	3,204,660.12	1,909,919.74
Current provisions and liabilities		**24,062,638.97**	**24,626,572.22**
Total assets		**83,543,213.05**	**95,835,191.60**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FROM JANUARY 1 TO DECEMBER 31, 2020

EUR	Note	2020	2019
Revenue	(1)	50,179,818.31	75,394,644.27
Changes in inventories		6,151,150.70	-558,185.43
Total operating revenue (100 %)		56,330,969.01	74,836,458.84
Other operating income	(2)	4,199,815.87	4,216,968.24
Cost of materials	(3)	34,788,926.13	39,492,893.61
Personnel expenses	(4)	16,911,162.12	18,335,766.65
Depreciation, amortisation and impairment losses	(5)	6,685,055.03	2,844,435.72
Other operating expenses	(6)	10,275,966.50	11,558,197.67
Profit / loss from operating activities (EBIT)		**-8,130,324.90**	**6,822,133.43**
Result from equity accounted investments	(7)	2,040,308.72	853,380.87
Interest income	(24)	256,629.83	417,966.84
Interest expenses	(24)	895,952.05	872,695.89
Financial result		**1,400,986.50**	**398,651.82**
Profit / loss before tax		**-6,729,338.41**	**7,220,785.25**
Income taxes	(8)	1,324,968.24	1,482,240.83
Consolidated net profit / loss		**-8,054,306.65**	**5,738,544.42**
of which attributable to shareholders of SMT Scharf AG		-8,167,764.50	5,498,778.41
of which attributable to non-controlling interests		113,457.85	239,766.01

EUR	Note	2020	2019
Other comprehensive income items recycled later to profit or loss:			
Currency differences from translation of foreign financial statements		-3,880,786.17	1,853,018.78
Share of other comprehensive income attributable to equity accounted investments		-241,499.98	69,523.56
Other comprehensive income items not recycled later to profit or loss:			
Actuarial gains / losses	(18)	-10,942.00	-386,689.00
Deferred taxes	(8)	3,512.38	124,127.17
Other comprehensive income		**-4,129,715.77**	**1,659,980.51**
of which, share of other comprehensive income attributable to shareholders of SMT Scharf AG		-3,957,234.91	1,639,153.58
of which, share of other comprehensive income attributable to non-controlling interests		-172,480.86	20,826.93
Total comprehensive income		**-12,184,022.40**	**7,398,524.93**
of which, share of total comprehensive income attributable to shareholders of SMT Scharf AG		-12,124,999.39	7,137,931.99
of which, share of total comprehensive income attributable to non-controlling interests		-59,023.01	260,592.94
Earnings per share*			
Undiluted (basic)		-1.79	1.20
Diluted		-1.77	1.19

* 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 2020 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, 2020

EUR	2020	2019
Consolidated net profit / loss	-8,054,306.65	5,738,544.42
– Income from equity accounted investments	-2,040,308.72	-853,380.87
+ Depreciation and amortisation of non-current assets	6,685,055.03	2,844,435.72
+ Loss from disposal of fixed assets	220,381.96	184,083.00
– Decrease in provisions	-1,508,570.26	-893,068.85
– / + Increase / decrease in inventories, trade receivables and other assets not allocable to investing or financing activities	6,525,089.23	-5,170,231.35
+ / – Increase / decrease in trade payables and other liabilities not allocable to investing or financing activities	-287,730.00	593,779.78
+ Other non-cash income	134,737.14	106,409.70
+ Income taxes	1,324,968.24	1,482,240.83
+ Financial expenses	639,322.21	454,729.04
– Income tax paid	-848,399.94	-1,497,020.75
Cash flow from operating activities	**2,790,238.23**	**2,990,520.70**
+ Cash inflows from disposal of property, plant and equipment	95,970.92	189,822.14
– Capital expenditure on property, plant and equipment	-1,473,130.39	-2,412,538.72
– Capital expenditure on intangible assets	-1,763,915.75	-1,493,841.35
+ Cash inflows from disposal of non-controlling interests in subsidiaries	0.00	619,405.00
+ Cash inflows from the repayment of loans	75,477.77	0.00
– Cash outflows from acquiring consolidated companies	0.00	-201,652.22
+ Interest received	250,535.88	378,701.05
Cash flow from investing activities	**-2,815,061.57**	**-2,920,104.11**
– Cash outflows for the repayment of leasing liabilities	-681,636.71	-596,772.93
+ Cash inflows from sale-and-leaseback agreements	1,538,451.45	0.00
+ Cash inflows from the drawing down of loans	0.00	671,995.63
– Cash outflow for the repayment of loans	-1,869,208.74	-4,155,314.42
– Interest paid	-882,573.01	-1,150,594.06
– Cash outflows to non-controlling shareholders	-74,413.67	0.00
Cash flow from financing activities	**-1,969,380.68**	**-5,230,685.78**
Net change in cash and cash equivalents	**-1,994,204.02**	**-5,160,269.19**
Changes in cash and cash equivalents due to effects from exchange rates and consolidated Group	-235,628.66	43,902.79
Cash and cash equivalents at start of period	-1,898,030.95	3,218,335.45
Cash and cash equivalents at end of period	**-4,127,863.63**	**-1,898,030.13**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FROM JANUARY 1 TO DECEMBER 31, 2020

			Revenue reserves	
in EUR	Subscribed share capital	Capital reserve	Actuarial gains and losses	Other revenue reserves
Balance on January 1, 2020	**4,570,523.00**	**16,732,172.20**	**-327,280.25**	**41,066,522.73**
Consolidated net profit / loss				-8,167,764.48
Currency difference from translating results from foreign annual financial statements				
Share of other comprehensive income attributable to equity accounted investments				
Recognition of actuarial gains / losses			-10,942.00	
Deferred taxes on recognised actuarial gains / losses			3,512.38	
Comprehensive income			-7,429.62	-8,167,764.48
Changes in the scope of consolidation				
Increase in equity due to shares to be issued		134,737.12		
Balance on December 31, 2020	**4,570,523.00**	**16,866,909.32**	**-334,709.87**	**32,898,758.25**
Balance on January 1, 2019	**4,570,523.00**	**16,597,437.33**	**–64,718.42**	**35,357,859.85**
Consolidated net profit				5,498,778.41
Currency difference from translating results from foreign annual financial statements				
Share of other comprehensive income attributable to equity accounted investments				
Recognition of actuarial gains / losses			–386,689.00	
Deferred taxes on recognised actuarial gains / losses			124,127.17	
Comprehensive income			–262,561.83	5,498,778.41
Changes in the scope of consolidation				–273,835.22
Changes due to reduction of bonds				483,719.69
Increase in equity due to shares to be issued		134,734.87		
Balance on December 31, 2019	**4,570,523.00**	**16,732,172.20**	**–327,280.25**	**41,066,522.73**

Other reserves			
Currency translation difference	Equity attributable to SMT Scharf AG shareholders	Non-controlling interests	Total equity
-3,026,153.09	**59,015,784.59**	**1,560,834.46**	**60,576,619.05**
	-8,167,764.48	113,457.85	-8,054,306.63
-3,708,305.31	-3,708,305.31	-172,480.86	-3,880,786.17
-241,499.98	-241,499.98		-241,499.98
	-10,942.00		-10,942.00
	3,512.38		3,512.38
-3,949,805.29	-12,124,999.39	-59,023.01	-12,184,022.40
		-74,413.67	-74,413.67
	134,737.12		134,737.12
-6,975,958.38	**47,025,522.32**	**1,427,397.78**	**48,452,920.10**
–4,927,868.50	**51,533,233.26**	**0.00**	**51,533,233.26**
	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		69,523.56
	–386,689.00		–386,689.00
	124,127.17		124,127.17
1,901,715.41	7,137,931.98	260,592.94	7,398,524.93
	–273,835.22	483,200.82	209,365.60
	483,719.69	817,040.70	1,300,760.39
	134,734.87		134,734.87
–3,026,153.09	**59,015,784.59**	**1,560,834.46**	**60,576,619.05**

NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS FOR THE 2020 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 available for trading on the Munich Stock Exchange in the over-the-counter market of the m:access quality segment. 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 commercial register sheet number 5845.

Information about the consolidated financial statements

SMT Scharf AG voluntarily prepares its consolidated financial statements in accordance with IFRS pursuant to Section 315e (3) of the German Commercial Code (HGB). 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, 2020, 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 continue to be 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 approved by the Supervisory Board on March 26, 2021, and subsequently released for publication.

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

In the fiscal year under review, no new or revised standards or interpretations were to be applied since January 1, 2020 that had a material effect for the SMT Group in relation to the notes to the consolidated financial statements or the presentation in the consolidated financial statements.

Although the following standards or amendments have been applicable since January 1, 2020, they had no effect, or no material effect, on the SMT Scharf Group:

Amendments to IFRS 9, IAS 39 and IFRS 7: "Interest Rate Benchmark Reform".
The IASB introduces amendments to IFRS 9, IAS 39 and IFRS 7, which provide certain reliefs in connection with the IBOR reform. The amendment is effective from January 1, 2020; earlier application is permitted. EU endorsement was issued on January 15, 2020.

Amendments to IFRS 16 COVID-19-Related Rent Concessions (Amendment to IFRS 16:46A IFRS 16:46B
In May 2020, the IASB issued COVID-19-Related Rent Concessions (Amendment to IFRS 16), which provides lessees with practical expedients for accounting for rent concessions that occur as a direct consequence of COVID-19. The practical expedient permits a lessee to elect not to assess whether a lease concession due to COVID-19 represents a lease modification, and consequently not to account for it as a lease modification under IFRS 16. These amendments are to be applied from June 1, 2020. EU endorsement was issued on October 9, 2020. 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 commencing from January 1, 2020. The EU endorsement was announced on November 29, 2019. These amendments have no effects on the Group.

Amendments to IFRS 3: "Business combinations"
The IASB introduces 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. EU endorsement was issued on April 21, 2020. The amendments do not affect transactions that have already been completed, and consequently have no effect on the Group.

Amendments to IAS 1 and IAS 8: "Definition of Material"
The IASB has issued a definition of "material" in order to specify and standardise the definition within the framework and standards. The amendments are to be applied to fiscal years commencing from January 1, 2020. EU endorsement was issued on November 29, 2019. 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)

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 commencing from January 1, 2023. EU endorsement is still outstanding. These amendments have no effects on the Group.

Amendments to IFRS 9, IAS 39 and IFRS 7: "Interest Rate Benchmark Reform" – Phase 2
The IASB introduces 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. This amendment is to be applied to fiscal years commencing from January 1, 2021. EU endorsement was issued on January 13, 2021. These amendments prospectively have no effect on the Group.

Amendments to IFRS 4 Insurance Contracts – Extension of IFRS 9
The amendments to IFRS 4 "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts" provide for an extension of the period for the temporary exemption from IFRS 9 for certain insurance companies. The amendments were issued on June 25, 2020, and are effective for annual periods commencing on or after January 1, 2023. EU endorsement was issued on December 15, 2020. These amendments have no effects on the Group.

Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
The amendments to IFRS 10 and IAS 28 address situations in which a sale or contribution of assets occurs between an investor and its associate or joint venture. They clarify that, for transactions with an associate or joint venture, the extent of profit or loss recognition depends on whether the assets sold or contributed constitute a business as defined in IFRS 3. The IASB has yet to determine the effective date of the amendments. The application of these amendments may have an effect on the consolidated financial statements in future periods should such transactions occur. EU endorsement is still outstanding.

Amendments to IAS 1 – Classification of Liabilities as Current or Non-current
The amendments to IAS 1 affect only the presentation of liabilities as current or non-current on the balance sheet, and not the amount or timing of recognition of assets, liabilities, income and expenses, or the disclosures made about such items. The amendments clarify that the classification of liabilities as current or non-current is based on rights that exist at the end of the reporting period and not on the management's intention to exercise rights. The amendments will be applied to fiscal years commencing on or after January 1, 2023. EU endorsement is still outstanding. These amendments will prospectively have no material effect on the Group.

Amendments to IFRS 3 – Reference to the Conceptual Framework
The amendments update IFRS 3 so that it references the 2018 Conceptual Framework rather than the 1989 Framework. Accordingly, the modified definition criteria for assets and liabilities of the revised 2018 Framework are to be applied as a matter of principle in the case of a business combination. Exceptions include matters within the scope of IAS 37 and IFRIC 21, for which the definitions in the respective standards must be applied. Moreover, an explicit prohibition on the recognition of contingent assets from a business combination is included. The amendments are effective for fiscal years commencing on or after January 1, 2022. The application of these amendments may have an effect on the consolidated financial statements in future periods should such transactions occur. EU endorsement is still outstanding.

Amendments to IAS 16 – Property, Plant and Equipment – Proceeds before Intended Use
The amendments prohibit proceeds from the sale of items produced before the asset is available for use (such as in the context of test runs) from being deducted from their cost of acquisition or production. The amendments are effective for fiscal years commencing on or after January 1, 2022. The application of these amendments may have an effect on the consolidated financial statements in future periods should such transactions occur. EU endorsement is still outstanding.

Amendments to IAS 37 – Onerous Contracts – Cost of Fulfilling a Contract
The amendments specify which costs are to be taken into consideration when assessing whether a contract is onerous. Accordingly, both the direct additional costs of fulfilling the contract and other costs directly attributable to the fulfilment of the contract are to be taken into consideration. The amendments are effective for fiscal years commencing on or after January 1, 2022. The application of these amendments may have an effect on the consolidated financial statements in future periods should such transactions occur. EU endorsement is still outstanding.

Annual Improvements to IFRS Standards 2018-2020
The annual improvements include amendments to four standards.

IFRS 1: Enabling a simplified measurement of cumulative currency translation effects for subsidiaries whose first-time adoption of IFRS occurs later than that of the parent in the context of the adoption of IFRS 1.D16(a).

IFRS 9: Clarification on the fees to be taken into consideration in the 10 % present value test when assessing the derecognition of financial liabilities.

IFRS 16: Amending the circumstances and deletion of a portion of the wording in Illustrative Example 13, “Measurement by a lessee and accounting for a change in the lease term”, regarding payments from the lessor for leasehold improvements. This serves to avoid potential confusion concerning the accounting treatment of lease incentives.

IAS 41: Deletion of the requirement in IAS 41.22 that tax cash flows should not be taken into consideration when determining the fair value of a biological asset at present value. This serves to ensure consistency with IFRS 13.

The amendments are to be applied to fiscal years from January 1, 2022. EU endorsement is still outstanding. These amendments prospectively have no material effect on the consolidated financial statements.

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) 31/12/2020	Profit/loss (IFRS) 2020
SMT Scharf GmbH, Hamm, Germany	100 %****	27,289,554.30	-928,729.55
ser elektronik GmbH, Möhnesee, Germany	51 %	1,071,148.43	106,085.39
SMT Scharf Polska Sp. z o. o., Tychy, Poland	100 %	6,703,294.59	272,097.72
SMT Scharf Africa (Pty.) Ltd., Gauteng, South Africa	70 %	2,584,930.17	272,543.35
SMT Scharf Sudamerica SpA, Santiago, Chile	100 %	-377,179.43	-92,315.29
RDH Mining Equipment Ltd., Alban Ontario, Canada	100 %	-3,321,625.85	-7,126,242.47
OOO SMT Scharf, Novokuznetsk, Russian Federation	100 %*	9,320,887.45	2,262,225.73
OOO SMT Scharf Service, Novokuznetsk, Russian Federation	100 %***	276,336.24	61,510.03
Scharf Mining Machinery (Beijing) Co., Ltd., Beijing, China	100 %**	1,498,714.30	-382,812.47
Scharf Mining Machinery (Xuzhou) Ltd, Xuzhou, China	100 %	4,464,840.64	620,537.42

* of which 1.25 % indirectly through SMT Scharf GmbH
** indirectly through SMT Scharf GmbH
*** indirectly through OOO SMT Scharf
**** exemption pursuant to Section 264 (3) of the German Commercial Code (HGB)

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

The following changes to the scope of consolidation occurred in the 2020 fiscal year:

Merger of Nowilan GmbH

By way of a merger agreement dated July 10, 2020, Nowilan GmbH, Dinslaken (transferring legal entity) was merged with SMT Scharf GmbH, Hamm (acquiring legal entity) as of the January 1, 2020 merger date (merger by absorption). The merger was realised in return for the granting of shares in SMT Scharf GmbH. SMT Scharf GmbH increased its subscribed capital by EUR 1 for this purpose.

The merger was entered in the commercial register for SMT Scharf GmbH on September 1, 2020.

The merger has no effect on the consolidated financial statements.

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, as, together with its partner entity, it owns the rights to the net assets. Joint ventures are recognised on the date of addition at cost, and measured subsequently applying the equity method.

In accordance with IFRS, the summarised financial information is provided below and corresponds to the amounts in the joint venture's financial statements as of December 31, 2020. In the previous year, only the figures as of September 30, 2019 were available at the end of the fiscal year, due to the effects of coronavirus.

EUR thousand	31 / 12 / 2020	30 / 09 / 2019
Non-current assets	493	432
Current assets	28,413	25,625
Current liabilities	12,909	13,604

The assets and liabilities listed above include the following amounts:

EUR thousand	31 / 12 / 2020	30 / 09 / 2019
Cash and cash equivalents	3,553	1,400
Current financial liabilities	11,367	12,301

EUR thousand	31 / 12 / 2020	30 / 09 / 2019
Revenue	27,665	15,913
Profit from continuing operations	2,532	1,862
Other comprehensive income	20	-9
Total comprehensive income	2,552	1,853

The profit listed above includes the following amounts:

EUR thousand	31 / 12 / 2020	30 / 09 / 2019
Depreciation and amortisation	21	23
Interest expenses	135	79
Income taxes	450	463

Deliveries of merchandise worth EUR 3,271 thousand (previous year: EUR 906 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	31 / 12 / 2020	30 / 09 / 2019
Net assets of the joint venture	15,997	12,453
Interest held	50 %	50 %
Carrying amount of the interest	**7,998**	**6,226**

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 December 31, 2020. In the previous year, only the figures as of September 30, 2019 were available at the end of the fiscal year, due to the effects of coronavirus.

EUR thousand	31/12/2020	30/09/2019
Current assets	3,746	4,584
Current liabilities	2,405	3,287

The assets and liabilities listed above include the following amounts:

EUR thousand	31/12/2020	30/09/2019
Cash and cash equivalents	85	239
Current financial liabilities	1,694	2,602

EUR thousand	31/12/2020	30/09/2019
Revenue	2,611	2,212
Profit from continuing operations	47	3
Total comprehensive income	47	3

The profit listed above includes the following amounts:

EUR thousand	31/12/2020	30/09/2019
Interest expenses	64	9
Income taxes	4	1

No deliveries of goods to the joint venture were realised 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	31/12/2020	30/09/2019
Net assets of the joint venture	1,362	1,298
Interest held	40 %	40 %
Carrying amount of the interest	**545**	**519**

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 2020 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.

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:

1 Euro =	Closing rate 31/12/2020	Closing rate 31/12/2019	Average rate 2020	Average rate 2019
Polish Zloty	4.5597	4.2568	4.4430	4.2976
South African Rand	18.0219	15.7773	18.7655	16.1757
Chinese Renminbi Yuan	8.0225	7.8205	7.8747	7.7355
Russian Rouble	91.4671	69.9563	82.7248	72.4553
Canadian Dollar	1.5633	1.4598	1.5300	1.4855

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 services do not constitute a regularly 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, 2020.

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 derive 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 year IFRS 16 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 derived 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 872 thousand of goodwill reported as of December 31, 2020 (previous year: EUR 1,374 thousand) is now allocated to just one cash generating unit (CGU): EUR 872 thousand to SMT Africa (previous year: EUR 996 thousand). This is recognised at amortised cost. The goodwill of Nowilan (previous year: EUR 377 thousand) was written off as part of the merger. 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 post-tax cash flow deriving from the five-year planning for the CGU, prepared on a bottom-up basis and approved by the Managing Board of SMT Scharf AG. Cash flows beyond the five-year horizon are calculated on the basis of the average for the five-year period, as a matter of principle. No growth rate is applied to extrapolate the five-year average. Present values for SMT Africa are calculated by discounting, applying an interest rate of 18.8 % (previous year: 18.8 %).

No goodwill impairment charges were recognised in the year under review for SMT Africa.

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 from which 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 are 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 indications of impairment exist 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. As in the previous year, such grants were not received in 2020.

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 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 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.

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.

The approach described here is effective from January 1, 2019, the date of initial application of IFRS 16. At that time, all existing leases from IAS 17 were transferred to the new accounting model in IFRS 16.

The SMT Scharf Group has also concluded leases as a lessor (mostly for diesel trolleys 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 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. In other words, Stage 1 of the recognition of expected credit losses is dispensed with. 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 charges 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 measured 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.

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 against 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 the remaining goodwill of SMT Africa as of the balance sheet date is EUR 872 thousand (previous year: EUR 1,374 thousand for 2 CGUs).

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 2020 and 2019.

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. If not implicitly and identifiably derivable from the respective lease agreement, the interest rate is based on the risk-free interest rate for the respective country in line with the term plus the credit surcharge of SMT Scharf AG 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 entails 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 charges, or reversals of impairment charges, 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 2,751 thousand of deferred taxes were capitalised as of December 31, 2020 (previous year: EUR 2,664 thousand), which were offset by deferred tax liabilities of EUR 505 thousand (previous year: EUR 595 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 an analysis 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).

As of December 31, 2020, it is expected that future revenues of EUR 38,386 thousand (previous year: EUR 24,946 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	2020	2019
Sale of new equipment	*22,445*	*39,391*
Spare parts sales and services	*26,911*	*35,114*
Revenue from contracts with customers	49,356	74,505
Other revenue	823	890
Total	50,179	75,395

The following table shows the breakdown by time of realisation for 2020:

	2020		2019	
EUR thousand	Period-related	Date-related	Period-related	Date-related
Sale of new equipment	2,565	19,880	1,978	37,413
Spare parts	0	21,310	0	26,977
Services	5,601	0	8,137	0
Other revenue	823	0	890	0
Total	8,989	41,190	11,005	64,390

Revenue by region was as follows:

EUR thousand	2020	2019
China	16,437	31,318
Russia and other CIS states	14,873	15,459
Poland	5,857	10,928
Germany	2,639	2,458
Africa	4,773	5,314
America	3,645	7,861
Other countries	1,955	2,057
Total	50,179	75,395

In the reporting period, revenues in the amount of EUR 933 thousand (previous year: EUR 996 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	2020	2019
Capitalisation of development costs	632	972
Miscellaneous other operating income	289	215
Reversal of specific valuation allowances	780	1,054
Own work capitalised (ERP)	376	0
State subsidies for personnel costs	339	0
Exchange rate gains	1,519	1,619
Release of provisions	265	357
Total	4,200	4,217

(3) Cost of materials

The cost of materials is composed of the following items:

EUR thousand	2020	2019
Raw materials, supplies and purchased merchandise	31,203	32,463
Purchased services	3,586	7,030
Total	34,789	39,493

The cost of materials ratio (as a percentage of total operating revenue) amounted to 61.8 %, up from 52.8 % in 2019.

(4) Personnel expenses

Personnel expenses are composed of the following items:

EUR thousand	2020	2019
Wages and salaries	14,201	15,272
Social security and pension contributions	2,710	3,064
Total	16,911	18,336

Expenses for defined contribution pension plans, especially statutory pension insurance, of EUR 71 thousand (previous year: EUR 124 thousand) were recognised during the fiscal year under review.

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

EUR thousand	2020	2019
Employees	418	427
of which trainees	9	9
Total	418	427

(5) Depreciation, amortisation and impairment charges

EUR thousand	2020	2019
Amortisation and impairment charges applied to intangible assets	3,242	497
Depreciation and impairment charges applied to equity, plant and equipment	3,443	2,347
Total depreciation, amortisation and impairment charges	6,685	2,844

Impairment charges

The business-policy realignment of the Canadian subsidiary RDH entails, among other matters, the discontinuation of the utilisation of the “RDH” brand. As a consequence, as of September 30, 2020, impairment charges were applied in relation to almost all its assets. The extent of the impairment charges that were required is shown in the following table.

Asset class	Expense from impairment charge (EUR thousand)	Recoverable amount (EUR thousand)	Valuation basis	Hierarchy level
Intangible assets – brand	272	0	Value in use	
Intangible assets – customer base	740	0	Value in use	
Property, plant and equipment – land and buildings	523	595	Net disposal proceeds	Fair value hierarchy level 2; market-based approach
Property, plant and equipment – technical equipment and machinery	65	0	Net disposal proceeds	Fair value hierarchy level 2; market-based approach
Deferred tax assets	98	0	Value in use	
Total	1,698			

Neither the brand nor the previously capitalised customer base are expected to generate positive cash flows in the future. Their value in use was consequently measured at zero.

The net proceeds from the sale of land and buildings were determined on the basis of a valuation report prepared by an expert, which was essentially based on the market prices of comparable properties. The net disposal proceeds from technical equipment and machinery were derived from current selling prices of similar machinery, less expected costs to sell. No discounting was applied as a sale is expected within twelve months.

All the assets concerned are attributable to the Mineral mining segment. The impairment charges were reported under the item depreciation and impairment charges relating to property, plant and equipment.

In addition, impairment charges were formed in a total amount of EUR 1,446 thousand in relation to internally generated intangible assets for a total of three development projects. In all cases, these were prototypes or model developments for which customer orders are no longer expected on the basis of new findings, and which were fully written off in expectation of a value in use of EUR 0 thousand. The impairment charges were reported under amortisation and impairment charges relating to intangible assets, Mineral mining segment.

Inventories were also written down in this context. Please refer to our comments in section 12.

(6) Other operating expenses

Other operating expenses are composed of the following items:

EUR thousand	2020	2019
Valuation allowances applied to receivables	922	701
Exchange rate losses	3,059	993
Special direct cost of sales	617	924
Third-party services	2,009	3,556
Travel expenses	626	1,347
Rent and leases	236	229
Maintenance costs	535	679
Advertising	46	349
Contributions / fees	303	244
Energy costs	373	437
Insurance	293	251
Miscellaneous other operating expenses	1,257	1,848
Total	10,276	11,558

The miscellaneous other operating expenses mostly include additions to provisions, expenses for cleaning and disposal, 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	2020	2019
Audit	64	67
Tax advice	17	6
Other services	9	8
Total	90	81

Tax advisory services relate exclusively to tax declaration services.

(7) Result from equity accounted investments

Income from investments derives from the positive result in 2020 and partly from catch-up effects from the last quarter of 2019 relating to the Chinese company Shandong Xinsha Monorail Co. Ltd, Xintai / China in the amount of EUR 1,997 thousand (previous year: EUR 852 thousand), and the Chinese company Shanxi Province, Shanxi Ande Auxiliary Transportation Co. Ltd, Changzhi China in the amount of EUR 42 thousand (previous year: EUR 1 thousand). In the previous year, only the figures as of September 30, 2019 were available at the end of the fiscal year, due to the effects of coronavirus.

(8) Income taxes

Income taxes are composed of the following items:

EUR thousand	2020	2019
Current tax expense	975	1,783
of which relating to the fiscal year under review	975	1,783
Deferred taxes	350	-301
of which creation or reversal of temporary differences	-462	-510
of which increase / decrease in loss carryforwards	812	209
Total	1,325	1,482

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	2020	2019
Deferred tax assets		
Pension provisions	513	538
Property, plant and equipment	152	117
Inventories	2,093	1,557
Trade receivables	291	146
Miscellaneous assets	43	72
Other provisions	261	402
Financial liabilities	599	205
Miscellaneous liabilities	46	58
Loss carryforwards	26	859
Offsetting with deferred tax liabilities	-1,273	-1,289
Total	2,751	2,665
Deferred tax liabilities		
Intangible assets	540	1,128
Property, plant and equipment	1,055	480
Miscellaneous assets	48	104
Miscellaneous liabilities	135	172
Offsetting with deferred tax assets	-1,273	-1,289
Total	505	595

Deferred tax assets and liabilities totalling EUR 1,273 thousand were netted as they relate to future charges or reductions for the same taxpayer to the same tax authority (previous year: EUR 1,289 thousand). Consolidation effects result in deferred tax assets of EUR 1,125 thousand (previous year: EUR 914 thousand) (as in the previous year, included in inventories and trade receivables), and in deferred tax liabilities of EUR 123 thousand (previous year: 148) (mainly included in intangible assets). The deferred tax position relating to actuarial gains and losses recognised in other comprehensive income amounts to EUR 158 thousand (previous year: EUR 155 thousand) and has consequently risen by EUR 3 thousand. As of December 31, 2020, deferred tax assets were carried for tax loss carryforwards in an amount of EUR 26 thousand (previous year: EUR 859 thousand). Corporate income tax loss carryforwards exist in Germany in an amount of EUR 3,957 thousand, and trade tax loss carryforwards in an amount of EUR 3,949 thousand, in relation to each of which deferred taxes amounting to EUR 29 thousand were capitalised. No deferred taxes were recognised for the remaining amount.

In the previous year, loss carryforwards of EUR 1,761 thousand and EUR 1,550 thousand existed, in relation to which deferred taxes totalling EUR 531 thousand were capitalised. According to the current legal situation in Germany, no timing or amount-based restrictions relate to these loss carryforwards. No deferred taxes were capitalised in relation to loss carryforwards in Canada (EUR 6,738 thousand, previous year EUR 1,250 thousand) in the fiscal year under review; in the previous year, deferred taxes of EUR 328 thousand were capitalised. The loss carryforwards in Canada can be utilised for a period exceeding five years.

Due to tax planning, surpluses of deferred tax assets are considered to be limited in Germany, and not realisable in Canada. In particular, it is expected that the loss carryforwards in Germany can be realised only partially within the existing tax group on the basis of income surpluses expected in the next five years. In Canada, based on the history of losses incurred, it does not appear likely that sufficient taxable income will be available to offset losses in the future.

For this reason, the deferred tax assets that already existed were written off in full. The write-offs were reported under income taxes.

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	2020	2019
Profit before income taxes	-6,729	7,221
Imputed tax expense	-2,161	2,318
International tax rate differences	4	-545
Non-tax-effective income from associates	-641	-273
Non-tax-effective income from affiliated companies (consolidation)	7	7
Adjustment of deferred taxes on loss carryforwards due to a tax audit	230	0
Tax effects from minimum taxation in case of utilisation of loss carryforwards	0	114
Carrying out a valuation allowance on deferred tax assets	371	0
Write-up / write-down / subsequent recognition of deferred taxes	384	-427
Formation (previous year: write-down) of deferred taxes on loss carryforwards	0	-328
Tax expenses / income relating to other periods	0	131
Non-capitalisation of deferred tax assets	2,887	0
Other non-taxable income or tax deductions	201	0
Other differences	43	485
Reported income tax expense	1,325	1,482

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, 2020

EUR thousand		Opening balance 01/01/2020	Exchange rate difference	Addition	Disposal	Transfer	Unscheduled amortisation	Closing balance 31/12/2020
Goodwill	Gross	1,483	-127	-	377	-	-	979
	Impairments	107	-	377	377	-	-	107
	Net	**1,376**	**-127**	**-377**	**-**	**-**	**-**	**872**
Acquired intangible assets	Gross	2,869	-105	1,132	29	-	-	3,867
	Impairments	768	-52	191	29	-	1,006	1,884
	Net	**2,101**	**-53**	**941**	**-**	**-**	**-1,006**	**1,983**
Acquired intangible assets	Gross	4,352	-232	1,132	406	-	-	4,846
	Impairments	875	-52	568	406	-	1,006	1,991
	Net	**3,477**	**-180**	**564**	**-**	**-**	**-1,006**	**2,855**
Own work capitalised	Gross	6,423	-21	632	4,399	-	-	2,635
	Impairments	3,779	-4	198	4,370	-	1,470	1,073
	Net	**2,644**	**-17**	**434**	**29**	**-**	**-1,470**	**1,562**
Intangible assets	**Gross**	**10,775**	**-253**	**1,764**	**4,805**	**-**	**-**	**7,481**
	Impairments	**4,654**	**-56**	**766**	**4,776**	**-**	**2,476**	**3,064**
	Net	**6,121**	**-197**	**998**	**29**	**-**	**-2,476**	**4,417**
Land and buildings	Gross	9,374	-243	326	35	-	-	9,422
	Impairments	6,262	-18	169	34	-	520	6,899
	Net	**3,112**	**-225**	**157**	**1**	**-**	**-520**	**2,523**
Land and buildings (IFRS 16)	Gross	1,530	-73	1,912	231	-	-	3,138
	Impairments	413	-26	374	154	-	-	607
	Net	**1,117**	**-47**	**1,538**	**77**	**-**	**-**	**2,531**
Land and buildings	Gross	10,904	-316	2,238	266	-	-	12,560
	Impairments	6,675	-44	543	188	-	520	7,506
	Net	**4,229**	**-272**	**1,695**	**78**	**-**	**-520**	**5,054**

EUR thousand		Opening balance 01/01/2020	Exchange rate difference	Addition	Disposal	Transfer	Unscheduled amortisation	Closing balance 31/12/2020
Technical equipment and machinery	Gross	5,437	-644	483	307	436	-	5,405
	Impairments	2,749	-439	812	168	396	255	3,605
	Net	**2,688**	**-205**	**-329**	**139**	**40**	**-255**	**1,800**
of which leased	Gross	798	-	-	-	-	-	798
	Impairments	222	-	102	-	-	-	324
	Net	**576**	**-**	**-102**	**-**	**-**	**-**	**474**
Technical equipment and machinery (IFRS 16)	Gross	137	-1	-	-	-36	-	100
	Impairments	11	-0	12	-	4	-	27
	Net	**126**	**-1**	**-12**	**-**	**-40**	**-**	**73**
Technical equipment and machinery	Gross	5,574	-645	483	307	400	-	5,505
	Impairments	2,760	-439	824	168	400	255	3,632
	Net	**2,814**	**-206**	**-341**	**139**	**0**	**-255**	**1,873**
Office equipment, fixtures and fittings	Gross	9,214	-487	562	430	-570	-	8,289
	Impairments	6,828	-343	1,031	385	-432	-	6,699
	Net	**2,386**	**-144**	**-469**	**45**	**-138**	**-**	**1,590**
of which leased	Gross	2,192	-146	292	165	-	-	2,173
	Impairments	991	-67	749	161	-	-	1,512
	Net	**1,201**	**-79**	**-457**	**4**	**-**	**-**	**661**
Office equipment, fixtures and fittings (IFRS 16)	Gross	543	-7	355	38	170	-	1,023
	Impairments	156	-1	270	21	32	-	436
	Net	**387**	**-6**	**85**	**17**	**138**	**-**	**587**
Office equipment, fixtures and fittings	Gross	9,757	-494	917	468	-400	-	9,312
	Impairments	6,984	-344	1,301	406	-400	-	7,135
	Net	**2,773**	**-150**	**-384**	**62**	**0**	**-**	**2,177**
Property, plant and equipment	**Gross**	**26,248**	**-1,458**	**3,638**	**1,051**	**-0**	**-**	**27,377**
	Impairments	**16,419**	**-827**	**2,668**	**762**	**-0**	**775**	**18,272**
	Net	**9,829**	**-631**	**970**	**289**	**0**	**-775**	**9,104**

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 consolation	Addition
Goodwill	Gross	1,439	44	0	0	0
	Impairments	107	0	0	0	0
	Net	**1,332**	**44**	**0**	**0**	**0**
Acquired intangible assets	Gross	1,798	94	0	456	523
	Impairments	553	13	0	0	203
	Net	**1,245**	**81**	**0**	**456**	**320**
Acquired intangible assets (IFRS 16)	Gross	0	0	0	0	0
	Impairments	0	0	0	0	0
	Net	**0**	**0**	**0**	**0**	**0**
Acquired 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**	**-4**	**6**	**4,229**

EUR thousand		Opening balance 01/01/2019	Exchange rate difference	Additions IFRS 16 first-time application	Addition to scope of consoliation	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 equip-ment, 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 quipment, 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**

Production costs of intangible assets that are to 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. Depreciation, amortisation and impairment charges for the fiscal year under review in the amount of EUR 6,685 thousand (previous year: EUR 2,844 thousand) include impairment charges at the Canadian subsidiary RDH (for explanations, see section 5). In 2020, development costs for new product developments in the case of drive concepts as well as from the areas of diesel trolleys and emission-free electric cats which met IAS 38 capitalisation criteria were expensed. A total of EUR 632 thousand (previous year: EUR 972 thousand) was capitalised. The sum total of research and development expenses stood at EUR 2,675 thousand in the reporting year (previous year: EUR 2,729 thousand). This includes capitalised costs of EUR 632 thousand (previous year: EUR 972 thousand).

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.

On February 5, 2021, the Supervisory Board approved the sale of the land and buildings owned by the RDH subsidiary in Alban. The management team then commissioned a broker to market the properties, the sale of which it hopes to complete by the end of 2021. Special accounting in accordance with IFRS 5 was consequently not yet appropriate as at December 31, 2020. The properties concerned have a residual carrying amount of EUR 557 thousand as of December 31, 2020.

The property, plant and equipment reported on the balance sheet with a carrying amount of EUR 9,104 thousand (previous year: EUR 9,829 thousand) also includes rights of use under leases. In 2020, new rights of use amounting to EUR 2,267 thousand were acquired (previous year: EUR 130 thousand). The additions mainly related to land and buildings as well as to operating and office equipment.

The following table shows the composition of the rights of use,

EUR thousand		01/01/2020	Exchange difference	Addition	Disposal	Transfer	Closing balance 31/12/2020
Land, land rights and buildings	Gross	1,530	-73	1,912	231	0	3,138
	Impairments	413	-26	374	154	0	607
	Net	1,117	-47	1,538	77	0	2,530
Technical equipment and machinery	Gross	137	-1	0	0	-36	100
	Impairments	11	0	12	0	4	27
	Net	126	-1	-12	0	-40	73
Other office equipment, fixtures and fittings	Gross	543	-7	355	38	170	1,023
	Impairments	156	-1	270	21	32	436
	Net	387	-7	86	17	138	587
Total	Gross	2,210	-82	2,267	269	134	4,260
	Impairments	580	-27	657	175	36	1,070
	Net	1,629	-55	1,611	94	98	3,190

EUR thousand		01/01/2019	Reclassification of finance lease	Additions from first-time application	Addition	Disposal	Transfer	Reclassification	Closing balance 31/12/19
Land, land rights and buildings	Gross	0	0	995	0	0	529	6	1,530
	Impairments	0	0	0	413	0	0	0	413
	Net	0	0	995	-413	0	529	6	1,117
Technical equipment and machinery	Gross	0	20	63	0	0	54	0	137
	Impairments	0	0	0	11	0	0	0	11
	Net	0	20	63	-11	0	54	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	157
	Net	0	183	210	32	48	9	0	386
Total	Gross	0	279	1,268	130	65	592	6	2,210
	Impairments	0	76	0	522	17	0	0	581
	Net	0	203	1,268	-392	48	592	6	1,629

The SMT Scharf Group leases internally developed machines and heavy load units as a lessor in the context of finance leases. The carrying amount of lease receivables stands at EUR 547 thousand (previous year: EUR 1,375 thousand). The decrease compared to the previous year is due to the scheduled expiry of leasing agreements in 2020.

In addition, the SMT Scharf Group leases to a minor extent as a lessor as part of operating leases. Leased assets amounted to EUR 270 thousand as of the balance sheet date (previous year: EUR 531 thousand).

(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 to the consolidated financial statements.

(12) Inventories

Inventories are comprised as follows:

EUR thousand	2020	2019
Raw materials, consumables and supplies	8,342	13,573
Work in progress	8,464	14,421
Finished goods and merchandise	12,728	620
Carrying amount	**29,534**	**28,614**

As of December 31, 2020, write-downs of inventories to their lower net realisable value totalled EUR 3,638 thousand (previous year: EUR 2,972 thousand).

EUR thousand	2020	2019
Inventories without impairment	27,472	26,392
Inventories with impairment	2,062	2,222
Carrying amount	**29,534**	**28,614**

As part of the process of restructuring RDH, additional impairment charges were identified that are unavoidable due to the new strategic focus of the Canadian subsidiary's business activities. As part of this, value adjustments were also applied to work in progress (EUR 2,438 thousand) and finished goods (EUR 630 thousand). The values are due to a reassessment of the recoverable net selling price of the individual assets. Recent disposal proceeds achieved in the market show a significant price decrease – not least due to a current oversupply in the market on the part of competitors, given the COVID-19 pandemic. The impairment charges were also reported under the cost of materials item in the Mineral mining segment.

(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	2020	2019
Carrying amount of trade receivables	19,342	29,398
of which specific valuation allowances	1,194	1,052

Reconciliation of specific valuation allowances:

EUR thousand	2020	2019
Balance January 1	1,052	1,405
Reversals	780	1,054
Additions	922	701
Balance December 31	**1,194**	**1,052**

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 26.

The due dates of trade receivables are as follows:

EUR thousand	2020	2019
Receivables not overdue	15,768	23,562
Value-adjusted overdue receivables	1,194	1,052
of which due from 90 days	411	1,052
Due receivables not value-adjusted	2,380	4,784
of which due between 1 and 30 days	489	726
of which due from 31 days	1,891	4,058
Trade receivables, total	**19,342**	**29,398**

(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	2020	2019
Securities	151	1,151

In the previous year, SMT Scharf held shares in a near-money-market fund in the amount of EUR 121 thousand in order to secure early retirement schemes, which were measured at fair value through profit or loss. As all early retirement scheme arrangements expire at the end of 2020, these shares were sold and the consideration was returned to current liquidity.

Furthermore, an investment fund held in the previous year was unwound, as the returns on a risk-free account are better.

(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 7,311 thousand (previous year: EUR -3,353 thousand). It comprises actuarial gains and losses of EUR -335 thousand (previous year: EUR -327 thousand) and differences in currency translation of EUR -6,976 thousand (previous year: EUR -3,026). The changes in the individual components are shown in the statement of changes in equity.

In the 2020 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, 2020, 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 in 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, although it 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, 2020, 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. 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 loss of EUR 49 thousand. The Managing and Supervisory boards will propose to the Annual General Meeting to be held on May 27, 2021 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.	31/12/2020	31/12/2019
Qualifying trend	2.0	2.0
Rate of pension increases	1.0	1.0
Discount rate (DBO)	0.85	0.95

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

EUR thousand	2020	2019
Defined benefit obligation on January 1	3,401	3,152
Current service cost	1	-30
Interest cost	32	56
Pension payments and transfers	-118	-164
Actuarial gains / losses	11	387
of which financial assumptions	47	401
of which experience adjustments	-36	-14
Defined benefit obligation on December 31	**3,327**	**3,401**

A -0.5 % change in the interest rate would result in an increase in the pension obligation of EUR 250 thousand. A 0.5 % increase in the interest rate would lead to a EUR 224 thousand reduction in the pension obligation. Both sensitivity calculations were performed while keeping all other assumptions unchanged.

Sensitivities (IAS 19.145)	DBO 2020	Change 2020	DBO 2019	Change 2019
Actuarial interest rate + 0.5 %	3,103	-224	3,169	-233
Actuarial interest rate – 0.5 %	3,577	250	3,663	261
Pension trend + 0.5 %	3,539	212	3,619	218
Pension trend – 0.5 %	3,133	-194	3,202	-199
Life expectancy +1 year	3,537	210	3,610	209

The weighted average term of the defined benefit obligation as of December 31, 2020 is 13.72 years (previous year: 12.28 years). The following payments are due in the current fiscal year and in the next three years:

EUR thousand	
Pension payments 2020	118,090
Expected pension payments 2021	121,784
Expected pension payments 2022	144,410
Expected pension payments 2023	144,259

(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 warranty 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 long-term risks from litigation (term until 2023).

The interest effect from the discounting of other non-current provisions amounts to EUR 1 thousand (previous year: EUR 0 thousand).

The changes to other provisions in 2020 can be seen in the following statement of changes in provisions.

Consolidated statement of changes in other provisions from January 1 to December 31, 2020

EUR thousand	Opening balance 01/01/2020	Currency translation	Consumption	Additions	Reversals	Closing balance 31/12/2020
Personnel area	2,249	-171	-1,828	841	-4	1,087
Sales area	1,166	-29	-332	167	-261	711
Other areas	1,514	-52	-1,180	1,219	0	1,501
Other current provisions	4,929	-252	3,340	2,227	-265	3,299
Other non-current provisions	220	-3	32	12	0	197

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

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

(20) Liabilities

As 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 the Mineral mining segment.

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 program.

(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	2020	2019
Interest received	251	379
Interest paid	883	1,151
Interest paid on capitalised assets (IFRS 16)	53	64
Income taxes paid	848	1,497

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	31/12/2020	31/12/2019
Cash and cash equivalents	4,402	5,230
./. Current financial liabilities (overdrafts)	8,530	7,127
Net financial position	-4,128	-1,897

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

EUR thousand	01/01/2020	Additions from new agreements	Cash flows	Reclassification	Additions from business combinations	Exchange rate differences	Fair value changes	31/12/2020
Non-current leasing liabilities	1,112	2,283	0	-883		-49	-87	2,376
Non-current financial liabilities	4,442	0	-29	-1,313		-1	0	3,099
Other non-current financial liabilities	783	0	1,470	-772		-27	0	1,454
Total non-current financial liabilities	**6,337**	**2,283**	**1,441**	**-2,968**		**-77**	**-87**	**6,929**
Current leasing liabilities	620	0	-681	883		-32	0	790
Current financial liabilities (cash and cash equivalents)	7,128	0	1,520			-118	0	8,530
Current financial liabilities (not cash and cash equivalents)	2,366	0	-1,841	1,271		-16	0	1,780
Current financial liabilities (purchase price agreement, existing sharehol-ders)	0	0	0	772		0	0	772
Total current financial liabilities	**10,114**	**0**	**-1,002**	**2,926**		**-166**	**0**	**11,872**
Total financial liabilities	**16,451**	**2,283**	**439**	**-42**		**-243**	**-87**	**18,801**

EUR thousand	01/01/2019	Additions from new agreements	Cash flows	Reclassification	Additions from business combinations	Exchange rate differences	Fair value changes	31/12/2019
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**

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 69 thousand (previous year: EUR 67 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.

Furthermore, the company has assumed secondary liability to banks for EUR 26.6 million of its subsidiaries' credit lines.

(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 24 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, 2020 amounts to 79.3 % (previous year: 67.1 %. The real estate contracts have the longest terms (up to 24 years) and in some cases contain extension options and price adjustment clauses. The general remarks apply to the determination of the leasing period. No leases for intangible assets existed on the balance sheet date.

Liabilities of EUR 3,166 thousand deriving from the leases existed as of the reporting date (previous year: EUR 1,732 thousand). 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 3,190 thousand (previous year: EUR 1,629 thousand). For more information on rights of use, see section 9.

As of December 31, 2020, 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	807	17	790
Due in one to five years	1,750	262	1,488
Due after more than five years	1,506	669	837
Total	4,063	948	3,115

The present value of the future lease payments is calculated by discounting the future lease payments by applying the interest rate on the balance sheet date that is equivalent to the term and risk. It differs from the lease liabilities recognised on the balance sheet, which were discounted at the interest rate applicable at the time of initial recognition of the lease.

As of the comparative date 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

In 2020, the rental and lease agreements resulted in payments totalling EUR 816 thousand (previous year: EUR 1,066 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	2020	2019
Expenses for current leases	76	367
Expenses for leases for low-value assets	0	0
Variable lease payments recognised as expenses	0	0
Total	76	367

In connection with the lease liabilities, interest expenses of EUR 64 thousand were recognised in the income statement in 2020 (previous year: EUR 102 thousand).

As of December 31, 2020, the Group was committed to current leases for which the corresponding relief option is exercised. The total commitment at this point in time amounts to EUR 3 thousand (previous year: EUR 0 thousand).

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 esse ntially 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 563 thousand existed as of the reporting date (previous year: EUR 1,375 thousand). They are disclosed under lease receivables and measured at amortised cost. These generated interest income of EUR 43 thousand in the reporting year (previous year: EUR 92 thousand). No capital gains arose. The decrease in lease receivables is due to the scheduled expiry of leasing agreements in 2020.

There fair value on the balance sheet date amounted to EUR 563 thousand (previous year: EUR 1,375 thousand). The following information is provided on receivables from finance leases:

Sum total of future minimum leasing payments (gross investment) **EUR thousand**	**31/12/2020**	**31/12/2019**
Due within one year	558	839
Due in one to two years (previous year: 1–5 years)	16	582
Due in two to three years	0	17
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	574	1,438

Present value of outstanding minimum lease payments **EUR thousand**	**31/12/2020**	**31/12/2019**
Due within one year	547	818
Due in one to two years (previous year: 1–5 years)	16	541
Due in two to three years	0	16
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	563	1,375
Unrealised financial income included in the outstanding minimum lease payments	11	63

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	31/12/2020	31/12/2019
Due within one year	306	269
Due in one to two years (previous year: 1–5 years)	105	214
Due in two to three years	0	112
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	411	595

In the 2020 fiscal year, leasing income from rental leases amounting to EUR 482 thousand was realised (previous year: EUR 382 thousand).

(24) Other disclosures about financial instruments

The valuation of financial assets and liabilities is discussed in the section on accounting and valuation methods. 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:

31/12/2020 Balance sheet items in EUR thousand	IAS 9 category	Carrying amount	Fair value
Loans	AC	637	637
Securities	FVTPL	151	151
Cash and cash equivalents	AC	4,402	4,402
Trade receivables	AC	19,342	19,342
Lease receivables	n.a.	563	563
Non-current financial liabilities	FLAC	3,099	3,099
Trade payables	FLAC	4,871	4,871
Current financial liabilities	FLAC	10,310	10,310
Leasing liabilities	n.a.	3,166	3,166

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

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	2020	2019
Financial assets measured at fair value through profit or loss (FVTPL)	0	7
Financial receivables measured at amortised cost (AC)	-142	353
Financial liabilities measured at amortised cost (FLAC)	-43	-42
Total	-185	318

Net gains comprise value allowances and currency translation.

Interest expenses of EUR 896 thousand in the fiscal year under review (previous year: EUR 873 thousand) mainly reflect the overall interest expense calculated in application of the effective interest method for financial instruments measured at amortised cost, 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 257 thousand in the year (previous year: EUR 418 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, 2020	Carrying amount in EUR thousand	Contractually agreed cash flows	Up to 1 year	1 – 5 years	More than 5 years
Loan	193	quarterly	155	38	0
Loan	531	quarterly	236	295	0
Loan	1,598	quarterly	376	1,222	0
Loan	824	quarterly	296	528	0
Loan	1,043	quarterly	296	747	0
Loan	392	quarterly	112	280	0
Loan	162	quarterly	0	162	0
Total	4,743		1,471	3,272	0

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

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:

	31/12/2020		31/12/2019	
	EUR thousand	in %	EUR thousand	in %
Equity	48,453	58.0	60,577	63.2
Non-current liabilities	11,028	13.2	10,632	11.1
Current liabilities	24,062	28.8	24,626	25.7
Total assets	83,543	100.0	95,835	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 18,818 thousand on the balance sheet date (previous year: EUR 8,971 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 arising from lease liabilities, see section 23. For payment obligations from other financial liabilities, see section 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	2020	2019
Loans	1	637	712
Trade receivables	2	19,342	29,397
Individually adjusted receivables	3	1,194	1,052
Contract assets	2	1,031	473
Lease receivables	2	563	1,375
Other current assets	n/a	151	1,151
Cash and cash equivalents	n/a	4,402	5,230

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 records in order 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 a total amount of EUR 1,194 thousand gross (previous year: EUR 1,052 thousand). The value adjustments on these receivables amount to EUR 1,194 thousand (previous year: EUR 1,052 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 2,380 thousand (previous year: EUR 4,784 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.

Market risks: Market risks can result from changes to exchange rates (exchange rate risk) or interest rates (interest rate risk). SMT Scharf counters such risks by deploying suitable hedging and management instruments. Management 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, 2020. 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, Mineral mining (formerly Non-Coal Mining) Tunnel, and Other Industries.

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 Mineral mining segment (formerly Non-coal Mining), 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 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 also assesses segment performance 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 31/12/2020

EUR thousand	Coal mining 2020	Coal mining 2019	Mineral mining 2020	Mineral mining 2019	Tunnel 2020	Tunnel 2019	Other industries 2020	Other industries 2019	Not allocated 2020	Not allocated 2019	SMT Scharf Group 2020	SMT Scharf Group 2019
Revenue	39,703	60,591	8,376	11,983	319	891	1,782	1,930	-	-	50,180	75,395
of which new equipment	16,747	32,008	3,683	4,679	250	774	1,765	1,930	-	-	22,445	39,391
of which spare parts	17,200	22,798	4,047	4,063	64	117	-	-	-	-	21,311	26,978
of which others	4,933	4,895	646	3,241	4	-	17	-	-	-	5,600	8,136
of which service	823	890	-	-	-	-	-	-	-	-	823	890
Operating result (EBIT)	(1,697)	7,790	(6,601)	(770)	(26)	(143)	194	(56)	-	-	(8,130)	6,822
Earnings from equity accounted companies	2,040	853	-	-	-	-	-	-	-	-	2,040	853
Segment assets	69,831	75,589	8,547	15,275	453	176	1,961	2,130	2,751	2,665	83,543	95,836
Segment liabilities	19,249	24,856	14,258	8,632	158	61	919	1,115	505	595	35,090	35,259
Segment investments	3,413	4,831	1,950	315	-	20	40	1,482	-	-	5,403	6,648
of which IFRS 16	648	1,115	1,603	88	-	-	16	64	-	-	2,267	1,267
Interests in equity accounted companies	8,543	6,746	-	-	-	-	-	-	-	-	8,543	6,746
Scheduled amortisation	2,817	2,319	435	394	24	33	128	98	-	-	3,404	2,844
Unscheduled amortisation	1,497	-	1,784	-	-	-	-	-	-	-	3,281	0
FTE	365	334	45	77	-	3	-	18	-	-	410	432

Segment reporting 31 / 12 / 2019

EUR thousand	Coal mining 2019	Coal mining 2018	Mineral mining 2019	Mineral mining 2018	Tunnel 2019	Tunnel 2018	Other industries 2019	Other industries 2018	Not allocated 2019	Not allocated 2018	SMT Scharf Group 2019	SMT Scharf Group 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
of which IFRS 16	533	-	71	-	-	-	51	-	-	-	655	-
FTE	411	317	-	77	3	3	18	-	-	-	432	397

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 6,789 thousand (previous year: EUR 7,060 thousand) are attributable to Germany and EUR 6,732 thousand (previous year: EUR 7,109 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, 2020:

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	Head of Finance	(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 (ordinary) 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. For the 2020 fiscal year, EUR 100 thousand (previous year: EUR 140 thousand) in remuneration for the Supervisory Board was expensed.

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 6,000 shares in the company as of December 31, 2020 (previous year: 4,000 shares). Dr. Vorsteher held 1,600 shares (previous year: 1,600 shares) and Mrs. Gattineau 1,760 shares (previous year: 910 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 222 thousand exist for former Managing Board members (previous year: EUR 229 thousand). Pension commitments of EUR 3 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.

In the 2020 fiscal year, the total remuneration granted to the Managing Board amounted to EUR 730 thousand (previous year: EUR 1,029 thousand).

In the previous 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 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 2020 fiscal year. (Theiss EUR 85,735, Embert EUR 49,000). The booking is applied against the capital reserve. The market price of the share on the balance sheet date amounted to EUR 10. The entitlement may vary according to the number of shares held.

The figures 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, 2020, Hans Joachim Theiss, Management Board Chairman (CEO), held a total of 24,651 shares (previous year: 24,651), and Wolfgang Embert 14,000 shares (previous year: 14,000).

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 and none occurred in the previous fiscal year. 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 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.

Mandatory offer and delisting offer by major shareholders

The shareholders Shareholder Value Beteiligungen AG, Share Value Stiftung and Ms. Christiane Weispfenning exceeded the 30 % threshold as a consequence of Dr. Helmut Fink joining a shareholder agreement concluded on January 11, 2021 to cooperate in exercising ownership rights including voting rights in relation to the bearer shares of SMT Scharf AG, and thereby gained control of SMT Scharf AG pursuant to Sections 35 (1) and 29 (2) of the German Securities Acquisition and Takeover Act (WpÜG). Shareholder Value Beteiligungen AG and Share Value Stiftung, as bidders with discharging effect for Ms. Weispfenning and Dr. Fink, accordingly published a public mandatory offer and delisting offer to the shareholders of SMT Scharf AG to acquire the no-par value bearer shares of SMT Scharf AG in return for payment of a consideration of EUR 8.22 per share. The total number of shares for which the offer was accepted by the reporting date of March 2, 2021, plus the shares of SMT Scharf AG held by the major shareholders on the reporting date, amounts to 1,690,230 shares. This corresponds to around 36.59 % of the share capital and voting rights of SMT Scharf AG.

With the approval of the Supervisory Board, the Managing Board of SMT Scharf AG passed a resolution on February 5, 2021 to downlist the company's shares to the m:access quality segment of the Regulated Unofficial Market (Freiverkehr) of the Munich Stock Exchange. The decision to downlist was made in connection with the mandatory offer submitted by the shareholders Shareholder Value Beteiligungen AG and Share Value Stiftung pursuant to Section 35 (2) of the German Securities Acquisition and Takeover Act (WpÜG), which also constitutes a delisting offer (Section 39 (2) and (3) of the German Stock Exchange Act [BörsG]). The shares of SMT Scharf AG have been included in the m:access quality segment of the Munich Stock Exchange's Regulated Unofficial Market since February 17, 2021.

Hamm, March 26, 2021

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, 2020, give a true and fair view of the Group's financial position and performance, and the Group management report for the 2020 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 26, 2021

The Managing Board

Hans Joachim Theiss   Wolfgang Embert

CERTIFICATE OF THE INDEPENDENT AUDITOR

An die SMT Scharf AG, Hamm

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, 2020, the consolidated statement of income, the consolidated statement of changes in equity and the consolidated cash flow statement for the fiscal year from January 1 to December 31, 2020, 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, 2020. 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) in combination with Section 315e (3) 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, 2020, and of its results of operations for the fiscal year from January 1 to December 31, 2020, 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 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 consolidated 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. 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.

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 in combination with Section 315e (3) 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 in order 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 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 in combination with Section 315e (3) 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.

CERTIFIED PUBLIC AUDITOR

Cologne, March 26, 2021

Rödl & Partner GmbH

Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

[signed] Stramitzer	[signed] Fischer
Certified Public Auditor	Certified Public Auditor

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"

The Managing and Supervisory boards of SMT Scharf AG declare that the recommendations of the "Government Commission on the German Corporate Governance Code" in the version dated February 7, 2017, which was published in the Federal Gazette on April 24, 2017, and corrected on May 19, 2017 ("GCGC 2017"), have been complied with since the last declaration of conformity was issued on December 9, 2019, with the following exceptions.

- Section 5.3 GCGC 2017 – Supervisory Board committees
  The Supervisory Board has not established any committees as it consists of only three members. The Supervisory Board does not believe that the formation of committees would be expedient as it deals with all pending issues and decisions. The tasks assigned to the Audit Committee are performed by the plenary Supervisory Board.

- Section 5.1.2 GCGC 2017 – Consideration of diversity in the composition of the Managing Board
  Diversity did not form a separate criterion in the composition of the Managing Board. 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 GCGC 2017 – Age limits for the Managing Board and Supervisory Board
  No age limits were in place at present for members of the Managing and Supervisory boards, as this would generally restrict the selection of qualified candidates.

- Section 3.8 GCGC 2017 – D&O insurance deductible for the Supervisory Board
  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 December 16, 2019 no longer recommends that D&O insurance should include a deductible.

Furthermore, the Managing and Supervisory boards of SMT Scharf AG declare that the recommendations of the "Government Commission on the German Corporate Governance Code" in the version dated December 16, 2019, which was published in the Federal Gazette on March 20, 2020 ("GCGC 2019"), will be complied with in future, with the following exceptions.

- Section B.5 GCGC 2019 – Age limit for the Management Board
  The Supervisory Board has not set an age limit for members of the Managing Board, as this would impose a blanket restriction on the selection of qualified candidates. Accordingly, no age limit will be published in the corporate governance statement.

- Sections D.2 to D.5, D.11 and C.10 GCGC 2019 – Supervisory Board committees
  The Supervisory Board has not established any committees as it consists of only three members. The Supervisory Board does not believe that the formation of committees would be expedient as I deals with all pending issues and decisions. In addition, a Supervisory Board committee is only quorate if it has three or more members. The tasks assigned to the Audit Committee are performed by the plenary Supervisory Board, including the assessment of the quality of the audit of the financial statements. As no Supervisory Board committees have been formed, and consequently no committee chairs exist, the recommendations in section C.10 GCGC 2019 regarding the independence of committee chairs are not applied.

- Section G.3 GCGC 2019 – Horizontal remuneration comparison
  The Supervisory Board diverges from the recommendation to use peer groups of other companies in order to assess the standard nature of the specific total remuneration of the members of the Management Board in comparison with other companies, and to disclose their composition. Rather, its makes recourse to the Managing Board Compensation Study prepared by personnel and management consultancy Kienbaum Consultants International. This study discloses the total compensation of board members categorised by stock market listing, company size, industry sector and region, among other factors. This provides the Supervisory Board with the necessary standard of comparison.

- Section G.10 GCGC 2019 – Share-based variable remuneration
  The employment contracts of the members of the company's Managing Board do not comply with the recommendation in section G.10 GCGC 2019, whereby the variable remuneration amounts granted to the Managing Board member must be invested by the member predominantly in shares of the company, or be granted on a share-based basis. Instead, the variable remuneration is paid in cash. However, a so-called share-matching scheme has been set up, on the basis of which the Managing Board members receive bonus shares to the extent that they themselves have previously acquired shares in the company, if certain conditions are met. In the company's view, this also creates an incentive effect comparable to the recommendation in Section G.10 GCGC 2019.

- Section G.11 GCGC 2019 – Adjustment, retention and clawback of variable remuneration
  Der The Supervisory Board has not made any provision in the Managing Board members' employment contracts to reflect extraordinary developments to an appropriate extent in relation to the Managing Board members' variable remuneration. Accordingly, the variable remuneration can neither be retained nor reclaimed. In the Supervisory Board's opinion, such regulations are not necessary, as the Managing Board is sufficiently motivated by the current remuneration scheme to act in the company's long-term interests.

- Section G.17 GCGC 2019 – Higher remuneration of the Deputy Chair of the Supervisory Board
  No higher remuneration is envisaged for the Deputy Chairman of the Supervisory Board as his workload is not significantly greater than that of the third member of the Supervisory Board.

Hamm, December 15, 2020

(Prof. Dr. Louis Velthuis) (Dr. Dirk Vorsteher) (Dorothea Gattineau)

(Hans Joachim Theiss) (Wolfgang Embert)

FINANCIAL CALENDAR

May 12, 2021	Publication of the financial report for the 1st quarter 2020
May 27, 2021	Annual general meeting
August 13, 2021	Publication of the 6-month report 2020
November 11, 2021	Publication of the financial report for the 3rd quarter 2020

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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.

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