

SMT Scharf AG
Group financial report 2011

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Group management report for the 2011 fiscal year

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 and gradients of up to 35 degrees. Other key products include roadheaders, equipment for tunnel support and chairlifts.

That is why the global demand for raw materials is the key factor to influence the SMT Scharf Group's business. Hard coal mining accounts for the bulk of revenues. On average in fiscal years 2009 to 2011, hard coal mines accounted for 75% of revenues, with gold and platinum mines accounting for 19%, and other mines and tunneling accounting for 6%.

Similarly to the previous year, coal production was up in all of the SMT Scharf Group's national markets in 2011, with the exception of Germany and Poland. Growth amounted to around 11% in China (previous year: 8%), approximately 4% in Russia (previous year: 7%), and around 10% in the Ukraine (previous year: 4%), according to preliminary figures. In Poland, production fell by around 1%, following a 3% decline in the year before. 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.

Hard coal prices remained at a high level over the course of 2011. The Steam Coal Marker Price that is calculated by the McCloskey Group increased by around 8% between December 2010 and May 2011, before falling and settling in December 2011 at a price around 5% below the previous year's level. In contrast, prices for Brent Crude Oil were around 18% higher in December 2011 than one year before.

Exchange rates for the key currencies for the SMT Scharf Group reported differing trends over the course of the year. The Polish Zloty, which is the home currency of two competitors, depreciated by 12.0% relative to the Euro between December 2010 and December 2011. The exchange rate of the Czech Krone, which is the home currency of three further competitors, underwent only a slight change, by contrast. In this instance, the depreciation relative to the Euro was only 1.4% between December 2010 and December 2011.

Also compared to the currencies of the main customer countries, the Euro exchange rate reported differing trends, having depreciated over the course of the previous year relative to the Chinese Yuan, the Russian Ruble and the South African Rand. This trend continued relative to the Chinese Yuan over the course of 2011. Its exchange rate to the Euro in December 2011 was 4.9% higher than in the same month of the previous year. Over the same period, the Russian Ruble depreciated by 2.0%, and the South African Rand depreciated by 19.6% compared with the Euro. On the basis of 2010 and 2011 year-average rates, these trends were less pronounced, because most of the appreciating and depreciating movements occurred in the second half of 2011.

From today's perspective, it is most probable that demand for raw materials and investments by mines will increase further in 2012 and over subsequent years. Countries such as China, Russia, Ukraine 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 still notable risks of a recession setting in, as experienced in 2008. 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

Revenue in the 2011 reporting year increased by 15,385 TEUR, or 23%, compared with the previous year to reach 82,118 TEUR. Of this amount, 73,766 TEUR was attributable to markets outside Germany, corresponding to a 90% share (previous year: 91%). As in the previous year, China was the most important market, accounting for 28% of revenue. Russia and other CIS states ranked second, followed by South Africa.

Several significant orders contributed to the revenue growth. In June 2011, a Chinese mining group ordered three train sets for monorail hanging railways, tracks and accessories with a total value of more than EUR 3 million. This customer intends to utilize this type of monorail hanging railway as standard for its underground transportation technology in the future. Also in June, SMT Scharf founded a joint-venture company in the Ukraine in order to provide local sales and service to its customers there. As a consequence, two Ukrainian mines placed orders with SMT Scharf for monorail hanging railways. They comprise a total of five train sets, tracks and accessories with a total value in excess of EUR 4 million.

New product development also contributed to revenue growth. The 25 kW locomotive that was developed in the previous year was presented at the Katowice trade fair in September 2011. Subsequently, several Polish mines placed orders, the first of which were delivered before the end of the year under review. The UK company Dosco delivered the first of its M 200 continuous miners, which is being deployed in a copper mine to extract rock containing copper ore.

In Germany, SMT Scharf's business with Deutsche Steinkohle AG was restricted to spare parts and services, as had been expected. Revenue generated by Deutsche Steinkohle AG was up year-on-year, despite somewhat lower hard coal production volumes from Germany. This was due to temporarily stronger demand and the fact that SMT Scharf Saar GmbH in the 2010 fiscal year was only included in Group revenue as of June. It is foreseeable that the temporary demand increase will reverse because two further coal mines will be closed in Germany over the course of 2012.

At the end of 2011, SMT Scharf Group's order book totaled 49,571 TEUR, 96% of which derived from markets outside Germany. The previous year's figure stood at 23,178 TEUR, 95% of which was attributable to markets outside Germany. This growth is due to continued strong demand on the main markets, as well as to delays to projects that were originally planned for delivery in the year under review.

Research and development

As in the previous year, research and development activities in the year under review focused on investigations into new drive types. 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.

In the reporting year, SMT Scharf received the first approvals for the 25 kW locomotive that was presented for the first time in December 2010. Customers in three different countries are now successfully deploying this locomotive type. They serve as shunting locomotives that can travel over a mine's entire rail network. This differentiates them from so-called "shunting trolleys" that have been used for these purposes to date. Shunting trolleys are connected to a stationary hydraulic or pneumatic power supply, and can be utilized in only a limited radius as a consequence.

Development work on a new heavy-load transporter with crawler track units was successfully concluded in the third quarter. This transporter is designed to transport payloads of up to 60 tonnes underground. The high payload enables mining operations to realize time and cost savings when transporting particularly heavy equipment items. With regard to the transporter's drive engineering concept, SMT Scharf is relying on tried and tested diesel engine technology utilized in its diesel cats. These diesel engines drive the new transporter's crawler track units, enabling it to climb gradients of up to 25 degrees with full payloads, while guaranteeing a high degree of maneuverability for the vehicle. Applications have been submitted to obtain international intellectual property rights for the vehicle design and construction.

Further projects entailed adjusting the rack and pinion drive for monorail hanging railways, which was developed in 2009, to fit older diesel cats, and the adjustment of the floor-mounted railway with rack and pinion drive to fit other track profiles. Work also continued on expanding the product range in the high-performance roadheader area.

The SMT Scharf Group invested about 4.1% of its 2011 revenues in research and development, which is higher than in the previous year (3.8%). 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

The number of employees remained almost constant at the German locations, having previously fallen significantly for several consecutive years. As of December 31, 2011, there were a total of 131 employees in Germany, including 14 apprentices (previous year: 132 employees including 13 apprentices). In contrast, SMT Scharf expanded staff numbers outside of Germany. The number of employees at the international locations – not including the joint ventures in China and Ukraine – increased to 176, including 3 apprentices (previous year: 143 employees, including 2 apprentices). Most of the growth was attributable to China. In total, the percentage of employees outside Germany in the Group increased to 57% (previous year: 52%).

44 of the 307 employees are female. They account for 14% of the workforce, which is slightly higher than the percentage of female managers to the total number of managers in the SMT Scharf Group (11%).

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

A total of 4,620 shares were sold to employees in April 2011 as part of an employee equity participation plan. SMT Scharf bought these shares in fiscal year 2009 under the authorization to acquire own shares by the General Meeting on April 23, 2009.

Net assets, financial position and results of operations

Equity and particular legal relationships: SMT Scharf AG's subscribed capital was increased from 3,000 TEUR to 4,200 TEUR 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. There is also authorized capital 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 April 12, 2016. 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, fulfil 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. The company still held 235,095 of these shares at the start of the year under review (5.6% of the share capital). The company reduced this position to 50,475 shares (1.2% of the share capital) by transferring shares to the UK companies' pension fund and by issuing shares to employees.

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.

All of the shareholders that held interests in SMT Scharf AG before the IPO fell below the 10% voting rights threshold in January 2010, and withdrew fully from the shareholder base in February 2010. No new participating interests have been reported to SMT Scharf AG since then 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 TEUR. 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 TEUR since its IPO. At the end of the reporting period, 50 TEUR was attributable to treasury shares, as a consequence of which the amount carried in the balance sheet stood at 4,150 TEUR. There is an additional capital reserve, which increased to 11,689 TEUR due to the transfer of treasury shares to the pension fund at the UK companies and due to the sale of shares to employees (previous year: 7,848 TEUR). Equity including net income for the period and other changes totaled 40,879 TEUR as of December 31, 2011 (previous year: 31,055 TEUR) Given total assets of 81,861 TEUR, this corresponds to an equity ratio of 50% compared to 46% one year before. Including the mezzanine financing, which has a carrying amount of 4,954 TEUR, this ratio is 56% of total assets (previous year: 54%).

Current assets as of the year-end were significantly heads of the previous year's figure. This was primarily due to an increase in inventories to 24,623 TEUR, from 10,365 TEUR one year previously. Trade receivables, which had at times fallen significantly over the course of the year, almost re-attained the high level of the previous year's financial statements (24,124 TEUR) as of the year-end, when they stood at 23,147 TEUR. Financial assets increased to reflect the investment in the Ukraine and earnings contributions from both joint-venture companies.

On the equity and liabilities side the largest change was in provisions for pensions. The transfer of treasury shares to the pension fund at the UK companies reduced the latter's deficit. Together with miscellaneous changes this brought the total pension provisions of the SMT Scharf Group down to 4,652 TEUR (previous year: 9,362 TEUR). Among current liabilities, there was an increase in advance payments received and payables to suppliers. Advance payments received rose to 8,000 TEUR, compared with 3,805 TEUR one year previously. Payables to suppliers stood at 10,469 TEUR at the end of the period under review (previous year: 5,739 TEUR). These developments compensated for some of the higher level of capital tied up that resulted from the increase in inventories.

Earnings position: In the year under review, the SMT Scharf Group generated 14,547 TEUR of profit from operating activities (EBIT), reflecting a 31% increase compared with the previous year's figure of 11,106 TEUR. As a consequence, the EBIT margin reached 17.7%, compared with 16.6% in the year before. This growth is all the more remarkable insofar as the previous year's profit included 794 TEUR non-cash-effective income from the first-time consolidation of the UK companies. The cost of materials ratio underwent a further increase to 58% (previous year: 53%) due to a change in the product mix, and advance work on orders that are to be shipped in 2012. This was contrasted by a fall in the personnel expense ratio to 17%, compared with 19% in the previous year. Miscellaneous expenses and income (excluding changes in inventories) rose to 15% of revenue, having stood at only 12% in the previous year. This increase was mainly due to higher incidental sales costs (commissions, freight and packaging costs), and higher exchange-rate losses. 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 to 424 TEUR from -67 TEUR. This improvement is primarily due to profit shares from the Chinese and Ukrainian joint-venture companies, which together amounted to 592 TEUR (previous year: 121 TEUR from China). The interest on the mezzanine financing and the interest on bank accounts in credit were essentially unchanged compared with the previous year. In addition, there were interest expenses from discounting of bills of exchange.

Consolidated net income grew somewhat faster than EBIT, rising by 33% to reach 10,658 TEUR, compared with 8,006 TEUR in the previous year. At 29%, the tax rate was higher than in the previous year (27%). The main impact was from taxes on dividends that foreign subsidiaries distributed to SMT Scharf AG. The tax rate for the German companies, including SMT Scharf AG, continued to amount to 32.1%.

Financial position: Cash and cash equivalents plus marketable securities decreased slightly during the year under review to 14,772 TEUR (previous year: 15,431 TEUR). The positive earnings trend was not reflected in a higher level of financial resources because inventories increased by 14,258 TEUR year-on-year. Significant cash outflows also resulted from the distribution of a 3,527 TEUR dividend to 2010 and 1,384 TEUR of investments in fixed assets. Of the securities and cash and cash equivalents, 681 TEUR is designated for the hardship and social fund. A further amount of 456 TEUR serves as collateral for guarantees at a bank.

Capital expenditure: In 2011 SMT Scharf's capital expenditure totaled 1,396 TEUR. The largest item was development projects requiring capitalization pursuant to IAS 38, with a total value of 526 TEUR. These mainly related to new vehicle drive systems, for example, the new heavy-load transporter for payloads of up to 60 tonnes that was presented in November 2011, and the 25 kW locomotive that had already been presented at the end of 2010. There were also modernization projects for IT systems and heating plants. 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 29, 2011. It is as follows:

“The Managing and Supervisory Boards of SMT Scharf AG declare that they have corresponded and will continue to correspond to the recommendations of the "German Corporate Governance Code Government Commission" in the Code's version dated 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.
- The employment contracts for the members of the Managing Board do not limit payments upon early termination to two years' remuneration. Until now, such a limit appears to be dispensable since the employment contracts only have terms of three years.”

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.

The Supervisory Board is endeavouring to achieve greater diversity in its composition over the 2010 to 2015 period. This is intended to relate to three aspects in particular. Different professional and industry backgrounds of members shall foster different points of view in internal discussions. An international membership shall reflect the international activity of the Group. An appropriate share of female members is particularly desirable. Progress was made with the first two of these objectives in the new elections in 2010 and 2011.

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

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

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

Remuneration systems for the Managing and Supervisory Boards

The Supervisory Board's remuneration was last 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 for the period and is limited in terms of amount. The Supervisory Board members' periods of office run until the end of the General Meeting which resolves ratification for fiscal year 2014 (Mr. Dreyer) and fiscal year 2015 (Dr. Markus and Dr. Kempis) respectively. Mr. Dreyer has announced that he will soon relinquish his office in order to be available to become the company's CEO.

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. Mr. Schulze-Buxloh's employment contract runs until December 2014. Both parties are entitled to terminate it early only for cause. Dr. Trautwein's employment contract is to be terminated at the end of March 2012 by amicable agreement.

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, delays to suppliers' deliveries, quality problems and unanticipated technical difficulties. These can lead internally to divergences from planned results and can disrupt agreements made with customers or suppliers. Guidelines for project and quality management, product safety and health and safety at work as well as for environmental protection should effectively reduce these risks. Outages of production plants are secured to a limited extent through operational interruption insurance.

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 operating cash flow from operating activities, the existing bank balances and lines of credit as well as 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

The company announced in early February that Dr. Trautwein will step down from the Managing Board at the end of March this year, in order to address new responsibilities. As a consequence, Mr. Dreyer will relinquish his office as a member of the company's Supervisory Board, in order to be subsequently available to switch to the post of the company's Chief Executive Officer once the Supervisory Board has been reconstituted.

Forecast

From today's perspective, it is most probable that demand for raw materials and investments by mines will increase further in 2012 and over subsequent years. Countries such as China, Russia, Ukraine 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 still significant risks that a recession occurs, similar to 2008. 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 2012. OECD is forecasting an increase in gross domestic product in its member states by an average of 1.6% after 1.9% in the previous year. Forecasts are more favourable for countries where the SMT Scharf Group generates most of its revenue. For example, the OECD anticipates 8.5% growth in China in 2012 (previous year: 9.3%), and 3.6% for South Africa (previous year: 3.2%). 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 8.5% for global investments in mining technology over the 2010 to 2015 period.

2011 marked another year of successful international expansion for SMT Scharf. 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. China, Russia, South Africa and Poland will continue to represent the key markets. 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 joint venture in China. In parallel, SMT Scharf aims to make further acquisitions in associated lines of business.

Hamm, February 22, 2012

(Dr. Trautwein)

(Schulze-Buxloh)

Consolidated balance sheet as of December 31, 2011

In EUR	Notes	31.12.2011	31.12.2010
Assets			
Inventories		24,622,864.25	10,365,338.34
Trade receivables	(7)	22,867,810.24	23,487,248.14
Other current receivables / assets		3,099,049.42	1,264,750.50
Securities	(8)	2,000,000.00	3,331,255.20
Cash and cash equivalents	(8)	12,772,082.50	12,099,810.77
Current assets		65,361,806.41	50,548,402.95
Intangible assets	(6)	3,790,585.88	3,870,334.00
Property, plant and equipment	(6)	8,419,405.01	8,727,557.20
Financial assets		1,371,878.17	761,473.25
Deferred tax assets	(5)	2,577,245.87	2,583,582.76
Trade receivables	(7)	278,985.83	637,188.30
Other non-current assets		61,047.55	56,928.20
Non-current assets		16,499,148.31	16,637,063.71
Total equity and liabilities		81,860,954.72	67,185,466.66

In EUR	Notes	31.12.2011	31.12.2010
Equity and liabilities			
Current income tax		2,920,014.89	1,979,795.90
Other current provisions	(11)	6,007,765.44	6,202,235.48
Advance payments received	(12)	7,999,621.96	3,805,048.89
Trade payables	(12)	10,468,823.76	5,739,363.84
Other current liabilities	(12)	231,652.97	549,373.39
Current provisions and liabilities		27,627,879.02	18,275,817.50
Provisions for pensions	(10)	4,652,303.00	9,362,458.99
Other non-current provisions	(11)	2,302,387.57	2,093,930.84
Deferred tax liabilities	(5)	1,445,801.74	1,476,908.98
Non-current financial liabilities	(12)	4,953,941.86	4,921,523.62
Non-current provisions and liabilities		13,354,434.17	17,854,822.43
Subscribed capital		4,149,525.00	3,964,905.00
Share premium		11,689,176.40	7,848,142.60
Profit brought forward		24,829,821.75	17,699,171.89
Currency translation difference		210,118.38	1,542,607.24
Equity	(9)	40,878,641.53	31,054,826.73
Total equity and liabilities		81,860,954.72	67,185,466.66

Consolidated statement of comprehensive income from January 1 to December 31, 2011

In EUR	Notes	2011	2010
Revenue	(1)	82,118,278.62	66,732,671.94
Other operating income	(2)	2,164,365.55	3,316,130.30
Changes in inventories		5,918,906.14	664,108.28
Cost of materials		47,689,528.76	35,473,342.42
Personnel expenses	(3)	13,798,896.99	12,485,165.78
Depreciation and amortization		1,484,499.63	1,579,818.08
Other operating expenses	(4)	12,681,829.64	10,069,019.17
Profit from operating activities (EBIT)		14,546,795.29	11,105,565.07
Income from participating interests		592,165.24	121,323.03
Interest income		333,402.43	294,131.06
Write-downs on financial investments and marketable securities		0.00	15,466.00
Interest expenses		501,727.37	467,465.95
Financial result		423,840.30	-67,477.86
Profit before tax		14,970,635.59	11,038,087.21
Income taxes	(5)	4,312,889.48	3,031,640.75
Net income		10,657,746.11	8,006,446.46
Transaction cost for sale of own shares		0.00	-42,000.00
Tax advantage		0.00	13,482.00
Currency difference from translation of foreign financial statements		-1,332,488.86	1,454,934.46
Comprehensive income		9,325,257.25	9,432,862.92
Earnings per share*			
Basic		2.60	2.03
Diluted		2.60	2.03

* Consolidated net income divided by an average number of 4,099,551 issued shares (previous year: 3,943,379)

Consolidated cash flow statement from January 1 to December 31, 2011

In EUR	2011	2010
Net income	10,657,746.11	8,006,446.46
Income from initial consolidation	0.00	-810,209.96
Income from equity participation	-592,165.24	-121,323.03
Dividend income from equity participation	54,465.61	0.00
Depreciation and amortization of non-current assets	1,484,499.63	1,579,818.08
Gain / loss on the disposal of intangible assets and property, plant and equipment	2,857.34	114,013.81
Changes in current assets, provisions and liabilities		
- Provisions	-4,696,169.30	874,434.94
- Taxes	915,448.64	-98,055.98
- Inventories	-14,257,525.91	208,480.84
- Receivables and other assets	-860,777.90	-9,069,313.85
- Liabilities	8,606,312.57	1,866,127.99
Net cash flows from operating activities	1,314,691.55	2,550,419.30
Investments in intangible assets and property, plant and equipment	-1,383,934.23	-770,547.16
Proceeds from the disposal of intangible assets and property, plant and equipment	0.00	66,294.42
Corporate acquisitions	-12,071.61	-2,545,813.22
Acquired cash and cash equivalents	0.00	1,719,286.74
Net cash flows used in investing activities	-1,396,005.84	-1,530,779.22
Sale / acquisition of own shares	103,903.80	1,298,472.84
Transfer of own shares	3,921,750.00	0.00
Change in hardship and social funds	0.00	89,405.00
Dividend disbursement	-3,527,096.25	-2,762,692.80
Repayment of / proceeds from financial liabilities	32,418.24	29,818.68
Net cash flows from / used in financing activities	530,975.79	-1,344,996.28
Effect of changes in exchange rates and group composition	-1,108,644.97	853,935.28
Change in net financial position	-658,983.47	528,579.08
Net financial position – start of period	14,749,904.33	14,221,325.25
Net financial position – end of period	14,090,920.86	14,749,904.33

Consolidated statement of changes in equity from January 1 to December 31, 2011

In EUR	Subscribed capital	Share premium	Retained earnings	Profit brought forward	Currency translation difference	Total equity
Balance at January 1, 2011	3,964,905.00	7,848,142.60		17,699,171.89	1,542,607.24	31,054,826.73
Dividend disbursement				-3,527,096.25		-3,527,096.25
Transfer of own shares	180,000.00	3,741,750.00				3,921,750.00
Sale of own shares	4,620.00	99,283.80				103,903.80
Net income				10,657,746.11		10,657,746.11
Currency difference from translation of foreign financial statements					-1,332,488.86	-1,332,488.86
Comprehensive income				10,657,746.11	-1,332,488.86	9,325,257.25
Balance at December 31, 2011	4,149,525.00	11,689,176.40		24,829,821.75	210,118.38	40,878,641.53

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

Notes to the consolidated financial statements for fiscal year 2011

Information on SMT Scharf AG and the SMT Scharf Group

SMT Scharf AG, Roemerstrasse 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) 31.12.2011	Earnings (IFRS) 2011
SMT Scharf GmbH, Hamm, Germany	100%	14,458	7,030
SMT Scharf Saar GmbH, Neunkirchen, Germany	100%	365	332
SMT Scharf Polska Sp. z o. o., Tychy, Poland	100%	4,654	1,987
Sareco Engineering (Pty.) Ltd., Brakpan, South Africa	100%	1,560	207
SMT Scharf Africa (Pty.) Ltd., Kya Sands, South Africa	100%	2,573	33
OOO SMT Scharf, Novokuznetsk, Russian Federation	100% *	1,897	1,459
SMT Scharf Sales and Services GmbH, Hamm, Germany	100% **	17	-3
SMT Scharf International OÜ, Tallinn, Estonia	100% **	1,070	318
Scharf Mining Machinery (Beijing) Co. Ltd., Beijing, China	100% **	938	230
Dosco Holdings Ltd., Tuxford, United Kingdom	100%	12,991	138
Dosco Overseas Engineering Ltd., Tuxford, United Kingdom	100% ***	7,546	258
Hollybank Engineering Co. Ltd., Tuxford, United Kingdom	100% ***	1,491	77
OOO Dosco, Novokuznetsk, Russian Federation	100% ***	-395	-30
SMT Scharf Far East Holdings Ltd., Hong Kong, China	100% ****	1	0
Shandong Xinsha Monorail Co. Ltd., Xintai, China	50% **	2,548	1,012
TOW SMT Scharf Ukraine, Donetsk, Ukraine	50% **	204	173

* of which 1.25% indirectly via SMT Scharf GmbH

** indirectly via SMT Scharf GmbH

*** indirectly via Dosco Holdings Ltd.

**** of which 25% indirectly via SMT Scharf GmbH

SMT Scharf Far East Holdings Ltd. was founded in the period under review.

The 50% participating interests in Shandong Xinsha Monorail Co. Ltd. and TOW SMT Scharf Ukraine, each of which was founded together with one partner, are consolidated using the equity method. Their key balance sheet data for 2011 are as follows:

	Assets	Liabilities	Revenue
Shandong Xinsha Monorail Co. Ltd., Xintai, China	10,744	8,196	7,621
TOW SMT Scharf Ukraine, Donetsk, Ukraine	1,208	1,004	1,270

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 29, 2011. It has been made accessible to shareholders at www.smtscharf.com.

Information on the consolidated financial statements

As SMT Scharf AG is admitted to the regulated market, it prepares its consolidated financial statements according to IFRS. The SMT Scharf Group's consolidated financial statements as of December 31, 2011, 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.

The following IAS / IFRS / IFRIC, and amendments to the standards, which require first-time application in the 2011 fiscal year pursuant to EU law, have no effects on the consolidated financial statements of SMT Scharf AG:

- Amendments to IAS 32 relating to the accounting treatment of subscription and option rights in a currency other than the issuer's functional currency
- IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments",
- Amendments to IFRS 1 relating to first-time adoption of IFRS.

The following IAS / IFRS / IFRIC, and amendments to the standards, which require first-time application in the 2011 fiscal year pursuant to EU law, have no significant effects on the consolidated financial statements of SMT Scharf AG:

- Amendments to IAS 24 relating to the definition of related parties,
- Amendments to IFRIC 14 relating to prepayments for minimum funding requirements,
- Changes from the third Annual Improvements Project,

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. This applies most notably to the abolition of the corridor method in the new version of IAS 19.

- IFRS 9 "Financial Instruments",
- IFRS 10 "Consolidated Financial Statements",
- IFRS 11 "Joint Arrangements",
- IFRS 12 "Disclosure of Interests in Other Entities",
- IFRS 13 "Fair Value Measurement",

- IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine",
- Amendments to IAS 1 "Presentation of Financial Statements" from June 2011,
- Amendments to IAS 19 "Employee Benefits",
- Amendments to IAS 27 "Separate Financial Statements" from May 2011,
- Amendments to IAS 28 "Investments in Associates and Joint Ventures" from May 2011,
- Amendments to IFRS 7 "Financial Instruments: Disclosures" from October 2010,
- Amendments to IAS 12 "Income Taxes" from December 2010,
- Amendments to IAS 32 "Financial Instruments: Presentation" und IFRS 7 "Financial Instruments: Disclosures" from December 2011.

The consolidated financial statements have been prepared in Euros. If not otherwise stated, all amounts in the notes are stated in thousands of Euros (TEUR) 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 5, 2012 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 subjected 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 intragroup 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	
	31.12.2011	31.12.2010	2011	2010
Polish Zloty	4.4580	3.9750	4.1187	3.9947
British Pound	0.8353	0.8608	0.8678	0.8578
South African Rand	10.4830	8.8625	10.0930	9.6984
Chinese Renminbi Yuan	8.1588	8.8220	8.9961	8.9712
Russian Ruble	41.7650	40.8200	40.8797	40.2629

Accounting and valuation policies

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

Revenue from the sale of equipment and spare 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 but are recognized immediately as expenses.

Research and development costs that do not fulfil the criteria for capitalization from IAS 38 are recorded immediately as expenses.

Goodwill is carried at acquisition cost and is subjected 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 amortized 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 are 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 amortized from the date that they are available for disposal (marketability) using the straight line method over the anticipated product life cycle of six to 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:

	<u>In years</u>
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 subjected to regular impairment testing based on cash generating units. As in the previous year no write-downs within the meaning of IAS 36 were performed in the year under review.

Public subsidies are recorded if there is sufficient certainty that the subsidies will be granted and that the company fulfils the conditions with which these are linked. In 2011, such subsidies totaled 21 TEUR.

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 SMT Scharf. 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, 2011, the SMT Scharf Group had assets in the extended loans and receivables category.

The extended 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 the lower of cost or their 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, 2011 write-downs of inventories to their lower net realizable value totaled 6,047 TEUR (previous year: 6,195 TEUR)

Deferred and current 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 only 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 either the cash value of the obligation or the fair value of plan assets, 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 losses. 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 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:

	2011	2010
Sale of new equipment	45,937	39,329
Spare parts / service / other	36,181	27,404
Total	82,118	66,733

Revenue by region was as follows:

	2011	2010
China	22,851	16,282
Russia and other CIS states	16,093	9,759
Africa	11,312	12,057
Poland	8,798	6,130
Germany	8,352	5,704
America	7,365	8,784
Other countries	7,347	8,017
Total	82,118	66,733

(2) Other operating income

Other operating income is composed of the following items:

	2011	2010
Reversal of provisions	835	630
Exchange rate gains	325	776
Income from initial consolidation	0	810
Miscellaneous other operating income	1,004	1,100
Total	2,164	3,316

(3) Personnel expenses

Personnel expenses are composed of the following items:

	2011	2010
Wages and salaries	12,141	10,780
Social security and pension contributions	1,658	1,705
Total	13,799	12,485

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

	2011	2010
Employees	275	261
Apprentices	13	13
Total	288	274

(4) Other operating expenses

Other operating expenses are composed of the following items:

	2011	2010
Special direct cost of sales	4,110	2,512
Travel expenses	1,552	1,161
Third-party services	1,182	1,594
Exchange rate losses	699	242
Rent and leases	567	345
Contributions / fees	502	377
Maintenance costs	441	349
Advertising	270	220
Miscellaneous other operating expenses	3,359	3,269
Total	12,682	10,069

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

	2011	2010
Audit	119	116
Tax consulting	27	21
Other services	0	0
Total	146	137

(5) Income taxes

Income taxes are composed of the following items:

	2011	2010
Current tax expense	4,338	3,091
Thereof relating to the fiscal year	4,338	3,091
Thereof relating to prior periods	0	0
Deferred taxes	-25	-59
Thereof creation or reversal of temporary differences	-25	-59
Thereof other changes	0	0
Total	4,313	3,032

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 amounted to 32.1%, as in the previous year. If deferred tax assets or liabilities are carried for foreign companies, these are measured at the tax rates that apply in the corresponding countries.

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

	31.12.2011	31.12.2010
Deferred tax assets		
Pension provisions	624	1,825
Other assets and liabilities	328	472
Deferred tax liabilities		
Intangible assets	640	578
Property, plant and equipment	782	1,248
Other assets and liabilities	311	47

Deferred tax assets and liabilities totaling 287 TEUR were netted as they relate to future charges or reductions for the same tax payer to the same tax authority (previous year: 396 TEUR). Consolidation effects resulted in deferred tax assets of 534 TEUR (previous year: 325 TEUR). As of December 31, 2011, deferred tax assets were carried for tax losses carried forward in the amount of 5,147 TEUR (previous year: 1,190 TEUR). According to the current legal situation, there are no temporal or amount-based restrictions on carrying these losses forward.

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

	2011	2010
Profit before income taxes	14,971	11,038
Imputed tax expense	4,806	3,543
International tax rate differences	-722	-556
Non-capitalization of deferred taxes on losses carried forward	10	47
Usage of tax losses not capitalized previously	-105	0
Tax additions / reductions not impacting the tax base	-78	115
Income from initial consolidation	0	-260
Other differences	402	143
Reported income tax expense	4,313	3,032

The dividend disbursement proposed by the Managing and Supervisory Boards for fiscal year 2011 will neither lead to a reduction nor 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, 2011

		Initial balance 01.01.2011	Currency translation	Additions	Disposals	Reclassifi- cation	Closing balance 31.12.2011
Goodwill	Gross	1,880	-274	0	0	0	1,606
	D / A	0	0	0	0	0	0
	Net	1,880	-274	0	0	0	1,606
Acquired intangible assets	Gross	1,373	-38	2	0	0	1,337
	D / A	492	-18	117	0	0	591
	Net	881	-20	-115	0	0	746
Own work capitalized (development costs)	Gross	1,792	0	526	0	0	2,318
	D / A	683	1	197	0	0	879
	Net	1,109	-1	329	0	0	1,439
Intangible assets	Gross	5,045	-312	528	0	0	5,261
	D / A	1,175	-19	314	0	0	1,470
	Net	3,870	-293	214	0	0	3,791
Land and buildings	Gross	14,252	63	54	0	0	14,369
	D / A	7,563	2	300	0	0	7,865
	Net	6,689	61	-246	0	0	6,504
Thereof leased to third parties	Gross	1,385	0	0	0	0	1,385
	D / A	814	0	27	0	0	841
	Net	571	0	-27	0	0	544
Technical equipment and machinery	Gross	5,478	36	160	654	102	5,122
	D / A	4,914	46	170	653	30	4,507
	Net	564	-10	-10	1	72	615
Fixtures and fittings	Gross	8,964	-168	570	732	-102	8,532
	D / A	7,489	-126	701	730	-30	7,304
	Net	1,474	-42	-131	2	-72	1,228
Advance payments made	Gross	0	0	72	0	0	72
	D / A	0	0	0	0	0	0
	Net	0	0	72	0	0	72
Property, plant and equipment	Gross	28,694	-69	856	1,386	0	28,095
	D / A	19,966	-78	1,171	1,383	0	19,676
	Net	8,728	9	-315	3	0	8,419

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

		Initial balance 01.01.2010	Currency translation	Additions from initial consolidation	Additions	Disposals	Closing balance 31.12.2010
Goodwill	Gross	1,387	493	0	0	0	1,880
	D / A	0	0	0	0	0	0
	Net	1,387	493	0	0	0	1,880
Acquired intangible assets	Gross	602	61	705	15	10	1,373
	D / A	331	17	46	106	8	492
	Net	271	44	659	-91	2	881
Own work capitalized (development costs)	Gross	1,456	0	0	336	0	1,792
	D / A	497	0	0	186	0	683
	Net	959	0	0	150	0	1,109
Intangible assets	Gross	3,445	554	705	351	10	5,045
	D / A	828	17	46	292	8	1,175
	Net	2,617	537	659	59	2	3,870
Land and buildings	Gross	12,040	1	2,211	0	0	14,252
	D / A	7,242	0	8	313	0	7,563
	Net	4,798	1	2,203	-313	0	6,689
Thereof leased to third parties	Gross	1,385	0	0	0	0	1,385
	D / A	770	0	0	44	0	814
	Net	615	0	0	-44	0	571
Technical equipment and machinery	Gross	2,472	19	3,012	100	125	5,478
	D / A	2,067	12	2,818	142	125	4,914
	Net	405	7	194	-42	0	564
Fixtures and fittings	Gross	5,964	97	3,030	320	447	8,964
	D / A	4,062	51	2,812	833	269	7,489
	Net	1,902	46	217	-513	178	1,474
Property, plant and equipment	Gross	20,476	117	8,253	420	572	28,694
	D / A	13,371	63	5,638	1,288	394	19,966
	Net	7,105	54	2,615	-868	178	8,728

The production costs of intangible assets that must be capitalized according to IAS 38 are initially expensed (in particular, personnel expenses) according to the nature of expense format, and then eliminated in the relevant period. The amortization for the internally generated intangible assets is carried as amortization expense. In 2011, development costs totaling 526 TEUR were capitalized for two projects which fulfil the requirements of IAS 38.

The SMT Scharf Group leases internally developed drive systems as a lessor. On the balance sheet date, six 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 TEUR are due to a hardship and social fund, as in the previous year. This fund is managed in trust by a commission which includes both employer and employee representatives. A further amount of 456 TEUR serves as collateral for guarantees at a bank.

(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 TEUR 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 and transfer of own shares.

As at December 31, 2011, 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 TEUR against cash or non-cash contributions until April 12, 2016 (authorized capital). Shareholders' subscription rights can be excluded during this process.

In addition, there is conditional capital of up to 2,100 TEUR 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, fulfil 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 treasury

shares were acquired in the 2011 fiscal year. Of the treasury shares acquired in 2009, the company sold 4,620 to employees as part of an employee equity participation plan. It transferred a further 180,000 shares to the pension fund at the UK companies. It thereby fulfilled the commitment to the trustees of the pension fund undertaken as part of the purchase of Dosco Holdings Limited and its subsidiaries. The company still held 50,475 own shares on December 31, 2011, or 1.2% of the share capital. The own shares can be used for all purposes set out in the authorization resolution.

SMT Scharf AG's annual financial statements, which are prepared in accordance with the principles of the Handelsgesetzbuch, include net retained profits of 4,476 TEUR. The Managing and Supervisory Boards will propose to the ordinary General Meeting, which is to be held on April 25, 2012, to pay a dividend of 0.95 EUR per share for fiscal year 2011 from these net retained profits. This will result in a total dividend of 3,942 TEUR, payable in 2012, based on the shares in circulation on today's date (excluding treasury shares). The remaining amount of 534 TEUR 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 for their 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 2005 G mortality tables, the following assumptions were used:

In % p. a.	31.12.2011	31.12.2010
Rate of benefit increases	2.0%	2.0%
Rate of pension increases	1.0 - 2.0%	1.0 - 2.0%
Discount rate (DBO)	5.14%	5.15%

The current service cost and interest expense are recorded in personnel expenses. The defined benefit obligation changed as follows:

	2011	2010
Defined benefit obligation on Jan. 1	2,656	2,465
Current service cost	188	36
Interest cost	128	130
Pension payments and transfers	-131	-124
Actuarial gains / losses	50	149
Defined benefit obligation on Dec. 31	2,891	2,656
Unrecognized actuarial gains / losses	297	368
Carrying amount on Dec. 31	3,188	3,024

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.	31.12.2011	31.12.2010
Rate of benefit increases	3.1%	3.0%
Rate of pension increases	2.5 - 3.1%	2.5 - 3.0%
Discount rate (DBO)	5.5%	6.0%
Return on plan assets	6.0%	6.5%

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:

	2011	2010
Defined benefit obligation on Jan. 1, resp. upon acquisition	52,438	50,622
Current service cost	77	54
Interest cost	3,066	1,916
Pension payments and transfers	-1,889	-1,076
Actuarial gains / losses	4,091	753
Contributions by employees	43	27
Changes in exchange rates	1,808	142
Defined benefit obligation on Dec. 31	59,634	52,438

Plan assets changed as follows:

	2011	2010
Plan assets on Jan. 1, resp. upon acquisition	49,061	43,746
Anticipated income from plan assets	3,325	2,069
Pension payments and transfers	-1,889	-1,076
Actuarial gains / losses	-2,286	3,724
Contributions by employers and employees	4,740	487
Changes in exchange rates	1,645	111
Plan assets on Dec. 31	54,596	49,061

The obligation to be carried in the accounts is thus:

	31.12.2011	31.12.2010
Defined benefit obligation	59,634	52,438
Unrecognized actuarial gains / losses	-3,440	2,971
Plan assets	-54,596	-49,061
Changes in exchange rates	-134	-10
Carrying amount	1,464	6,338

Plan assets are composed of the following items:

	31.12.2011	31.12.2010
Equities	30,156	30,518
Bonds	17,652	13,686
Real estate	4,361	4,042
Other	2,427	815
Total	54,596	49,061

(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 payments for overtime work. 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 2011 can be seen in the following statement of changes in provisions.

Consolidated statement of changes in other provisions from January 1 to December 31, 2011

	Initial balance 01.01.2011	Currency translation	Transfers	Usage	Additions	Reversals	Closing balance 31.12.2011
Personnel	2,183	-9	-150	1,713	1,760	286	1,785
Sales	1,676	1	0	461	1,274	365	2,125
Miscellaneous	2,343	24	0	1,996	1,809	82	2,098
Other current provisions	6,202	16	-150	4,170	4,843	733	6,008
Other non-current provisions	2,094	6	-2	271	538	63	2,302

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

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

(12) Liabilities

As was the case in the previous year, none of the trade payables, advance payments received and other current 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. A bank balance of 456 TEUR serves as collateral for one bank's guarantees.

Notes to the cash flow statement

The cash flow statement shows the changes in the SMT Scharf Group's net financial position 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:

	2011	2010
Interest received	208	231
Interest paid	482	415
Income taxes paid	3,805	3,406

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.

	31.12.2011	31.12.2010
Cash and cash equivalents	12,772	12,100
+ Securities	2,000	3,331
./. Hardship and social funds	-681	-681
./. Current financial liabilities	0	0
Net financial position	14,091	14,750

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 3,240 TEUR (previous year: 4,129 TEUR).

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 2011, the rental and lease agreements resulted in payments totaling 567 TEUR being recognized in other operating expenses (previous year: 345 TEUR). The total nominal amount of the future minimum lease payments under operating leases and rental agreements is broken down by maturity as follows:

	31.12.2011	31.12.2010
Due within one year	285	378
Due in one to five years	277	446
Due after more than five years	0	0
Total	562	824

(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 2011 or 2010. 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:

	31.12.2011		31.12.2010	
	Carrying amount	Fair value	Carrying amount	Fair value
Loans received	4,954	4,942	4,922	5,102
(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:

	31.12.2011		31.12.2010	
	in TEUR	in %	in TEUR	in %
Equity	40,879	49.9	31,055	46.2
Non-current liabilities	13,354	16.3	17,855	26.6
Current liabilities	27,628	33.8	18,276	27.2

(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 TEUR on the balance sheet date (previous year: 6,000 TEUR). The group also has guarantee credit lines available. Management expects that the Group will be able to fulfil 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 28,307 TEUR (previous year: 28,777 TEUR).

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 711 TEUR (previous year: 567 TEUR). No write-downs have been formed for trade receivables in the amount of 7,375 TEUR (previous year: 4,586 TEUR) 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	Aurelius 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 (until 12/11) Hanseyachts AG, Greifswald, Member of the Supervisory Board (since 12/11) ISOCHEM S.A., Vert-le-Petit (France), Member of the Board (until 05/11) Lotus AG, Grünwald, Chairman of the Supervisory Board SKW-Stahl Metallurgie Holding AG, Unterneukirchen, Member of the Supervisory Board GCI Industrie AG, Munich, Chairman of the Supervisory Board
Christian Dreyer, Salzburg (Deputy Chairman)	Entrepreneur	
Ulrich Radlmayr, Schondorf a. A. (until 13.04.2011)	Lawyer and Member of the Managing Board of Aurelius AG	Aurelius Beteiligungsberatungs AG, Munich, Member of the Supervisory Board Aurelius Portfoliomanagement AG, Munich, Deputy Chairman of the Supervisory Board Aurelius Transaktionsberatungs AG, Munich, Deputy Chairman of the Supervisory Board Berentzen-Gruppe AG, Haselünne, Member of the Supervisory Board ED Enterprises AG, Grünwald, Member of the Supervisory Board (until 12/11) ISOCHEM S.A., Vert-le-Petit (France), Member of the Board (until 05/11) (no other mandates)
Dr.-Ing. Rolf- Dieter Kempis, Waldenburg (from 13.04.2011)	Management consultant	

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 TEUR, 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 TEUR 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 2011:

	Dr. Markus	Dreyer	Radlmayr	Dr. Kempis
Fixed remuneration	23	15	4	11
Variable remuneration	10	10	3	7
Expenses	2	1	0	1
Total	35	26	7	19

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 favour of members of the Supervisory Board. As of December 31, 2011 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 2011:

	Dr. Trautwein	Schulze- Buxloh
Basic remuneration	158	136
Bonus	476	242
Additional payments	49	20
Total	683	398

SMT Scharf AG has pension obligations and other obligations from the conversion of salary components for previous fiscal years of 678 TEUR for Dr. Trautwein and 144 TEUR for Mr. Schulze-Buxloh. 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, 2011, 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 favour of members of the Managing Board.

(19) Related party transactions

In 2011, services totaling less than 10 TEUR 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

The company announced in early February that Dr. Trautwein will step down from the Managing Board at the end of March this year, in order to address new responsibilities. As a consequence, Mr. Dreyer will relinquish his office as a member of the company's Supervisory Board, in order to be subsequently available to switch to the post of the company's Chief Executive Officer once the Supervisory Board has been reconstituted.

Hamm, February 22, 2012

(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, 2011, 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 2011 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 22, 2012

(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, 2011 to December 31, 2011. 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.

Duesseldorf, February 22, 2012

Verhülsdonk & Partner GmbH
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Oliver Schmitz
Wirtschaftsprüfer

Rainer Grote
Wirtschaftsprüfer

**Declaration by the Managing and Supervisory Boards of
SMT Scharf AG for 2011 according to Section 161 of the
Aktengesetz (German Public Limited Companies Act)
concerning the recommendations of the
"German Corporate Governance Code Government Commission"
in the version dated May 26, 2010**

The Managing and Supervisory Boards of SMT Scharf AG declare that they have corresponded and will continue to correspond to the recommendations of the "German Corporate Governance Code Government Commission" in the Code's version dated 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.
- The employment contracts for the members of the Managing Board do not limit payments upon early termination to two years' remuneration. Until now, such a limit appears to be dispensable since the employment contracts only have terms of three years.

Hamm, November 29, 2011

(Dr. Markus)

(Dreyer)

(Dr. Kempis)

(Dr. Trautwein)

(Schulze-Buxloh)

Report of the Supervisory Board for fiscal year 2011

In fiscal year 2011, 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 implementation status of its strategy.

In its four ordinary meetings on March 2, April 13, September 26 and November 29, 2011, 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, 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 2, 2011 focused on the financial statements and the IFRS consolidated financial statements for fiscal year 2010 together with the associated management reports. The Supervisory Board also discussed the SMT Scharf Group's current external financing. The Supervisory Board elected its Chairman and Deputy Chairman in its meeting on April 13. Dr. Dirk Markus was re-elected Chairman, and Mr. Christian Dreyer was re-elected Deputy Chairman. This meeting also dealt with ongoing acquisition projects. The meeting on September 26 focused on business developments in China and measures to expand the subsidiary located there. The Supervisory Board also discussed compliance management at the SMT Scharf Group. On November 29, the Supervisory Board covered the Group's 2012 budget and questions relating to personnel development, in particular. 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 2011 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. This included, for example, agreeing to the early stepping down of Dr. Trautwein from his office as CEO, and arranging his succession. The approval requirements for certain transactions as defined in the Managing Board's bylaws were upheld. This particularly related to the conclusion of borrowing agreements, the founding of new subsidiaries, and capital measures. 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. Ulrich Radlmayr resigned from the Supervisory Board as of the end of the Ordinary General Meeting on April 13, 2011. The General Meeting newly elected Dr.-Ing. Rolf-Dieter Kempis to the Supervisory Board. The General Meeting also re-elected Dr. Dirk Markus to the Supervisory Board. The Supervisory Board does not have any committees.

The members of the Supervisory Board jointly have the knowledge, capabilities and experience to fulfil their responsibilities. The Supervisory Board is endeavouring to achieve a higher diversity with regard to its composition over the 2010 to 2015 period. This is intended to relate to three aspects in particular. Different professional and industry backgrounds of members shall foster different points of view in internal discussions. An international membership shall reflect

the international activity of the Group. An appropriate share of female members is particularly desirable. Progress was made with the first two of these objectives in the new elections in 2010 and 2011. The members of the Supervisory Board fulfilled and continue to fulfil 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 29, 2011. This has been published in the meantime and made accessible to shareholders at www.smtscharf.com.

The financial statements and management report prepared by the Managing Board, as well as the IFRS consolidated financial statements and group management report for fiscal year 2011 were audited by Verhuelsdonk & Partner GmbH, Duesseldorf, 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 5, 2012, 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 2011. 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 2011. The financial statements for 2011 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 2011.

The company's Managing Board proposes to distribute a dividend of 0.95 EUR per share from the company's net retained profits totaling 4,476 TEUR. In terms of shares outstanding on today's date (excluding the company's treasury shares), this corresponds to a dividend total of 3,942 TEUR. The remaining amount of 534 TEUR 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. Special thanks are due to Dr. Trautwein, who will leave the company at the end of the month, for the outstanding work that he has contributed over the last six years. The Supervisory Board would like to wish the new Managing Board and the employees continuing success in meeting the challenges posed by the new fiscal year.

Hamm, March 5, 2012

(Dr. Markus)
Chairman of the Supervisory Board