



# Annual Report 2010



## OVERVIEW OF KEY FINANCIALS

		2004	2005	2006	2007	2008	2009	2010
<b>Income statement data</b>								
Revenue	EUR'000	42,097	51,912	48,700	51,206	49,739	53,262	66,733
Revenue share from outside Germany	%	28	40	52	74	75	84	91
EBIT	EUR'000	4,588	7,321	6,622	7,471	7,489	7,585	11,106
EBIT margin	%	10.9	14.1	13.6	14.6	15.1	14.2	16.6
Net income	EUR'000	2,186	4,328	4,278	5,988	5,343	5,073	8,006
<b>Balance sheet data</b>								
Total assets	EUR'000	37,590	47,160	30,082	43,920	55,410	44,789	67,185
Equity	EUR'000	22,612	27,107	5,541	22,500	24,226	23,044	31,055
Equity ratio	%	60	57	18	51	44	51	46
Cash and cash equivalents and securities	EUR'000	11,302	20,187	2,313	12,307	17,138	14,992	15,431
<b>Personnel data</b>								
Average number of employees		265	271	272	252	249	228	274
Share of employees outside Germany	%	8	8	10	13	24	31	48
<b>Share data</b>								
Earnings per share	EUR	n/a	n/a	n/a	1.54	1.27	1.23	2.03
Dividend (2010: proposed)	EUR	n/a	n/a	n/a	0.70	0.85	0.70	0.85



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*Managing Board Member Heinrich Schulze-Buxloh and Chief Executive Officer Dr. Friedrich Trautwein*

## LETTER TO SHAREHOLDERS

Dear shareholders and business partners,

We can look back on a highly successful fiscal year, with significant growth in revenues and earnings. During this time we have also put key structures in place for the SMT Scharf Group's continued international expansion. These include, in particular, the acquisition of two mining suppliers in the United Kingdom and the formation of a joint venture company in China. We were successful in integrating our two UK companies, Dosco Overseas Engineering and Hollybank Engineering, into the group in the brief period since their acquisition which was completed in May 2010. In their first year as part of our group, they contributed almost one quarter of revenues and significantly positive earnings. That makes us confident that our product range, which we have expanded thanks to the addition of Dosco and Hollybank, has become more attractive for our customers, which will support the SMT Scharf Group's business growth in future.

We were also able to further drive our strategy of internationalization in our existing lines of business. This can be seen, in particular, by the growth of our business in China, which has become our most important market, accounting for 24% of revenues. In order to tap even more of our potential on this enormous mining market, we formed a joint venture company there in June: Shangdong Xinsha Monorail Co. Ltd. This company has also already made a positive contribution to group earnings. In addition, we have expanded our sales and service activities in China, Russia and South Africa.

In 2010 as a whole, group revenues increased to EUR 66.7 million compared to EUR 53.3 million in the previous year – up 25%. The bulk, or 91%, was recorded outside Germany (previous year: 84%).

EBIT was up sharply year-on-year by 46% to EUR 11.1 million. This includes non-cash income from the first-time consolidation of the UK companies of EUR 0.8 million. In terms of revenues, the EBIT margin increased to 16.6% compared with 14.2% in the previous year. Net income benefited from a lower effective tax rate in 2010. This figure totaled EUR 8.0 million, up 58% compared to the previous year's figure of EUR 5.1 million. This above average increase was due to income from the first-time consolidation and also to the fact that an increasing proportion of profits are recorded in countries with lower taxes than in Germany.

In order to let SMT Scharf AG's shareholders participate in the excellent business growth, the Managing and Supervisory Boards will propose to the General Meeting for fiscal year 2010 to pay a dividend of EUR 0.85 per share. This is thus up 21% compared to the previous year's dividend of EUR 0.70. In terms of the current number of shares in circulation (without the company's treasury shares), the disbursement rate is 42% of consolidated net income. That means that we are once again offering our shareholders an attractive dividend yield. At the same time, we are upholding the foundations for sufficient internal financing for our further international expansion. The progress that we have made in 2010 confirms our expectations that we will be able to increase the SMT Scharf Group's revenues and earnings on average over the coming years.

We would like to thank you, our investors, business partners and customers, for the trust that you have placed in our company to date, and hope that you will also continue to support SMT Scharf AG in future.

Yours sincerely

Dr. Friedrich Trautwein

Heinrich Schulze-Buxloh

## REPORT OF THE SUPERVISORY BOARD



*Dr. Dirk Markus  
 Chairman of the  
 Supervisory Board*

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 business growth for 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 thoroughly with corporate governance issues, also including a review of its own efficiency.

The Supervisory Board received in-depth information on the course of the fiscal year in all of its meetings. Key transactions and the development 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 by-laws for the Managing Board. The Supervisory Board elected its chairman and deputy chairman in its meeting on April 14. Mr. 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 company's financing and the Group's budget for 2011. In addition, at this meeting the Supervisory Board also 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 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](http://www.smtscharf.com).

The financial statements and management report prepared 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 EUR 0.85 per share from the company's net retained profits totaling EUR 4,189 thousand. In terms of shares outstanding on today's date (excluding the company's treasury shares), this corresponds to a dividend total of EUR 3,370 thousand. The remaining amount of EUR 819 thousand will be carried forward to new account. The Supervisory Board has reviewed and approved this proposal.

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

Hamm, March 2, 2011

Dr. Markus  
Chairman of the Supervisory Board

## PRODUCT RANGE

### Rail-bound railway systems

SMT Scharf has been producing rail-bound railway systems for the mining industry for over 40 years. These most commonly take the form of suspended monorail railways. They have a rail-bound suspension on a track with a double-T profile, they are driven by friction wheels (in some applications supported by a rack-and-pinion system) and their locomotives are constructed in a modular way. The tracks are suspended underground using chains, either from the roof support or from bolts in the rock. In this way, the stretch of rails can adjust to movements and deformations in the rock.



*Switchable rack-and-pinion drive*

In most cases the trains are driven by a diesel engine, in addition there are also battery-powered or conductor-rail powered electric engines. The diesel or electric engine powers a hydraulic system which feeds hydraulic engines that drive the friction wheels. In addition, there is a version in which the electric motors drive the friction wheels directly with the help of frequency converters. SMT Scharf has also offered a variant since 2009 that allows to switch in a rack-and-pinion drive on selected rail sections. Since the trains are suspended on the rails using running gear that can be compared with crane cats the name "diesel cat" became common for the most-used diesel-driven locomotives.

The locomotives comprise two driver's cabins, an engine section, a cooling section and three or more driving units. These assemblies are linked flexibly to each other using coupling rods, so that the tight curves and the changes between descents, straight sections and inclines in the underground tracks can be passed. The trains are set up for horizontal radii of up to four meters, and vertical radii of up to eight meters.



Each train comprises one locomotive and up to ten transport units that take the payload. There are lifting beams to take containers, heavy load units to take larger items with single loads of up to 45 tons and units for transporting people. The trains as well as the locomotives are put together based on the mine's specific transportation tasks.

Floor-mounted railways are a second group of products. Their stretch of rails is made of U-profiles. They run on these rails without derailing. SMT Scharf's floor-mounted rack-and-pinion driven railway system is built so that the wagons for conventional narrow-gauge railways can also run on the floor-mounted railway's tracks.

In terms of the number of systems it has installed, SMT Scharf leads the global market for rail-bound railways. Of the 940 systems installed worldwide, 400 or 43% were supplied by SMT Scharf. Poland and Germany are the two markets with the highest level of penetration of these systems to date. SMT Scharf installed 100% of the systems in Germany, and 32% in Poland. In the past, suspended monorail railways and floor-mounted railways have only enjoyed a limited spread in Russia, South Africa and China. In terms of the number of systems installed, SMT Scharf has the strongest position in all three of these markets.

Rail-bound railway systems are the main product of the SMT Scharf Group. Sales of trains, accessories (particularly rails), spare parts and services accounted for 83% of revenues, on average, during fiscal years 2008 to 2010.



Battery-powered "cat" in the Ibbenbüren mine

Photo: RAG Anthrazit Ibbenbüren, Manfred Hagemann

## Chairlifts



*Chairlift station for passengers*

The chairlifts for transporting personnel underground are substantially more compact and can deal significantly better with curves than traditional lifts – for example those used above ground as ski-lifts. They are driven either electro-mechanically or electro-hydraulically. In hard coal mining in particular the drives are encapsulated, as are the other electrical components, so that they fulfill the national regulations concerning explosion protection (e.g. ATEX).



*Chairlift route at the exit of a mine*

SMT Scharf has supplied the mining industry with chairlifts for almost 50 years. Chairlifts offer a highly economical if not the best possible transport solution to mines that have to transport a large number of people over long distances underground. They are widespread in mining in South Africa, India and China in particular. There are many mines in these countries where the actual excavation work takes place far away from the closest shaft, that have inclines on the connecting routes, and which are operated with a low degree of automation. Chairlifts are therefore especially suitable for such mines.

In order to expand this division, SMT Scharf acquired Sareco Engineering in South Africa in 2008. This company specializes in the development, production and distribution of chairlifts. Together with the chairlifts, spare parts and services sold under the SMT Scharf brand, this product group contributed an average of 7% to the Group's revenues over the last three fiscal years.

## Roadheaders

Roadheaders are used in mining and tunnel construction to drill routes. These machines are more productive than blasting where the rock is of low or medium strength, because they allow for faster construction progress. Where the rock is of high strength, this advantage is reversed. Roadheaders can also be used under areas where blasting is not possible due to the vibrations caused, such as in densely populated regions. Unlike tunnel boring machines (also known as full section machines), roadheaders can excavate sections with variable profiles. They are therefore predominantly used in mining, while full section machines dominate in tunnel construction.



*Roadheader*

A cutter head is attached to the front of the roadheader on a moveable bracket. This cutter head is fitted with carbide metal chisels. The rock is cleared away as the cutter head rotates. The pieces of rock fall onto a loading bucket, where loading arms or rotating loading discs are arranged so that they push the rock onto a chain conveyor within the roadheader. The chain conveyor discharges the rock out the back of the machine. From there it is transported either on a conveyor belt or with shovel loaders. The roadheader travels using two crawler tracks, both when excavating and when travelling to the next site of operation.

The operator usually sits on the machine as for a digger. He can also stand behind or beside the machine if the machine is small or for small cross-sections. The machine can also be operated remotely in this way.

Roadheaders are often fitted with additional components to optimize them for particular applications. Drilling devices for rock bolts are the most common additional component. There is a danger of a section collapsing while the roadheader is still at work, particularly where there is high rock pressure or where the rock is friable. In these cases, drilling devices are used to drill holes for bolts, which reinforce the rock.

SMT Scharf moved into the roadheader sector in May 2010, when it acquired the UK firm Dosco Overseas Engineering Ltd. This company was formed in 1956 as the subsidiary of a Canadian steel company in order to manufacture roadheaders. For many years, the coal mines in England and Wales were the company's principal customers. Dosco began to expand its exports in the 1980s. Since then, machines have been sold to more than 50 countries. Coal mines remain the company's biggest customer group. In addition, there are many other branches in mining and tunnel construction. SMT Scharf's revenues with this product group correspond to an average of 7% of the Group's sales over the last three fiscal years.



*Cutting head*

### Equipment for roadway support

In mining, tunnel construction and cavern construction different methods are used to reinforce or brace the rock surrounding the opening that is meant to be secured. These are known as tunnel supports or mine supports. They are needed because there are mechanical loads within the rock that will deform any opening, or even close it again, unless countermeasures are taken. This rock pressure, as it is known, increases with depth. Generally a distinction is made between two roadway support methods: buttressing and roof bolting. These methods can also be used in combination.



*Deformation of a support element due to rock pressure  
 Photo: AlpTransit Gotthard AG*

In the case of buttressing, supporting elements made of wood, steel, concrete, brickwork or other materials are used. Rigid buttressing is used if the opening's clearance is not expected to change once it is completed. This is common with street tunnels or caverns, for example. Sometimes this method cannot be used where there is high rock pressure. Flexible buttressing equalizes loads from the rock by deliberately allowing the support elements to bend or telescope. While this reduces the clearance, it also reduces the rock pressure. This method is primarily used in mining, particularly at great depths.



*Roadway support*

In the case of roof bolting, the rock layers around the opening that is to be secured are joined so that together they are stronger than the individual layers. Holes are drilled into which rock bolts are then forced or glued. Various types of rock bolts are used depending on their place of use, the load and the purpose. They can be combined with steel or plastic netting to hold back loose rock. Sometimes such netting also acts as a subsurface for concrete, which is sprayed onto the surface of the underground section.

SMT Scharf moved into equipment for roadway support in May 2010, when it acquired the UK firm Hollybank Engineering Co. Ltd. This company has worked in the field of roadway support since 1953, specialising in the fabrication of steel archways and of underground junctions steelworks as well as supplying various roof bolt components. Hollybank has belonged to Dosco Overseas Engineering Ltd. since 1970. Coal mines in England and Wales are its main customers. Revenues with this product group correspond to an average of 2% of the Group's sales over the last three fiscal years.



*Electro-mechanical rail-bound railway system (EMTS)*

## COMPANY HISTORY

### 1953

- First launch of own products on the market with Scharf's coal lorries and elastic coupling

### 1962

- Subsidiary in Saarland established

### 1969

- Take-over by Westfalia Group

### 1958

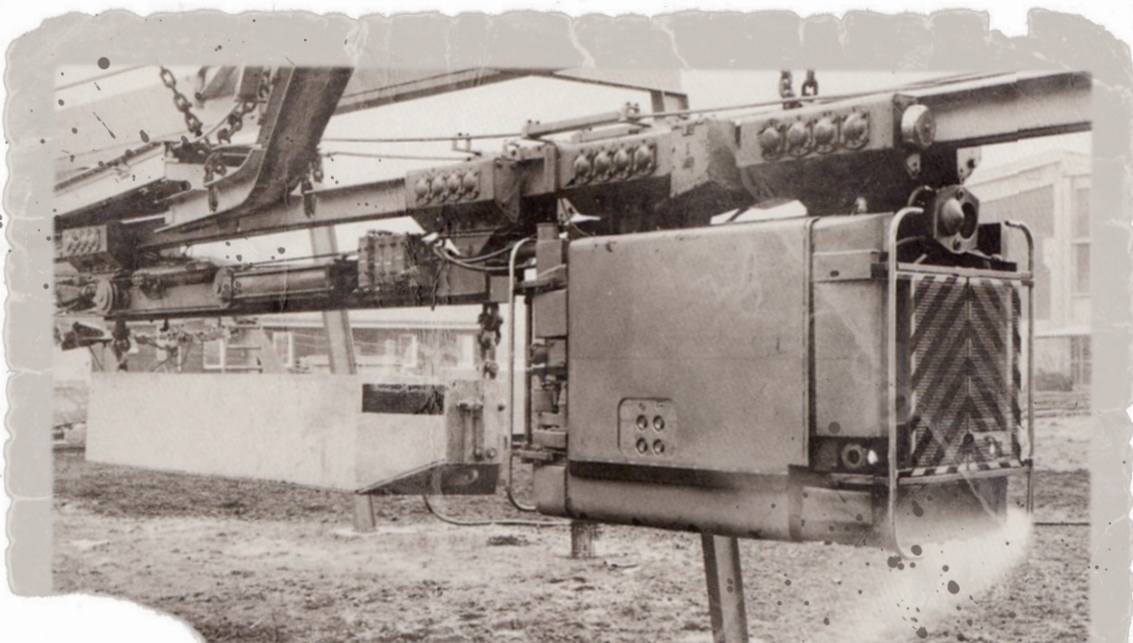
- Launch of the first monorail hanging railway by Scharf

### 1951

- Heinrich Scharf GmbH established

### 1968

- Development of first self-propelled monorail hanging railway





### 2000

- Launch of the DZ 2000, the world's strongest diesel cat

### 1997

- Launch of an electrically driven monorail hanging railway (EMTS)

### 1992

- First foreign subsidiary in Poland established

### 2010

- Acquisition of Dosco Overseas Engineering and Hollybank Engineering, Great Britain

### 2009

- Launch of a switchable rack-and-pinion drive for monorail hanging railways

### 2008

- Subsidiary in Russia established
- Acquisition of Sareco Engineering, South Africa

### 2007

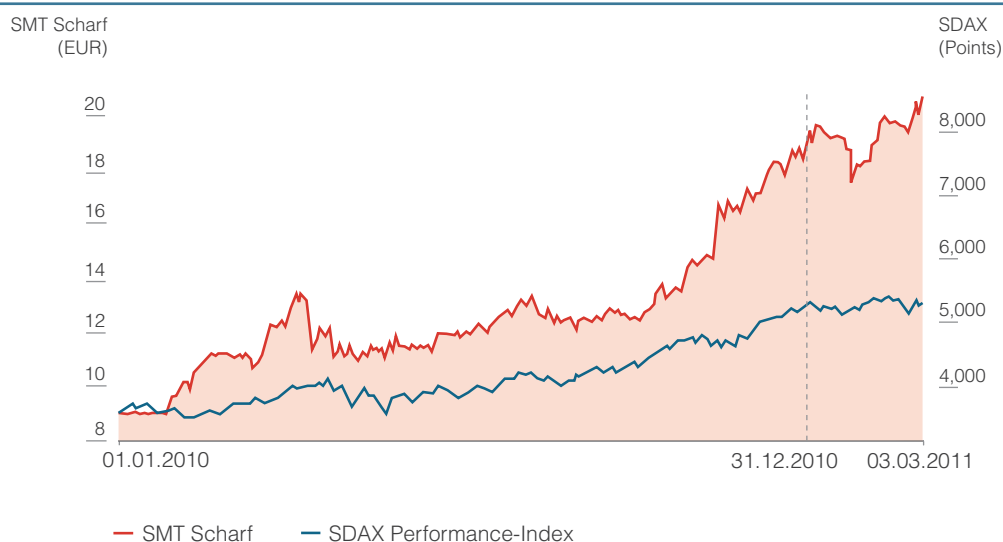
- Initial public offering
- Subsidiary in China established
- Launch of a floor-mounted railway with rack-and-pinion-drive

### 2006

- Change of ownership as a starting point to reinforce the company's growth
- Subsidiary in South Africa established

## SHARE INFORMATION

### Share price performance 2010



### Share price performance

Shares of SMT Scharf AG have been quoted on Frankfurt Stock Exchange's Prime Standard since April 11, 2007. Since then, SMT Scharf has been one of the few new issues in the Prime Standard to have enjoyed sustained share price performance that was positive or at least stable. SMT Scharf's shares outperformed the SDAX peer index each year from 2007 to 2009.

In the first few months of 2010, SMT Scharf's shares again clearly set themselves apart from the performance of the SDAX index. On April 14, 2010, the shares reached a preliminary high for the year at EUR 13.20. During the months that followed, the share price moved between EUR 11 and 13, before breaking upwards out of this bandwidth in October. Through to the end of the year, the share price then lifted still further, with a few individual setbacks, and peaked for the year on December 23 at EUR 18.79. The shares closed the year at a price of EUR 18.45, or up 106% compared to the closing price in 2009 of EUR 8.96. This share price performance means that SMT Scharf's shares also outperformed the SDAX index in 2010. This closed the year at 5,174 points, and thus up 46% compared to December 31, 2009 when it totaled 3,549 points.

### Share price information for 2010 (XETRA)

Closing price previous year	EUR 8.96
Highest price	EUR 18.79
Lowest price	EUR 8.88
Closing price	EUR 18.45
Market capitalization on December 31, 2010	EUR 77.5 million

SMT Scharf's shares continued to enjoy their upswing at the start of 2011, albeit with a few interruptions. On March 3 they closed at EUR 20.62, which was a new – temporary – all-time high. This corresponded to an increase by 12% compared to the closing price in 2010. During this period, the SDAX only lifted by 2% to 5,255 points.



## Shareholder structure

In the spring of 2010, the two former major shareholders Field Point II S.a.r.l. and MS Mining Solutions GmbH conclude the sale of their shares in the company. Both companies' voting rights fell below the 10% threshold in January followed by the 5% and 3% thresholds in February. Since then, more than 90% of SMT Scharf AG's shares have been held in free float. In parallel, SMT Scharf AG reduced its holdings of treasury shares to 6.2% via a placement with institutional investors. This percentage fell still further to 5.6% through to June, as the company sold own shares to employees as part of an equity participation plan.

The General Meeting on April 14, 2010 resolved a new authorization for the Managing Board to acquire own shares of SMT AG. The Company did not use this option during the remainder of the fiscal year.

### Key data

German Securities Code (WKN)	575198
ISIN	DE0005751986
Stock exchange symbol	S4A
Segment	Prime Standard (regulated market)
Number of shares	4,200,000
Initial quotation	April 11, 2007

The trading volume also increased along with the increase in the free float. On average, around 15,300 shares were traded per day on the Frankfurt Stock Exchange in 2010. This figure totaled around 11,600 in 2009.

## IR activities

When it went public in 2007, SMT Scharf AG consciously opted for Deutsche Börse's segment with the strictest regulations: the Prime Standard. In so doing, the company clearly showed that transparency, openness and reliability are key issues in its dealings with participants on the capital market.

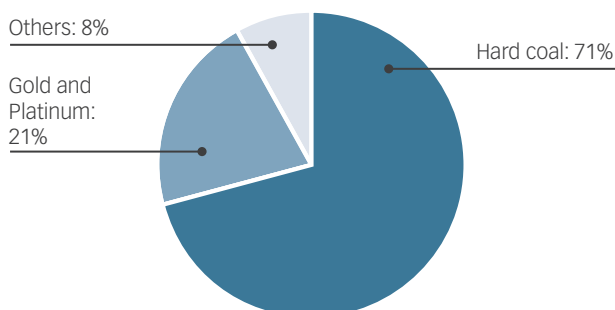
Investors receive in-depth financial information in the quarterly, six-month and annual reports as well as up-to-the-minute press releases and ad hoc disclosures on business developments. In addition, SMT Scharf presented itself at several investors' conferences, including the German Equity Forum in Frankfurt in November 2010. The company enjoyed great attention from institutional and retail investors as well as analysts at these events. In addition, SMT Scharf is in regular contact with investors, analysts and financial journalists regarding the company's growth. Detailed information on the company and its shares can be found online at [www.smtscharf.com](http://www.smtscharf.com) in the Investor Relations section. The Web site also includes the financial reports for previous years and additional company notices.

## GROUP MANAGEMENT REPORT

### 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.

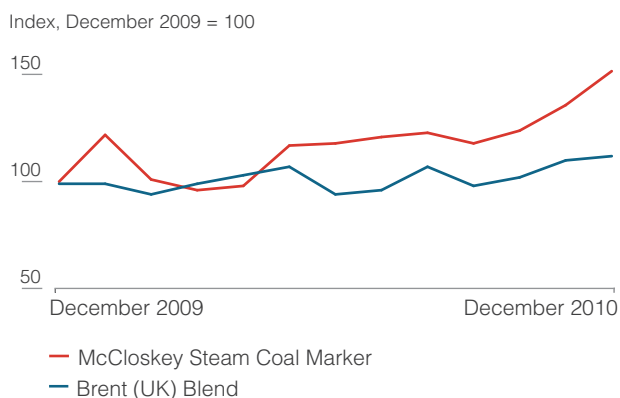
#### Customer segments according to commodities



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.

#### Development of prices for steam coal and crude oil



Source: Energy Information Administration,  
 Verein Deutscher Kohlenimporteure

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.

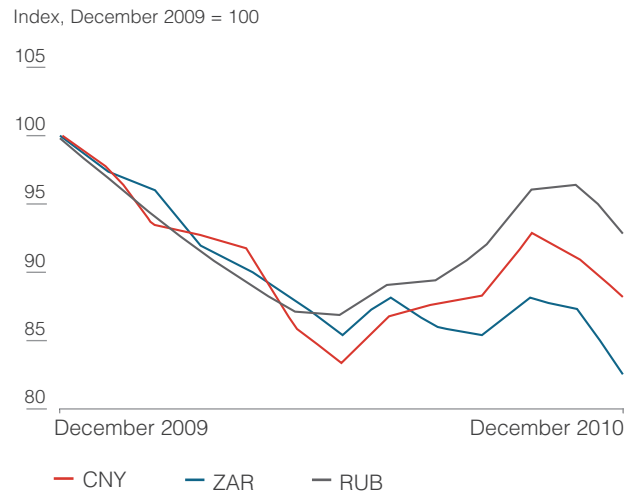
In the coming years, countries such as China, India, Russia and South Africa will continue their economic growth and have increasing demand for energy, steel and other metals. That is why, for the SMT Scharf Group, they will continue to be the markets which will provide the main demand in coming years. 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

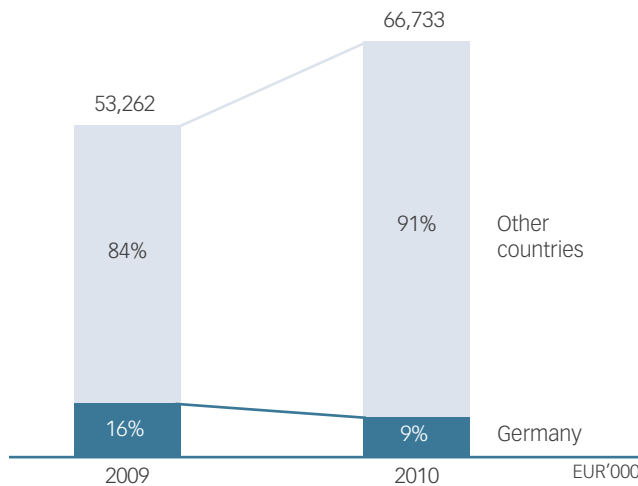
Revenues in 2010 increased by 13,471 EUR'000 year-on-year to 66,733 EUR'000 (up 25.3%). The primary factor behind this growth was the first time inclusion of the UK companies, which contributed revenues of 16,099 EUR'000. In contrast, income from the prior companies in the SMT Scharf Group in the markets 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.

### Development of the Euro against selected currencies



Source: Deutsche Bundesbank

## Revenues per region



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 parts 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.

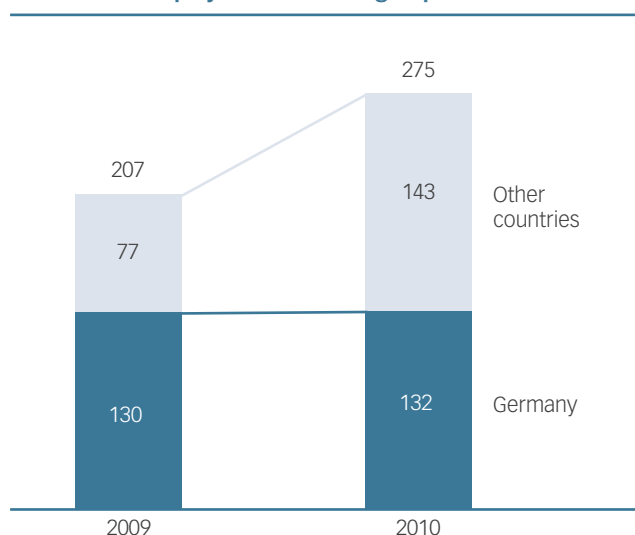
In contrast, SMT Scharf expanded staff numbers outside of Germany. The number of employees at the international locations – not including the joint venture in China - increased to 143 (previous year: 77 employees). The bulk of this increase was due to the acquisition of the two UK companies, which had 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.

Number of employees within the group



## Net assets, financial position and results of operations

### Equity and particular legal relationship

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.

#### Net assets

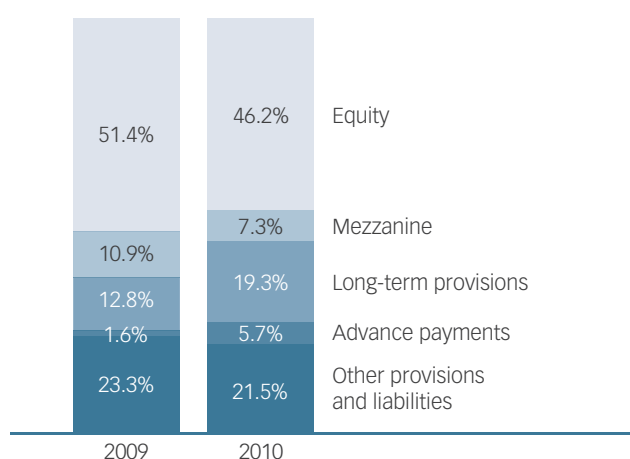
SMT Scharf AG's subscribed capital has totaled 4,200 EUR'000 since its IPO. There is also a share premium, which increased to 7,848 EUR'000 from 6,661 EUR'000 in the previous year as a result of the sale of own shares. Equity including net income for the period and other changes totaled 31,055 EUR'000 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.

#### Balance sheet – Liabilities and shareholders' equity



## Earnings position

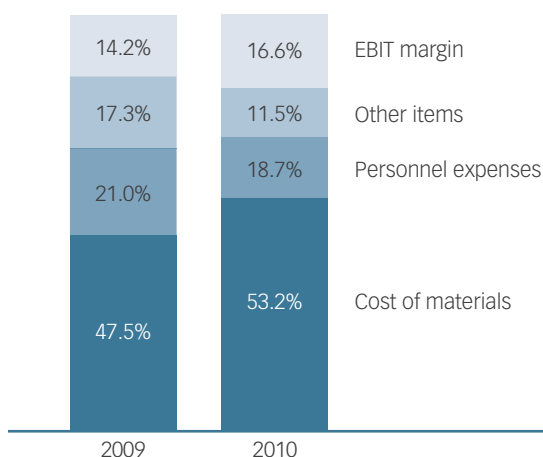
EBIT totaled 11,106 EUR'000 in 2010, and was thus significantly higher than the previous year's figure (EUR 7,585 EUR'000). This corresponds to an EBIT margin of 16.6% (previous year: 14.2%). Earnings include 794 EUR'000 of non-cash income from the first-time consolidation of the UK companies. In contrast, 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.

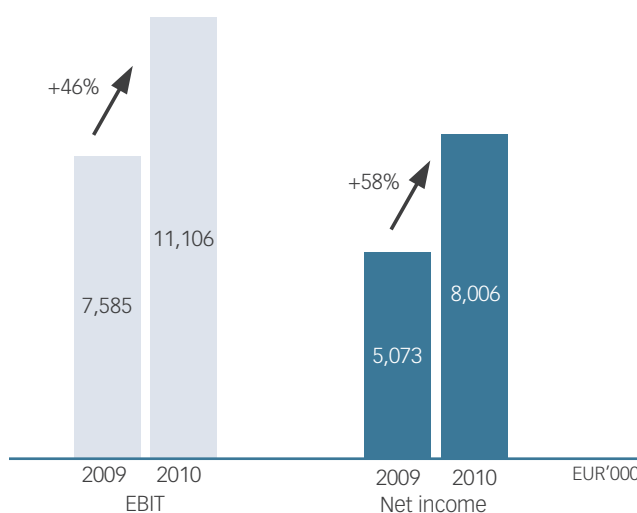
The financial result improved slightly to -67 EUR'000 from -206 EUR'000. Interest for the mezzanine financing remained unchanged year-on-year, interest on debit balances was slightly higher, as part of the liquid funds was invested in countries with higher market interest rates. The Chinese joint venture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

## Income statement



## Development of earnings



## 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](http://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 appropriate 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

## IFRS CONSOLIDATED FINANCIAL STATEMENTS

### *Consolidated balance sheet as of December 31, 2010*

In EUR	Notes	31.12.2010	31.12.2009
<b>Assets</b>			
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
<b>Current assets</b>		<b>50,548,402.95</b>	<b>35,067,825.40</b>
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
<b>Non-current assets</b>		<b>16,637,063.71</b>	<b>9,721,487.65</b>
<b>Total assets</b>		<b>67,185,466.66</b>	<b>44,789,313.05</b>
<b>Equity and liabilities</b>			
<b>Equity and liabilities</b>			
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
<b>Current provisions and liabilities</b>		<b>18,275,817.50</b>	<b>11,112,553.25</b>
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
<b>Non-current provisions and liabilities</b>		<b>17,854,822.43</b>	<b>10,632,576.03</b>
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
<b>Equity</b>	(9)	<b>31,054,826.73</b>	<b>23,044,183.77</b>
<b>Total equity and liabilities</b>		<b>67,185,466.66</b>	<b>44,789,313.05</b>

**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
<b>Profit from operating activities (EBIT)</b>		<b>11,105,565.07</b>	<b>7,585,377.87</b>
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
<b>Financial result</b>		<b>-67,477.86</b>	<b>-205,762.27</b>
<b>Profit before tax</b>		<b>11,038,087.21</b>	<b>7,379,615.60</b>
Income taxes	(5)	3,031,640.75	2,307,003.25
<b>Net income</b>		<b>8,006,446.46</b>	<b>5,072,612.35</b>
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
<b>Comprehensive income</b>		<b>9,432,862.92</b>	<b>5,604,198.80</b>
<b>Earnings per share *</b>			
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
<b>Net cash flows from in operating activities</b>	<b>2,550,419.30</b>	<b>5,312,522.92</b>
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
<b>Net cash flows used in investing activities</b>	<b>-1,530,779.22</b>	<b>-1,194,424.65</b>
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
<b>Net cash flows from/used in financing activities</b>	<b>-1,344,996.28</b>	<b>-6,662,950.20</b>
Effect of changes in exchange rates and group composition	853,935.28	494,249.63
<b>Change in net financial position</b>	<b>528,579.08</b>	<b>-2,050,602.30</b>
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
<b>Balance at January 1, 2010</b>	<b>3,840,004.00</b>	<b>6,661,088.76</b>	<b>2,803,332.68</b>	<b>9,652,085.55</b>	<b>87,672.78</b>	<b>23,044,183.77</b>
Reclassification			-2,803,332.68	2,803,332.68		0.00
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
<b>Balance at December 31, 2010</b>	<b>3,964,905.00</b>	<b>7,848,142.60</b>	<b>0.00</b>	<b>17,699,171.89</b>	<b>1,542,607.24</b>	<b>31,054,826.73</b>
<b>Balance at January 1, 2009</b>	<b>4,200,000.00</b>	<b>9,517,195.40</b>	<b>2,803,332.68</b>	<b>8,149,473.20</b>	<b>-443,913.67</b>	<b>24,226,087.61</b>
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
<b>Balance at December 31, 2009</b>	<b>3,840,004.00</b>	<b>6,661,088.76</b>	<b>2,803,332.68</b>	<b>9,652,085.55</b>	<b>87,672.78</b>	<b>23,044,183.77</b>

## 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
<b>Assets</b>		
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
<b>Total</b>	<b>15,450</b>	<b>13,847</b>
<b>Equity and liabilities</b>		
Non-current provisions and liabilities	8,385	7,350
Current provisions and liabilities	3,965	3,798
Equity	3,100	2,699
<b>Total</b>	<b>15,450</b>	<b>13,847</b>

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](http://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 effect 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:

1 Euro =	Closing rate		Average rate	
	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 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
<b>Total</b>	<b>66,733</b>	<b>53,262</b>

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
<b>Total</b>	<b>66,733</b>	<b>53,262</b>

#### (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
<b>Total</b>	<b>3,316</b>	<b>1,914</b>

#### (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
<b>Total</b>	<b>12,485</b>	<b>11,194</b>



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

	2010	2009
Employees	261	217
Trainees	13	11
<b>Total</b>	<b>274</b>	<b>228</b>

#### (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
<b>Total</b>	<b>10,069</b>	<b>7,359</b>

The miscellaneous other operating expenses mostly include additions to provisions and write downs, expenses for cleaning and disposal, insurance and telecommunicaitions. 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
<b>Total</b>	<b>137</b>	<b>142</b>

#### (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
<b>Total</b>	<b>3,032</b>	<b>2,307</b>

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
<b>Deferred tax assets</b>		
Pension provisions	1,825	299
Other assets and liabilities	472	239
<b>Deferred tax liabilities</b>		
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
<b>Reported income tax expense</b>	<b>3,032</b>	<b>2,307</b>

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 consolida- tion	Additions	Disposals	Closing balance 31.12.2010
Goodwill	Gross	1,387	493	0	0	0	1,880
	D/A	0	0	0	0	0	0.00
	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
<b>Intangible assets</b>	<b>Gross</b>	<b>3,445</b>	<b>554</b>	<b>705</b>	<b>351</b>	<b>10</b>	<b>5,045</b>
	<b>D/A</b>	<b>828</b>	<b>16</b>	<b>46</b>	<b>292</b>	<b>8</b>	<b>1,175</b>
	<b>Net</b>	<b>2,617</b>	<b>537</b>	<b>659</b>	<b>59</b>	<b>2</b>	<b>3,870</b>
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
<b>Property, plant and equipment</b>	<b>Gross</b>	<b>20,476</b>	<b>117</b>	<b>8,253</b>	<b>420</b>	<b>572</b>	<b>28,694</b>
	<b>D/A</b>	<b>13,371</b>	<b>63</b>	<b>5,638</b>	<b>1,288</b>	<b>394</b>	<b>19,966</b>
	<b>Net</b>	<b>7,105</b>	<b>54</b>	<b>2,615</b>	<b>-868</b>	<b>178</b>	<b>8,728</b>

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

		Initial balance 01.01.2009	Currency translation	Additions	Disposals	Reclassi- fication	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
<b>Intangible assets</b>	<b>Gross</b>	<b>3,214</b>	<b>54</b>	<b>223</b>	<b>46</b>	<b>0</b>	<b>3,445</b>
	<b>D/A</b>	<b>642</b>	<b>8</b>	<b>224</b>	<b>46</b>	<b>0</b>	<b>828</b>
	<b>Net</b>	<b>2,572</b>	<b>46</b>	<b>-1</b>	<b>0</b>	<b>0</b>	<b>2,617</b>
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
<b>Property, plant and equipment</b>	<b>Gross</b>	<b>21,400</b>	<b>39</b>	<b>1,121</b>	<b>2,084</b>	<b>0</b>	<b>20,476</b>
	<b>D/A</b>	<b>13,314</b>	<b>46</b>	<b>1,724</b>	<b>1,713</b>	<b>0</b>	<b>13,371</b>
	<b>Net</b>	<b>8,086</b>	<b>-7</b>	<b>-603</b>	<b>371</b>	<b>0</b>	<b>7,105</b>

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
<b>Defined benefit obligation on Dec. 31</b>	<b>2,656</b>	<b>2,465</b>
Unrecognized actuarial gains / losses	368	552
<b>Carrying amount on Dec. 31</b>	<b>3,024</b>	<b>3,017</b>

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
<b>Defined benefit obligation on Dec. 31</b>	<b>52,438</b>

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
<b>Plan assets on Dec. 31</b>	<b>49,061</b>

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
<b>Carrying amount</b>	<b>6,338</b>	<b>6,876</b>

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
<b>Total</b>	<b>49,061</b>	<b>43,746</b>

#### (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 consoli- dation	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
<b>Other current provisions</b>	<b>4,136</b>	<b>67</b>	<b>1,112</b>	<b>3,386</b>	<b>4,890</b>	<b>617</b>	<b>6,202</b>
<b>Other non-current provisions</b>	<b>1,343</b>	<b>0</b>	<b>271</b>	<b>139</b>	<b>632</b>	<b>13</b>	<b>2,094</b>

#### 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
<b>Other current provisions</b>	<b>4,609</b>	<b>26</b>	<b>-707</b>	<b>3,006</b>	<b>3,658</b>	<b>444</b>	<b>4,136</b>
<b>Other non-current provisions</b>	<b>710</b>	<b>0</b>	<b>557</b>	<b>249</b>	<b>331</b>	<b>6</b>	<b>1.343</b>



#### (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
<b>Net financial position</b>	<b>14,750</b>	<b>14,221</b>

## 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
<b>Total</b>	<b>824</b>	<b>534</b>

### (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 Berentzen-Gruppe AG, Haselünne, Member of the Supervisory Board Compagnie de Gestion et des Prêts S.A., Saran (France), Member of the Board ED Enterprises AG, Grünwald, Deputy Chairman of the Supervisory Board (since 10/10) Investunity AG, Munich, Chairman of the Supervisory Board (until 06/10) ISOCHEM S.A., Vert-le-Petit (France), Member of the Board (since 03/10) Lotus AG, Grünwald, Chairman of the Supervisory Board 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 Aurelius Portfoliomanagement AG, Deputy Chairman of the Supervisory Board Aurelius Transaktionsberatungs AG, Munich, Deputy Chairman of the Supervisory Board Berentzen-Gruppe AG, Member of the Supervisory Board ED Enterprises AG, Grünwald, Member of the Supervisory Board (since 10/10) 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
<b>Total</b>	<b>35</b>	<b>7</b>	<b>19</b>	<b>25</b>

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:

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

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

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.

Düsseldorf, February 18, 2011

Verhülsdonk & Partner GmbH Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft

Dr. Michael Hüchtebrock  
Wirtschaftsprüfer

Rainer Grote  
Wirtschaftsprüfer

## FINANCIAL CALENDAR 2011

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March 4	Publication of the financial report for 2010
April 13	Annual general meeting
May 13	Publication of the financial report for the 1st quarter 2011
August 12	Publication of the financial report for the 2nd quarter 2011
November 11	Publication of the financial report for the 3rd quarter 2011
November 21-23	Analyst conference as part of the german equity forum in Frankfurt / Main
December 31	End of the fiscal year

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Changes being reserved

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### Legal Notice

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

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

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



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