SMT Scharf AG
Group financial report 2009

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Group management report for fiscal year 2009

Macroeconomic environment

The SMT Scharf group develops, builds and maintains rail-bound railway systems for mining and use in tunnels. The trains are used all over the world, primarily in hard coal mines, but also in underground mining for platinum, gold and other metals. They are used to transport material and personnel with working loads of up to 35 tons. Rail-bound railways are the only means of transport that can be used on branching lines to cope with inclines of more than 13 degrees.

That is why the global demand for raw materials, in particular for hard coal, is the key factor to influence the SMT Scharf Group's business. Beginning in the fall of 2008 demand on many markets fell, as customer industries throttled back on their production as a result of the financial crisis and the developing recession. During the course of 2009, growth on the individual markets served by the SMT Scharf Group was varied. According to preliminary figures, coal production in China and India grew by around 10% in each case, whereas it fell by approximately 1% in Poland and by more than 10% in the Russian Federation.

Prices for coal did not tag oil prices during most of 2009, in contrast to the previous year. The Mccloskey Group’s Steam Coal Marker Price fell by around 25% in the first half of the year, however it increased again in the following months. At the end of 2009 it was at around the same level as at the end of 2008, equivalent to a decrease by around 40% over two years, compared to the end of 2007. In contrast, the price for Brent crude oil was around 70% higher at the end of December 2009 than one year previously, and around 15% down on the price at the end of 2007.

It is currently very difficult to see how demand for commodities and investments in mines will develop in 2010. During 2009, the global recession has caused mine operators to throttle their investments in many of the key markets for SMT Scharf. For example, global exploration spending in ore mining fell by 42% according to surveys by the Metals Economics Group, after having increased for the previous six successive years. From the current perspective, these regionally split developments as seen in the previous year will continue in 2010. It cannot yet be forecasted whether growth or stagnation trends from individual markets will dominate overall. However, in the following years mining is expected to return to the growth path it enjoyed until 2008. Countries such as China, India, Russia and South Africa will have increasing needs for energy, steel and other metals in line with their continued economic growth. That is why they remain those markets which will generate the greatest demand for the SMT Scharf Group in coming years. This demand will also continue to be driven by many mine operators specifically investing in technologies to boost their productivity. The SMT Scharf Group's transport systems play a key role in this regard when it comes to transporting materials in underground mining operations.

Although hard coal mining in other countries is growing, this sector is shrinking in Germany as costs in Germany are high compared to those in other countries. SMT Scharf does not expect that the decision to terminate German hard coal mining by 2018 will be changed in 2012.

Business development

Revenues in 2009 increased by EUR 3,523 thousand year-on-year to EUR 53,262 thousand (up 7%). This increase is due to revenue growth in foreign markets of EUR 7,057 thousand or 19% to a current total of EUR 44,546 thousand. As a result, the SMT Scharf Group's expansion outside Germany has been on a par with the years up to 2007. Expansion stagnated in 2008 as a result of short-term postponements of orders by Russian customers. In contrast, revenues in Germany fell by EUR 3,534 thousand to EUR 8,716 thousand. This includes the deconsolidation of SMT Scharf Saar GmbH from October. In 2009, the markets outside Germany accounted for 84% of total revenues (previous year: 75%).

SMT Scharf further expanded its international sales and service activities in 2009. Service employees were hired especially in Russia and China in order to offer services to customers in these markets for their machines. Customers' positive experience with SMT Scharf's equipment in an operating environment played a key role for several of the major orders which the Group was able to realize in 2009. Sareco Engineering, a company acquired in 2008, continued to enjoy pleasing growth in 2009.

In Germany, SMT Scharf's business with Deutsche Steinkohle AG was restricted to spare parts and services, as had been expected. Business continued to fall due to lower quantities of hard coal mined in Germany. In the fall of 2009, SMT Scharf Saar GmbH was no longer able to compensate for its revenue downturns with short-term cost cuts. It filed for insolvency and thus exited the SMT Scharf Group. The creditors will decide on SMT Scharf Group's proposal to continue these operations in 2010.

At the end of 2009 the order book totaled € 8,434 thousand, with € 7,656 thousand or 91% stemming from countries other than Germany. The previous year's figure of € 26,216 thousand was exceptionally high because several mine operators had placed orders in 2008 for which the machines were to be delivered in several stages and because orders from Russia were subject to unscheduled postponements at the end of 2008. Compared to the figure at the end of 2007 the order book at the end of 2009 is down 14%. This indicates the current weaker demand on some of the SMT Scharf Group's markets, for example in Russia.

Research and development

Research and development activities in the first half of 2009 focused on developing a switch-in rack-and-pinion drive system for monorail hanging railways. This was presented to the international audience for the first time in early June 2009 at the Ugol Rossii & Mining trade fair in Novokuznetsk. The drive system is designed so that the driver can switch between the friction wheel and rack-and-pinion drive without having to stop the train. Therefore the racks which are used for the rack-and-pinion drive only have to be laid on track sections with particularly steep inclines or in particularly damp environments.

In the fourth quarter of 2009, development of the monorail hanging railway model DZ 2200 was completed. This is a further development of the DZ 2000. The new model has 130 kW and is the highest performance diesel cat in SMT Scharf's product range.

In addition, development of a multi-function data recording and analysis device was completed. This device can be fitted or retrofitted in all of SMT Scharf's monorail hanging railways and floor-mounted railways. It records operating data that allow diagnoses to be performed to rectify defects and for preventative maintenance, and can transfer this data to a control center via a WLAN link.

Further projects related to system components for the floor-mounted rack-and-pinion driven railway system, for example specific types of rail switches, reductions in production costs for individual products and the renewal of licenses for all own drive systems to adjust these to the new EC machinery directive 2006/42/EC.

The SMT Scharf Group invested close to 3.5% of its revenues in 2009 in research and development. This level was slightly lower than in the previous year. This figure includes order-related development work and approvals, as well as own work capitalized. SMT Scharf's R&D investments are on par with the average in the German engineering industry.

Human resources

At the facility in Hamm, SMT Scharf adjusted its staff numbers to the lower revenues in Germany in 2009 – as had been the case in the previous years. As of December 31, there were a total of 130 employees at this facility, including 13 apprentices (previous year: 139 employees, including 14 apprentices). A social plan was agreed in September 2009 for further adjustments that are to come into effet until the year-end 2010. SMT Scharf Saar GmbH, based in Neunkirchen, was not able to compensate for a significant downturn in revenue in the third quarter of 2009 with short-term cost cuts. SMT Scharf thus filed for insolvency for this company in early October 2009. As a result, the remaining 28 employees (previous year: 38 employees) left the group.

In contrast, SMT Scharf was able to further expand its foreign facilities, where, above all, local service staff were hired. The number of employees at these facilities totaled 77 (previous year: 62 employees). They now account for 37% of all 207 employees (previous year: 26%).

At the start of 2006 SMT Scharf set up a hardship and social fund in the amount of EUR 990 thousand as a result of an agreement with the works councils. This fund aims to reduce the impact of redundancies for operational or health reasons or other hardships at SMT Scharf GmbH and SMT Scharf Saar GmbH. In addition, according to the agreement, its funds are to be used to secure funding for early retirement schemes. A commission which includes both employer and employee representatives will decide on the appropriation of the funds. The hardship and social fund totaled EUR 771 thousand at the end of the fiscal year.

A total of 4,650 shares were sold to employees in June 2009 as part of an employee equity participation plan. SMT Scharf had previously acquired these shares on the stock exchange in line with the provisions of Regulation (EC) No. 2273/2003.

Net assets, financial position and results of operations

<u>Equity and particular legal relationships</u>: SMT Scharf AG's subscribed capital was increased from EUR 3,000 thousand to EUR 4,200 thousand against cash contributions as part of the IPO in April 2007. Since that date, it comprises 4,200,000 no-par value bearer shares, each with a notional interest of EUR 1 in the subscribed capital. In addition, the company also has authorized capital I and II to issue a total of up to 2,100,000 further ordinary shares. With the approval of the Supervisory Board, the Managing Board can use this authorized capital to increase SMT Scharf AG's subscribed capital until February 1, 2012. Shareholders' subscription rights can be excluded during this process. In addition, there is conditional capital to issue an additional up to 2,100,000 ordinary shares. The conditional capital increase will only be implemented to the extent that either the holders of convertible bonds and/or bonds with warrants and/or profit-participation certificates with conversion or subscription rights that are issued by the company prior to April 22, 2014 use their conversion or subscription rights, or if the holders that have to convert convertible bonds and/or bonds with warrants and/or profit-participation certificates with conversion or subscription rights that are issued by the company prior to April 22, 2014 fulfill their

conversion obligation. At present, no such securities have been issued. The General Meeting on April 23, 2009 authorized the company's Managing Board to acquire own shares of up to 10% of the respective current share capital until October 22, 2010. In line with this authorization, the company acquired a total of 359,996 own shares between May and October 2009. This corresponds to 8.6% of the share capital. The company spent EUR 3,216 thousand on the acquisition of these shares, which it also held at the end of the fiscal year.

The company is subject to the general statutory restrictions on voting rights, in particular resulting from the *Aktiengesetz* (German Public Limited Companies Act) and the *Wertpapierhandelsgesetz* (German Securities Trading Act). The Managing Board is not aware of any restrictions on voting rights, 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 shareholders who held a participating interest prior to the IPO jointly held 57.1% of voting rights directly after the IPO according to their notifications of voting rights made to SMT Scharf AG. Marfleet Ltd., Douglas accounted for 1,440,000 voting rights (34.2%), of which 1,350,000 voting rights (32.1%) were held via MS Mining Solutions GmbH, Schondorf, and the remainder was held directly. A further 960,000 voting rights (22.9 %) were due to Mr. Victor Khosla, Greenwich, all via Strategic Value Partners GP II, LLC, Greenwich, and these via Strategic Value Global Opportunities Master Fund, LP, George Town, and these via Field Point (Europe) I, LLC, Greenwich, and these in turn via Field Point (Luxembourg) II S.a.r.l., Luxemburg.

The participating interest held by Marfleet Ltd. respectively MS Mining Solutions GmbH changed as follows in the fiscal year:

Notification of voting rights dated	Number of voting rights
23.04.2009	1,252,825 (29.8 %)
28.08.2009	1,025,567 (24.4 %)
16.10.2009	812,770 (19.4 %)
10.11.2009	628,054 (15.0 %)

The participating interest held by Mr. Victor Khosla respectively Strategic Value Partners GP II, LLC respectively Strategic Value Global Opportunities Master Fund, LP respectively Field Point (Europe) I, LLC respectively Field Point II S.a.r.l. (previously Field Point (Luxembourg) II S.a.r.l.) changed as follows during the fiscal year:

Notification of voting rights dated	Number of voting rights
25.08.2009	832,976 (19.8 %)
09.11.2009	590,125 (14.1 %)

No new participating interests have been reported to SMT Scharf AG since the IPO that directly or indirectly exceed 10% of the voting rights.

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

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

Net assets: SMT Scharf AG's subscribed capital has totaled EUR 4,200 thousand since its IPO. There is also a share premium, which fell to EUR 6,661 thousand from EUR 9.517 thousand as a result of the share buy-backs. Equity including net income for the period and other changes totaled EUR 23,044 thousand as of December 31, 2009 (previous year: EUR 24,226 thousand). Given total assets of EUR 44,789 thousand, this corresponds to an equity ratio of 51%. The previous year's figure totaled 44% due to the temporary lengthening of the balance sheet. Including the mezzanine financing, which has a carrying amount of EUR 4,892 thousand, this ratio is 62% of total assets (previous year: 53%).

The inventories, which had increased to EUR 12,463 thousand at the end of 2008 as a result of advance performance and short-term postponements of orders, totaled EUR 7,535 thousand. Trade receivables were lower than in the previous year (EUR 12,977 thousand) as well at EUR 10,436 thousand. This is mostly due to the fact that a smaller proportion of orders was invoiced in the last few weeks of the year in 2009. This can also be seen in the downturn in trade payables to EUR 3,246 thousand compared to EUR 6,114 thousand one year previously. As the advance payments received fell to EUR 716 thousand (previous year: EUR 6,685 thousand), the working capital increased slightly on the whole year-on-year.

Property plant and equipment fell to EUR 7,105 thousand from EUR 8,086 thousand. This was primarily the result of extraordinary depreciation of the company's property in Neunkirchen, which is currently still being used by SMT Scharf Saar GmbH.

Earnings position: At EUR 7,585 thousand (previous year: EUR 7,489 thousand), the SMT Scharf Group was able improve on last year's EBIT. This corresponds to an EBIT margin of 14.2% (previous year: 15.1%). Earnings include EUR 848 thousand non-cash one-off charges relating to the deconsolidation of SMT Scharf Saar GmbH. This comprises depreciation of EUR 536 thousand for the property in Neunkirchen, write-downs for receivables totaling EUR 392 thousand, and EUR 80 thousand income from the deconsolidation. The cost of materials ratio fell slightly to 47% compared to 48% in the previous year. This was the result of the reduction in inventories of EUR 2,206 thousand (previous year: increase in stocks of EUR 70 thousand) as well as a changed mix of products and orders and also savings from bringing new suppliers on board. This was offset in part by increases in purchase prices. The personnel expenses ratio fell to 21% despite expenses for staff reductions at both German facilities (previous year: 24%). Other operating expenses were practically unchanged year-on-year. The selling prices for the products continued to exhibit no uniform trend: SMT Scharf was able to implement isolated price increases, however it had to accept lower prices in other areas.

The financial result fell to EUR -206 thousand from EUR 143 thousand. This was mostly impacted by a significant downturn in credit interest rates, whereas the interest rate for the mezzanine financing remained unchanged.

The consolidated net income fell slightly from EUR 5,343 thousand to EUR 5,073 thousand because the tax rate increased to 31% compared to 30% in the previous year. This was primarily influenced by the taxation of dividend disbursements at the South African companies.

Financial position: Cash and cash equivalents plus marketable securities fell during the year under review to EUR 14,992 thousand (previous year: EUR 17,138 thousand). After a strong increase in the previous year as a result of advance performance and short-term postponements of orders by customers, inventories fell again to EUR 7,535 thousand (previous year: EUR 12,463 thousand). This was offset by a downturn in advance payments received to EUR 716 thousand from EUR 6,685 thousand. The balance of trade receivables and trade payables only changed slightly – as was the case in the previous year. Over the course of the year, the company disbursed EUR 3,570 thousand to its shareholders as a dividend for 2008 and EUR 3,216 thousand in the form of share buy-backs. Of the securities, cash and cash equivalents, EUR 771 thousand is designated for the hardship and social fund.

Capital expenditure: Capital expenditure in 2009 focused on internally generated drive systems, which are rented to customers. In February, SMT Scharf concluded an agreement with a Polish mine operator for the multi-year rental of six monorail hanging railways. As other customers bought drive systems that had previously been rented, the number of rented drive systems increased from five to nine over the course of the year. At the Hamm facility, SMT Scharf rebuilt parts of its office premises to allow further sub-areas to be let. In addition, there was the standard level of replacement and rationalization investments. The further development of the rack-and-pinion railway system, development of the diesel cat DZ 2200 and the development of the switch-in rack-and-pinion drive for monorail hanging railways were capitalized as development costs.

Environmental protection

There were no complaints regarding environmental protection with regard to the facilities in Hamm and Neunkirchen, as evidenced by the environmental surveys prepared in 2005. Since that date no new facts have come to light, nor have there been any events which could endanger the environment.

Corporate governance report

Declaration according to Section 161 *Aktiengesetz:* The Managing and Supervisory Boards issued their most recent declaration according to Section 161 *Aktiengesetz* on December 2, 2009. It is as follows:

"The Managing and Supervisory Boards of SMT Scharf AG declare that up to and including today's date they have corresponded to the respective applicable recommendations of the "German Corporate Governance Code Government Commission" in the versions dated June 6, 2008 and June 18, 2009 with the following exceptions:

- The Supervisory Board did not form any committees, as it comprises three members. This number of members appears reasonable given the company's size.
- The remuneration for the members of the Supervisory Board does not include a performance-related component. This is balanced by the fact that their remuneration is at the lower end of the scale when compared to other companies of a comparable size.
- At present, there is no succession planning for the members of the Managing Board. It is intended to develop a longer term succession planning.

- Diversity was not a stand-alone criterion for membership of the Managing and Supervisory Boards. This may also be the case in future as both boards only have a few members.
- At present there is no upper age limit for members of the Managing and Supervisory Boards. This upholds the German law on equal opportunities.
- The company's D&O insurance policy does not yet include any agreement on a deductible. It is intended to include an appropriate deductible for the members of the Managing and Supervisory Boards upon the next renewal of the insurance policy."

Working approach of the Managing and Supervisory Boards: SMT Scharf AG's executive bodies see their central task as managing the company in a responsible and value-oriented manner. The following principles apply in this regard:

The Supervisory Board has three members, elected by the General Meeting as shareholder representatives. The Supervisory Board does not include any former members of the Managing Board. It has not formed any committees. The Supervisory Board advises the Managing Board and supervises its management of the business. It deals with business growth, medium-term forecasts and further development of the company's strategy. It adopts the annual financial statements and the consolidated financial statements taking into account the auditors' reports. In addition it appoints and dismisses members of the Managing Board. Select transactions by the Managing Board, which are listed in its by-laws, require prior approval from the Supervisory Board. The Supervisory Board can make changes to the articles of incorporation that only affect the wording. The members of the Supervisory Board are obliged to disclose any conflicts of interest to the Supervisory Board. There were no conflicts of interest for the members of SMT Scharf AG's Supervisory Board during the year under review.

In order to ensure the auditor's independence, the Supervisory Board obtains a declaration from the auditor on any existing reasons for exclusion or bias. When issuing the audit mandate, it is agreed that the auditor would inform the Supervisory Board without delay of any possible reasons for exclusion or bias that arise during the audit, of all findings that are material for the Supervisory Board's tasks that result during the audit, and all findings that result in the Declaration on the German Corporate Governance Code issued by the Managing and Supervisory Boards not being correct. No such facts or reasons for exclusion or bias were ascertained.

SMT Scharf AG's Managing Board comprises two members and has one Chairman. It has not formed any committees. The Managing Board's members are jointly responsible for managing the company's business, based on by-laws issued by the Supervisory Board. The Managing Board determines the entrepreneurial targets, the company policy and the group's organizational structure. The Managing Board informs the Supervisory Board on a regular basis, in good time and in depth of all issues of planning, business growth and risk management that are relevant for the company. Transactions that require approval from the Supervisory Board are presented to the Supervisory Board in good time. The members of the Managing Board are obliged to disclose conflicts of interest to the Supervisory Board without delay, and to only take on additional activities, in particular supervisory board mandates in non-group companies, with the Supervisory Board's permission. During the past fiscal year there were no conflicts of interest for members of SMT Scharf AG's Managing Board.

The Managing Board regularly provides shareholders, all other participants on the capital market and the media with up-to-date information on the company's business growth. The regular financial reporting dates are summarized in the financial calendar. SMT Scharf publishes an "annual document" within the meaning of Section 10 (1) of the *Wertpapierprospektgesetz* (German Securities Prospectus Act), which summarizes the publications under company and capital market law for the past twelve months. The financial reports, the financial calendar, the ad hoc disclosures and the “annual document” are available online at www.smtscharf.com.

Remuneration systems for the Managing and Supervisory Boards: The Supervisory Board's remuneration was defined by way of a resolution by the General Meeting on February 1, 2007 based on SMT Scharf AG's articles of incorporation. The members of the Supervisory Board receive a fixed remuneration for each fiscal year plus reimbursement of their out-of-pocket expenses. The Supervisory Board's period of office runs until the end of the General Meeting which resolves ratification for fiscal year 2010.

The Supervisory Board is responsible for decisions on the Managing Board's remuneration. Members of the Managing Board receive remuneration comprising a fixed basic annual salary and an annual bonus. The basic salary is paid monthly and, in part, quarterly in arrears. The members also receive non-cash remuneration from the private use of their company cars, life insurance coverage and the reimbursement of out-of-pocket expenses. The amount of the annual bonus is based on the extent to which specific personal targets have been reached. These targets are agreed at the start of each year based on the company's forecasts for the respective fiscal year. Remuneration is to be reviewed at regular intervals to ensure that it is in line with the market and is reasonable. It was adjusted in 2009 with the changes taking effect in 2010. There are only pension obligations for members of the Managing Board from the conversion of salary components for previous fiscal years. The company regulations for the conversion of salaries up to and including fiscal year 2007 provide for a fixed upper age limit of 65 years and 6.0% interest on the converted salary components. The age limit has been adjusted to the annual changes in Germany’s statutory pensionable age from 2008 on, with interest now set to 4.5%. There are no agreements for compensation in the event of an acquisition offer. The above regulations for the remuneration of members of the Managing Board have been agreed in the Board members' employment contracts. These contracts run until December 2011 (Mr. Schulze-Buxloh) and December 2012 (Dr. Trautwein) and can only be terminated for cause by both parties prior to this date.

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

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

Risk report

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

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

The internal control system is an integral component of risk management at SMT Scharf. Its primary objectives are to ensure that all transactions are accurately mapped in the company's reporting, and to prevent any deviations from internal and external regulations. In terms of external accounting, this means that the financial statements must conform to the relevant applicable accounting standards. To this effect, the internal control system and risk management is organized in line with the accounting units. There are uniform regulations for accounting in the SMT Scharf Group, e.g., guidelines on balance sheet reporting. Ongoing checks are performed to ensure that these are upheld. In order to control individual accounting risks, e.g., for actuarial valuations, external specialists are used on a case-by-case basis.

The SMT Scharf Group is subject to a number of risks which are inherent in the entrepreneurial activities of the companies in the group.

Market and sales risks: The SMT Scharf Group is subject to constantly changing political, social, legal and economic underlying conditions. The Group counters the resulting risks by keeping a keen eye on these underlying conditions and by anticipating developments on the market. SMT Scharf combats competition from low-wage countries with aggressive price policies via increased regional diversification and improving its cost position and the services offered. Downturns in demand in customer industries could have a negative impact on SMT Scharf's business. One example of this is the recession, which has also been seen on some of the SMT Scharf Group's key markets, such as Russia, following the crisis on the financial markets since the fall of 2008. In addition, in many countries political continuity and stability in mine ownership play a role. A change of government or a change in the mines' ownership structures could result in staffing changes at the mines that could result in substantial delays to the projects. SMT Scharf counters these risks by permanently observing the market and by developing new markets.

Production and environmental risks: As an industrial company, SMT Scharf is subject to the risk of disruptions to operations, quality problems and unanticipated technical difficulties. The Group has guidelines for project and quality management, product safety and health and safety at work as well as for environmental protection to effectively reduce these risks. Losses from downtime for production lines are kept within limits by insurance for disruption to operations.

Purchasing risks: Negative developments in material and energy prices and problems with deliveries of pre-products constitute potential purchasing risks. SMT Scharf counters these risks by entering into long-term agreements with existing suppliers and developing alternative suppliers around the world. In addition, SMT Scharf constantly overhauls its designs with the aim of making these more cost effective.

Liquidity risks: SMT Scharf has centralized liquidity management to control liquidity. 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 the required currency. There are no liquidity risks as a result of the current positive cash flow, the existing bank balances and lines of credit and guarantee credit lines. SMT Scharf invests cash and cash equivalents so that they are available short-term and generate relatively secure returns. Cash deposits are held with several banks in order to minimize the risk of counterparty default.

Other financial risks: SMT Scharf is exposed to currency and default risks in particular as part of its entrepreneurial activities. The Group combats these risks by using suitable hedges. For example, select foreign currency items are hedged using currency forwards.

Counterparty risks are limited, for example by concluding documentary credits and by limiting credit for individual customers. Possible counterparty risks are being monitored intensely given the current recession. At present, interest rate risks are of minor importance. There are not currently any other risks from the use of financial instruments.

Legal risks: SMT Scharf is subject to standard liability risks, which result in particular from product liability, patent law, tax law, competition law, and environmental law. The Group has developed a concept with high quality and security standards to deal with these risks in a controlled manner. It has insurance for property damage, product liability and other risks to safeguard against the financial consequences of any damage that may still result.

HR risks: Realizing the Group's strategic and operating targets is based on being able to retain highly qualified specialist employees and managers and attracting additional qualified employees – in particular at new locations. Wage increases and increases in incidental personnel expenses can lead to cost increases that SMT Scharf is not able to pass on in its prices. This is addressed by rationalizing production.

IT risks: Dealing with information and the secure use of IT systems is described in detail in the Group's guidelines and regulations. SMT Scharf uses state-of-the-art technical protection to ensure the highest possible data security.

An overall assessment of the company's risk position has shown that the identified risks, taking into account the measures taken and planned, do not – either individually or in combination with each other – have any impact on the SMT Scharf Group that could endanger its continued existence. There is, however, no absolute certainty that all relevant risks can be identified and controlled.

Report on events after the balance sheet date

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

In January 2010 SMT Scharf received approval from the Chinese authorities to form a joint venture in the province of Shandong. This joint venture, in which SMT Scharf has a 50% interest, will take charge of final assembly and service for monorail hanging railways for selected customers. SMT Scharf's partner is a company that is associated with one of the leading operators of coal mines in China.

A creditors' meeting of SMT Scharf Saar GmbH in January 2010 authorized the administrator to work out an insolvency plan to continue the company, based on the draft presented by the SMT Scharf Group.

The shareholders who had participating interests in SMT Scharf AG prior to the IPO each fell below the 10% threshold in the company's voting rights in January 2010.

Forecast

It is currently very difficult to see how demand for commodities and investments in mines will develop in 2010 in view of the continued tense economic situation in many countries. OECD is forecasting an increase in gross domestic product in its member states by an average of 1.9% after a downturn of 3.5% in the previous year, but only an increase in net investments in equipment averaging 0.6%. OECD is also forecasting a return to growth in 2010 or a higher growth rate than in 2009 for other countries, such as Russia or China. As a result of the outstanding stabilization of the financial sector in almost all countries, however, SMT Scharf believes that a cautious view must be taken of the extent to which economic growth will actually result in 2010 and the extent to which this will then lead to a further increase in the readiness to make investments. The SMT Scharf Group believes that the regionally split growth seen in 2009 will continue into 2010 on the markets in which it operates. It cannot yet be seen whether growth or stagnation trends fromindividual markets will dominate overall in the coming months.

After the recession has been overcome, market watchers are expecting the international mining sector to return to the growth path enjoyed until 2008. This expansion was mostly driven by the increase in demand for energy commodities and metals as a result of industrialization in countries with a large population such as China and India. It is highly probable that this trend will become prominent again. The medium-term forecast growth rates on the commodities markets are between around 2% to 5% per year depending on the particular commodity and region. Market-watchers (Freedonia Group) are forecasting medium-term annual growth rates of 5% for global investments in mining technologies, and even 7% for the Chinese market.

Overall, 2009 was yet another year of successful international expansion for SMT Scharf. This reinforces the Managing Board's expectation that it will be able to further increase revenues and earnings on average over the coming years, despite the imponderables mentioned above for 2010. The key markets will continue to be Russia, Poland, China and South Africa. In contrast, business in Germany will fall further and focus on replacement parts and services.

Further investments in setting up international sales and service structures are required to enable SMT Scharf to increase its revenues still further over the medium term. In this regard, the SMT Scharf Group will further develop its units on its primary markets. The aim is to cover local production, quality control, the sale of spare parts and service with a group company on the respective market. Local partners will be included in this process if required – as is the case for the new joint venture in China. In parallel, SMT Scharf aims to make further acquisitions in associated lines of business.

Hamm, February 5, 2010

(Dr. Trautwein) (Schulze-Buxloh)

Consolidated balance sheet as of December 31, 2009

in EUR	Notes	31.12.2009	31.12.2008
Assets			
Inventories	(10)	7,534,572.76	12,462,873.66
Trade receivables	(11)	10,435,968.87	12,976,881.79
Other current receivables/assets	(11)	1,686,313.57	1,800,219.45
Deferred tax assets	(7)	419,078.31	373,911.73
Securities	(12)	1,742,562.38	920,110.88
Cash and cash equivalents	(12)	13,249,329.51	16,218,108.31
Current assets		**35,067,825.40**	**44,752,105.82**
Intangible assets		2,616,600.55	2,571,309.79
Property, plant and equipment		7,104,887.10	8,086,492.06
Non-current assets	(9)	**9,721,487.65**	**10,657,801.85**
Total assets		**44,789,313.05**	**55,409,907.67**

in EUR	Notes	31.12.2009	31.12.2008
Equity and liabilities			
Current income tax		1,430,295.45	1,523,010.53
Other current provisions	(15)	4,136,245.33	4,608,751.75
Advance payments received	(16)	716,123.17	6,685,162.60
Trade payables	(16)	3,246,268.83	6,113,922.91
Other current liabilities	(16)	1,583,620.47	2,112,438.42
Current provisions and liabilities		**11,112,553.25**	**21,043,286.21**
Provisions for pensions	(14)	3,017,577.00	2,920,871.00
Other non-current provisions	(15)	1,343,791.96	709,876.87
Deferred tax liabilities	(7)	1,379,502.13	1,645,508.48
Non-current financial liabilities	(16)	4,891,704.94	4,864,277.50
Non-current provisions and liabilities		**10,632,576.03**	**10,140,533.85**
Subscribed capital		3,840,004.00	4,200,000.00
Share premium		6,661,088.76	9,517,195.40
Retained earnings		2,803,332.68	2,803,332.68
Profit brought forward		9,652,085.55	8,149,473.20
Currency translation difference		87,672.78	-443,913.67
Equity	(13)	**23,044,183.77**	**24,226,087.61**
Total equity and liabilities		**44,789,313.05**	**55,409,907.67**

Consolidated statement of comprehensive income from January 1 to December 31, 2009

in EUR	Notes	2009	2008
Revenue	(1)	53,261,976.30	49,738,824.83
Other operating income	(2)	1,914,649.73	1,954,955.28
Changes in inventories		-2,206,112.82	69,564.99
Cost of materials	(3)	25,293,247.21	23,911,161.81
Personnel expenses	(4)	11,194,054.77	12,080,175.41
Depreciation and amortization	(5)	1,948,085.91	1,193,539.91
Other operating expenses	(6)	6,949,747.45	7,089,415.19
Profit from operating activities (EBIT)		**7,585,377.87**	**7,489,052.78**
Interest income		251,780.24	595,472.91
Interest expenses		457,542.51	452,728.90
Financial result		**-205,762.27**	**142,744.01**
Profit before tax		**7,379,615.60**	**7,631,796.79**
Income taxes	(7)	2,307,003.25	2,288,593.47
Net income	(8)	**5,072,612.35**	**5,343,203.32**
Currency difference from translation of foreign financial statements		**531,586.45**	**-677,249.33**
Comprehensive income		**5,604,198.80**	**4,665,953.99**

Consolidated cash flow statement from January 1 to December 31, 2009

in EUR	2009	2008
Net income	5,072,612.35	5,343,203.32
Depreciation and amortization	1,948,085.91	1,193,539.91
Gain/loss on the disposal of intangible assets and property, plant and equipment	219,989.76	-211,657.83
Changes in current assets, provisions and liabilities		
- Provisions	258,114.67	-384,808.37
- Taxes	-403,888.01	-117,052.56
- Inventories	4,928,300.90	-3,593,388.04
- Receivables and other current assets	2,654,818.80	-1,384,939.03
- Liabilities	-9,365,511.46	9,654,508.84
Net cash flows from operating activities	**5,312,522.92**	**10,499,406.24**
Investments in intangible assets and property, plant and equipment	-1,345,033.47	-937,249.70
Proceeds from the disposal of intangible assets and property, plant and equipment	150,608.82	841,022.92
Acquisition	0.00	-1,943,991.25
Net cash flows used in investing activities	**-1,194,424.65**	**-2,040,218.03**
Acquisition of treasury shares	-3,216,102.64	0.00
Change in hardship and social funds	95,725.00	101,345.88
Dividend disbursement	-3,570,000.00	-2,940,000.00
Repayment of/proceeds from financial liabilities	27,427.44	25,227.96
Net cash flows from/used in financing activities	**-6,662,950.20**	**-2,813,426.16**
Effect of changes in exchange rates and group composition on cash and cash equivalents	494,249.63	-664,738.79
Change in net financial position	**-2,050,602.30**	**4,981,023.26**
Net financial position – start of period	16,271,927.55	11,290,904.29
Net financial position – end of period	14,221,325.25	16,271,927.55

Consolidated statement of changes in equity from January 1 to December 31, 2009

in EUR	Subscribed capital	Share premium	Retained earnings	Profit brought forward	Currency translation difference	Total equity
Balance at January 1, 2009	**4,200,000.00**	**9,517,195.40**	**2,803,332.68**	**8,149,473.20**	**-443,913.67**	**24,226,087.61**
Dividend disbursement				-3,570,000.00		-3,570,000.00
Acquisition of treasury shares	-359,996.00	-2,856,106.64				-3,216,102.64
Net income				5,072,612.35		5,072,612.35
Currency difference from translation of foreign financial statements					531,586.45	531,586.45
Balance at Dec. 31, 2009	**3,840,004.00**	**6,661,088.76**	**2,803,332.68**	**9,652,085.55**	**87,672.78**	**23,044,183.77**

Balance at Jan. 1, 2008	**4,200,000.00**	**9,517,195.40**	**2,803,332.68**	**5,746,269.88**	**233,335.56**	**22,500,133.52**
Dividend disbursement				-2,940,000.00		-2,940,000.00
Net income				5,343,203.32		5,343,203.32
Currency difference from translation of foreign financial statements					-677,249.23	-677,249.23
Balance at Dec. 31, 2008	**4,200,000.00**	**9,517,195.40**	**2,803,332.68**	**8,149,473.20**	**-443,913.67**	**24,226,087.61**

Notes to the consolidated financial statements for fiscal year 2009

Information on SMT Scharf AG and the SMT Scharf Group

SMT Scharf AG, Roemerstr. 104, 59075 Hamm, Germany, (hereinafter also referred to as the "company") was formed on May 31, 2000 with subscribed capital of EUR 50 thousand and its registered office in Gottmadingen. On December 14, 2006, subscribed capital was increased by EUR 2,950 thousand by way of a non-cash contribution (contribution of a 100% interest in SMT Scharf GmbH, Hamm). On April 3, 2007, a capital increase against cash contributions was executed. This increased the subscribed capital by EUR 1,200 thousand to its current total of EUR 4,200 thousand. On April 10, 2007, all of the 4,200,000 shares of SMT Scharf AG were admitted to trading on Frankfurt Stock Exchange's regulated market with subsequent admission requirements (Prime Standard).

SMT Scharf AG is the management holding company for the companies in the SMT Scharf Group. 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.

Information on the consolidated financial statements

As SMT Scharf AG is admitted to the regulated market, it prepares its consolidated financial statements according to IFRS. The SMT Scharf Group's consolidated financial statements as of December 31, 2009 have been prepared according to the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB), as these are to be applied in the EU on the balance sheet date. The term IFRS also includes the International Accounting Standards (IAS) and the interpretations of the Standing Interpretations Committee (SIC) and the International Financial Reporting Interpretations Committee (IFRIC) that are still valid. In addition, the requirements of Section 315a of the *Handelsgesetzbuch* (German Commercial Code) have been taken into account.

In fiscal year 2009, the following IAS/IFRS/IFRIC were adopted by the EU as EU law, which did not affect the consolidated financial statements of SMT Scharf AG:

- IFRS 8 “Operating segments” as there are no segments,
- IAS 23 “Borrowing costs” as no qualifying assets are produced,
- IFRS 2 “Share-based payment”, because this type of remuneration is not used at companies in the SMT Scharf Group,
- IFRIC 13 “Customer loyalty programmes” as there are no such programmes,
- Changes to IAS 32, IAS 1, IFRS 7, IAS 39 and IFRIC 2 which are summarized in the IASB publication on “Puttable financial instruments and obligations arising on liquidation", as there are no such financial instruments,
- Changes to IAS 1, IAS 27, IAS 18, IAS 21 and IAS 36 which are summarized in the IASB publication “Cost of an investment in a subsidiary, jointly controlled entity or associate”, as there are no such participating interests,
- IFRIC 16 “Hedges of a net investment in a foreign operation”, as there are no such hedges,
- IFRIC 15 “Agreements for the construction of real estate”, as there are no such agreements,
- Changes to IAS 39 and IFRS 7 on the reclassification of financial instruments, as no reclassifications were performed,
- Changes to IAS 39 and IFRIC 9 on the treatment of embedded derivatives, as no such derivatives are used.

In fiscal year 2009, the following IAS/IFRS/IFRIC were adopted by the EU as EU law, which did not have a material effect on the consolidated financial statements of SMT Scharf AG:

- IAS 1 in the revised version (2007) led to the income statement being migrated to a statement of comprehensive income and the statement of changes in equity being adjusted accordingly,
- Changes in the first “Annual improvements project” resulted in editorial changes and also impacted the presentation, the carrying amounts and the valuation, however they had no material impact, and
- Changes to IFRS 4 and IFRS 7 mean that additional information was prepared on the valuation of financial instruments at fair value and on liquidation risks.

The following changes by the IASB were not voluntarily applied ahead of time in these consolidated financial statements. Most have not yet been adopted by the EU. The possible future impact on the consolidated financial statements is being reviewed.

- Changes to IAS 27 (2008) and IFRS 3 (2008) on the presentation of company acquisitions,
- Changes to IAS 39 from July 2008 on hedge accounting,
- Changes to IFRS 1 on the formal structure of the standard,
- IFRIC 17 on non-cash dividends,
- IFRIC 18 on the transfer of assets by customers,
- Changes from the second “Annual improvements project”,
- Changes to IFRS 2 “Group cash-settled share-based payment transactions”,
- Changes to IFRS 1 for first-time users,
- Changes to IAS 32 on “Classification of rights issued”,
- Changes in IAS 24 on transactions with related parties,
- IFRS 9 “Financial instruments” and
- Changes to IFRIC 14 “Prepayments of a minimum funding requirement” and IFRIC 19 “Extinguished financial instruments with equity instruments”.

The consolidated financial statements have been prepared in Euros. If not otherwise stated, all of the amounts in the notes are stated in thousands of Euros and have been rounded if necessary.

The Supervisory Board is expected to approve the IFRS consolidated financial statements on March 3, 2010 and these are then expected to be released for publication.

Consolidated group

The consolidated financial statements include SMT Scharf AG and the following subsidiaries:

	Interest	IFRS equity Dec. 31, 2009 in EUR thousand	IFRS annual results 2009 in EUR thousand
SMT Scharf GmbH, Hamm, Germany	100 %	9,310	6,217
SMT Scharf Saar GmbH, Neunkirchen, Germany	100 %	n.a.	-319
SMT Scharf Polska Sp. z o. o., Tychy, Poland	100 %	3,796	1,574
Sareco Engineering (Pty.) Ltd., Brakpan, South Africa	100 %	1,102	331
SMT Scharf Africa (Pty.) Ltd., Kya Sands, South Africa	100 %	2,160	1,786
OOO SMT Scharf, Novokuznetsk, Russian Federation	100 % *	67	-51
SMT Scharf Sales and Services GmbH, Hamm, Germany	100 % **	21	-1
SMT Scharf International OÜ, Tallinn, Estonia	100 % **	514	111
Scharf Mining Machinery (Beijing) Co., Ltd., Beijing, China	100 % **	135	104

* of which 1.25 % indirectly via SMT Scharf GmbH
** indirectly via SMT Scharf GmbH

The management of SMT Scharf Saar GmbH filed for insolvency on October 2, 2009, so that this company exited the consolidated group. Up to this date, the company made the following contributions to the Group's revenue, earnings and cash flow:

in EUR thousand	
Revenue	3,159
Material costs, personnel and other expenses	3,489
Result before income taxes	-330
Cash flow	53

A balance of EUR 848 thousand of one-off charges resulted in connection with the deconsolidation. This comprises depreciation of EUR 536 thousand for the property in the Saarland region, write-downs for receivables totaling EUR 392 thousand, and EUR 80 thousand income from the deconsolidation (difference between the carrying amount of the participating interest and the company's equity). The depreciation and valuation allowances reduced the Group's tax expenses in the year under review by EUR 31 thousand.

Consolidation principles

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

As a rule, capital for the companies in the SMT Scharf Group is consolidated according to the acquisition method pursuant to IFRS 3. In so doing, the acquired assets and liabilities are carried at their fair values. If these companies were not formed by the Group itself, and if there is a positive difference between the acquisition costs and the proportionate newly valued equity of the subsidiary, this is carried as goodwill and subject to regular impairment testing. Any remaining negative difference is recognized in income after a second assessment. Expenses, income, receivables and liabilities between the fully consolidated companies and interim profits from deliveries and services within the group are eliminated. If consolidation steps have an effect on earnings deferred taxes are recognized.

Currency translation

The single-entity statements for the fully consolidated subsidiaries are translated based on the functional currency concept according to IAS 21. The functional currency for the subsidiaries is based on the primary economic environment and thus corresponds to the respective local 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 the statements of changes in assets, provisions and equity, the balances at the start and end of the fiscal year and changes to the group of consolidated companies are translated using the rate of exchange on the respective date. The other items are translated at the annual average rate of exchange. Differences in the currency translation of balance sheet items compared to the previous year are taken directly to equity.

The exchange rates for the key currencies were:

	Closing rate		Average rate	
Euro 1 =	31.12.2009	31.12.2008	2009	2008
Estonian Crown	15.6466	15.6466	15.6466	15.6490
Polish Zloty	4.1045	4.1535	4.3276	3.5026
South African Rand	10.666	13.0667	11.6737	11.9760
Chinese Renminbi Yuan	9.835	9.4956	9.5277	10.1626
Russian Ruble	43.154	41.2830	44.1376	36.6839

Accounting and valuation policies

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

Revenue from the sale of equipment and replacement parts is recorded when ownership and risk are transferred to the customer to the extent that a price has been agreed or can be determined and it is probable that this will be paid. Revenue from services is recorded when the services have been provided, a price has been agreed or can be determined, and it is probable that this will be paid. In the case of master agreements for services, the services provided are invoiced regularly, as a rule on a monthly basis. Revenue is disclosed net of discounts, rebates and other price reductions.

Revenue and expenses from construction contracts within the meaning of IAS 11 are carried according to their percentage of completion. The percentage of completion is given by the ratio of the order-based costs incurred through to the reporting date to the total estimated order-based costs on the reporting date (cost-to-cost method). The costs relating to the construction contract incurred by the respective date plus the proportionate profits resulting from the degree of completion achieved are recorded under trade receivables. Changes to contracts, subsequent claims or performance premiums are taken into account to the extent that these have already been bindingly agreed with the customer. If the result of a construction contract cannot be reliably estimated, the revenues that are likely to be achieved are recorded up to the amount of the costs incurred. Order-based costs are recorded in the period in which they are incurred. If it can be foreseen that the total costs from the contract will exceed the income from the contract, the anticipated losses are recorded directly as expenses.

Income from rental agreements is recorded on an accrual basis in accordance with the provisions of the underlying agreements as other operating income. Income from operating leases within the meaning of IAS 17 is recorded as revenues on an accrual basis in accordance with the provisions of the underlying leases.

Interest income is recorded on a pro-rata basis taking the effective interest method into account.

Financing costs are not capitalized as a part of acquisition or historical costs, but are recognized immediately as expenses.

Research and development costs that do not fulfill the criteria required to be carried under IAS 38 are recorded immediately as expenses.

Goodwill is carried at acquisition cost and is subject to an impairment test both on an annual basis and if there are signs of possible impairment. The test is performed using a DCF calculation with a 5-year horizon. No value is set for perpetuity. Present values are calculated by discounting with an interest rate of 8 %.

Acquired and internally generated intangible assets are capitalized according to IAS 38 if it is probable that their use will result in future economic benefits and it is possible to reliably estimate the costs of the asset.

The acquired intangible assets are carried at cost and subject to scheduled amortization using the straight line method in line with their useful lives over three to six years. All acquired intangible assets have a limited useful life.

Separate internally generated intangible assets are capitalized as soon as the carrying requirements stipulated by IAS 38 have been cumulatively fulfilled. 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 capitalized. The capitalized assets are subject to scheduled amortization from the date that they are available for disposal (marketability) using the straight line method over the anticipated product life cycle of eight years. All capitalized internally generated intangible assets have a limited useful life.

Property, plant and equipment used in operations is measured at cost less scheduled straight-line depreciation. Scheduled 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
Other office equipment, fixtures and fittings	3 to 13

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

The intangible assets and property, plant and equipment are subject to regular impairment testing based on cash generating units. If required, corresponding write-downs are performed in line with IAS 36.

Public subsidies are recorded if there is sufficient certainty that the subsidies will be granted and that the company fulfills the conditions with which these are linked. The SMT Scharf Group did not receive any major subsidies in 2009.

The SMT Scharf Group has concluded leases as a lessee (mostly for cars and photocopiers). According to IAS 17 these are to be classified as operating leases as most of the opportunities and risks that are associated with the ownership remain with the lessor. Lease payments for these operating leases are carried as other operating expenses over the period of the lease. In addition, the SMT Scharf Group has concluded leases as a lessor (mostly for type DZ 1500 and DZ 1800 diesel cats). According to IAS 17 these are to be classified as operating leases as most of the opportunities and risks that are associated with the ownership remain with the SMT Scharf Group. These leased assets are capitalized under property, plant and equipment as office and operating equipment. Lease payments for these operating leases are carried as revenue over the period of the lease.

Other financial assets are classified in four different categories according to IAS 39 for accounting and valuation. As of December 31, 2009, the SMT Scharf Group had assets in three of these categories: Originated loans and receivables, securities held for trading and securities carried at fair value.

The originated loans and receivables are measured at amortized cost using the effective interest method. All of the SMT Scharf Group's loans and receivables bear interest at standard market rates. As a rule, loans and receivables are originated at their nominal values. Individual write-downs are formed for receivables for which a default is highly probable. The general credit risk is taken into account by way of write-downs for the stock of receivables which have not been adjusted via individual write-downs – as a rule these are based on past experience. Receivables in foreign currencies are converted using the closing rate of exchange and any resulting exchange rate differences are carried under other operating income or expense.

Cash and cash equivalents comprises cash, demand deposits and current balances with banks which have a residual term of up to three months and which are only subject to minor fluctuations in value. These are measured at amortized cost.

Inventories are measured at cost or their lower net realizable value. According to IAS 2, manufacturing costs are identified as fully absorbed costs (comprising unit costs and reasonable overheads including production-related administrative expenses) according to the standard cost method, acquisition costs are identified using the average cost method. The net realizable value corresponds to the selling price in the ordinary course of business less the estimated costs of completion and costs necessary to make the sale.

Deferred and ongoing taxes are calculated 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 realizable tax losses carried forward. Calculations are based on the tax rates that apply in the respective country on the expected date of realization, as they are passed by law on the balance sheet date. Deferred tax assets are only carried to the extent that it is probable that the associated recoverable taxes will be used. Tax losses carried forward are included in tax deferrals if it is probable that these will be realized.

Provisions for pensions are measured using the projected unit credit method. In so doing, the future obligations are measured based on the benefit entitlements proportionately acquired by the balance sheet date. During measurement, assumptions are made regarding the future development of specific parameters which will impact the future benefit amount. Provisions for pensions only show the portion of the benefit obligations which was recognized in expenses in the past. The portion of the benefit obligations not yet carried as a liability under provisions for pensions is based on actuarial gains and losses. If actuarial gains and losses exceed the corridor of 10% of the cash value of the obligation, these are recorded as expenses using the straight-line method over the average remaining period of service.

The other provisions are formed for all recognizable risks and uncertain liabilities if it is probable that these will occur 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 recorded as a separate asset if the refund is as good as secure. Expenses for the formation of provisions are disclosed in the consolidated statement of comprehensive income after deduction of the refund.

Other provisions are measured in line with IAS 37 using 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 cash value is identified by discounting.

The amount of the provision for warranties is identified using the warranty expense which resulted in the past, the warranty period, and the revenues affected by warranties. Individual provisions are formed for known damage. Provisions for other business-related liabilities are measured based on the performance still to be provided, as a rule in the amount of the production costs still to be incurred.

Financial liabilities are carried at acquisition cost at their first inclusion. This corresponds to the fair value of the compensation received. Transaction costs are also taken into account in this regard. All liabilities are measured in subsequent years at amortized cost using the effective interest method. Liabilities in foreign currencies are converted using the closing rate of exchange and any resulting exchange rate differences are carried under other operating income or expense.

The preparation of the consolidated financial statements necessitates certain assumptions and estimates. These relate to the recognition and measurement of assets and liabilities, income and expenses, and the extent of contingent liabilities. The assumptions and estimates mostly relate to the group-wide uniform definition of useful lives, the impairment testing for assets, the capitalization of deferred taxes, measuring benefit obligations and other provisions as well as estimating legal risks. Estimates made by the company are based on historical amounts and other assumptions considered to be appropriate in the particular circumstances. The actual amounts may differ from the estimates. The estimates and assumptions made are subject to constant review and adjusted accordingly.

Accounting correction for previous years for land and buildings

During preparation of the first IFRS consolidated financial statements of SMT Scharf AG land and buildings were measured at present values based on external surveys. The surveys were reviewed in connection with the sale of part of the real estate in the Saarland region in 2008. During the past fiscal year, SMT Scharf received confirmation that one of the surveys was incorrect. As a result, land and buildings were carried at an amount that was too high by EUR 290 thousand as of January 1, 2004, and the corresponding deferred tax liabilities were EUR 116 thousand too high at that date. The depreciation performed and sales made in the meantime reduced these amounts to EUR 246 thousand and EUR 78 thousand as of December 31, 2008.

Balance sheet items Dec. 31, 2008 in EUR thousand	actual	original
Assets		
Intangible assets	2,572	2,572
Property, plant and equipment	8,086	8,332
Current assets	44,752	44,752
Total assets	55,410	55,656
Equity and liabilities		
Equity	24,226	24,394
Deferred tax liabilities	1,646	1,724
Other non-current liabilities	8,495	8,495
Current liabilities	21,043	21,043
Total assets	55,410	55,656

As a result of a change in the allocation of the present values to parts of the real estate, other operating income from two sales of real estate in 2006 and 2008 and the depreciation in 2004 to 2008 changed as well.

The actual values for fiscal year 2008 are compared with the values originally disclosed in the individual sections of the notes and explained.

Notes to the income statement

(1) Revenue

Revenue is composed of the following items:

in EUR thousand	2009	2008
Sale of new equipment	32,502	25,253
Spare parts/service/other	20,760	24,486
Total	53,262	49,739

Revenue by region was as follows:

in EUR thousand	2009	2008
Africa	16,956	7,926
China	9,467	3,777
Germany	8,716	12,250
Poland	8,381	12,063
Russia and other CIS states	5,726	8,338
Rest of Europe	2,678	3,964
North America incl. Mexico	450	1,150
Other countries	888	271
Total	53,262	49,739

(2) Other operating income

Other operating income is composed of the following items:

in EUR thousand	2009	2008
Reversal of provisions	545	1.013
Use of provisions	138	255
Rental income	114	54
Deconsolidation of SMT Scharf Saar	80	0
Miscellaneous other operating income	1,037	633
Total	1,914	1,955

The miscellaneous other operating income mostly includes currency gains (EUR 899 thousand). This figure totaled EUR 560 thousand in the previous year prior to the correction of the financial statements. The difference is due to a changed split of the book profits from the real estate sales in 2006 and 2008.

(3) Cost of materials

The cost of materials is composed of the following items:

in EUR thousand	2009	2008
Raw materials, consumables and supplies	22,267	19,977
Purchased services	3,026	3,934
Total	25,293	23,911

(4) Personnel expenses

Personnel expenses are composed of the following items:

in EUR thousand	2009	2008
Wages and salaries	9,771	10,380
Social security contributions	1,423	1,700
Total	11,194	12,080

The average number of employees in the SMT Scharf Group (including SMT Scharf Saar GmbH up to September 2009) totaled:

	2009	2008
Employees	217	235
Trainees	11	14
Total	228	249

(5) Depreciation and amortization

Depreciation and amortization are composed of the following items:

in EUR thousand	2009	2008
Amortization of purchased intangible assets	66	61
Amortization of capitalized internally generated intangible assets	158	155
Depreciation of property, plant and equipment	1,724	978
Total	1,948	1,194

The depreciation of property, plant and equipment includes extraordinary depreciation of EUR 536 thousand for the property used to date by SMT Scharf Saar GmbH. No value adjustments within the meaning of IAS 36 were made in the previous year. The prior year value for the depreciation of property, plant and equipment prior to correction of the financial statements totaled EUR 995 thousand.

(6) Other operating expenses

Other operating expenses are composed of the following items:

in EUR thousand	2009	2008
Third-party services	1,430	1,445
Special direct cost of sales	1,407	1,405
Travel expenses	604	621
Rent and leases	300	326
Contributions/fees	295	223
Maintenance costs	253	175
Cleaning	146	158
Office supplies/communication	124	133
Insurance	116	109
Advertising	109	120
Miscellaneous other operating expenses	2,166	2,374
Total	6,950	7,089

The miscellaneous other operating expenses mostly include exchange rate losses (EUR 353 thousand), additions to provisions and write downs, expenses for training and meal subsidies. The auditor's fees incurred during the fiscal year are also carried under third-party services. These are broken down as follows:7

in EUR thousand	2009	2008
Audit	122	127
Tax consulting	20	21
Other services	0	0
Total	142	148

(7) Income taxes

Income taxes are composed of the following items:

in EUR thousand	2009	2008
Current tax expense	2,600	2,657
Thereof income taxes for the fiscal year	2,600	2,657
Thereof restatement of current income taxes incurred in prior periods	0	0
Deferred taxes	-293	-369
Thereof creation or reversal of temporary differences	-293	-385
Thereof other changes	0	16
Total	2,307	2,288

Deferred taxes are identified based on the tax rates which will apply or are expected to apply according to the current legal situation on the date they are realized. As was the case in the previous year, a group tax rate of 31.6% was applied in 2009. If deferred tax assets or liabilities are carried for foreign companies, these are measured at the tax rates that apply in the corresponding countries.

Deferred tax assets are only carried if it is probable that these tax advantages will be realized. The estimate to be performed in this regard can change as a result of future developments. As of December 31, 2009, deferred tax assets were carried for tax losses carried forward in the amount of EUR 258 thousand (previous year: EUR 281 thousand). According to the current legal situation, there are no temporal or amount-based restrictions on carrying these losses forwards.

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

in EUR thousand	2009	2008
Deferred tax assets		
Provisions for pensions	299	311
Other assets and liabilities	239	266
Deferred tax liabilities		
Intangible assets	310	297
Property, plant and equipment	1,338	1,664
Other assets and liabilities	112	84

Deferred tax assets and liabilities totaling EUR 381 thousand were netted as these relate to future charges or reductions for the same taxpayer to the same tax authority (previous year: EUR 400 thousand). Consolidation effects resulted in deferred tax assets of EUR 180 thousand (previous year: EUR 108 thousand) and the recognition of tax losses carried forward resulted in deferred tax assets of EUR 82 thousand (previous year: EUR 89 thousand).

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

in EUR thousand	2009	2008
Result before income taxes	7,380	7,632
Imputed tax expenses (31.6%)	2,332	2,411
International tax rate differences	-315	-336
Non-capitalization of deferred taxes on losses carried forward	120	123
Tax additions/reductions not impacting the tax base	181	100
Other differences	-11	-10
Reported income tax expense	2,307	2,288

The dividend disbursement proposed by the Managing and Supervisory Boards for fiscal year 2009 will neither lead to a reduction or an increase in income taxes for the SMT Scharf Group.

The disclosed income tax expense prior to the correction of the financial statements totaled EUR 2,260 thousand, because the income from the reversal of temporary differences totaled EUR -413 thousand instead of EUR 385 thousand. In the balance sheet as of December 31, 2008, deferred tax liabilities on property, plant and equipment were incurred in the amount of EUR 1,742 thousand prior to the correction of the financial statements.

(8) Earnings per share

Given the weighted average of 4,128,507 (previous year: average of 4,198,889) issued shares, earnings per share for fiscal year 2009 total EUR 1.23 (previous year: EUR 1.27). Diluted earnings correspond to the basic earnings.

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 can be found in the statement of changes in non-current assets. The following table also shows the changes in the gross and net values for the land and buildings before and after the correction to the financial statements.

in EUR thousand	01.01.2004	31.12.2004	31.12.2005	31.12.2006	31.12.2007	31.12.2008
Gross value						
Actual	13,571	13,553	13,563	13,008	13,053	11,923
Original	13,861	13,843	13,853	13,415	13,460	12,237
Accumulated depreciation						
Actual	5,568	6,060	6,494	6,472	6,817	6,396
Original	5,568	6,073	6,519	6,525	6,888	6,464
Net value						
Actual	8,003	7,493	7,069	6,536	6,236	5,527
Original	8,293	7,770	7,334	6,890	6,572	5,773

Consolidated statement of changes in non-current assets from January 1 to December 31, 2009

(in EUR thousand)		Initial balance 01.01.2009	Exchange rate differences	Additions	Disposals	Transfers	Final balance 31.12.2009
Goodwill	Gross	1,387	0	0	0	0	1,387
	D/A	0	0	0	0	0	0
	Net	1,387	0	0	0	0	1,387
Acquired intangible assets	Gross	584	54	10	46	0	602
	D/A	303	8	66	46	0	331
	Net	281	46	-56	0	0	271
Own work capitalized (development costs)	Gross	1,243	0	213	0	0	1,456
	D/A	339	0	158	0	0	497
	Net	904	0	55	0	0	959
Intangible assets	**Gross**	**3,214**	**54**	**223**	**46**	**0**	**3,445**
	D/A	**642**	**8**	**224**	**46**	**0**	**828**
	Net	**2,572**	**46**	**-1**	**0**	**0**	**2,617**
Land and buildings	Gross	11,923	1	99	0	17	12,040
	D/A	6,396	-1	847	0	0	7,242
	Net	5,527	2	-748	0	17	4,798
Of which leased to third parties	Gross	1,604	0	44	0	0	1,648
	D/A	815	0	35	0	0	850
	Net	789	0	9	0	0	798
Technical equipment and machinery	Gross	2,746	19	17	310	0	2,472
	D/A	2,170	8	169	280	0	2,067
	Net	576	11	-152	30	0	405
Office equipment, fixtures and fittings	Gross	6,722	19	997	1,774	0	5,964
	D/A	4,748	39	708	1,433	0	4,062
	Net	1,974	-20	289	341	0	1,902
Advance payments made	Gross	9	0	8	0	-17	0
	D/A	0	0	0	0	0	0
	Net	9	0	8	0	-17	0
Property, plant and equipment	**Gross**	**21,400**	**39**	**1,121**	**2,084**	**0**	**20,476**
	D/A	**13,314**	**46**	**1,724**	**1,713**	**0**	**13,371**
	Net	**8,086**	**-7**	**-603**	**371**	**0**	**7,105**
Non-current assets	**Gross**	**24,614**	**93**	**1,344**	**2,130**	**0**	**23,921**
	D/A	**13,956**	**54**	**1,948**	**1,759**	**0**	**14,199**
	Net	**10,658**	**39**	**-604**	**371**	**0**	**9,722**

Consolidated statement of changes in non-current assets from January 1 to December 31, 2008

(in EUR thousand)		Initial balance 01.01.2008	Exchange rate differences	Additions	Disposals	Final balance 31.12.2008
Goodwill	Gross	107	0	1,280	0	1,387
	D/A	0	0	0	0	0
	Net	107	0	1,280	0	1,387
Acquired intangible assets	Gross	341	-5	248	0	584
	D/A	249	-7	61	0	303
	Net	92	2	187	0	281
Own work capitalized (development costs)	Gross	955	0	288	0	1,243
	D/A	184	0	155	0	339
	Net	771	0	133	0	904
Intangible assets	**Gross**	**1,403**	**-5**	**1,816**	**0**	**3,214**
	D/A	**433**	**-7**	**216**	**0**	**642**
	Net	**970**	**2**	**1,600**	**0**	**2,572**
Land and buildings	Gross	13,053	-2	27	1,155	11,923
	D/A	6,817	0	371	792	6,396
	Net	6,236	-2	-344	363	5,527
Technical equipment and machinery	Gross	2,857	-60	56	107	2,746
	D/A	2,090	-51	225	94	2,170
	Net	767	-9	-169	13	576
Office equipment, fixtures and fittings	Gross	6,536	-25	639	428	6,722
	D/A	4,563	-22	382	175	4,748
	Net	1,973	-3	257	253	1,974
Advance payments made	Gross	7	-1	3	0	9
	D/A	0	0	0	0	0
	Net	7	-1	3	0	9
Property, plant and equipment	**Gross**	**22,453**	**-88**	**725**	**1,690**	**21,400**
	D/A	**13,470**	**-73**	**978**	**1,061**	**13,314**
	Net	**8,983**	**-15**	**-253**	**629**	**8,086**
Non-current assets	**Gross**	**23,856**	**-93**	**2,541**	**1,690**	**24,614**
	D/A	**13,903**	**-80**	**1,194**	**1,061**	**13,956**
	Net	**9,953**	**-13**	**1,347**	**629**	**10,658**

The historical or development costs for the intangible assets that must be capitalized according to IAS 38 are initially recorded as expenses (in particular personnel expenses) according to the total cost (type of expenditure) format, and then eliminated in the relevant period. The amortization of capitalized internally generated intangible assets is carried as amortization and depreciation. In 2009, development costs totaling EUR 213 thousand were capitalized for three projects which fulfill the requirements of IAS 38.

The SMT Scharf Group leases internally developed drive systems as a lessor. On the balance sheet date, nine leased items were carried in the statement of changes in non-current assets as leased assets.

(10) Inventories

in EUR thousand	31.12.2009	31.12.2008
Raw materials, consumables and supplies	3,320	2,976
Unfinished goods and work in progress	3,014	4,928
Finished goods and merchandise	1,201	4,559
Total	7,535	12,463

In 2009, write-downs for inventories to their lower realizable value totaled EUR 2,051 thousand (previous year: EUR 1,155 thousand).

(11) Receivables and other assets

Trade receivables and other current receivables all have remaining terms of less than one year. The receivables include security deposits in standard industry amounts. These have been contractually agreed with the customers. These deposits cover SMT Scharf's incidental services that are to be provided once the risk has been transferred.

(12) Securities and cash and cash equivalents

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

Of the securities and cash and cash equivalents, EUR 771 thousand are due to a hardship and social fund (previous year: EUR 866 thousand). This fund is managed in trust by a commission which includes both employer and employee representatives.

(13) Equity

The changes in the SMT Scharf Group's equity are shown in the statement of changes in equity. The subscribed capital has totaled EUR 4,200 thousand since the capital increase in April 2007. The share premium includes the premium from the capital increase less the transaction costs taking tax factors into account.

As at December 31, 2009, 4,200,000 ordinary bearer shares of SMT Scharf AG have been issued in the form of no-par value shares with a notional value of EUR 1 per share. All shares have been fully paid in and grant the holders the same rights. The Managing Board can increase the subscribed capital on one or several occasions with the approval of the Supervisory Board by up to EUR 2,100 thousand against cash or non-cash contributions until February 1, 2012 (authorized capital). Shareholders' subscription rights can be excluded during this process.

In addition, there is conditional capital of up to EUR 2,100 thousand to issue additional ordinary shares. The conditional capital increase will only be implemented to the extent that either the holders of convertible bonds and/or bonds with warrants and/or profit-participation certificates with conversion or subscription rights that are issued by the company prior to April 22, 2014 use their conversion or subscription rights, or if the holders that have to convert convertible bonds and/or bonds with warrants and/or profit-participation certificates with conversion or subscription rights that are issued by the company prior to April 22, 2014 fulfill their conversion obligation. At present, no such securities have been issued.

The General Meeting on April 23, 2009 authorized the company’s Managing Board to acquire own shares of up to 10 % of the respective current share capital until October 22, 2010. In line with this authorization, between May and August 2009 the company acquired a total of 60,000 of its own shares on the stock exchange and a further 299,996 of its own shares in October 2009 in an off-market repurchase offer. The total of 359,996 of own shares represent 8.6% of the share capital. The company spent EUR 3,216 thousand on the acquisition of these shares, which it also held at the end of the fiscal year. Of this figure, EUR 518 thousand went towards the stock exchange repurchase and EUR 2,698 thousand towards the off-market repurchase. These treasury shares can be used for all purposes set out in the authorization resolution. In particular, SMT Scharf is currently pursuing acquisition projects for which some of the treasury shares may be used. The share buy-back led to a reduction of EUR 360 thousand in subscribed capital and of EUR 2,856 thousand in the share premium.

SMT Scharf AG's annual financial statements, which are prepared in accordance with the principles of the *Handelsgesetzbuch,* include net retained profits of EUR 2,893 thousand. The Managing and Supervisory Boards will propose to the ordinary General Meeting, which is to be held on April 14, 2010, to pay a dividend of EUR 0.70 per share for fiscal year 2009 from these net retained profits. This will result in a total dividend of EUR 2,688 thousand, payable in 2010, based on the shares in circulation on today’s date (without treasury shares). The remaining amount of EUR 205 thousand will be carried forward to new account.

(14) Provisions for pensions

The SMT Scharf Group has defined-benefit commitments to old-age, invalidity and survivors pensions in its company pension scheme for its employees. The pension commitments result from various employer-financed direct commitments and from salary conversions based on a company agreement. In addition, there are indirect pension commitments according to the articles of association of the benefit fund of DBT e.V. All pension commitments are financed with provisions. There are no plan assets.

The amount of the pension commitments (projected unit credit of the benefit commitment or "defined benefit obligation") was calculated using actuarial methods. The use of estimates is unavoidable in these calculations. In addition to the assumptions on life expectancies according to the K. Heubeck 2005 G mortality tables, the following assumptions were used:

In % p.a.	31.12.2009	31.12.2008
Rate of benefit increases	2.0 %	2.0 %
Rate of pension increases	1.0 - 2.0 %	1.0 - 2.0 %
Discount rate (DBO)	5.7 %	6.1 %

The changes in provisions for pensions are derived as follows:

in EUR thousand	2009	2008
Carrying amount – start of period	2,921	2,763
Current service cost	198	166
Interest cost	145	111
Recognized actuarial gains/losses	-44	0
Pension payments and transfers	-203	-119
Carrying amount – end of period	3,017	2,921

The current service cost and interest expense are recorded in personnel expenses.

The changes in the defined benefit obligation and the reconciliation to the carrying amount are as follows:

in EUR thousand	2009	2008
Defined benefit obligation – start of period	2,230	2,278
Current service cost	198	166
Interest cost	145	111
Pension payments and transfers	-186	-119
Actuarial gains/losses	78	-206
Defined benefit obligation – end of period	2,465	2,230
Unrecognized actuarial gains	552	691
Carrying amount – end of period	3,017	2,921

(15) Other provisions

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

The other current provisions are all due within one year. These have not been discounted as the impact would be minor. They can be grouped into personnel, sales and miscellaneous.

Provisions for personnel relate, in particular, to performance-related remuneration for employees, redundancy payments and possible compensation payments after the introduction of the uniform *Entgeltrahmenabkommen der Metall- und Elektroindustrie* (Salary Framework Agreement for the Metalworking and Electrical Industries).

Sales provisions relate, in particular, to warranty and follow-on costs. The costs in this regard were estimated on a project-by-project basis using prudent commercial judgment.

The miscellaneous other provisions relate, in particular, to uncertain liabilities to suppliers totaling EUR 826 thousand. In addition, they also include provisions for litigation, including the associated costs of proceedings. The results of current and future litigation cannot be reliably predicted, with the result 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 company 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 the SMT Scharf Group's financial position or results of operations.

The changes to other provisions in 2009 can be seen in the following statement of changes in provisions:

Consolidated statement of changes in other provisions from January 1 to December 31, 2009

in EUR thousand	Initial balance 01.01.2009	Currency translation	Transfers	Usage	Additions	Reversals	Final balance 31.12.2009
Other non-current provisions	710	0	557	249	331	6	1,343
Personnel	1,728	17	-181	1,333	1,630	124	1,737
Sales	886	6	0	330	897	212	1,247
Miscellaneous	1,995	3	-526	1,343	1,131	107	1,153
Other current provisions	4,609	26	-707	3,006	3,658	444	4,136

Consolidated statement of changes in other provisions from January 1 to December 31, 2008

in EUR thousand	Initial balance 01.01.2008	Currency translation	Transfers	Usage	Additions	Reversals	Final balance 31.12.2008
Other non-current provisions	798	0	144	193	14	53	710
Personnel	2,101	-4	-335	1,157	1,250	127	1,728
Sales	1,472	-14	0	469	517	620	886
Miscellaneous	1,255	-1	35	410	1,270	154	1,995
Other current provisions	4,828	-19	-300	2,036	3,037	901	4,609

(16) Liabilities

As was the case in the previous year, none of the trade payables, advance payments received and other current liabilities including the current financial liabilities have a term of more than one year.

The mezzanine financing which is structured as a profit-participation certificate is carried under non-current financial liabilities. This has a term of seven years and is to be repaid in full in April 2013.

There are no liabilities secured by liens.

Notes to the cash flow statement

The cash flow statement shows the changes in the SMT Scharf Group's cash and cash equivalents as a result of cash inflows and outflows during the period under review. In line 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, i.e., these are payment related. In contrast, the cash flow from operating activities is calculated indirectly from the earnings for the period. The cash flow from operating activities includes the following receipts and payments:

in EUR thousand	2009	2008
Interest received	233	595
Interest paid	458	453
Income taxes paid	2,782	2,405

The net financial position in the cash flow statement comprises all of the cash and cash equivalents carried on the balance sheet, i.e., cash in 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. The net financial position is derived from the cash and cash equivalents stated in the consolidated balance sheet as follows:

in EUR thousand	31.12.2009	31.12.2008
Cash and cash equivalents	13,249	16,218
+ Securities	1,743	920
./. Hardship and social funds	-771	-866
./. Current financial liabilities	0	0
Net financial position	14,221	16,272

Other disclosures

(17) Other financial liabilities and contingent liabilities

The company has no significant contingent liabilities that are unusual in the industry.

There are other financial liabilities in particular from rental and lease agreements for cars and photocopiers. The agreements have maturities of up to five years and in some cases include extension options and escalation clauses. In 2009, the rental and lease agreements resulted in payments totaling EUR 300 thousand being recognized in other operating expenses (previous year: EUR 326 thousand). The total nominal amount of the future minimum lease payments under leases and rental agreements is broken down by maturity as follows:

in EUR thousand	31.12.2009	31.12.2008
Due within one year	266	241
Due in one to five years	268	383
Due after more than five years	0	0
Total	534	624

(18) Present values of financial assets and liabilities

When valuating the financial assets and liabilities, the management categorizes these in one of the following categories depending on their type and intended use when these are acquired:

- Originated loans and receivables
- Held-to-maturity financial investments
- Original and derivative financial assets held for trading
- Available-for-sale financial assets
- Financial assets and liabilities recognized in income at fair value
- Financial liabilities measured at amortized costs taking the effective interest rate method into account

The SMT Scharf Group did not have any held-to-maturity or available-for-sale financial instruments in either 2009 or in 2008. No re-grouping was performed in either 2009 or in 2008. The valuation of the financial assets and liabilities is presented in the information on the accounting and valuation policies.

The carrying amounts and fair values of the SMT Scharf Group's financial assets and liabilities are divided into the categories as follows:

in EUR thousand	31.12.2009		31.12.2008	
	Carrying amount	Fair value	Carrying amount	Fair value
Originated loans and receivables	12,122	12,122	14,777	14,777
(thereof < 1 year)	12,122	12,122	14,777	14,777
Securities valuated at fair value	1,743	1,743	920	920
(thereof < 1 year)	1,743	1,743	920	920
Trade payables and advance payments	3,962	3,962	12,799	12,799
(thereof < 1 year)	3,962	3,962	12,799	12,799
Other liabilities	1,584	1,584	2,112	2,112
(thereof < 1 year)	822	822	2,112	2,112
Loans received	4,892	4,504	4,864	4,627
(thereof < 1 year)	0	0	0	0

The fair values of the financial assets and financial liabilities are identified using the following hierarchy: If available, the fair value is determined based on listed market prices. If no such market prices are available, the fair value is determined in accordance with generally recognized valuation models based on DCF analyses and current market transactions and traders' listings for similar instruments. For its mezzanine financing, the company’s banks provided the company with an indication of the interest rate applicable to comparable financing on December 31, 2009; this resulted in a market value of EUR 4,504 thousand.

(19) Capital risk management

Management controls the SMT Scharf Group's capital (equity plus liabilities) with the aim of maintaining financial flexibility so as to achieve the Group's growth targets while simultaneously optimizing financing costs. The overall strategy in this regard is unchanged year-on-year.

Management reviews the company's capital structure regularly upon 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:

	31.12.2009	31.12.2008	% of previous year
in EUR thousand			
Equity	23,044	24,226	95
Liabilities	21,745	31,184	70
(thereof < 1 year)	11,112	21,043	53
(thereof > 1 year)	10,633	10,141	105
In % of total assets			
Equity	51.5	43.7	
Liabilities	48.5	56.3	
(thereof < 1 year)	24.8	37.8	
(thereof > 1 year)	23.7	18.5	

(20) Financial risk management

SMT Scharf AG's Managing Board controls the purchase and sale of financial assets and liabilities and monitors the associated financial risks. This was as follows in detail:

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 can use lines of credit. The total unused amount totaled EUR 6,000 thousand on the balance sheet date (previous year: EUR 7,500 thousand). The group also has guarantee credit lines available. Management expects that the Group will be able to fulfill its other financial liabilities from its cash flow from operating activities and the proceeds from maturing financial assets.

Credit risks: The maximum risk of default is the carrying amount of the financial assets disclosed in the consolidated financial statements, less write-downs. This totals EUR 13,865 thousand (previous year: EUR 15,697 thousand).

The Group only engages in business with creditworthy parties, if necessary after obtaining collateral to minimize any risk of default. The Group obtains information from independent rating agencies, other available financial information and its own trade notes to assess creditworthiness. 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. The SMT Scharf Group does not believe that it is subject to any major risks of default from a party or group of parties to a contract with similar characteristics. There are trade receivables from a large number of customers spread over various regions.

There are no uniform payment conditions within the group, as individual agreements are concluded for equipment orders. SMT Scharf writes receivables off if targets are substantially exceeded. This approach is based on past experience which shows that, as a rule, no payment can be expected from receivables that are more than six months overdue. Doubtful receivables were written down in the amount of EUR 668 thousand (previous year: EUR 579 thousand). No write-downs have been formed for trade receivables in the amount of EUR 5,576 thousand (previous year: EUR 1,575 thousand) that were overdue on the balance sheet date, as no material change was ascertained in the contractual party's creditworthiness, and it is expected that the outstanding amounts will be paid. The increase is due, in particular, to Polish customers. The Group does not have any collateral for these unpaid items. The maturities of the overdue receivables that have not been written down are as follows:

in EUR	31.12.2009	31.12.2008
1 to 30 days	3,315	981
From 31 days	2,261	594
Total	5,576	1,575

Market risks: Market risks can result from changes to exchange rates (exchange rate risk) or interest rates (interest rate risk). SMT Scharf combats these risks by using suitable hedges and control instruments. These are managed by constantly monitoring the cash flow and by monthly reporting to the Group's management. Exchange rate risks are limited in that the Group mostly issues its invoices in Euros or in local currency. Exchange rate hedges are concluded for major transactions. The group is currently not subject to any major interest rate risks as it borrows at fixed interest rates.

(21) Supervisory Board

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

Dr. Dirk Markus, Feldafing (Chairman)	CEO of Aurelius AG	AUR Beteiligungsberatungs AG, Munich, Chairman of the Supervisory Board Berentzen-Gruppe AG, Member of the Supervisory Board Compagnie de Gestion et des Prêts S.A., Saran (France), Member of the Board Investunity AG, Munich, Chairman of the Supervisory Board Lotus AG, Feldafing, Chairman of the Supervisory Board Quelle La Source S.A., Saran (France), Member of the Board (until 06/09) SKW-Stahl Metallurgie Holding AG, Unterneukirchen, Member of the Supervisory Board (since 06/09)
Florian Kawohl, Frankfurt am Main, (Deputy Chairman)	Managing Director of Strategic Value Partners (Deutschland) GmbH	(no other mandates)
Ulrich Radlmayr, Schondorf a. A.	Lawyer and member of the Managing Board of Aurelius AG	AUR Beteiligungsberatungs AG, Munich, Member of the Supervisory Board Aurelius Enterprises Holding AG, Deputy Chairman of the Supervisory Board (until 12/09) Aurelius Portfoliomanagement AG, Deputy Chairman of the Supervisory Board Aurelius Portfoliomanagement AG, Deputy Chairman of the Supervisory Board (since 07/09) Berentzen-Gruppe AG, Member of the Supervisory Board Quelle La Source S.A., Saran (France), Member of the Board (until 06/09)

The members of the Supervisory Board receive fixed remuneration of EUR 10 thousand, the Chairman receives EUR 15 thousand for each fiscal year. In addition, their out of pocket expenses are reimbursed. Remuneration is paid on a pro-rata basis if members leave the Supervisory Board during the year. As of December 31, 2009, the members of the Supervisory Board did not hold any shares.

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

(22) Managing Board

During the fiscal year, SMT Scharf AG's Managing Board comprised Dr. Friedrich Trautwein (CEO) and Mr. Heinrich Schulze-Buxloh. Dr. Trautwein is the Chairman and Mr. Schulze-Buxloh is a member of the Supervisory Board of SMT Scharf Polska Sp. z o.o.

Members of the Managing Board receive remuneration comprising a fixed basic annual salary and an annual performance-related bonus, plus reimbursement of their out-of-pocket expenses. The bonus for a fiscal year is set and becomes due in the following fiscal year in each case; a provision is formed in this regard at the end of the fiscal year. The following remuneration and out-of-pocket expenses were recognized as expenses in fiscal year 2009:

in EUR thousand	Dr. Trautwein	Schulze-Buxloh
Basic remuneration	120	131
Bonus	294	68
Additional payments	31	11
Total	445	210

SMT Scharf AG has pension obligations and other obligations from the conversion of salary components for previous fiscal years of EUR 479 thousand for Dr. Trautwein and of EUR 35 thousand for Mr. Schulze-Buxloh. In addition, a subsidiary has EUR 66 thousand in pension obligations for Mr. Schulze-Buxloh from the conversion of salary components for previous fiscal years. There are no share-based payments, no commitments to make payments in the event that the employment relationship ends, and no agreements for compensation in the event of a takeover offer. On December 31, 2009, Dr. Trautwein held 44,400 shares of the company, and Mr. Schulze-Buxloh held 6,000 shares.

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

(23) Declaration pursuant to Section 161 of the *Aktiengesetz*

As a listed company, SMT Scharf AG has to issue a declaration within the meaning of Section 161 of the *Aktiengesetz* as to the extent to which it corresponds to the recommendations of the "German Corporate Governance Code Government Commission". The Managing and Supervisory Boards issued this declaration on December 2, 2009. It has been made available to shareholders at www.smtscharf.com.

(24) Related party disclosures

In fiscal year 2009, no services were either purchased from or provided to related parties as defined by IAS 24.

(25) Events after the balance sheet date

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

Hamm, February 5, 2010

(Dr. Trautwein) (Schulze-Buxloh)

Responsibility statement

To the best of our knowledge, and in accordance with the applicable reporting principles, SMT Scharf AG's consolidated financial statements as of December 31, 2009 give a true and fair view of the Group's assets, liabilities, financial position and results of operations, and the group management report for fiscal year 2009 presents the Group's business including its results and the Group's position such as to provide a true and fair view and describes the major opportunities and risks of the Group's anticipated growth.

Hamm, February 5, 2010

(Dr. Trautwein) (Schulze-Buxloh)

Auditors’ report and opinion on the Consolidated Financial Statements

We have audited the IFRS consolidated financial statements, comprising the balance sheet, the statement of comprehensive income, the statement of changes in equity, the cash flow statement and the notes to the financial statements as well as the group management report of SMT Scharf AG for the fiscal year from January 1, 2009 to December 31, 2009. The preparation of the IFRS consolidated financial statements and the group management report in accordance with the IFRS whose application is mandatory in the European Union (EU) and with the additionally applicable financial-accounting provisions of Art. 315a (1) of the HGB (German Commercial Code) is the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and the group management report based on our audit.

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

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the IFRS consolidated financial statements comply with the IFRS whose application is mandatory in the EU and with the additionally applicable financial-accounting provisions of Art. 315a (1) HGB, and, with due regard to these standards, give a true and fair view of the net assets, financial position and results of operations of the group. The group management report is consistent with the IFRS consolidated financial statements and as a whole provides a suitable view of the group’s position and suitably presents the opportunities and risks of future development.

Dusseldorf, February 5, 2010

Verhülsdonk & Partner GmbH
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Dr. Michael Hüchtebrock
Wirtschaftsprüfer

Rainer Grote
Wirtschaftsprüfer

Declaration by the Managing and Supervisory Boards of SMT Scharf AG for 2009 according to Section 161 *Aktiengesetz* concerning the recommendations of the "German Corporate Governance Code Government Commission" in the versions dated June 6, 20008 and June 18, 2009

The Managing and Supervisory Boards of SMT Scharf AG declare that up to and including today's date they have corresponded to the respective applicable recommendations of the "German Corporate Governance Code Government Commission" in the versions dated June 6, 2008 and June 18, 2009 with the following exceptions:

- The Supervisory Board did not form any committees, as it comprises three members. This number of members appears reasonable given the company's size.
- The remuneration for the members of the Supervisory Board does not include a performance-related component. This is balanced by the fact that their remuneration is at the lower end of the scale when compared to other companies of a comparable size.
- At present, there is no succession planning for members of the Managing Board. It is intended to develop a longer-term succession planning.
- Diversity was not a stand-alone criterion for membership of the Managing and Supervisory Boards. This may also be the case in future as both boards only have a few members.
- At present there is no upper age limit for members of the Managing and Supervisory Boards. This upholds the German law on equal opportunities.
- To date, the company's D&O insurance policy does not yet include any agreement on a deductible. It is intended to include an appropriate deductible for the members of the Managing and Supervisory Boards upon the next renewal of the insurance policy.

Hamm, December 2, 2009

(Dr. Markus) (Kawohl) (Radlmayr)

(Dr. Trautwein) (Schulze-Buxloh)

Report of the Supervisory Board for fiscal year 2009

In fiscal year 2009, SMT Scharf AG's Supervisory Board thoroughly performed the tasks required of it by law and the articles of incorporation. It constantly monitored and advised the management. It received regular, up-to-the minute, comprehensive written and verbal reports from the Managing Board about the direction of SMT Scharf AG and the Group's companies, the company's strategic orientation and its planned acquisitions, as well as the status of implementation of the strategy.

In its four ordinary meetings on March 5, April 23, September 23 and December 2, 2009, all of which were attended by all of its members, the Supervisory Board held in-depth discussions of all issues of relevance for the company. The Supervisory Board discussed ongoing business growth, strategic concepts, short and medium-term company forecasts, capital expenditure forecasts, income and liquidity developments, actual risks and risk management as well as key organizational and staff changes with the Managing Board. The Supervisory Board also dealt thoroughly with corporate governance issues, also including a review of its own efficiency.

The Supervisory Board received in-depth information on the course of the fiscal year in all of its meetings. Key transactions and the development in financial indicators were also discussed at all of the Supervisory Board meetings. The meeting on March 5, 2009 focused on the financial statements and the IFRS consolidated financial statements for fiscal year 2008 together with the associated management reports. At this meeting the Supervisory Board also discussed the impact of the international financial and economic crisis on the SMT Scharf Group's business and Managing Board proposals on countermeasures. Measures intended to compensate the effects of the financial and economic crisis were again discussed at the meeting on April 23, 2009. The Supervisory Board approved a Managing Board concept to streamline the organization in Russia and to move the headquarters of the company there. Among other things, the meeting on September 23, 2009 discussed the unsatisfactory business situation of SMT Scharf Saar GmbH and scenarios for the company's further development. The risk and compliance management of the SMT Scharf Group was another key issue covered. On December 2, 2009 the Supervisory Board discussed in particular the company's forecast for 2010, the implications of recent changes in German legislation for SMT Scharf and current acquisition projects. In addition, this meeting dealt with the declaration of conformity within the meaning of Section 161 of the *Aktiengesetz* (German Public Limited Companies Act) for 2009, which was then passed by the Supervisory and Managing Boards.

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

There were no changes to the members of the Supervisory Board during the course of fiscal year 2009. There were no committees. By way of a resolution dated July 30, 2009, the Supervisory Board extended the appointment of Dr. Friedrich Trautwein as CEO by three years up to December 31, 2012. Mr. Florian Kawohl has announced that he will resign as a member of the Supervisory Board with effect from the upcoming General Meeting. The

Supervisory Board thanks Mr. Kawohl for the service he has rendered. Mr. Christian Dreyer will be proposed to be elected to the Supervisory Board.

The members of the Supervisory Board fulfilled and continue to fulfill the independence criteria stipulated by the German Corporate Governance Code. Conflicts of interest within the meaning of the Corporate Governance Code were avoided. The Managing and Supervisory Boards issued a declaration of conformity according to Section 161 *Aktiengesetz* on December 2, 2009. This has been published in the meantime and made accessible to shareholders at www.smartscharf.com.

The financial statements and management report as well as the IFRS consolidated financial statements and group management report prepared by the Managing Board for fiscal year 2009 were audited by Verhülsdonk & Partner GmbH, Düsseldorf, and issued with an unqualified auditors' opinion. According to the requirements of the *Gesetz zur Kontrolle und Transparenz im Unternehmensbereich* (German Act on Control and Transparency in Business) the SMT Scharf Group's risk management system and internal control system were also covered by the audit.

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

In its meeting on March 3, 2010, also attended by the auditor, the Supervisory Board reviewed the financial statements and the management report as well as the IFRS consolidated financial statements and group management report for fiscal year 2009. The audit reports were available to all members of the Supervisory Board in good time prior to its meeting to adopt the financial statements. The auditor reported in depth to the Supervisory Board and was available for extensive questions. After a thorough discussion and based on its own review, the Supervisory Board concurs with the results of the audit of the financial statements and the consolidated financial statements by the auditor. As a final result of its review, the Supervisory Board does not have any objections to the financial statements or the consolidated financial statements. The Supervisory Board expressly approves the financial statements and management report prepared by the Managing Board for fiscal year 2009. The financial statements for 2009 are thus adopted. The Supervisory Board also approves the IFRS consolidated financial statements and group management report prepared by the Managing Board for fiscal year 2009.

The company's Managing Board proposes to distribute a dividend of EUR 0.70 per share from the company's net retained profits totaling EUR 2,893 thousand. In terms of the shares outstanding on today's date (excluding the company's treasury shares), this corresponds to a dividend total of EUR 2,758 thousand. The remaining amount of EUR 135 thousand will be carried forward to new account. The Supervisory Board has reviewed and approved this proposal.

The Supervisory Board would like to thank all of the members of the Managing Board and all of the employees for their dedication and commitment during the past fiscal year, and wishes them the very best success for the challenges they will face in 2010.

Hamm, March 3, 2010

(Dr. Markus)
Chairman of the Supervisory Board