# SMT Scharf AG
# Group financial report 2010

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# Group management report for fiscal year 2010

## Macroeconomic environment

The SMT Scharf Group develops, builds and maintains transport equipment for mining and tunneling and associated products. The main product is rail-bound railway systems, which are used all over the world, primarily in hard coal mines, but also in underground mining for gold, platinum and other metals. They are used to transport material and personnel with working loads of up to 45 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. Other key products include roadheaders, equipment for tunnel support and chairlifts.

That is why the global demand for raw materials is the key factor to influence the SMT Scharf Group's business. Hard coal mining accounts for the bulk of revenues. On average in fiscal years 2008 to 2010, hard coal mines accounted for 71% of revenues, with gold and platinum mines accounting for 21%, and other mines and tunneling accounting for 8%.

While coal production on the SMT Scharf Group's individual markets did not develop uniformly in 2009 as a result of the economic crisis, it grew in all countries in 2010 with the exception of Germany and Poland. According to preliminary figures, growth in 2010 totaled around 8% in China (previous year: 10%) and around 7% in Russia (previous year: -10%). The downturn in Poland in 2010 was around 3% (previous year: -1%). In Germany hard coal mining is being phased out step-by-step through to 2018 as a result of the unfavourable costs compared to other countries.

Prices for hard coal increased as well during the course of 2010. The Mccloskey Group's Steam Coal Marker Price was up by around 50% compared in December 2010 compared to December 2009, which corresponded to the figure one year before. In contrast, prices for Brent Crude Oil were around 15% higher in December 2010 than one year before, after having increased by around 70% during the course of 2009.

Exchange rates for the key currencies for the SMT Scharf Group also enjoyed favourable growth over the year as a whole. The Euro was weaker on the whole compared to the two home currencies of the primary competitors, Polish Zloty and Czech Crowns. In December 2010 the average exchange rate for the Euro compared to these two currencies was around 3.5% lower than the comparable figures from December 2009.

In addition, the Euro decreased in value over the course of the year compared to the currencies of the main customers' countries. Based on average exchange rates for the month of December 2010, compared with average exchange rates in December 2009, the Euro's value was around 7% lower compared to the Russian Ruble, around 12% lower compared to the Chinese Yuan, and around 17% lower compared to the South African Rand. An analysis of average annual exchange rates for 2010 and 2009 provides a similar picture. This means that SMT Scharf's equipment has become relatively more economical for customers in these countries.

From the current perspective, it is most probable that demand for raw materials and investments by mines will increase further in 2011. During the course of 2010, the general economic recovery caused the international mining sector to return to the on-track growth it had enjoyed through to 2008.

In the coming years, countries such as China, India, Russia and South Africa will continue their economic growth and have increasing demand for energy, steel and other metals. That is why, for the SMT Scharf Group, they will continue to be the markets which will provide the main demand in coming years. At the same time, there are also notable risks that the recovery will be interrupted by a renewed recession. This could be triggered, in particular, by economic imbalances in many countries, the excessive indebtedness of some countries, and political dissonance with regard to exchange rates.

The further growth in international mining anticipated by SMT Scharf is expected to result in many mine operators continuing to invest specifically in technology that will boost their productivity. In this context, the SMT Scharf Group's products for tunneling and the supply of materials for underground mining will play a major role.

**Business development**

Revenues in 2010 increased by 13,471 EUR'000 year-on-year to 66,733 EUR'000 (up 25.3%). The primary factor behind this growth was the first time inclusion of the UK companies, which contributed revenues of 16,099 EUR'000. In contrast, income from the prior companies in the SMT Scharf Group in the markets outside Germany only increased slightly to 44,930 EUR'000 (previous year: 44,546 EUR'000). Revenues in Germany fell by 3,012 EUR'000 or 35% to just 5,704 EUR'000. This figure includes SMT Scharf Saar GmbH from June 2010 and in the previous year through to September. Business outside of Germany thus accounted for 91% of total revenues in 2010 compared to 84% in the previous year.

SMT Scharf further expanded its international sales and service activities in 2009. Service employees were hired, especially in Russia, China and South Africa, in order to offer services to customers in these markets for their machines. Customers' positive experiences 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 2010. Particular highlights were the first orders for the monorail hanging railway with a switch-in rack-and-pinion drive and the floor-mounted rack-and-pinion railway with a track width of 600mm.

In Germany, SMT Scharf's business with Deutsche Steinkohle AG was restricted to spare pats and services, as had been expected. Business continued to fall due to lower quantities of hard coal mined in Germany. SMT Scharf Saar GmbH was able to put insolvency proceedings behind it in May 2010 after the creditors agreed to continuing the business. Since then, the company has once again been working, at a reduced size, as part of the SMT Scharf Group.

In May 2010 the SMT Scharf Group significantly expanded its product range by acquiring the UK mining supply companies Dosco Overseas Engineering and Hollybank Engineering. In their first year as members of the SMT Scharf Group, these two companies recorded revenues that were higher than in the same period of the previous year, and positive earnings. Sareco Engineering, which was acquired in 2008, also enjoyed positive growth.

In addition, the Chinese joint venture company Shandong Xinsha Monorail Co. Ltd. started operations in June 2010. This company also enjoyed on-track growth and recorded positive results, which were included in consolidated earnings on a pro rata basis.

At the end of 2010, the SMT Scharf Group's order book totaled 23,178 EUR'000, with 21,964 EUR'000 or 95% stemming from countries other than Germany. The previous year's figure totaled 8,434 EUR'000, with 91% stemming from countries other than Germany. This increase is due, in particular, to SMT Scharf receiving an unusually large number of orders for the coming year in the fourth quarter of 2010. These relate to both shipments of railway systems and also track installations. The first-time inclusion of the UK companies also plays a role. These contributed 5,336 EUR'000 to the order book at the end of 2010.

## Research and development

Research and development activities in fiscal year 2010 focused on investigations into new types of drives. The diesel motors that SMT Scharf uses are based on motors that were originally designed for construction machines. As a result of the continuing changes in standards in this sector, the SMT Scharf Group also has to constantly develop its motors further.

SMT Scharf presented one of the results of its development work to the public in December 2010: a new 25 kW drive unit that works as a shunting locomotive and can travel along a mine's entire track system. The so-called shunting trolleys previously used are connected to a stationary hydraulic or pneumatic supply. This supply connection means that their movements are restricted. The new unit can be used in particular for loading and unloading work as well as the daily transport of consumables used in roadheading. Depending on the track gradient, loads of up to around twelve tons can be transported. The first machines of the new type are expected to be used in a Russian hard coal mine in the first quarter of 2011 after they have been licensed.

Two products developed in 2009 were used by customers for the first time in 2010: the switch-in rack-and-pinion drive system for monorail hanging railways and the DZ 2200 drive unit, which is the highest performance diesel cat in SMT Scharf's product range to date, offering 130 kW. 14 individual drives were linked the first time a monorail hanging railway with a switch-in rack-and-pinion drive system was used, in order to transport loads of up to 45 tons along a 25° incline. The maximum load previously transported with a monorail hanging railway was 35 tons.

Additional projects included expanding the program for heavy-load lifting beams, adjusting the floor-mounted railway with rack-and-pinion drive to other track widths and developing a hydraulic loading ramp.

The SMT Scharf Group invested about 3.8% of its revenues for 2010 in research and development, which is higher than in the previous year (3.5%). This figure includes order-related development work and approvals, as well as own work capitalized. SMT Scharf's R&D investments are thus on a 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 2010 – as it had done in previous years. As of December 31, 2010, there were a total of 120 employees at this facility, including 13 apprentices (previous year: 130 employees including 13 apprentices). SMT Scharf Saar GmbH in Neunkirchen also reduced its staff numbers in line with its lower revenues in Germany. This company had 12 employees on December 31. One year previously this company had 25 employees, who were not included in the employee figures for the SMT Scharf Group as a result of the insolvency proceedings underway at that time.

In contrast, SMT Scharf expanded staff numbers outside of Germany. The number of employees at the international locations – not including the joint venture in China - increased to 143 (previous year: 77 employees). The bulk of this increase was due to the acquisition of the two UK companies, which had 57 employees as of December 31, including 2 apprentices. The other increase was due in particular to hiring service technicians. In total, the percentage of employees outside Germany in the Group increased to 52% (previous year: 37%).

41 of the 275 employees are female. They account for 15% of the workforce, which is slightly higher than the percentage of female managers to the total number of managers in the SMT Scharf Group (12%).

At the start of 2006, SMT Scharf set up a hardship and social fund in the amount of 990 EUR'000 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 681 EUR'000 at the end of the fiscal year.

A total of 24,901 shares were sold to employees in March and June 2010 as part of an employee equity participation plan. SMT Scharf bought these shares in fiscal year 2009 under the authorization to acquire own shares by the General Meeting on April 23, 2009.

## Net assets, financial position and results of operations

Equity and particular legal relationships: SMT Scharf AG's subscribed capital was increased from 3,000 EUR'000 to 4,200 EUR'000 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 1 EUR 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 14, 2010 authorized the company's Managing Board to acquire own shares of up to 10% of the respective current share capital until April 13, 2015. In line with the previous authorization, the company acquired a total of 359,996 own shares (8.6% of the share capital) in fiscal year 2009. This amount fell to 235,095 shares (5.6% of the share capital) during the year under review as a result of the issue of shares to employees and via a placement with institutional investors.

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 that go beyond the above, 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 in SMT Scharf AG prior to the IPO still jointly held 29.1% of voting rights according to their last notifications of voting rights in 2009. Marfleet Ltd., Douglas, held 628,054 voting rights (15.0%), all via MS Mining Solutions GmbH, Augsburg. A further 590,125 voting rights (14.1%) 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., Luxembourg.

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 |
|---|---:|
| 12.01.2010 | 417,316 (9.9%) |
| 18.02.2010 | 87,797 (2.1%) |

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 |
|---|---:|
| 22.01.2010 | 419,777 (10.0%) |
| 18.02.2010 | 0 (0.0%) |

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 3,000 EUR’000. The Supervisory Board determines the number of members of the Managing Board and can appoint a Chairman as well as a Deputy Chairman of the Managing Board and also deputy members of the Managing Board. In all other respects, the statutory regulations apply to the appointment and discharge of members of the Managing Board. The company has not concluded any key agreements that are subject to the condition of a change in control as a result of an acquisition offer.

<u>Net assets</u>: SMT Scharf AG's subscribed capital has totaled 4,200 EUR’000 since its IPO. There is also a share premium, which increased to 7,848 EUR’000 from 6,661 EUR’000 in the previous year as a result of the sale of own shares. Equity including net income for the period and other changes totaled 31,055 EUR’000 as of December 31, 2010 (previous year: 23,044 EUR’000) Given total assets of 67,185 EUR’000, this corresponds to an equity ratio of 46% compared to 51% one year before. Including the mezzanine financing, which has a carrying amount of 4,922 EUR’000, this ratio is 54% of total assets (previous year: 62%).

Current assets at the end of the year were significantly higher than the previous year’s figure. This was due to both the acquisition of the two UK companies as well as the shipment of many orders in the last few weeks of the year. The largest increase was for trade accounts receivable, which more than doubled to 24,124 EUR’000 (previous year: 10,436 EUR’000).

Inventories totaled 10,365 EUR’000 on December 31, 2010, compared to 7,535 EUR’000 one year previously.

Property, plant and equipment increased from 7,105 EUR’000 to 8,728 EUR’000. The primary influencing factor was the acquisition of the two UK companies together with the premises in Tuxford they use for operations. Deferred tax assets increased to 2,584 EUR’000 (previous year: 419 EUR’000) which is mostly due to the first time inclusion of the deficit in the pension fund for the UK companies.

On the equity and liabilities side the largest change was in provisions for pensions. These increased to 9.362 EUR’000 (previous year: 3,018 EUR’000), as the pension fund for the UK companies has a deficit. The second largest change related to advance payments received. These totaled 3,805 EUR’000 at the end of the period under review, compared to just 716 EUR’000 in the previous year.

Earnings position: EBIT totaled 11,106 EUR’000 in 2010, and was thus significantly higher than the previous year’s figure (EUR 7,585 EUR’000). This corresponds to an EBIT margin of 16.6% (previous year: 14.2%). Earnings include 794 EUR’000 of non-cash income from the first-time consolidation of the UK companies. In contrast, earnings in the previous year were depressed by non-cash one-off charges relating to the temporary deconsolidation of SMT Scharf Saar GmbH. The cost of materials ratio increased substantially in 2010. It totaled 53% compared to 47%, which is primarily due to the change in the product mix. In contrast, the personnel expenses ratio fell. It totaled 19% in 2010, after 21% in 2009. The selling prices for the products continued to exhibit a non-uniform trend: SMT Scharf was able to implement isolated price increases, however it had to accept lower prices in other areas.

The financial result improved slightly to -67 EUR’000 from -206 EUR’000. Interest for the mezzanine financing remained unchanged year-on-year, interest on debit balances was slightly higher, as part of the liquid funds was invested in countries with higher market interest rates. The Chinese joint venture company contributed 121 EUR’000 to profits in its first year of business.

Consolidated net income even increased more strongly than EBIT to 8,006 EUR’000 compared to 5,073 EUR’000 in the previous year. This was primarily due to the tax rate being lower at 27% (previous year: 31%). The fact that income from first-time consolidation was not subject to taxation contributed to this. In addition, as part of its internationalization, the SMT Scharf Group is recording an increasing proportion of its income in countries with lower tax rates than in Germany.

Financial position: Cash and cash equivalents plus marketable securities increased slightly during the year under review to 15,431 EUR’000 (previous year: 14,992 EUR’000). The increase was not stronger despite the positive earnings growth, as, in particular, net current assets grew substantially. The higher level of receivables played a particular role in this regard. This was coupled with investments in the United Kingdom and China. Over the course of the year, the company disbursed 2,763 EUR’000 to its shareholders as a dividend for 2009 while it also received 1,307 EUR’000 from the sale of own shares. Of the securities and cash and cash equivalents, 681 EUR’000 is designated for the hardship and social fund.

Capital expenditure: SMT Scharf’s capital expenditure in 2010 totaled 3,316 EUR’000. The largest item was the Dosco acquisition at 1,906 EUR’000 and a capital contribution to the Chinese joint venture company in the amount of 640 EUR’000. There were also ongoing development projects that had to be accounted for according to IAS 38, which totaled 336 EUR’000. These primarily related to new drive units, such as the 25 kW unit presented in December 2010. In addition, there was the standard level of replacement and rationalization investments for SMT Scharf.

**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 November 30, 2010. 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 18, 2009 and May 26, 2010 with the following exceptions:

- The Supervisory Board has not formed any committees, as it comprises three members. This number of members appears reasonable given the company's 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 Board. This may also be the case in future as the Managing Board only has two 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.”

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 redefined by way of a resolution by the General Meeting on April 14, 2010 based on SMT Scharf AG's articles of incorporation, with effect from January 1, 2010. The members of the Supervisory Board receive fixed and variable remuneration for each fiscal year plus reimbursement of their out-of-pocket expenses The variable remuneration is based on consolidated net income and is subject to a cap. The Supervisory Board members' periods of office run until the end of the General Meeting which resolves ratification for fiscal year 2010 (Dr. Markus and Mr. Radlmayr) and fiscal year 2014 (Mr. Dreyer) respectively.

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

## Risk report

SMT Scharf'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. A general recession – as was the case in 2008/2009 – or a downturn in demand among individual customer groups could have a negative impact on SMT Scharf’s business. In addition, in many countries political continuity and stability in mine ownership play a role. A change of government or a change in 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.

Environmental risks: The SMT Scharf Group is not aware of any environmental objections or damage events at its facilities. Some of the buildings that SMT Scharf uses were built with materials that contain asbestos. These materials are monitored regularly and the Group ensures apprpriate disposal during any conversion work.

Production 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 currently no liquidity risks as a result of the 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. 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.

## Forecast

From today's perspective, it is most probable that demand for raw materials and investments by mines will increase further in 2011. During the course of 2010, the general economic recovery caused the international mining sector to return to the on-track growth it had enjoyed through to 2008. In the coming years, countries such as China, India, Russia and

South Africa will continue their economic growth and have increasing demand for energy, steel and other metals. That is why, for the SMT Scharf Group, they will continue to be the markets which will provide the main demand in coming years. At the same time, there are also notable risks that the recovery will be interrupted by a renewed recession. This could be triggered, in particular, by economic imbalances in many countries, the excessive indebtedness of some countries, and political dissonance with regard to exchange rates.

However, at present it is generally expected that the global economy will grow in 2011. OECD is forecasting an increase in gross domestic product in its member states by an average of 2.3% after 2.8% in the previous year. The forecast for Russia and South Africa is 4.2%, and even 9.7% for China. Medium term forecasts for growth rates on commodities markets are between around 2% and more than 5% per year depending on commodity and region. Here too, there are uncertainties due to the nature of the issue. For example, the Chinese government has announced that it wants to limit the increases to its domestic coal consumption. Market experts (Freedonia Group) are forecasting a medium-term annual growth rate of 5% for global investments in mining technology, and even 7% for the Chinese market.

2010 was another year of successful international expansion for SMT Scharf. The most important single factor was the successful integration of Dosco Overseas Engineering and Hollybank Engineering after their acquisition which was concluded in May 2010. The Managing Board believes that it will be able to further increase the SMT Scharf Group's revenues and earnings on average over the coming years. The key markets will continue to be Russia, Poland, China and South Africa. Other regional markets are also to be developed.

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 18, 2011

(Dr. Trautwein) (Schulze-Buxloh)

# Consolidated balance sheet as of December 31, 2010

| In EUR | Notes | 31.12.2010 | 31.12.2009 |
|---|---|---|---|
| **Assets** | | | |
| Inventories | | 10,365,338.34 | 7,534,572.76 |
| Trade receivables | (7) | 23,487,248.14 | 10,435,968.87 |
| Other current receivables/assets | | 1,264,750.50 | 1,686,313.57 |
| Deferred tax assets | (5) | 0.00 | 419,078.31 |
| Securities | (8) | 3,331,255.20 | 1,742,562.38 |
| Cash and cash equivalents | (8) | 12,099,810.77 | 13,249,329.51 |
| **Current assets** | | **50,548,402.95** | **35,067,825.40** |
| Intangible assets | (6) | 3,870,334.00 | 2,616,600.55 |
| Property, plant and equipment | (6) | 8,727,557.20 | 7,104,887.10 |
| Financial assets | | 761,473.25 | 0.00 |
| Deferred tax assets | (5) | 2,583,582.76 | 0.00 |
| Trade receivables | (7) | 637,188.30 | 0.00 |
| Other non-current assets | | 56,928.20 | 0.00 |
| **Non-current assets** | | **16,637,063.71** | **9,721,487.65** |
| **Total assets** | | **67,185,466.66** | **44,789,313.05** |

| In EUR | Notes | 31.12.2010 | 31.12.2009 |
|---|---|---|---|
| **Equity and liabilities** | | | |
| Current income tax | | 1,979,795.90 | 1,430,295.45 |
| Other current provisions | (11) | 6,202,235.48 | 4,136,245.33 |
| Advance payments received | (12) | 3,805,048.89 | 716,123.17 |
| Trade payables | (12) | 5,739,363.84 | 3,246,268.83 |
| Other current liabilities | (12) | 549,373.39 | 1,583,620.47 |
| **Current provisions and liabilities** | | **18,275,817.50** | **11,112,553.25** |
| Provisions for pensions | (10) | 9,362,458.99 | 3,017,577.00 |
| Other non-current provisions | (11) | 2,093,930.84 | 1,343,791.96 |
| Deferred tax liabilities | (5) | 1,476,908.98 | 1,379,502.13 |
| Non-current financial liabilities | (12) | 4,921,523.62 | 4,891,704.94 |
| **Non-current provisions and liabilities** | | **17,854,822.43** | **10,632,576.03** |
| Subscribed capital | | 3,964,905.00 | 3,840,004.00 |
| Share premium | | 7,848,142.60 | 6,661,088.76 |
| Profit brought forward | | 17,699,171.89 | 12,455,418.23 |
| Currency translation difference | | 1,542,607.24 | 87,672.78 |
| **Equity** | (9) | **31,054,826.73** | **23,044,183.77** |
| **Total equity and liabilities** | | **67,185,466.66** | **44,789,313.05** |

## Consolidated statement of comprehensive income from January 1 to December 31, 2010

| **In EUR** | **Notes** | **2010** | **2009** |
|---|---|---|---|
| Revenue | (1) | 66,732,671.94 | 53,261,976.30 |
| Other operating income | (2) | 3,316,130.30 | 1,914,649.73 |
| Changes in inventories | | 664,108.28 | -2,206,112.82 |
| Cost of materials | | 35,473,342.42 | 25,293,247.21 |
| Personnel expenses | (3) | 12,485,165.78 | 11,194,054.77 |
| Depreciation and amortization | | 1,579,818.08 | 1,948,085.91 |
| Other operating expenses | (4) | 10,069,019.17 | 6,949,747.45 |
| **Profit from operating activities (EBIT)** | | **11,105,565.07** | **7,585,377.87** |
| Income from participating interests | | 121,323.03 | 0.00 |
| Interest income | | 294,131.06 | 251,780.24 |
| Write-downs on financial investments and marketable securities | | 15,466.00 | 0.00 |
| Interest expenses | | 467,465.95 | 457,542.51 |
| **Financial result** | | **-67,477.86** | **-205,762.27** |
| **Profit before tax** | | **11,038,087.21** | **7,379,615.60** |
| Income taxes | (5) | 3,031,640.75 | 2,307,003.25 |
| **Net income** | | **8,006,446.46** | **5,072,612.35** |
| Transaction cost for sale of own shares | | 42,000.00 | 0.00 |
| Tax advantage | | -13,482.00 | 0.00 |
| Currency difference from translation of foreign financial statements | | 1,454,934.46 | 531,586.45 |
| **Comprehensive income** | | **9,432,862.92** | **5,604,198.80** |
| **Earnings per share *** | | | |
| Basic | | 2.03 | 1.23 |
| Diluted | | 2.03 | 1.23 |

* Consolidated net income divided by an average number of 3,943,379 issued shares (previous year: 4,128,507).

# Consolidated cash flow statement from January 1 to December 31, 2010

| In EUR | 2010 | 2009 |
|---|---|---|
| Net income | 8,006,446.46 | 5,072,612.35 |
| Income from initial consolidation | -810,209.96 | 0.00 |
| Income from equity participation | -121,323.03 | 0.00 |
| Depreciation and amortization of non-current assets | 1,579,818.08 | 1,948,085.91 |
| Gain/loss on the disposal of intangible assets and property, plant and equipment | 114,013.81 | 219,989.76 |
| Changes in current assets, provisions and liabilities | | |
| - Provisions | 874,434.94 | 258,114.67 |
| - Taxes | -98,055.98 | -403,888.01 |
| - Inventories | 208,480.84 | 4,928,300.90 |
| - Receivables and other assets | -9,069,313.85 | 2,654,818.80 |
| - Liabilities | 1,866,127.99 | -9,365,511.46 |
| **Net cash flows from in operating activities** | **2,550,419.30** | **5,312,522.92** |
| Investments in intangible assets and property, plant and equipment | -770,547.16 | -1,345,033.47 |
| Proceeds from the disposal of intangible assets and property, plant and equipment | 66,294.42 | 150,608.82 |
| Corporate acquisitions | -2,545,813.22 | 0.00 |
| Acquired cash and cash equivalents | 1,719,286.74 | 0.00 |
| **Net cash flows used in investing activities** | **-1,530,779.22** | **-1,194,424.65** |
| Sale/acquisition of own shares | 1,298,472.84 | -3,216,102.64 |
| Change in hardship and social funds | 89,405.00 | 95,725.00 |
| Dividend disbursement | -2,672,692.80 | -3,570,000.00 |
| Repayment of/proceeds from financial liabilities | 29,818.68 | 27,427.44 |
| **Net cash flows from/used in financing activities** | **-1,344,996.28** | **-6,662,950.20** |
| Effect of changes in exchange rates and group composition | 853,935.28 | 494,249.63 |
| **Change in net financial position** | **528,579.08** | **-2,050,602.30** |
| Net financial position – start of period | 14,221,325.25 | 16,271,927.55 |
| Net financial position – end of period | 14,749,904.33 | 14,221,325.25 |

# Consolidated statement of changes in equity from January 1 to December 31, 2010

| In EUR | Subscribed capital | Share premium | Retained earnings | Profit brought forward | Currency translation difference | Total equity |
|---|---|---|---|---|---|---|
| **Balance at January 1, 2010** | **3,840,004.00** | **6,661,088.76** | **2,803,332.68** | **9,652,085.55** | **87,672.78** | **23,044,183.77** |
| Reclassification | | | -2,803,332.68 | 2,803,332.68 | | 0 |
| Dividend disbursement | | | | -2,762,692.80 | | -2,762,692.80 |
| Sale of own shares | 124,901.00 | 1,215,571.84 | | | | 1,340,472.84 |
| Transaction cost | | -42,000.00 | | | | -42,000.00 |
| Tax advantage | | 13,482.00 | | | | 13,482.00 |
| Net income | | | | 8,006,446.46 | | 8,006,446.46 |
| Currency difference from translation of foreign financial statements | | | | | 1,454,934.46 | 1,454,934.46 |
| Comprehensive income | | -28,518.00 | | 8,006,446.46 | 1,454,934.46 | 9,342,862.92 |
| **Balance at December 31, 2010** | **3,964,905.00** | **7,848,142.60** | **0.00** | **17,699,171.89** | **1,542,607.24** | **31,054,826.73** |

| | | | | | | |
|---|---|---|---|---|---|---|
| **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 own 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 December 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** |

# Notes to the consolidated financial statements for fiscal year 2010

## Information on SMT Scharf AG and the SMT Scharf Group

SMT Scharf AG, Römerstraße 104, 59075 Hamm, Germany (hereinafter also referred to as the “company”) was formed on May 31, 2000 according to German law. It is the management holding company for the companies in the SMT Scharf Group. All 4,200,000 shares of SMT Scharf AG are listed on the regulated market of the Frankfurt stock exchange (Prime Standard). The purpose of the companies in the SMT Scharf Group is to plan, produce, sell, install and maintain machinery and equipment to transport people, equipment and material and to hold participating interests.

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

| | Interest | Equity (IFRS) 31.12.2010 | Earnings (IFRS) 2010 |
|---|---|---|---|
| SMT Scharf GmbH, Hamm, Germany | 100% | 8,615 | 3,505 |
| SMT Scharf Saar GmbH, Neunkirchen, Germany | 100% | 33 | 17 |
| SMT Scharf Polska Sp. z o. o., Tychy, Poland | 100% | 4,280 | 1,110 |
| Sareco Engineering (Pty.) Ltd. Brakpan, South Africa | 100% | 1,892 | 517 |
| SMT Scharf Africa (Pty.) Ltd., Kya Sands, South Africa | 100% | 3,569 | 887 |
| OOO SMT Scharf, Novokuznetsk, Russian Federation | 100% * | 480 | 409 |
| SMT Scharf Sales and Services GmbH, Hamm, Germany | 100% ** | 20 | -1 |
| SMT Scharf International OÜ, Tallinn, Estonia | 100% ** | 752 | 239 |
| Scharf Mining Machinery (Beijing) Co. Ltd., Beijing, China | 100% ** | 633 | 457 |
| Dosco Holdings Ltd., Tuxford, United Kingdom | 100% | 9,040 | 43 |
| Dosco Overseas Engineering Ltd., Tuxford, United Kingdom | 100% *** | 5,392 | 661 |
| Hollybank Engineering Co. Ltd., Tuxford, United Kingdom | 100% *** | 1,369 | 115 |
| OOO Dosco, Kemerovo, Russian Federation | 100% *** | -373 | -108 |
| Shandong Xinsha Monorail Co. Ltd., Xintai, China | 50% ** | 1,438 | 243 |

* of which 1.25% indirectly via SMT Scharf GmbH
** indirectly via SMT Scharf GmbH
*** indirectly via Dosco Holdings Ltd.

On May 4, 2010 SMT Scharf AG acquired a 100% interest in Dosco Holdings Ltd. and its subsidiaries for a purchase price of 1,906 EUR’000. The companies contributed revenues of 16,099 EUR’000 and EBIT of 1,853 EUR’000 to the SMT Scharf Group in the period under review. If this acquisition had been made at the start of the fiscal year, the SMT Scharf Group’s revenues would have totaled 69,941 EUR’000 and EBIT would have totaled

10,680 EUR'000. The agreed purchase price was 794 EUR'000 less than the value of the equity which results if the assets and liabilities of the companies acquired are valued at their fair value. This difference was due to the seller's skeptical assessment of the companies' earnings prospects and their future burdens from the Pension Scheme. It is recognized in other operating income. The carrying amounts and fair values of the assets and liabilities upon acquisition are broken down in the following table.

| | Carrying amounts | Fair values |
|---|---|---|
| Assets | | |
| Inventories | 4,624 | 2,956 |
| Receivables and other current assets | 4,172 | 4,279 |
| Cash and cash equivalents | 1,536 | 1,536 |
| Non-current assets | 5,118 | 5,076 |
| Total | 15,450 | 13,847 |
| Equity and liabilities | | |
| Non-current provisions and liabilities | 8,385 | 7,350 |
| Current provisions and liabilities | 3,965 | 3,798 |
| Equity | 3,100 | 2,699 |
| Total | 15,450 | 13,847 |

The insolvency proceedings for the assets of SMT Scharf Saar GmbH were ended on May 26, 2010. Since then the company has been working as part of the SMT Scharf Group again. Upon re-consolidation the company had 674 EUR'000 assets and 658 EUR'000 liabilities so that the Group recorded 16 EUR'000 other operating income. In the period under review SMT Scharf Saar GmbH contributed 1,243 EUR'000 to revenue and 17 EUR'000 to EBIT. It is not possible to report revenue and EBIT for the case in which SMT Scharf Saar GmbH had been part of the Group since the beginning of the year. The company's financials until May 2010 are dominated by the peculiarities of the insolvency proceedings.

The 50% participating interest in Shandong Xinsha Monorail Co. Ltd., which was founded together with a partner, is consolidated using the equity method.

As a listed company, SMT Scharf AG has to issue a declaration within the meaning of Section 161 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 November 30, 2010. It has been made accessible to shareholders at www.smtscharf.com.

## 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, 2010 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 2010, 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

- Changes to IFRS 1 on the formal structure of the standard and the valuation of commodities deposits,

- Changes to IAS 39 (2008) on hedge accounting,
- IFRIC 12 on service concession agreements,
- IFRIC 15 on agreements for the development of real estate,
- IFRIC 16 on hedges of a net investment in a foreign operation,
- IFRIC 17 on distributions in kind and
- IFRIC 18 on transfers of assets from customers.

In fiscal year 2010, the following IAS/IFRS/IFRIC were adopted by the EU as EU law, which did not have a material affect on the consolidated financial statements of SMT Scharf AG

- Changes from the second Annual Improvements Project,
- Changes to IFRS 2 on share-based payments and
- Changes to IAS 27 (2008) and IFRS 3 (2008) on the presentation of corporate acquisitions.

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 from the third Annual Improvements Project,
- Changes to IFRS 1 from July 2009 and December 2010,
- Changes to IFRS 7 from October 2010,
- IFRS 9 on Financial Instruments,
- Changes to IAS 12 from December 2010,
- Changes to IAS 24 from November 2009,
- Changes to IAS 32 from October 2009 and
- Changes to IFRIC 14 and IFRIC 19 from November 2009.

The consolidated financial statements have been prepared in Euros. If not otherwise stated, all amounts in the notes are stated in thousands of Euros (EUR'000) and have been rounded if necessary.

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, estimating legal risks as well as determining fair values. 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.

The Supervisory Board is expected to approve the IFRS consolidated financial statements on March 2, 2011 and these are then expected to be released for publication.

**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 purchase 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 | |
|---|---|---|---|---|
| 1 Euro = | 31.12.2010 | 31.12.2009 | 2010 | 2009 |
| Estonian Crown | 15.6466 | 15.6466 | 15.6466 | 15.6466 |
| Polish Zloty | 3.9750 | 4.1045 | 3.9947 | 4.3276 |
| British Pound | 0.8608 | 0.8881 | 0.8578 | 0.8909 |
| South African Rand | 8.8625 | 10.6660 | 9.6984 | 11.6737 |
| Chinese Renminbi Yuan | 8.8220 | 9.8350 | 8.9712 | 9.5277 |
| Russian Ruble | 40.8200 | 43.1540 | 40.2629 | 44.1376 |

**Accounting and valuation policies**

The statement of comprehensive income is prepared using the total cost (nature of expense) 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 intangible assets are carried at cost according to IAS 38 and are written down using the straight line method in line with their useful lives over a period of 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 | 2 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. No write-downs within the meaning of IAS 36 were performed in the year under review (previous year: 536 EUR’000).

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. In 2010, such subsidies totaled EUR 29 EUR’000.

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 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 lessor. 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 according to IAS 39 for accounting and valuation. As of December 31, 2010, the SMT Scharf Group had assets in three 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. As at December 31, 2010 write-downs of inventories to their lower net realizable value totaled 6,195 EUR'000 (previous year: 2,051 EUR'000).

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 companies in the SMT Scharf Group mostly supply one group of customers. Their manufacturing and sales processes for the individual products and services are similar. The applications of the products and services are also related. As a result, the individual business activities form a single operating segment within the meaning of IFRS 8.

## Notes to the income statement

### (1) Revenue

Revenue is composed of the following items:

| | 2010 | 2009 |
|---|---|---|
| Sale of new equipment | 39,329 | 32,502 |
| Spare parts/service/other | 27,404 | 20,760 |
| Total | 66,733 | 53,262 |

Revenue by region was as follows:

| | 2010 | 2009 |
|---|---|---|
| China | 16,282 | 9,467 |
| Africa | 12,057 | 16,956 |
| Russia and other CIS states | 9,759 | 5,726 |
| North America incl. Mexico | 8,784 | 450 |
| Poland | 6,130 | 8,381 |
| Germany | 5,704 | 8,716 |
| Other countries | 8,017 | 3,566 |
| Total | 66,733 | 53,262 |

### (2) Other operating income

Other operating income is composed of the following items:

| | 2010 | 2009 |
|---|---|---|
| Income from initial consolidation | 810 | 0 |
| Exchange rate gains | 776 | 899 |
| Reversal of provisions | 630 | 545 |
| Miscellaneous other operating income | 1,100 | 470 |
| Total | 3,316 | 1,914 |

### (3) Personnel expenses

Personnel expenses are composed of the following items:

| | 2010 | 2009 |
|---|---|---|
| Wages and salaries | 10,780 | 9,771 |
| Social security and pension contributions | 1,705 | 1,423 |
| Total | 12,485 | 11,194 |

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

| | 2010 | 2009 |
|---|---|---|
| Employees | 261 | 217 |
| Trainees | 13 | 11 |
| Total | 274 | 228 |

### (4) Other operating expenses

Other operating expenses are composed of the following items:

| | 2010 | 2009 |
|---|---|---|
| Special direct cost of sales | 2,512 | 1,407 |
| Third-party services | 1,594 | 1,430 |
| Travel expenses | 1,161 | 604 |
| Contributions/fees | 377 | 295 |
| Maintenance costs | 349 | 253 |
| Rent and leases | 345 | 300 |
| Exchange rate losses | 242 | 353 |
| Advertising | 220 | 109 |
| Miscellaneous other operating expenses | 3,269 | 2,608 |
| Total | 10,069 | 7,359 |

The miscellaneous other operating expenses mostly include additions to provisions and write downs, expenses for cleaning and disposal, insurance and telecommunicaitons. The auditors' fees incurred during the fiscal year are also carried under third-party services. These are broken down as follows:

| | 2010 | 2009 |
|---|---|---|
| Audit | 116 | 122 |
| Tax consulting | 21 | 20 |
| Other services | 0 | 0 |
| Total | 137 | 142 |

### (5) Income taxes

Income taxes are composed of the following items:

| | 2010 | 2009 |
|---|---|---|
| Current tax expense | 3,091 | 2,600 |
| Thereof income taxes for the fiscal year | 3,091 | 2,600 |
| Thereof restatement of current income taxes incurred in prior periods | 0 | 0 |
| Deferred taxes | -59 | -293 |
| Thereof creation or reversal of temporary differences | -59 | -293 |
| Thereof other changes | 0 | 0 |
| Total | 3,032 | 2,307 |

Deferred taxes are identified based on the tax rates which apply or are expected to apply according to the current legal situation on the balance sheet date or the date they are realized. The group's tax rate increased to 32.1% compared to 31.6% in the previous year. 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 taxes result from temporary differences in the following balance sheet items:

| | 2010 | 2009 |
|---|---|---|
| Deferred tax assets | | |
| Pension provisions | 1,825 | 299 |
| Other assets and liabilities | 472 | 239 |
| Deferred tax liabilities | | |
| Intangible assets | 578 | 310 |
| Property, plant and equipment | 1,248 | 1,338 |
| Other assets and liabilities | 47 | 112 |

Deferred tax assets and liabilities totaling 396 EUR’000 were netted as they relate to future charges or reductions for the same tax payer to the same tax authority (previous year: 381 EUR’000). Consolidation effects resulted in deferred tax assets of 325 EUR’000 (previous year: 180 EUR’000) and the recognition of tax losses carried forward resulted in deferred tax assets of 358 EUR’000 (previous year: 82 EUR’000). As of December 31, 2010, deferred tax assets were carried for tax losses carried forward in the amount of 1,190 EUR’000 (previous year: 258 EUR’000). According to the current legal situation, there are no temporal or amount-based restrictions on carrying these losses forwards.

The difference between the expected income tax expense (calculated using the tax rate applicable to SMT Scharf AG of 32.1%, previous year: 31.6%) and the reported tax expense is due to the following factors:

| | 2010 | 2009 |
|---|---|---|
| Profit before income taxes | 11,038 | 7,380 |
| Imputed tax expense | 3,543 | 2,332 |
| International tax rate differences | -556 | -315 |
| Non-capitalization of deferred taxes on losses carried forward | 47 | 120 |
| Tax additions/reductions not impacting the tax base | 115 | 181 |
| Income from initial consolidation | -260 | 0 |
| Other differences | 143 | -11 |
| Reported income tax expense | 3,032 | 2,307 |

The dividend disbursement proposed by the Managing and Supervisory Boards for fiscal year 2010 will neither lead to a reduction or an increase in income taxes for the SMT Scharf Group.

## Notes to the balance sheet

### (6) 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:

**Statement of changes in non-current assets from January 1 to December 31, 2010**

| | | Initial balance 01.01.2010 | Currency translation | Additions from initial consolidation | Additions | Disposals | Closing balance 31.12.2010 |
|---|---|---|---|---|---|---|---|
| Goodwill | Gross | 1,387 | 493 | 0 | 0 | 0 | 1,880 |
| | D/A | 0 | 0 | 0 | 0 | 0 | 0 |
| | Net | 1,387 | 493 | 0 | 0 | 0 | 1,880 |
| Acquired intangible assets | Gross | 602 | 61 | 705 | 15 | 10 | 1,373 |
| | D/A | 331 | 16 | 46 | 106 | 8 | 492 |
| | Net | 271 | 45 | 659 | -91 | 2 | 881 |
| Own work capitalized (development costs) | Gross | 1,456 | 0 | 0 | 336 | 0 | 1,792 |
| | D/A | 497 | 0 | 0 | 186 | 0 | 683 |
| | Net | 959 | 0 | 0 | 150 | 0 | 1,109 |
| **Intangible assets** | **Gross** | **3,445** | **554** | **705** | **351** | **10** | **5,045** |
| | **D/A** | **828** | **16** | **46** | **292** | **8** | **1,175** |
| | **Net** | **2,617** | **537** | **659** | **59** | **2** | **3,870** |
| Land and buildings | Gross | 12,040 | 1 | 2,211 | 0 | 0 | 14,252 |
| | D/A | 7,242 | 0 | 8 | 313 | 0 | 7,563 |
| | Net | 4,798 | 1 | 2,203 | -313 | 0 | 6,689 |
| Thereof leased to third parties | Gross | 1,385 | 0 | 0 | 0 | 0 | 1,385 |
| | D/A | 770 | 0 | 0 | 44 | 0 | 814 |
| | Net | 615 | 0 | 0 | -44 | 0 | 571 |
| Technical equipment and machinery | Gross | 2,472 | 19 | 3,012 | 100 | 125 | 5,478 |
| | D/A | 2,067 | 12 | 2,818 | 142 | 125 | 4,914 |
| | Net | 405 | 7 | 194 | -42 | 0 | 564 |
| Fixtures and fittings | Gross | 5,964 | 97 | 3,030 | 320 | 447 | 8,964 |
| | D/A | 4,062 | 51 | 2,812 | 833 | 269 | 7,489 |
| | Net | 1,902 | 46 | 217 | -513 | 178 | 1,474 |
| **Property, plant and equipment** | **Gross** | **20,476** | **117** | **8,253** | **420** | **572** | **28,694** |
| | **D/A** | **13,371** | **63** | **5,638** | **1,288** | **394** | **19,966** |
| | **Net** | **7,105** | **54** | **2,615** | **-868** | **178** | **8,728** |

**Statement of changes in non-current assets from January 1 to December 31, 2009**

| | | Initial balance 01.01.2009 | Currency translation | Additions | Disposals | Reclassifi-cation | Closing 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** |
| Thereof leased to third parties | Gross | 1,341 | 0 | 44 | 0 | 0 | 1,385 |
| | D/A | 735 | 0 | 35 | 0 | 0 | 770 |
| | Net | 606 | 0 | 9 | 0 | 0 | 615 |
| 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** |
| 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** |

The historical 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 expense) format, and then eliminated in the relevant period. The amortization for the internally generated intangible assets is carried as amortization and depreciation. In 2010, development costs totaling 336 EUR’000 were capitalized for two 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, eight leased items were carried in the statement of changes in non-current assets as leased assets.

**(7) Receivables and other assets**

Trade receivables include security deposits in standard industry amounts that 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.

**(8) Securities and cash and cash equivalents**

SMT holds bonds from debtors with excellent credit ratings as investments. SMT Scharf has acquired units in a near-money market fund to secure 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, 681 EUR’000 are due to a hardship and social fund (previous year: 771 EUR’000). This fund is managed in trust by a commission which includes both employer and employee representatives.

**(9) Equity**

The changes in the SMT Scharf Group's equity are shown in the statement of changes in equity. The subscribed capital has totaled 4,200 EUR’000 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 and additions from the sale of own shares.

As at December 31, 2010, 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 1 EUR 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 2,100 EUR’000 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 2,100 EUR’000 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 14, 2010 authorized the company’s Managing Board to acquire own shares of up to 10% of the then current share capital until April 13, 2015. This acquisition may also be performed using equity derivatives. In addition, the resolution includes the further conditions for the purchase and sale of own shares. At the same time, the General Meeting removed the authorization to acquire own shares issued in the previous year. No own shares were acquired in fiscal year 2010 and 124,901 own shares which the company had acquired in 2009 were sold. The company still held 235,095 own shares on December 31, 2010, or 5.6% of the share capital. The own shares can be used for all purposes set out in the authorization resolution. As part of the acquisition of Dosco Holdings Limited and its subsidiaries, the company made an undertaking to the trustees of the Dosco Pension Scheme to put arrangements in place that will enable the transfer of 180,000 own shares of SMT Scharf AG to the Scheme. The trustees have not yet used this right.

SMT Scharf AG's annual financial statements, which are prepared in accordance with the principles of the Handelsgesetzbuch, include net retained profits of 4,189 EUR’000. The Managing and Supervisory Boards will propose to the ordinary General Meeting, which is to be held on April 13, 2011, to pay a dividend of 0.85 EUR per share for fiscal year 2010 from these net retained profits. This will result in a total dividend of 3,370 EUR’000, payable in 2011, based on the shares in circulation on today’s date (excluding treasury shares). The remaining amount of 819 EUR’000 will be carried forward to new account.

**(10) Provisions for pensions**

The SMT Scharf Group’s German companies have 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. 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. | 31.12.2010 | 31.12.2009 |
|---|---|---|
| Rate of benefit increases | 2.0% | 2.0% |
| Rate of pension increases | 1.0 - 2.0% | 1.0 - 2.0% |
| Discount rate (DBO) | 5.15% | 5.7% |

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

The defined benefit obligation changed as follows:

| | 2010 | 2009 |
|---|---|---|
| Defined benefit obligation on Jan. 1 | 2,465 | 2,230 |
| Current service cost | 36 | 198 |
| Interest cost | 130 | 145 |
| Pension payments and transfers | -124 | -186 |
| Actuarial gains/losses | 149 | 78 |
| Defined benefit obligation on Dec. 31 | 2,656 | 2,465 |
| Unrecognized actuarial gains / losses | 368 | 552 |
| Carrying amount on Dec. 31 | 3,024 | 3,017 |

In addition, there are defined benefit commitments for old-age, invalidity and survivors pensions at the UK companies in the SMT Scharf Group from the Dosco Overseas Engineering (1973) Pension & Life Assurance Scheme. The scheme has plan assets that cover the majority of the obligations.

These pension obligations were also calculated using actuarial methods. In addition to the assumptions on life expectancies according to the PC[M/F]A00 mortality tables, the following assumptions were used:

| In % p.a. | 31.12.2010 | 04.05.2010 |
|---|---|---|
| Rate of benefit increases | 3.0% | 4.0% |
| Rate of pension increases | 2.5 - 3.0% | 2.5 - 3.0% |
| Discount rate (DBO) | 6.0% | 5.75% |
| Return on plan assets | 6.5% | 7.18% |

The current service cost and interest expenses less the anticipated income from plan assets are recorded in personnel expenses.

The defined benefit obligation changed as follows:

| | 2010 |
|---|---|
| Defined benefit obligation upon acquisition | 50,622 |
| Current service cost | 54 |
| Interest cost | 1,916 |
| Pension payments and transfers | -1,076 |
| Actuarial gains / losses | 753 |
| Contributions by employees and changes in exchange rates | 169 |
| Defined benefit obligation on Dec. 31 | 52,438 |

Plan assets changed as follows:

| | 2010 |
|---|---|
| Plan assets upon acquisition | 43,746 |
| Anticipated income from plan assets | 2,069 |
| Pension payments and transfers | -1,076 |
| Actuarial gains / losses | 3,724 |
| Contributions by employers, employees and changes in exchange rates | 598 |
| Plan assets on Dec. 31 | 49,061 |

The obligation to be carried in the accounts is thus:

| | 31.12.2010 | 04.05.2010 |
|---|---|---|
| Defined benefit obligation | 52,438 | 50,622 |
| Unrecognized actuarial gains / losses | 2,971 | 0 |
| Plan assets | -49,061 | -43,746 |
| Changes in exchange rates | -10 | 0 |
| Carrying amount | 6,338 | 6,876 |

Plan assets are composed of the following items:

| | 31.12.2010 | 04.05.2010 |
|---|---|---|
| Equities | 30,518 | 27,580 |
| Bonds | 13,686 | 11,913 |
| Real estate | 4,042 | 3,462 |
| Other | 815 | 791 |
| Total | 49,061 | 43,746 |

**(11) Other provisions**

The other current provisions are all due within one year. They are due to personnel, sales and other areas. Provisions for personnel relate, in particular, to performance-related remuneration for employees and redundancy payments. 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. 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 other non-current provisions mostly relate to obligations for personnel, in particular for early retirement agreements, and to long-term risks from litigation.

The changes to other provisions in 2010 can be seen in the following statement of changes in provisions.

**Consolidated statement of changes in other provisions from January 1 to December 31, 2010**

| | Initial balance 01.01.2010 | Currency translation | Additions from initial consol. | Usage | Additions | Reversals | Closing balance 31.12.2010 |
|---|---|---|---|---|---|---|---|
| Personnel | 1,737 | 28 | 145 | 1,609 | 1,950 | 68 | 2,183 |
| Sales | 1,247 | 17 | 525 | 934 | 1,110 | 289 | 1,676 |
| Miscellaneous | 1,152 | 22 | 442 | 843 | 1,830 | 260 | 2,343 |
| Other current provisions | 4,136 | 67 | 1,112 | 3,386 | 4,890 | 617 | 6,202 |
| Other non-current provisions | 1,343 | 0 | 271 | 139 | 632 | 13 | 2,094 |

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

| | Initial balance 01.01.2009 | Currency translation | Transfers | Usage | Additions | Reversals | Closing balance 31.12.2009 |
|---|---|---|---|---|---|---|---|
| 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 | 108 | 1,152 |
| Other current provisions | 4,609 | 26 | -707 | 3,006 | 3,658 | 444 | 4,136 |
| Other non-current provisions | 710 | 0 | 557 | 249 | 331 | 6 | 1,343 |

**(12) 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 has 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:

| | 2010 | 2009 |
|---|---|---|
| Interest received | 231 | 233 |
| Interest paid | 415 | 458 |
| Income taxes paid | 3,406 | 2,782 |

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.

| | 31.12.2010 | 31.12.2009 |
|---|---|---|
| Cash and cash equivalents | 12,100 | 13,249 |
| + Securities | 3,331 | 1,743 |
| ./. Hardship and social funds | -681 | -771 |
| ./. Current financial liabilities | 0 | 0 |
| Net financial position | 14,750 | 14,221 |

**Other disclosures**

**(13) Other financial liabilities and contingent liabilities**

At the end of the fiscal year there were contingent liabilities from advance payment and warranty guarantees with a total value of 4,129 EUR'000.

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 2010, the rental and lease agreements resulted in payments totaling 345 EUR'000 being recognized in other operating expenses (previous year: 300 EUR’000). The total nominal amount of the future minimum lease payments under operating leases and rental agreements is broken down by maturity as follows:

| | 31.12.2010 | 31.12.2009 |
|---|---|---|
| Due within one year | 378 | 266 |
| Due in one to five years | 446 | 268 |
| Due after more than five years | 0 | 0 |
| Total | 824 | 534 |

**(14) Fair values of financial assets and liabilities**

The valuation of financial assets and liabilities is discussed in the section on accounting and valuation methods. The SMT Scharf Group did not have any held-to-maturity or available-for-sale financial instruments in either 2010 or 2009. No regrouping was performed.

The fair values of the financial assets and liabilities were ascertained 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, an interest rate applicable to comparable bonds for SMEs which applied at the end of the fiscal year was used.

The only category of financial assets and liabilities in the SMT Scharf Group for which the fair value differs substantially from the carrying amount are the loans received:

| | 31.12.2010 | | 31.12.2009 | |
|---|---|---|---|---|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| Loans received | 4,922 | 5,102 | 4,892 | 4,504 |
| (thereof < 1 year) | 0 | 0 | 0 | 0 |

**(15) 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:

| | 31.12.2010 | | 31.12.2009 | |
|---|---|---|---|---|
| | in EUR’000 | in % | in EUR’000 | in % |
| Equity | 31,055 | 46.2 | 23,044 | 51.5 |
| Non-current liabilities | 17,855 | 26.6 | 10,633 | 23.7 |
| Current liabilities | 18,276 | 27.2 | 11,112 | 24.8 |

## (16) 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 6,000 EUR’000 on the balance sheet date (previous year: 6,000 EUR’000). 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 28,777 EUR’000 (previous year: 13,865 EUR’000).

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, in particular for key accounts. Credit risks are controlled using limits for each party. These limits are reviewed and approved at least once per year. Open items are also monitored. 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 567 EUR’000 (previous year: 668 EUR’000). No write-downs have been formed for trade receivables in the amount of 4,586 EUR’000 (previous year: 5,576 EUR’000) 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. This is due, in particular, to Polish customers. The Group does not have any collateral for these unpaid items.

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.

## (17) Supervisory Board

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

| | | |
|---|---|---|
| Dr. Dirk Markus, Feldafing (Chairman) | CEO of Aurelius AG | AUR Beteiligungsberatungs AG, Munich, Chairman of the Supervisory Board<br>Berentzen-Gruppe AG, Haselünne, Member of the Supervisory Board<br>Compagnie de Gestion et des Prêts S.A., Saran (France), Member of the Board<br>ED Enterprises AG, Grünwald, Deputy Chairman of the Supervisory Board (since 10/10)<br>Investunity AG, Munich, Chairman of the Supervisory Board (until 06/10)<br>ISOCHEM S.A., Vert-le-Petit (France), Member of the Board (since 03/10)<br>Lotus AG, Grünwald, Chairman of the Supervisory Board<br>SKW-Stahl Metallurgie Holding AG, Unterneukirchen, Member of the Supervisory Board |
| Florian Kawohl, Frankfurt, (Deputy Chairman, until April 14, 2010) | Managing Director of Strategic Value Partners (Deutschland) GmbH | (no other mandates) |
| Christian Dreyer, Salzburg, (Deputy Chairman, from April 14, 2010) | Entrepreneur | GCI Industrie AG, Munich, Chairman of the Supervisory Board (from 07/10) |
| Ulrich Radlmayr, Schondorf a. A. | Lawyer and member of the Managing Board of Aurelius AG | AUR Beteiligungsberatungs AG, Munich, Member of the Supervisory Board<br>Aurelius Portfoliomanagement AG, Deputy Chairman of the Supervisory Board<br>Aurelius Transaktionsberatungs AG, Munich, Deputy Chairman of the Supervisory Board<br>Berentzen-Gruppe AG, Member of the Supervisory Board<br>ED Enterprises AG, Grünwald, Member of the Supervisory Board (since 10/10)<br>ISOCHEM S.A., Vert-le-Petit (France), Member of the Board (since 03/10) |

The members of the Supervisory Board receive fixed and variable remuneration for each fiscal year plus reimbursement of their out-of-pocket expenses The fixed remuneration totals 15 EUR'000, the Chairman receives one and a half times this amount. The variable remuneration is based on the consolidated net income for the period and is limited to 10 EUR'000 per person and year. Remuneration is paid on a pro-rata basis if members leave the Supervisory Board during the year. The following remuneration and out-of-pocket expenses were recognized as expenses for fiscal year 2010:

| | Dr. Markus | Kawohl | Dreyer | Radlmayr |
|---|---|---|---|---|
| Fixed remuneration | 23 | 4 | 11 | 15 |
| Variable remuneration | 10 | 3 | 7 | 10 |
| Expenses | 2 | 0 | 1 | 0 |
| Total | 35 | 7 | 19 | 25 |

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 members of the Supervisory Board. As of December 31, 2010 the members of the Supervisory Board did not hold any shares of the company.

**(18) 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 2010:

| | Dr. Trautwein | Schulze-Buxloh |
|---|---|---|
| Basic remuneration | 127 | 137 |
| Bonus | 488 | 209 |
| Additional payments | 35 | 8 |
| Total | 650 | 354 |

SMT Scharf AG has pension obligations and other obligations from the conversion of salary components for previous fiscal years of 501 EUR'000 for Dr. Trautwein and 48 EUR'000 for Mr. Schulze-Buxloh. In addition, a subsidiary has 70 EUR'000 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 bid. On December 31, 2010, Dr. Trautwein held 64,400 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 members of the Managing Board.

**(19) Related party transactions**

In the period under review, services totaling less than 10 EUR'000 were purchased at arm's length conditions from related parties as defined by IAS 24. No services were provided to related parties.

**(20) Events after the balance sheet date**

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

Hamm, February 18, 2011

(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, 2010 provide 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 2010 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 18, 2011

(Dr. Trautwein) (Schulze-Buxloh)

# Auditors’ report and opinion on the annual 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, 2010 to December 31, 2010. 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 Section 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 in accordance with Section 317 of the HGB (German Commercial Code), observing the generally accepted German auditing principles 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 net assets, financial position and results of operations in the IFRS consolidated financial statements in accordance with German 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 group 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 Section 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 18, 2011

Verhülsdonk & Partner GmbH
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Dr. Michael Hüchtebrock
Wirtschaftsprüfer

Rainer Grote
Wirtschaftsprüfer

# Declaration by the Managing and Supervisory Boards of SMT Scharf AG for 2010 according to Section 161 Aktiengesetz concerning the recommendations of the "German Corporate Governance Code Government Commission" in the versions dated June 18, 2009 and May 26, 2010

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 18, 2009 and May 26, 2010 with the following exceptions:

- The Supervisory Board has not formed any committees, as it comprises three members. This number of members appears reasonable given the company's 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 Board. This may also be the case in future as the Managing Board only has two 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.

Hamm, November 30, 2010

(Dr. Markus) (Dreyer) (Radlmayr)

(Dr. Trautwein) (Schulze-Buxloh)

# Report of the Supervisory Board for fiscal year 2010

In fiscal year 2010, 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 Managing Board. 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 as well as the status of implementation of the strategy.

In its four ordinary meetings on March 3, April 14, September 27 and November 30, 2010, the Supervisory Board held in-depth discussions on 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 with corporate governance issues, including a review of its own efficiency.

The Supervisory Board received in-depth information on the course of the fiscal year in all of its meetings. Key transactions and the development of financial indicators were also discussed at all of the Supervisory Board meetings. The meeting on March 3, 2010 focused on the financial statements and the IFRS consolidated financial statements for fiscal year 2009 together with the associated management reports. At this meeting the Supervisory Board also discussed the future prospects for SMT Scharf Saar GmbH and passed new bylaws for the Managing Board. The Supervisory Board elected its chairman and deputy chairman in its meeting on April 14. Dr. Dirk Markus was re-elected as Chairman, and Christian Dreyer was elected as Deputy Chairman. This meeting also dealt with ongoing acquisition projects. The meeting on September 27 focused on activities to integrate the newly acquired companies in the United Kingdom. In addition, the Supervisory Board dealt with the SMT Scharf Group's product development plans and revenue forecasts for the following year. On November 30, the Supervisory Board discussed, in particular, the Group's financing and its budget for 2011. In addition, at this meeting the Supervisory Board discussed and passed the declaration of conformity within the meaning of Section 161 of the Aktiengesetz (German Public Limited Companies Act) for 2010 with the Managing Board.

The Managing Board also informed the Supervisory Board of plans of major importance or of particular urgency between its meetings. If necessary it also passed resolutions in writing. The approval requirements for certain transactions as defined in the Managing Board's bylaws were upheld. This related, in particular, to the acquisition of Dosco Holdings Limited with its subsidiaries and the conclusion of credit agreements. 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.

Mr. Florian Kawohl resigned from the Supervisory Board as of the end of the Ordinary General Meeting on April 14, 2010. The General Meeting elected Mr. Christian Dreyer as a new member of the Supervisory Board. The Supervisory Board does not have any committees.

The members of the Supervisory Board jointly have the knowledge, capabilities and experience to fulfill their responsibilities. The Supervisory Board aims at reaching a higher diversity with regard to its composition in the course of the next five years. This is intended to relate to three aspects in particular. Different professional and industry backgrounds of members shall foster different points of view in internal discussions. An international membership shall reflect the international activity of the Group. An appropriate share of female members is particularly desirable. The members of the Supervisory Board fulfilled and continue to fulfill the independence criteria stipulated by the German Corporate Governance Code. Conflicts of interest within the meaning of the Corporate Governance Code were avoided. The Managing and Supervisory Boards issued a declaration of conformity according to Section 161 of the Aktiengesetz on November 30, 2010. This has been published in the meantime and made accessible to shareholders at www.smtscharf.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 2010 were audited by Verhülsdonk & Partner GmbH, Düsseldorf, and issued with an unqualified auditors' opinion. According to the statutory requirements, 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 2, 2011, 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 2010. The audit reports were available to all members of the Supervisory Board in good time prior to its meeting. 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 2010. The financial statements for 2010 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 2010.

The company's Managing Board proposes to distribute a dividend of 0.85 EUR per share from the company's net retained profits totaling 4,189 EUR'000. In terms of shares outstanding on today's date (excluding the company's treasury shares), this corresponds to a dividend total of 3,370 EUR'000. The remaining amount of 819 EUR'000 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 2011.

Hamm, March 2, 2011

(Dr. Markus)
Chairman of the Supervisory Board