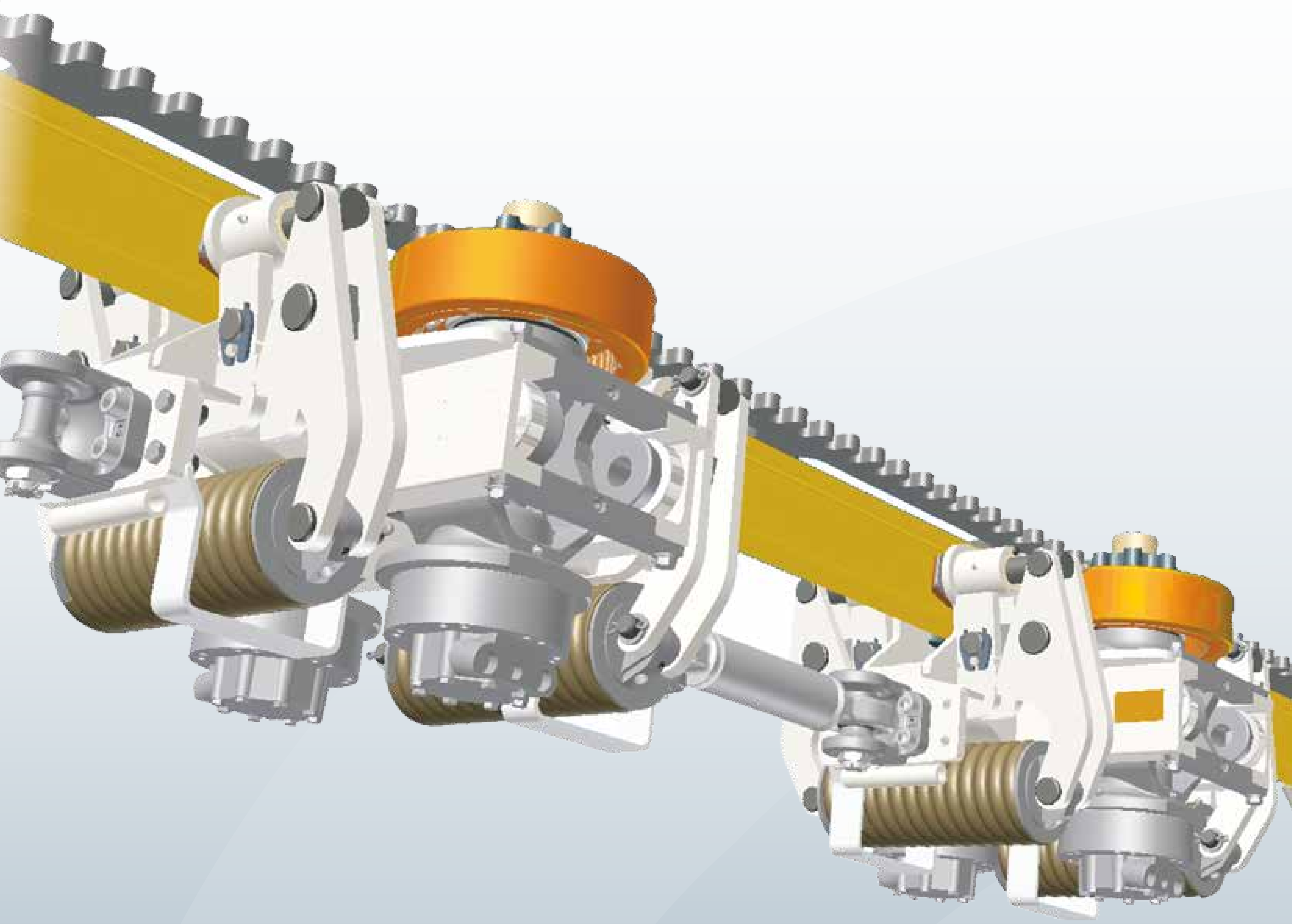
SCHARF
SOLUTIONS FOR MINING TRANSPORT



ANNUAL REPORT 2012

OVERVIEW OF KEY FINANCIALS

		2005	2006	2007	2008	2009	2010	2011	2012
Income statement data									
Revenue	TEUR	51,912	48,700	51,206	49,739	53,262	66,733	82,118	105,363
Revenue share from outside Germany	%	40	52	74	75	84	91	90	92
Operating income 100 %	TEUR	–	–	–	–	–	–	88,037	103,652
EBIT	TEUR	7,321	6,622	7,471	7,489	7,585	11,106	14,547	15,382
EBIT margin	%	14.1	13.6	14.6	15.1	14.2	16.6	16.5*	14.8*
Net income	TEUR	4,328	4,278	5,988	5,343	5,073	8,006	10,658	11,713
Balance sheet data									
Total assets	TEUR	47,160	30,082	43,920	55,410	44,789	67,185	82,683	77,798
Equity	TEUR	27,107	5,541	22,500	24,226	23,044	31,055	38,329	43,333
Equity ratio	%	57	18	51	44	51	46	46	56
Cash and cash equivalents and securities	TEUR	20,187	2,313	12,307	17,138	14,992	15,431	14,772	16,515
Personnel data									
Average number of employees		271	272	252	249	228	274	288	315
Share of employees ouside Germany	%	8	10	13	24	31	48	55	60
Share data									
Earnings per share	EUR	n/a	n/a	1.54	1.27	1.23	2.03	2.60	2.82
Dividend (2012: proposed)	EUR	n/a	n/a	0.70	0.85	0.70	0.85	0.95	0.98

* as percentage of operating income

CONTENTS

TO THE SHAREHOLDERS

Managing Board Member Heinrich Schulze-Buxloh and Chief Executive Officer Christian Dreyer

LETTER TO SHAREHOLDERS

Dear shareholders,

Three main events dominated our past financial year: Firstly, we succeeded in generating record results: Revenue was up by 28% to EUR 105.4 million and as a result surpassed EUR 100 million for the first time in company history. A total of 92.3% of this revenue now stems from abroad. Group net income reached EUR 11.7 million which was 10% up on the previous year.

Secondly, the global mining economy slowed somewhat, which can particularly be attributed to an announcement from the Chinese government in the first quarter: The growth target, which has been the driving force behind the world's demand for raw materials in the past few years, was reduced from 11% to a still remarkable 8%.

Thirdly, the constitution of the Managing Board changed with the appointment of Christian Dreyer as CEO. As a consequence, we developed a new five-year strategy, confirming the medium and long-term attractiveness of the mining market. We have set an ambitious growth target of 15% p.a. on average for our core business "Railway systems for challenging requirements underground". Given the economic cycles in mining, we view it as particularly important to maintain a revenue mix of new systems business and repair business (including spare parts and service). The new strategy will be explained in depth in the management report.

To have SMT Scharf AG's shareholders participate in our business success, the Managing and Supervisory Boards will propose a dividend of EUR 0.98 per share to the Annual General Meeting for the 2012 fiscal year. This is a 3% increase to the previous year's EUR 0.95 dividend and constitutes a 35% payout rate of consolidated net income. Consequently, our shareholders are once again benefiting from an attractive dividend yield. At the same time, we are securing the foundations for sufficient internal financing for our planned further international expansion. The progress that we have made in 2012 confirms our expectation that we will be able, on average, to grow SMT Scharf Group's revenues and earnings over the coming years.

We would like to thank our investors, business partners and customers for the confidence and trust which you have placed in us, and we look forward to continuing further on our path with you.

Kind regards

Christian Dreyer Heinrich Schulze-Buxloh

REPORT OF THE SUPERVISORY BOARD FOR FISCAL YEAR 2012


Supervisory Board: Dr. Rolf-Dieter Kempis, Dr. Dirk Markus (Chairman), Dr. Harald Fett

In fiscal year 2012, 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 5 (Hamm), April 25 (Hamm), September 18 (Tuxford/UK) and December 5, 2012 (Tychy/Polen), 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, which was analyzed with the help of a questionnaire on April 17, 2012 and March 4, 2013 and found to be sound.

The Supervisory Board received in-depth information on the course of the financial 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 5, 2011 focused on the financial statements and the IFRS consolidated financial statements for the financial year 2011 together with the associated management reports. The Supervisory Board elected its Chairman and Deputy Chairman in its meeting on April 25, 2012. Dr. Dirk Markus was re-elected Chairman and Dr. Rolf-Dieter Kempis was elected Deputy Chairman. Mr. Christian Dreyer was appointed CEO and Managing Board member. This meeting also dealt with ongoing acquisition projects. The meeting on September 18 focused on a special report on the Dosco participating interest, as well as a report on the strategic project "SMT Scharf 2017" initiated by the Managing Board. In addition, guarantees and other commitments between Group companies were discussed. In Poland on December 5, 2012, the Supervisory Board primarily covered the Group's 2013 budget and questions relating to the Group's structure, particularly in the Ukraine and China. 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 2012 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 SMT Scharf Group.

Mr. Christian Dreyer resigned from the Supervisory Board as of the end of the Ordinary General Meeting on April 25, 2012. The General Meeting newly elected Dr. Harald Fett to the Supervisory Board. No committees have existed or exist due to the small size of the Supervisory Board.

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 period to 2015. 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 2011 and 2012. 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 December 5, 2012. 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 2012 were audited by Verhuelsdonk & Partner GmbH Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Duesseldorf, and issued with an unqualified auditors' opinion. According to the statutory requirements, 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 4, 2013, 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 2012. 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 2012. The financial statements for 2012 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 2012.

The company's Managing Board proposes to distribute a dividend of EUR 0.98 per share from the company's net retained profits totaling TEUR 4,649. In terms of shares outstanding on today's date (excluding the company's treasury shares), this corresponds to a dividend total of TEUR 4,070. The remaining amount of TEUR 579 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. 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 4, 2013

Dr. Dirk Markus
Chairman of the Supervisory Board

MINING – MARKET ENVIRONMENT

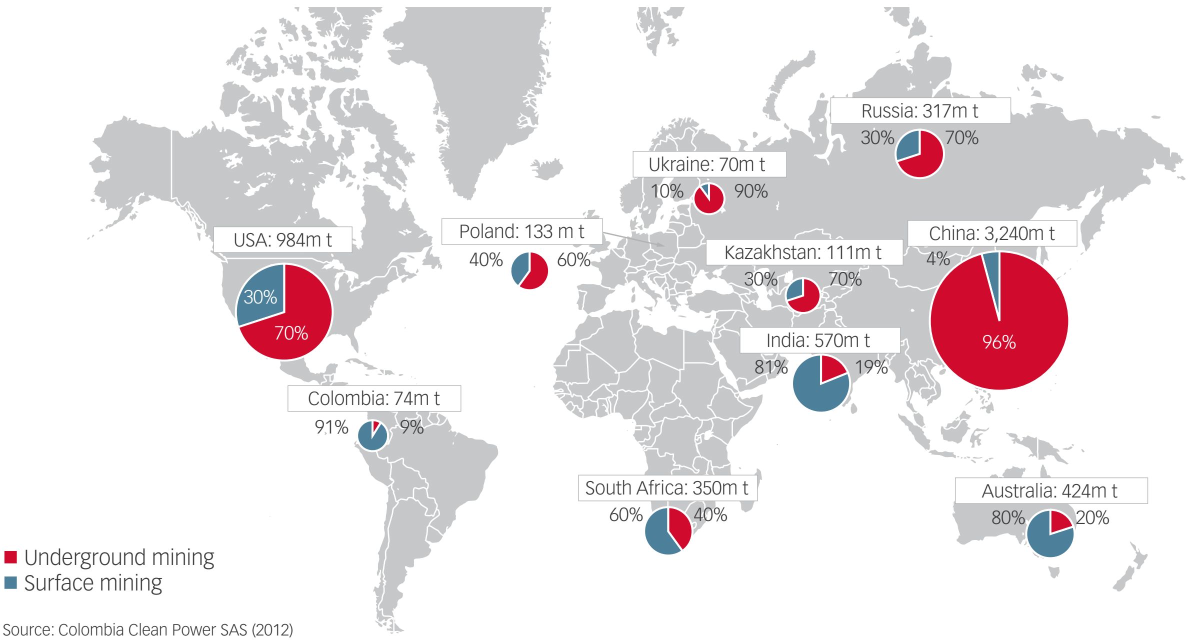
The products of SMT Scharf AG – railway systems and excavation machinery – are deployed exclusively in underground mining. In order to reach deposits of all types (coal, ore etc), shafts and tunnels need to be dug, sometimes stretching for kilometers. In the excavation of these raw materials, people and materials must be conveyed over such distances, and over considerable variations in height. Mine operators utilize products such as those from SMT Scharf to travel over these stretches of rail system, and in order to operate such transportation efficiently, quickly and safely. Work in surface mines, by contrast, tends to be performed with conventional trucks and other conveying devices, but not with SMT Scharf systems. SMT Scharf differentiates between coal mining and hard rock mining. The second term consequently covers all other types of underground mining.

Coal mining

Around 75% of SMT Scharf Group's products are shipped to underground coal mines. Although coalmining activities have declined in Europe for many years, it exhibits very robust and continuous growth in other countries such as China, Australia and India. The combustion of coal in power plants as an energy source covers around one third of global electricity demand; around 20% of coal production also goes to steel production. Moreover, the growing production of renewable energy (water, sun, wind etc) is also failing to halt coal consumption growth. Only dynamic growth in shale gas extraction („fracking") might prevent even stronger growth in coal combustion, at least in the USA.

Overall, international energy forecasts anticipate continuous growth in coal production at a global rate of 1-2% per year, at least over the next ten years. Some estimates even assume that growth will continue for up to 30 years. This includes a strong shift away from industrial countries (EU, USA) towards expanding economies in Asia. Here, easily acessible seams are being extracted first. Over the course of the years, however, increasingly inaccessible seams will need to be tapped, precisely as in Germany in the past. Consequently, the growth of the mining machinery industry is expected to significantly outstrip that of pure production, and is gauged at 8.5% per year for the next five years. Along with many other possibilities

Global coal production map in 2010



Source: Colombia Clean Power SAS (2012)

for automation and mechanization, it will then also make economic sense to deploy SMT Scharf products. These products were originally specially developed for difficult conditions in already mature hard coal mines in Germany.

Explosion protection comprises a basic precondition for products deployed in underground coal mines, since there is always the risk of deadly methane gas or coal dust explosions („firedamp explosions“) underground. As a consequence, explosion protection must be implemented and certified on all machines and equipment according to stringent respective national and international standards. This is particularly relevant for diesel engines which SMT Scharf purchases and then modifies specially for explosion protection requirements. All electrical components can also generate sparks, and must also be expensively encased and rendered explosion-proof in line with such regulations. Overall, explosion protection comprises an important aspect which significantly differentiates SMT Scharf products from similar systems which are deployed industrially outside the scope of mining.

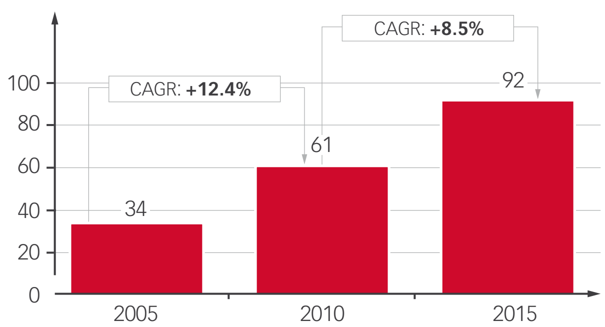
Hard rock mining

Some 25 % of SMT Scharf Group's production is shipped to mines extracting raw materials other than coal, such as gold, platinum, copper and nickel. Here, too, we supply exclusively to underground mines. Since it is always necessary to dig through rock layers to reach the relevant seams of raw materials, SMT Scharf refers to such mines as „hard rock mines“. Here, the difference to coal mines consists primarily in the fact that no expensive explosion protection is required. Apart from this, however, there are no significant differences in the applications.

Hard rock mining varies greatly. Extraction areas can be found around the whole world, although they tend to be focused in developing countries such as in Africa and Asia, and in remote regions such as Canada and Russia, and less in highly populated industrial countries. Accordingly, SMT Scharf AG's existing and future share of German customers account for almost 0 %.

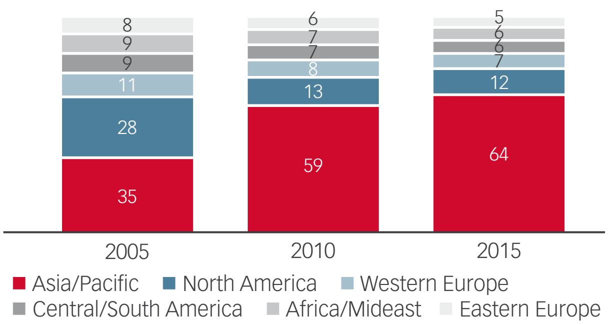
The hard rock business is currently less important than the coal area at SMT Scharf, and will remain so in the medium term. The company nevertheless believes that it will comprise SMT Scharf's main activity in the longer term, which is why it is investing more in its hard rock business than in coal mining. From a classic portfolio perspective, coalmining consequently ranks as the „cash cow“ business, while hard rock mining features as the company's „star“.

Global mining equipment demand 2005–2015



Source: Freedonia Group, Inc. (2012)

Mining equipment demand by region 2005–2015



Source: Freedonia Group, Inc. (2012)

Captivated railway systems – Monorails

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

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

The locomotives comprise two driver's cabins at the front and at the back, an engine section, a cooling section and three or more driving units. These assemblies are linked flexibly to each other using coupling rods, so that the tight curves and the changes between

Long life expectancy leads to high revenue from service business

descents, straight sections and inclines in the underground tracks can be passed. The trains are set up for horizontal radii of up to four meters, and vertical radii of up to eight meters.

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

Captivated railway systems – Rack and pinion locomotive

Besides monorail hanging railways, floor-mounted railways represent a second construction type. Their stretch of rails is made of U-profiles, and they run captivated on these rails. SMT Scharf's floor-mounted rack-and-pinion driven railway system is built so that conventional narrow-gauge railway wagons can also run on floor-mounted railway tracks. SMT Scharf's railways are primarily utilized for gradients of up to 35°, and where the narrow cross-sections of headings and sharp mountain turns pose problems for more conventional vehicles.

In terms of the number of systems it has installed, SMT Scharf leads the global market for monorails. Of about 1,400 systems installed worldwide, approx. 530 or 38 % were supplied by SMT Scharf. Poland remains the country with the highest penetration of these systems. SMT Scharf commands a 25 % share of systems installed in Poland. The installed base in Russia and China has grown significantly over recent years. SMT Scharf holds market shares of circa 35% and 40% respectively in these countries, and is the market leader in each case.

Captivated railway systems are the main product of SMT Scharf Group. Sales of trains, accessories (particularly rails), spare parts and services accounted for 73% of revenues, on average, during fiscal years 2010 to 2012

Chairlifts

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

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

With chairlifts miners are brought to the digging site in a quick and efficient way

SMT Scharf acquired Sareco Engineering (Pty.) Ltd. in South Africa in 2008 in order to expand this product group. This company specializes in the development, production and distribution of chairlifts. Together with the chairlifts, spare parts and services sold under the SMT Scharf brand, this product group contributed an average of 5% to the Group's revenues over the last three fiscal years

Roadheaders

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

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

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

Rough strength blazes a trail in the ground

Roadheaders are often fitted with additional components to optimize them for particular applications. Drilling devices for rock bolts are the most common additional component. There is a danger of a section collapsing while the roadheader is still at work, particularly where there is high rock pressure or where the rock is friable. Drilling devices are used to create holes for anchors to secure the rock in such instances.

SMT Scharf moved into the roadheader sector in May 2010, when it acquired UK based Dosco Overseas Engineering Ltd. This company was formed in 1956 as the subsidiary of a Canadian steel company in order to manufacture roadheaders. For many years, the coal mines in England and Wales were the company's principal customers. Dosco began to expand its exports in the 1980s. Since then, machines have been sold to more than 50 countries. Coal mines remain the company's largest customer group. In addition, there are many other branches in mining and tunnel construction. SMT Scharf's revenues with this product group correspond to an average of 19% of the Group's sales over the last three fiscal years.

HISTORY

1951
Heinrich Scharf GmbH established

1953
First launch of own products on the market with Scharf's coal lorries and elastic coupling

1958
Launch of the first monorail hanging railway by Scharf

1962
Subsidiary in Saarland established

1968
Development of first self-propelled monorail hanging railway

1969
Take-over by Westfalia Group

1992
First foreign subsidiary in Poland established

1997
Launch of an electrically driven monorail hanging railway (EMTS

2000

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

2006

Change of ownership as a starting point to reinforce the company's growth

Subsidiary in South Africa established

2007

Initial public offering

Subsidiary in China established

Launch of a floor-mounted railway with rack-and-pinion-drive

2008

Subsidiary in Russia established

Acquisition of Sareco Engineering, South Africa

2009

Launch of a switchable rack-andpinion drive for monorail hanging railways

2010

Acquisition of Dosco Overseas Engineering and Hollybank Engineering, Great Britain

2011

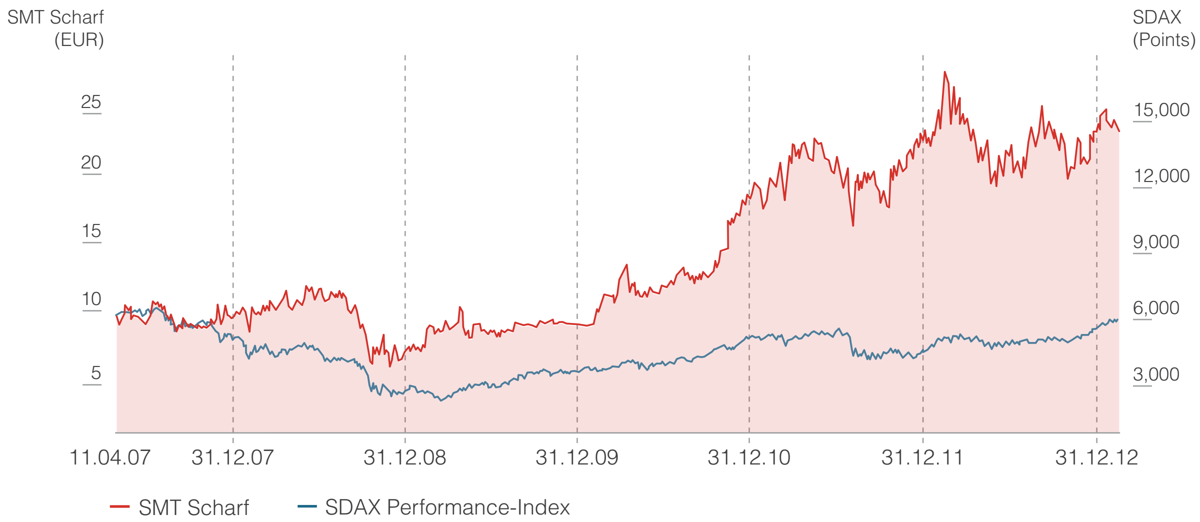
Introduction of a heavyload transporter with crawler track units

2012

Set-up of a production site in Xuzhou

SHARE INFORMATION

Share price performance 2007-2012



Share price performance

The share of SMT Scharf AG has been listed in the Prime Standard of the Frankfurt Stock Exchange since April 11, 2007. Since then, SMT Scharf has ranked as one of the few IPOs in the Prime Standard that has continuously registered a positive, or at least stable, share price performance. SMT Scharf AG was included in the SDAX index in September 2012. The inclusion of the SMT Scharf share was firstly enabled through the positive trend in its share trading volume. Secondly, the company's market capitalization rose further given a free float of almost 99% according to the free float definition of Deutsche Börse.

The SMT Scharf share outperformed its comparable SDAX index every year between 2007 and 2011. Over the course of 2012, however, the SMT Scharf share failed to benefit from the positive SDAX trend. Although it reached its high for the year of EUR 27.98 on February 22, by mid-June it had relinquished all of its gains, falling to its low for the year of EUR 19.51 on June 19. The share recovered momentum over the following months, reaching EUR 25.55 by September 21. After significant losses in October and November, which almost brought the stock back to its low for the year, the share recovered again slightly at the year-end, closing the year at EUR 21.10. This represents an approximately 5% decline compared with the 2011 year-end (EUR 22.29). The SDAX performance index, by contrast, stood at 5,249.35 points on December 28, 2012, reflecting a 19% year-on-year gain (December 30, 2011: 4,421.44 points).

Share price information for 2012 (XETRA)

Closing price previous year	EUR 22.29
Highest price	EUR 27.98
Lowest price	EUR 19.51
Closing price	EUR 21.10

SMT Scharf's shares recovered at the start of 2013 and increased to EUR 25.25 on February 5. Since then the share fluctutated around a markt value of EUR 24.00 having finally closed at EUR 23.79 on March 4, 2013. This corresponded to an increase by 13% compared to the 2012 closing price. During this period, the SDAX lifted by 14% to 5,985.39 points.

Key data

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

Shareholder structure

According to the definition laid down by the Deutsche Börse, almost 99% of SMT Scharf AG shares comprise its free float since the departure of both former major shareholders Field Point II S.a.r.l. and MS Mining Solutions GmbH in February 2010.

The company was also notified of the following changes to voting rights in the past year (in each case including attributed voting rights):

08.12.2011	Exceeding the threshold of 3% of voting rights	Mr. Colin Moran, Abdiel Capital Advisors LLC, Abdiel Capital Management LLC and Abdiel Qualified Master Fund LP
27.03.2012	Falling below the threshold of 3% of voting rights	Fidelity Funds SICAV
13.04.2012	Falling below the threshold of 3% of voting rights	FIL Ltd., FIL Investments International and FIL Holdings Ltd
31.07.2012	Falling below the threshold of 3% of voting rights	Abdiel Qualified Master Fund LP
16.08.2012	Falling below the threshold of 3% of voting rights	Mr. Colin Moran, Abdiel Capital Advisors LLC and Abdiel Capital Management LLC
04.09.2012	Exceeding the threshold of 3% of voting rights	The Bank of New York Mellon Corporation, The Bank of New York Mellon, The Bank of New York Mellon SA/NV and BNY Mellon Service Kapitalanlage-Gesellschaft
04.09.2012	Falling below the thresholds of 5% and 3% of voting rights	DWS Investment GmbH
14.09.2012	Exceeding the threshold of 5% of voting rights	The Bank of New York Mellon Corporation, The Bank of New York Mellon, The Bank of New York Mellon SA/NV and BNY Mellon Service Kapitalanlage-Gesellschaft
18.09.2012	Reaching the threshold of 3% of voting rights	Mrs. Christiane Weispfenning

SMT Scharf AG held 1.2% of its own shares as treasury shares at the start of the 2012 fiscal year. As in previous years, SMT Scharf AG sold treasury shares to staff members as part of an employee stock program, so that the treasury share position declined further to 1.1% over the course of the year. The AGM of April 14, 2010, issued a new authorization to the Managing Board for SMT Scharf AG to acquire its own shares. The Managing Board did not utilize this authorization in 2012.

Trading volumes in SMT Scharf shares reported a significant year-on-year increase. Around 12,600 shares were traded on average per day on Xetra and the Frankfurt Stock Exchange during 2012 (2011: 11,100).

IR-activities

When going public in 2007, SMT Scharf AG consciously opted for Deutsche Börse's Prime Standard, the segment with the most stringent regulations. This reflects the high priority the company attaches on transparency, openness and reliability in its dealings with capital market participants.

Investors regularly receive in-depth financial information in the quarterly, six-month and annual reports, as well as up-to-the-minute press releases and ad hoc disclosures on business developments. Such information is published in both German and English. In addition, SMT Scharf participated at the German Equity Forum in Frankfurt in November 2012, as in previous years. Here, questions from institutional and private investors, as well as from analysts, were responded to at numerous one-on-one meetings, as well as at a presentation. Regular discussions with investors, analysts and financial journalists about the company's progress also occur over the course of the year.

Detailed information on the company and its shares is available online at www.smtscharf.com in the Investor Relations section. The website also includes the financial reports for previous years and additional company notices.

Annual General Meeting

The Ordinary Annual General Meeting of SMT Scharf AG for the 2011 fiscal year was held in Hamm on April 25, 2012. Of the total voting-entitled share capital, 31.6 % was represented at this AGM. The AGM approved four out of the five agenda items with majorities in excess of 99 % in each case, and consequently almost unanimously. Such approvals included the increase in the dividend from EUR 0.85 to EUR 0.95. The AGM also voted on the discharging of the Managing and Supervising Boards, the application of the 2011 net retained profits, and the election of the auditor for the 2012 fiscal year. As part of new elections to the Supervisory Board, Dr. Harald Fett and his replacement, Markus Wenner, were newly elected to the Supervisory Board with large majorities.

GROUP MANAGEMENT REPORT

GROUP MANAGEMENT REPORT

Macroeconomic environment

SMT Scharf Group develops, builds and maintains transport equipment for mining and tunneling, and associated products. Our main products are captivated 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.

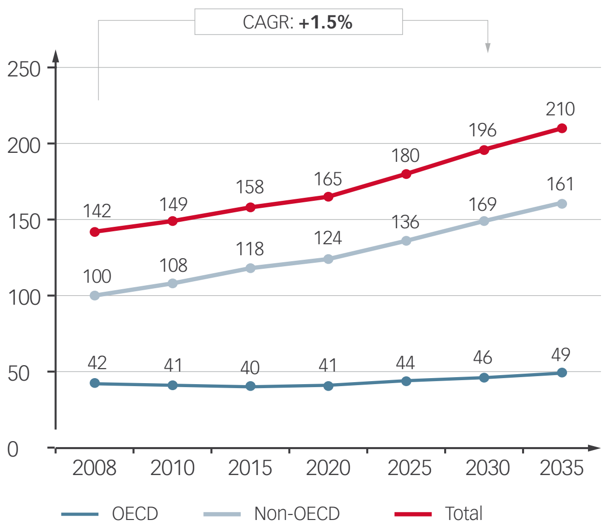
The products of SMT Scharf Group are primarily used in difficult, in other words deep and steep mining tunnels. As a result, the amount of coal or ore extracted is not primary driver for our business; it is rather the mine's development stage which is essential. Generally, when the extraction of mineral deposits begins, easily accessible deposits are extracted by constructing large tunnels without high costs and in which the transport of people and materials can be handled by rubber-tired vehicles. In later stages, mining moves into deeper and more difficult-to-reach locations. Then, large tunnels are much more expensive and the gradients are difficult to navigate with vehicles, which means that the special transport systems of SMT Scharf pay off, requiring less space and capable of navigating inclines and sharp corners.

Hard coal mining is our main customer segment and accounted for an average of 64 % of revenue in the financial years 2010 to 2012. The remaining 36 % was generated in the so-called "hard rock" segment, in other words gold and platinum mines, as well as mines which extract other raw materials. We are not active in the construction of road tunnels.

Similarly to the previous year, coal production was up in all of SMT Scharf Group's regional markets in 2012, with the exception of Germany and Poland. Growth is largely concentrated in Asia, primarily China, which is responsible for around half of the world's coal output nowadays. In Germany, hard coal mining is being phased out step-by-step until 2018 as a result of the unfavorable costs compared to other countries.

The spot price for hard coal has been fluctuating very strongly since mid-2008. The trend, however, is clearly downwards. In contrast to the price of oil, coal prices vary a great deal regionally due to the high transport costs – primarily overland – compared to the value of the goods: Most mines, especially in areas far from the coast, have fixed local consumers (power stations or steel works) with long-term prices. As a result, the international coal prices are only partially relevant for the investment behavior of our mining customers. That is also the reason why the revenue of SMT Scharf Group has grown sharply despite the declining coal prices over the last few years.

Global coal production 2008–2035 (in 1,000 billion btu)*



*Britisch Thermal Unit; Source: U.S. Energy Information Administration, International Energy Outlook 2011

The international foreign exchange rates are important for SMT Scharf Group in two ways: Firstly, the major share of our manufacturing is in Germany, which means that the still strong Euro makes our products seem expensive in China and Russia. At least the Chinese Yuan and Russian Ruble were very stable throughout 2012, with exchange rate changes of just -1 % (CNY) and +3 % (RUB) respectively. The decline of the South African Rand was moderate at -6 %. The strength of the Euro is cushioned by an increasing share of parts procurement from abroad, which directly amounts to only approximately 25 %, but calculated overall (many domestic suppliers procure downstream products from abroad themselves) it is substantially higher – we estimate it at 40%. Some 67% of our personnel is already employed outside of the Eurozone in our customers' countries, which leads to lower personnel costs.

Secondly, both of our most important competitors are located in the Czech Republic and Poland. Both of these countries have their own currencies – the Czech Koruna and the Polish Zloty. The Polish Zloty gained 8% relative to the Euro between December 2011 and December 2012, which benefits our competitiveness. Compared to the Czech Republic, we have always been at a substantial disadvantage in factor costs. The exchange rate of the Czech Koruna was unfortunately only subject to slight change: It gained in value by only 3% in the financial year. In competing here we can only justify our higher costs and prices with our technically superior product quality which is sold under the label "Made in Germany".

Currently we believe that it is most probable that both production and investments by mines will increase further in the future. For our main customer market, hard coal mining, we are expecting production growth of 1.5% per year over the coming 20 years – according to various external sources such as the US Energy Information Administration. Despite our hope to replace fossil fuels with regenerative energy sources, the world economy will remain dependent on coal for some time to come. 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 SMT Scharf Group, these are the markets from which the main demand will emanate in the coming years.

The further growth in international mining SMT Scharf anticipates is expected to result in many mine operators having to tap more difficult deposits and continuing to invest specifically in technology that will boost their productivity. In this context, SMT Scharf Group's products are perfectly suited and play an increasingly important role in the supply of materials to mining operations underground.

Business development

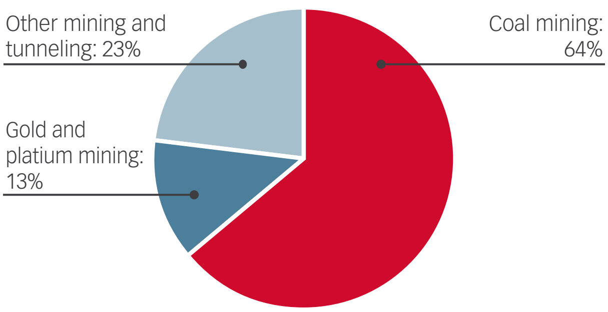
Revenue in the 2012 reporting year increased by TEUR 23,244, or 28%, compared with the previous year to reach TEUR 105,363. Of this amount, TEUR 97,290 was attributable to markets outside Germany, corresponding to a 92% share (previous year: 90%). As in the previous year, China featured as the most important market, accounting for 33% of revenue. Russia and other CIS states ranked second, followed by Central and South America, South Africa and Poland.

Several significant orders contributed to our revenue growth. A Russian customer ordered eight monorail hanging railways, two rack and pinion locomotives, several "Scharman" small locomotives and accessories with a total value of approx. EUR 5 million. From England, roadheaders went to an Argentinian customer (EUR 8 million) and to a Chinese customer (EUR 6 million).

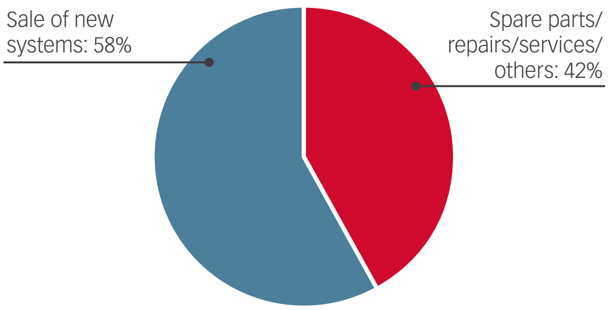
In Germany, SMT Scharf Group's business with Deutsche Steinkohle AG was restricted to spare parts and services, as had been expected. Revenue generated by Deutsche Steinkohle AG remained relatively constant year-on-year, despite somewhat lower hard coal production volumes from Germany.

At the end of 2012, SMT Scharf Group's order book totaled TEUR 22,355, 94% of which derived from markets outside Germany. The previous year's figure stood at TEUR 51,983, 96% of which was attributable to markets outside Germany. (Note: an internal change has been made to the calculation methods of the order book, which means that the figure for the previous year does not exactly correspond with the figure published in the annual report 2011. For better comparability, the previous year figure stated here was therefore adjusted to the new calculation system). The substantial reduction in the order book compared to the previous year is partially due to an order backlog – particularly at our subsidiary Dosco – which formed at the end of 2011.

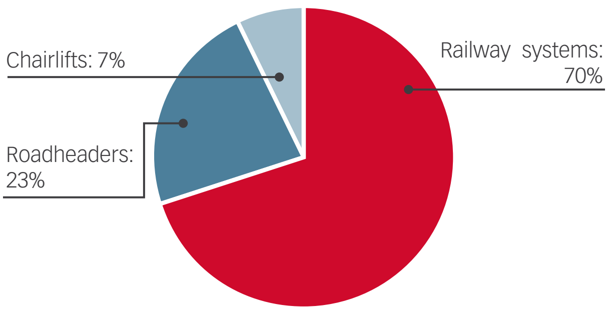
Sales by customer (2010-2012)



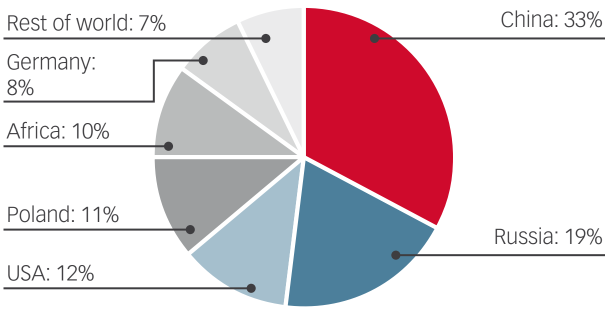
Sales by type (2012)



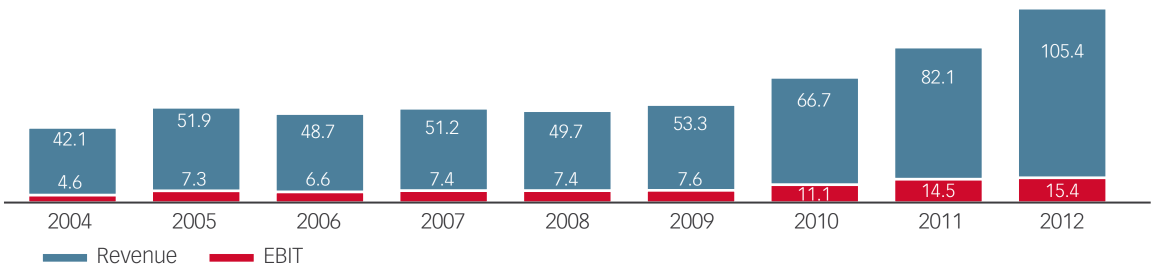
Sales by segment (2010-2012)



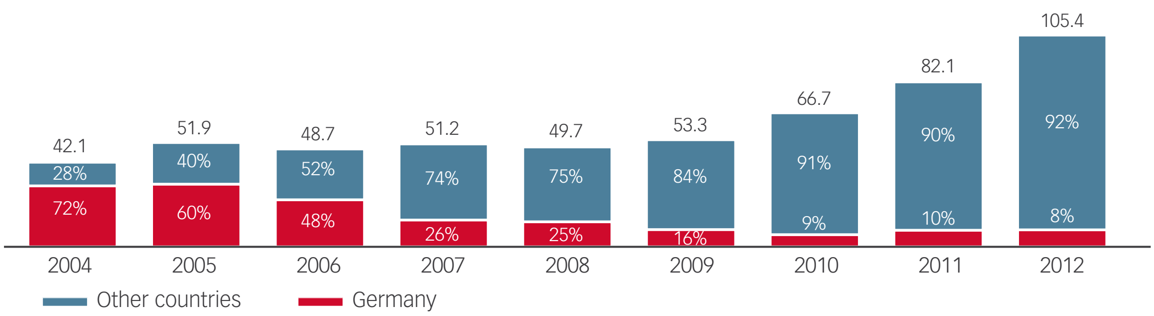
Sales by region (2012)



Growth in sales and EBIT (EUR m)



Rising share of international revenues



Strategy

SMT Scharf is a typical "hidden champion" of the German medium-sized mechanical engineering industry with an export rate of over 90%. Our strengths center on technical expertise, our commitment to high quality and our internationality. This is the only way that we as a German company – which will not have a single domestic customer after 2018 – can successfully and profitably defend our market leadership in the world market.

As part of the change in the Managing Board, the strategy of SMT Scharf Group was scrutinized closely. The main cornerstones of the past approach proved to be effective and forward-looking:

(1) The attractiveness of the growing international mining market, focusing on Asia, e.g. China and Russia.

(2) The focus of SMT Scharf Group on transport solutions in challenging environments.

(3) The mix of new systems business and repair business (including spare parts and service).

Based on this, a five-year vision plan was produced which specified the following main objectives:

(1) Focus on the core business of "captivated railway systems", with roadheader technology (Dosco subsidiary) shifting away from our strategic focus.

(2) Average revenue growth of our core business of 15% per annum, which would lead to revenue doubling every five years.

(3) Defending our attractive margin with the aim of boosting EBIT to 20%.

In order to achieve these ambitious targets, a wide range of operative development programs is required in all areas and at all Group sites. But we feel that no fundamental changes compared to the past are needed. Instead, the plan envisages a systematic continuation of the internationalization of the Group which set in after the year 2000 and has proven highly successful up to now. Our newly formulated strategy is based on the motto of "localization", which focuses on strengthening our expertise in our subsidiaries close to our mining customers. Our vision is for a corporate culture infused with a German engineering attitude and central development coming from the headquarters in Hamm, with highly expert subsidiaries in all important mining countries. The central technologies and quality benchmarks for all functions, from development and production through to accounting, are set in Germany. In our market countries, the current sales and service offices are to grow into full businesses that not only offer sales and service, but also customer-specific adaptions, including local production and certifications.

The roadheader segment (Dosco) will play a secondary role.

Research and development

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

SMT Scharf received approval for the shunting locomotive with 25 kW capacity and the "Scharman" name (also known internally as "Emma" and first presented in December 2010) in further sales markets. Customers in three different countries are now successfully deploying this locomotive type. They serve as shunting locomotives capable of traveling 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. One major part of the further development of this project is the adaption of remote controls, in their use with driver's cabins as well as in their use as diesel hydraulic pump stations. These vehicles can then be deployed to operate external devices such as winches, pumps or drills.

Our heavy-load vehicle "Schatun", which has been mentioned several times over the past few years, underwent several reviews over the course of the reporting year. As part of the strategic focus on "captivated railway systems" and their attractive market opportunities, the decision was made to discontinue this project. The accumulated development costs in

2011 and 2012 were impaired, providing they were capitalized, as was the material. Overall, the write-down through profit and loss totaled TEUR 711 and fully lowered earnings.

Work continued on expanding the product range in the high-performance roadheader area.

SMT Scharf Group invested about 3.1% of revenues in research and development, which is slightly lower than in the previous year (4.1%). This figure includes order-related development work and certifications, 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, 2012, there were a total of 130 employees in Germany including 13 apprentices (previous year: 131 employees including 14 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 204, including 5 apprentices (previous year: 176 employees, including 3 apprentices). Most of the growth was attributable to China. In total, the percentage of employees outside Germany in the Group increased to 61% (previous year: 57%).

45 of the 334 employees are female. They account for 13,5% of the workforce, which is slightly higher than the percentage of female managers to the total number of managers in SMT Scharf Group (11%).

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

A total of 3,200 shares were sold to employees in April 2012 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 TEUR 3,000 to TEUR 4,200 against cash contributions as part of the IPO in April 2007. Since that date, it comprises 4,200,000 no-par value bearer shares, each with a notional interest of EUR 1 in the subscribed capital. 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 47,275 shares (1.1% of the share capital) 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 the event that the share capital exceeds TEUR 3,000. The Supervisory Board determines the number of members of the Managing Board and can appoint a Chairman as well as a Deputy Chairman of the Managing Board and also deputy members of the Managing Board. In all other respects, the statutory regulations apply to the appointment and discharge of members of the Managing Board. The company has not concluded any key agreements that are subject to the condition of a change in control as a result of an acquisition offer.

Net assets:

SMT Scharf AG's subscribed capital has totaled TEUR 4,200 since its IPO. At the end of the reporting period, TEUR 47 was attributable to treasury shares, as a consequence of which the amount carried in the balance sheet stood at TEUR 4,153. There is an additional capital reserve, which increased to TEUR 11,763 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: TEUR 11,689). Equity including net income for the period and other changes totaled TEUR 43,333 as of December 31, 2012 (previous year: TEUR 38,329) Given total assets of TEUR 77,798, this corresponds to an equity ratio of 56% compared to 46% one year before.

Current assets as of the year-end were significantly heads of the previous year's figure. This was primarily due to an increase in cash and cash equivalents to TEUR 16,515, from TEUR 12,772 one year previously. Trade receivables, which had at times fallen significantly over the course of the year, rose to 24.003 compared to the previous year's financial statements (TEUR 22,868) as of the year-end. Financial assets increased to reflect the earnings contributions from both joint-venture companies.

On the equity and liabilities side, the largest change was in provisions for pensions. Due to the change in the accounting policies of the provisions for pensions, changes due to actuarial gains and losses are no longer recorded using the corridor approach but are instead recorded directly at equity. The previous year figures were adjusted accordingly. Among current liabilities, there was a fall in advance payments received, due to increased deliveries at the start of the year and payables to suppliers. Advance payments received fell to TEUR 1,281, compared with TEUR 8,000 one year previously. Payables to suppliers stood at TEUR 6,012 at the end of the period under review (previous year: TEUR 10,469). The mezzanine financing which has been disclosed as non-current financial liability in the previous year is disclosed as current financial liability as of December 31, 2012 due to the maturity date April 2013.

Earnings position:

In the year under review, SMT Scharf Group generated TEUR 15,382 of profit from operating activities (EBIT), reflecting a 6% increase compared with the previous year's figure of TEUR 14,547. Therefore, the EBIT margin – measured against operating performance instead of against revenue as in the previous year – came in at 14.8% after 16.5% in the previous year. The cost of materials ratio remained unchanged year-on-year at 54%. The personnel expense ratio also remained relatively constant at 15.8% (previous year: 15.7%). Miscellaneous expenses and income (excluding changes in inventories) rose to 15% of operating performance, having stood at only 14% in the previous year. This increase was mainly due to higher incidental sales costs (commissions, freight and packaging costs). 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 fell to TEUR 191 from TEUR 424. The decline is largely attributable to the lower interest income of TEUR -480 (previous year: TEUR -168). The interest on the mezzanine financing was essentially unchanged compared with the previous year, while the interest rate on bank accounts in credit fell. In addition, there were interest expenses on a loan from the ERP innovation program.

Group net income rose by 10% to reach TEUR 11,713, compared with TEUR 10,658 in the previous year. At 25%, the tax rate was lower than in the previous year (29%). The main reason for this was taxes at the foreign subsidiaries, as these recorded a lower tax rate. The tax rate for the German companies, including SMT Scharf AG, continued to amount to 32.1%.

Financial position:

Cash and cash equivalents (in previous year plus marketable securities) rose during the year under review to TEUR 16,515 (previous year: TEUR 14,772). In addition to taking on a loan from the ERP Innovation Program of the KfW, this increase was particularly attributable to the cash inflow from ongoing business. Of the cash and cash equivalents, TEUR 681 is designated for the hardship and social fund.

Capital expenditure:

In the financial year 2012, SMT Scharf's capital expenditure totaled TEUR 1,603 (previous year: TEUR 1,384). The largest item was a development project requiring capitalization pursuant to IAS 38, with a total value of TEUR 419. There were also modernization projects for IT systems and acquisitions of vehicles for sales support. 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 December 5, 2012. 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 15, 2012 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 endeavoring to achieve greater diversity in its composition over the period to 2015. 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 2011 and 2012.

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. The financial reports, the financial calendar and the ad hoc disclosures 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 2015 (Mr. Dreyer) and fiscal year 2016 (Dr. Fett) respectively. Mr. Dreyer has resigned from 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 has been terminated at the end of March 2012 by amicable agreement. A contract lasting till April 2013 has been made with Mr. Dreyer in May 2012.

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 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.

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:

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:

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 reduced, 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 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

On January 10, 2013, SMT Scharf GmbH acquired a 50% interest from Mr. Viktor Poteraylo in the Ukrainian joint venture "TOW SMT Scharf Ukrainia", Donetsk for a purchase price of TEUR 40. As a result, the company in the Ukraine is now a wholly-owned subsidiary.

Forecast

From today's perspective, it is most probable that demand for raw materials and investments by mines will increase further in 2013 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 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 global economic will recover more slowly than expected. 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 2013. OECD is forecasting an increase in gross domestic product in its member states by an average of 1.4% after 1.4% in the previous year. Forecasts are more favorable for countries where SMT Scharf Group generates most of its revenue. For example, the OECD anticipates 8,5% growth in China in 2013 (previous year: 7.5%), and 3.3% for South Africa (previous year: 2.6%). Medium term forecasts for growth rates on commodities markets are between around 2% and more than 5% per year depending on commodity and region. Here too, there are uncertainties due to the nature of the issue. For example, the Chinese government has announced that it wants to limit the increases to its domestic coal consumption. Market experts (Freedonia Group) are forecasting a medium-term annual growth rate of 5% for global investments in mining technology over the 2010 to 2015 period.

2012 marked another year of successful international expansion for SMT Scharf. The Managing Board believes that it will be able to further increase 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, 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.

Hamm, February 26, 2013

Christian Dreyer Heinrich Schulze-Buxloh

IFRS CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31, 2012

in EUR	Notes	31.12.2012	31.12.2011
Assets			
Inventories		17,969,847.93	24,622,864.25
Trade receivables	(8)	24,003,032.37	22,867,810.24
Other current receivables / assets		1,550,839.50	3,099,049.42
Securities	(9)	0.00	2,000,000.00
Cash and cash equivalents	(9)	16,515,482.01	12,772,082.50
Current assets		**60,039,201.81**	**65,361,806.41**
Intangible assets	(7)	3,306,192.29	3,790,585.88
Property, plant and equipment	(7)	8,354,727.35	8,419,405.01
Financial assets		1,939,259.69	1,371,878.17
Deferred tax assets	(6)	4,096,794.47	3,399,245.87
Trade receivables	(8)	0.00	278,985.83
Other non-current assets		62,277.20	61,047.55
Non-current assets		**17,759,251.00**	**17,321,148.31**
Total equity and liabilities		**77,798,452.81**	**82,682,954.72**

in EUR	Notes	31.12.2012	31.12.2011
Equity and liabilities			
Current income tax		802,135.65	2,920,014.89
Other current provisions	(12)	4,983,964.05	6,007,765.44
Advance payments received	(13)	1,280,934.24	7,999,621.96
Trade payables	(13)	6,012,009.82	10,468,823.76
Current financial liabilities		4,989,186.46	0.00
Other current liabilities	(13)	1,432,897.40	231,652.97
Current provisions and liabilities		**19,501,127.62**	**27,627,879.02**
Provisions for pensions	(11)	11,184,845.00	7,928,871.00
Other non-current provisions	(12)	2,186,439.10	2,302,387.57
Deferred tax liabilities	(6)	1,055,426.33	1,540,956.41
Non-current financial liabilities	(13)	537,400.00	4,953,941.86
Non-current provisions and liabilities		**14,964,110.43**	**16,726,156.84**
Subscribed capital		4,152,725.00	4,149,525.00
Share premium		11,763,288.40	11,689,176.40
Profit brought forward		26,964,703.45	22,375,099.08
Currency translation difference		452,497.62	115,118.38
Equity	(9)	**43,333,214.47**	**38,328,918.86**
Total equity and liabilities		**77,798,452.81**	**82,682,954.72**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FROM JANUARY 1 TO DECEMBER 31, 2012

in EUR	Notes	2012	2011
Revenue	(1)	105,362,738.35	82,118,278.62
Changes in inventories		-1,711,019.27	5,918,906.14
Operating income 100%		103,651,719.08	88,037,184.76
Other operating income	(2)	2,713,738.03	2,164,365.55
Cost of materials		55,999,524.42	47,689,528.76
Personnel expenses	(3)	16,407,148.91	13,798,896.99
Depreciation and amortization		1,998,792.31	1,484,499.63
Other operating expenses	(4)	16,577,894.00	12,681,829.64
Profit from operating activities (EBIT)		**15,382,097.47**	**14,546,795.29**
Income from participating interests	(5)	670,666.81	592,165.24
Interest income		145,836.72	333,402.43
Interest expenses		625,941.30	501,727.37
Financial result		**190,562.23**	**423,840.30**
Profit before tax		**15,572,659.70**	**14,970,635.59**
Income taxes	(6)	3,859,496.44	4,312,889.48
Net income		**11,713,163.26**	**10,657,746.11**
Currency difference from translation of foreign financial statements		197,379.24	-1,332,488.86
Recognized actuarial gains and losses		-3,939,255.00	-6,605,143.00
Deferred taxes on recognized actuarial gains and losses		900,784.86	1,527,836.90
Comprehensive income		**8,872,072.36**	**4,247,951.15**
Earnings per share*			
Basic		2.82	2.60
Diluted		2.82	2.60

* Consolidated net income divided by an average number of 4,151,910 issued shares (previous year: 4,099,551)

CONSOLIDATED CASH FLOW STATEMENT FROM JANUARY 1 TO DECEMBER 31, 2012

in EUR	2012	2011
Net income	11,713,163.26	10,657,746.11
Income from equity participation	-670,666.81	-592,165.24
Dividend income from equity participation	0.00	54,465.61
Depreciation and amortization of non-current assets	1,998,792.31	1,484,499.63
Gain / loss on the disposal of intangible assets and property, plant and equipment	150,811.82	2,857.34
Changes in current assets, provisions and liabilities		
Provisions	-2,005,030.86	-4,696,169.30
Taxes	-2,358,173.06	915,448.64
Inventories	6,653,016.32	-14,257,525.91
Receivables and other assets	690,743.97	-860,777.90
Liabilities	-9,974,257.23	8,606,312.57
Net cash flows from operating activities	**6,198,399.72**	**1,314,691.55**
Investments in intangible assets and property, plant and equipment	-1,603,013.32	-1,383,934.23
Corporate acquisitions	0.00	-12,071.61
Net cash flows used in investing activities	**-1,603,013.32**	**-1,396,005.84**
Sale / acquisition of own shares	77,312.00	103,903.80
Transfer of own shares	0.00	3,921,750.00
Dividend disbursement	-3,945,088.75	-3,527,096.25
Repayment of / proceeds from financial liabilities	572,644.60	32,418.24
Net cash flows from / used in financing activities	**-3,295,132.15**	**530,975.79**
Effect of changes in exchange rates and group composition	443,145.26	-1,108,644.97
Change in net financial position	**1,743,399.51**	**-658,983.47**
Net financial position – start of period	14,090,920.86	14,749,904.33
Net financial position – end of period	15,834,320.37	14,090,920.86

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FROM JANUARY 1 TO DECEMBER 31, 2012

in EUR	Subscribed Capital	Share premium	Profit brought forward	Currency translation difference	Total equity
Balance at January 1, 2012	**4,149,525.00**	**11,689,176.40**	**22,375,099.08**	**115,118.38**	**38,328,918.86**
Dividend disbursement			-3,945,088.75		-3,945,088.75
Sale of own shares	3,200.00	74,112.00			77,312.00
Group net income			11,713,163.26		11,713,163.26
Currency difference from translation of foreign financial statements				197,379.24	197,379.53
Recognized actuarial gains and losses			-4,121,255.00	182,000.00	-3,939,255.00
Deferred taxes on recognized actuarial gains and losses			942,784.86	-42,000.00	900,784.86
Comprehensive income			8,534,693.12	337,379.24	8,872,072.65
Balance at December 31, 2012	**4,152,725.00**	**11,763,288.40**	**26,964,703.45**	**452,497.62**	**43,333,214.76**
Balance at December 31, 2011 prior to Restatement	**3,964,905.00**	**7,848,142.60**	**17,699,171.89**	**1,542,607.24**	**31,054,826.73**
Recognized actuarial gains and losses			3,338,575.00	-12,000.00	3,326,575.00
Deferred taxes on recognized actuarial gains and losses			-800,991.57	2,000.00	-798,991.57
Balance at January 1, 2011 after Restatement	**3,964,905.00**	**7,848,142.60**	**20,236,755.32**	**1,532,607.24**	**33,582,410.16**
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
Group 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
Recognized actuarial gains and losses			-6,520,143.00	-85,000.00	-6,605,143.00
Deferred taxes on recognized actuarial gains and losses			1,527,836.90		1,527,836.90
Comprehensive income			5,665,440.01	-1,417,488.86	4,247,951.15
Balance at December 31, 2011	**4,149,525.00**	**11,689,176.40**	**22,375,099.08**	**115,118.38**	**38,328,918.86**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR FISCAL YEAR 2012

Information on SMT Scharf AG and 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 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 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:

in TEUR	Interest	Equity (IFRS) 31.12.2012	Earnings (IFRS) 2012
SMT Scharf GmbH, Hamm, Germany	100 %	13,597	4,054
SMT Scharf Saar GmbH, Neunkirchen, Germany	100 %	482	114
SMT Scharf Polska Sp. z o. o., Tychy, Poland	100 %	4,594	2,454
Sareco Engineering (Pty.) Ltd., Brakpan, South Africa	100 %	1,569	270
SMT Scharf Africa (Pty.) Ltd., Kya Sands, South Africa	100 %	2,839	451
OOO SMT Scharf, Novokuznetsk, Russian Federation	100 % *	3,106	1,152
Global Mining Services GmbH (former SMT Scharf Sales and Services GmbH), Hamm, Germany	80 %	16	-1
SMT Scharf International OÜ, Tallinn, Estonia	100 % **	1,403	333
Scharf Mining Machinery (Beijing) Co., Ltd., Beijing, China	100 % **	2,306	1,396
Dosco Holdings Ltd., Tuxford, United Kingdom	100 %	13,244	46
Dosco Overseas Engineering Ltd., Tuxford, United Kingdom	100 % ***	7,396	1,617
Hollybank Engineering Co. Ltd., Tuxford, United Kingdom	100 % ***	1,282	-246
OOO Dosco, Novokuznetsk, Russian Federation	100 % ***	-405	4
SMT Scharf Far East Holdings Ltd., Hong Kong, China	100 % ****	8	6
Shandong Xinsha Monorail Co. Ltd., Xintai, China	50 % **	3,682	1,341
TOW SMT Scharf Ukraine, Donetsk, Ukraine	50 % **	73	-81

* 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

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 2012 are as follows:

	Assets	Liabilities	Revenue
Shandong Xinsha Monorail Co. Ltd., Xintai, China	9,780	6,097	8,438
TOW SMT Scharf Ukraine, Donetsk, Ukraine (figures as of December 31, 2011)	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 December 5, 2012. 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. SMT Scharf Group's consolidated financial statements as of December 31, 2012, 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 these standards, which require first-time application in the 2012 financial year pursuant to EU law, have no (significant) effects on the consolidated financial statements of SMT Scharf AG:

- Amendments to IFRS 7 (Financial Instruments)
- Amendments to IAS 12 (Income Taxes)
- Amendments to IFRS 1 (Severe hyperinflation and removal of fixed dates for first-time adopters)

The following newly published or revised standards or interpretations from the IASB, which did not have to be mandatorily applied in these statements, were not voluntarily applied by SMT Scharf AG; the EU adoption has in some cases not yet been made:

- Amendment to IAS 19 „Employee Benefits" (EU adoption on June 5, 2012)
- IFRS 9 "Financial Instruments" (EU adoption pending)
- IFRS 10 "Consolidated Financial Statements" (EU adoption on December 11, 2012)
- IFRS 11 "Joint Arrangements" (EU adoption on December 11, 2012)
- IFRS 12 "Disclosure of Interests in Other Entities" (EU adoption on December 11, 2012)
- Amendments to IFRS 27 "Separate Financial Statements" (EU adoption on December 11, 2012)
- Amendments to IAS 28 "Investments in Associates and Joint Ventures" (EU adoption on December 11, 2012)
- IFRS 13 "Fair Value Measurement" (EU adoption on December 11, 2012)
- Amendments to IAS 1 "Presentation of Financial Statements" (EU adoption on June 5, 2012)
- IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine" (EU adoption on December 11, 2012)
- Amendments to IAS 32 and IFRS 7 (EU adoption on December 13, 2012)
- Amendments to IFRS 1 (Government Loans) (EU adoption on December 11, 2012)
- Amendments as part of the "Annual improvements project 2009-2011" (EU adoption pending)

The possible future impact on the consolidated financial statements for all of these standards is being reviewed by SMT Scharf AG.

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, 2013 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 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 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:

	Closing rate		Average rate	
1 Euro =	**31.12.2012**	**31.12.2011**	**2012**	**2011**
Polish Zloty	4,0740	4,4580	4,1847	4,1187
British Pound	0,8161	0,8353	0,8109	0,8678
South African Rand	11,1727	10,4830	10,5511	10,0930
Chinese Renminbi Yuan	8,2207	8,1588	8,1052	8,9961
Russian Ruble	40,3295	41,7650	39,9262	40,8797

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 7.75 %.

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:

	in years
Buildings	10 to 50
Technical equipment and machinery	5 to 20
Other office equipment, fixtures and fittings	2 to 13

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

The intangible assets and property, plant and equipment are subjected to regular impairment testing based on cash generating units. Write-downs for activated development cost totaling TEUR 461 were performed within the meaning of IAS 36 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 2012, such subsidies have not been recorded.

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, 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, 2012, 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 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, 2012 write-downs of inventories to their lower net realizable value totaled TEUR 6,644 (previous year: TEUR 6,047)

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. The calculation is based on actuarial expert opinion taking into account biometric principles.

Up to now, actuarial gains and losses in SMT Scharf Group underwent the corridor method. Amounts which exceed the so-called "corridor" were recognized in the statement of comprehen-sive income as income or expense. This means that the amount of the accumulated actuarial gains and losses at the end of the previous reporting period which exceeded the corridor was allocated over the average expected working time of the employees. In line with IAS 19, the corridor is 10% of the present value of the defined benefit obligation or 10% of the fair value of the plan assets, with the higher amount at the end of the previous reporting year applying. Since the amendment to IAS 19 as of January 1, 2005, it is now permitted to amortize the as yet unrealized actuarial gains and losses not according to the corridor method successively through profit and loss, but directly offset in equity. As a result, no amortizations of the actuarial gains and losses are recognized through profit and loss.

In these IFRS consolidated financial statements, SMT Scharf Group has changed the allocation of actuarial gains / losses from the previously applied corridor method to direct recognition in equity according to IAS 19.93A in an effort to increase the transparency of the reporting.

The recognition of actuarial gains and losses in equity means that the provisions for pensions have changed. In addition, deferred taxes should be calculated based on the implemented changes in presentation, which are also offset against the corresponding equity item. As a result, in these IFRS consolidated financial statements, the previous year figures as of December 31, 2011 were adjusted. Gross and net cash flow are not impacted by these non-cash processes.

As of December 31, 2011, the changes result in the following effects on the balance sheet items affected:

	Balance sheet figure before the change	Effect of the change	Balance sheet figu-re after the change
Assets			
Deferred tax assets	2,577	822	3,399
Equity and liabilities			
Equity	40,879	-2,550	38,329
provisions for pensions	4,652	3,277	7,929
Deferred tax liabilities	1,446	95	1,541

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.

Notes to the income statement

(1) Revenue

Revenue is composed of the following items:

	2012	2011
Sale of new equipment	61,244	45,937
Spare parts / service / other	44,119	36,181
Total	**105,363**	**82,118**

Revenue by region was as follows:

	2012	2011
China	34,505	22,851
Russia and other CIS states	20,431	16,093
America	12,999	7,365
Poland	11,158	8,798
Africa	10,382	11,312
Germany	8,073	8,352
Other countries	7,815	7,347
Total	**105,363**	**82,118**

(2) Other operating income

Other operating income is composed of the following items:

	2012	2011
Reversal of provisions	625	835
Exchange rate gains	1,001	325
Miscellaneous other operating income	1,088	1,004
Total	**2,714**	**2,164**

(3) Personnel expenses

Personnel expenses are composed of the following items:

	2012	2011
Wages and salaries	13,753	12,141
Social security and pension contributions	2,654	1,658
Total	**16,407**	**13,799**

The average number of employees in SMT Scharf Group totaled:

	2012	2011
Employees	298	275
Apprentices	17	13
Total	**315**	**288**

(4) Other operating expenses

Other operating expenses are composed of the following items:

	2012	2011
Special direct cost of sales	4,033	4,110
Travel expenses	1,626	1,552
Third-party services	1,737	1,182
Exchange rate losses	682	699
Rent and leases	698	567
Contributions / fees	724	502
Maintenance costs	560	441
Advertising	278	270
Miscellaneous other operating expenses	6,240	3,359
Total	**16,578**	**12,682**

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

	2012	2011
Audit	146	119
Tax consulting	14	27
Other services	25	0
Total	**185**	**146**

(5) Income from participating interests

The income from participating interests results from the positive result of the Chinese company Shandong Xinsha Monorail Co. Ltd., Xintai (previous year: TEUR 592).

(6) Income taxes

Income taxes are composed of the following items:

	2012	2011
Current tax expense	4,008	4,338
Thereof relating to the fiscal year	3,836	4,338
Thereof relating to prior periods	172	0
Deferred taxes	-149	-25
Thereof creation or reversal of temporary differences	-149	-25
Thereof other changes	0	0
Total	**3,859**	**4,313**

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:

	2012	2011
Deferred tax assets		
Pension provisions	1,952	1,446
Other assets and liabilities	634	328
Deferred tax liabilities		
Intangible assets	314	640
Property, plant and equipment	749	782
Other assets and liabilities	363	406

Deferred tax assets and liabilities totaling TEUR 371 were netted as they relate to future charges or reductions for the same tax payer to the same tax authority (previous year: TEUR 287). Consolidation effects resulted in deferred tax assets of TEUR 427 (previous year: TEUR 534). As of December 31, 2012, deferred tax assets were carried for tax losses carried forward in the amount of TEUR 1,998 (previous year: TEUR 2,797). According to the current legal situation, there are no temporal or amount-based restrictions on carrying these losses forward.

As of December 31, 2012 deferred tax assets were carried for deductible temporary differences in the amount of TEUR 1,932 (previous year: TEUR 2,350)

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:

	2012	2011
Profit before income taxes	15,573	14,971
Imputed tax expense	4,999	4,806
International tax rate differences	-903	-722
Tax for previous years	172	0
Non-capitalization of deferred taxes on losses carried forward	-1	10
Usage of tax losses not capitalized previously	-36	-105
Tax additions / reductions not impacting the tax base	-41	-78
Other differences	-331	402
Reported income tax expense	3,859	4,313

The dividend disbursement proposed by the Managing and Supervisory Boards for fiscal year 2012 will neither lead to a reduction nor an increase in income taxes for SMT Scharf Group.

Notes to the balance sheet

(7) 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, 2012

		Initial balance 01.01.2012	Currency translation	Additions	Disposals	Reclassifi-cation	Closing balance 31.12.2012
Goodwill	Gross	1,606	-92	0	0	0	1,514
	D/A	0	0	0	0	0	0
	Net	1,606	-92	0	0	0	1,514
Acquired intangible assets	Gross	1,337	1	30	1	0	1,367
	D/A	591	-4	111	1	0	697
	Net	746	5	-81	0	0	670
Own work capitalized (development costs)	Gross	2,318	-1	419	460	0	2,276
	D/A	879	-1	735	460	0	1,153
	Net	1,439	0	-316	0	0	1,123
Intangible assets	**Gross**	**5,261**	**-92**	**449**	**461**	**0**	**5,157**
	D/A	**1,470**	**-5**	**846**	**461**	**0**	**1,850**
	Net	**3,791**	**-87**	**-397**	**0**	**0**	**3,307**
Land and buildings	Gross	14,369	55	1	0	38	14,463
	D/A	7,865	2	335	0	33	8,235
	Net	6,504	53	-334	0	5	6,228
Thereof leased to third parties	Gross	1,385	0	0	0	0	1,385
	D/A	841	28	0	0	0	869
	Net	544	-28	0	0	0	516
Technical equipment and machinery	Gross	5,122	64	29	38	118	5,295
	D/A	4,507	52	276	36	-2	4,797
	Net	615	12	-247	2	120	498
Fixtures and fittings	Gross	8,532	159	1,078	1,273	-18	8,478
	D/A	7,304	139	542	1,123	-13	6,849
	Net	1,228	20	536	150	-5	1,629
Advance payments made	Gross	72	2	46	0	-120	0
	D/A	0	0	0	0	0	0
	Net	72	2	46	0	-120	0
Property, plant and equipment	**Gross**	**28,095**	**280**	**1,154**	**1,311**	**18**	**28,236**
	D/A	**19,676**	**193**	**1,153**	**1,159**	**18**	**19,881**
	Net	**8,419**	**87**	**1**	**152**	**0**	**8,355**

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**

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 2012, development costs totaling TEUR 419 were capitalized for a project which fulfils the requirements of IAS 38.

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.

(8) 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.

(9) 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, TEUR 681 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.

(10) Equity

The changes in SMT Scharf Group's equity are shown in the statement of changes in equity. The subscribed capital has totaled TEUR 4,200 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, 2012, 4,152,725 ordinary bearer shares of SMT Scharf AG have been issued in the form of no-par value shares with a notional value of EUR 1 per share. All shares have been fully paid in and grant the holders the same rights. The Managing Board can increase the subscribed capital on one or several occasions with the approval of the Supervisory Board by up to TEUR 2,100 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 TEUR 2,100 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. No treasury shares were acquired in the 2012 fiscal year. Of the treasury shares acquired in the reporting period, the company sold 3,200 to employees as part of an employee equity participation plan. The company still held 47,275 own shares on December 31, 2012, or 1.1% 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 TEUR 4,649. The Managing and Supervisory Boards will propose to the ordinary General Meeting, which is to be held on April 17, 2013, to pay a dividend of EUR 0.98 per share for fiscal year 2012 from these net retained profits. This will result in a total dividend of TEUR 4,070, payable in 2013, based on the shares in circulation on today's date (excluding treasury shares). The remaining amount of TEUR 579 will be carried forward to new account.

(11) Provisions for pensions

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.	31.12.2012	31.12.2011
Rate of benefit increases	2.0	2.0
Rate of pension increases	2.0	1.0 - 2.0
Discount rate (DBO)	3.90	5.14

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

	2012	2011
Defined benefit obligation on Jan. 1	2,891	2,656
Current service cost	59	188
Interest cost	120	128
Pension payments and transfers	-752	-131
Actuarial gains / losses	380	50
Defined benefit obligation on Dec. 31	2,698	2,891

In addition, there are defined benefit commitments for old-age, invalidity and survivors pensions at the UK companies in 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.	31.12.2012	31.12.2011
Rate of benefit increases	3.0	3.1
Rate of pension increases	2.5 – 3.0	2.5 - 3.1
Discount rate (DBO)	4.2	5.5
Return on plan assets	6.0	6.0

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:

	2012	2011
Defined benefit obligation on Jan. 1	59,634	52,438
Current service cost	112	77
Interest cost	3,323	3,066
Pension payments and transfers	-2,310	-1,889
Actuarial gains / losses	6,293	4,091
Contributions by employees	47	43
Changes in exchange rates	1,354	1,808
Defined benefit obligation on Dec. 31	68,453	59,634

Plan assets changed as follows:

	2012	2011
Plan assets on Jan. 1	54,596	49,061
Anticipated income from plan assets	3,328	3,325
Pension payments and transfers	-2,310	-1,889
Actuarial gains / losses	2,552	-2,379
Contributions by employers and employees	736	4,740
Wechselkursveränderungen	1,062	1,738
Planvermögen am 31.12.	59,964	54,596

After having changed the method of measuring actuarial profits and losses the obligation to be carried in the accounts is thus:

	31.12.2012	31.12.2011
Defined benefit obligation	68,453	59,634
Plan assets	-59,964	-54,596
Carrying amount	8,489	5,038

Plan assets are composed of the following items:

	31.12.2012	31.12.2011
Equities	32,380	30,156
Bonds	19,788	17,652
Real estate	5,397	4,361
Other	2,399	2,427
Total	**59,964**	**54,596**

(12) 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 SMT Scharf Group’s financial position or results of operations.

In Chile a customer has filed a lawsuite against the participating interest Dosco in the amount of USD 41 million for production downtimes. Since consequential loss is explicitly excluded from the respective contract the Managing Board, after having conferred with the legal advisors in Chile, considers this claim untenable. A provision for legal costs has been made by Dosco.

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 2012 can be seen in the following statement of changes in provisions.

Consolidated statement of changes in other provisions from January 1 to December 31, 2012

	Initial balance 01.01.2012	Currency translation	Transfers	Usage	Additions	Reversals	Closing balance 31.12.2012
Personnel	1,785	2	0	1,787	1,978	94	1,884
Sales	2,125	19	0	988	635	166	1,625
Miscellaneous	2,098	19	0	1,706	1,174	110	1,475
Other current provisions	6,008	40	0	4,481	3,787	370	4,984
Other non-current provisions	2,302	6	0	249	381	254	2,186

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

(13) 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 and which was reported as a non-current financial liability in the previous year was recorded as a current liability as of December 31, 2012. It had 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 TEUR 171 serves as collateral for one bank's guarantees.

Notes to the cash flow statement

The cash flow statement shows the changes in 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:

	2012	2011
Interest received	146	208
Interest paid	549	482
Income taxes paid	3,590	3,805

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.

	31.12.2012	31.12.2011
Cash and cash equivalents	16,515	12,772
+ Securities	0	2,000
./. Hardship and social funds	-681	-681
Net financial position	15,834	14,091

Other disclosures

(14) 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 TEUR 2,207 (previous year: TEUR 3,240).

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 2012, the rental and lease agreements resulted in payments totaling TEUR 449 being recognized in other operating expenses (previous year: TEUR 567). The total nominal amount of the future minimum lease payments under operating leases and rental agreements is broken down by maturity as follows:

	31.12.2012	31.12.2011
Due within one year	161	285
Due in one to five years	578	277
Due after more than five years	0	0
Total	**739**	**562**

(15) Fair values of financial assets and liabilities

The valuation of financial assets and liabilities is discussed in the section on accounting and valuation methods. SMT Scharf Group did not have any held-to-maturity or available-for-sale financial instruments in either 2012 or 2011. 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 SMT Scharf Group for which the fair value differs substantially from the carrying amount are the loans received:

	31.12.2012		31.12.2011	
	Carrying amount	Fair value	Carrying amount	Fair value
Loans received	5,527	5,527	4,954	4,942
(thereof < 1 year)	4,990	4,990	0	0

(16) Capital risk management

Management controls 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:

	31.12.2012		31.12.2011	
	in TEUR	in %	in TEUR	in %
Equity	43,333	55.7	38,329	46.4
Non-current liabilities	14,964	19.3	16,726	20.2
Current liabilities	19,501	25.0	27,628	33.4

(17) 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 TEUR 6,000 on the balance sheet date (previous year: TEUR 6,000). 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 TEUR 26,988 (previous year: TEUR 28,307).

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 creditworthi-ness, 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. 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 TEUR 614 (previous year: TEUR 711). No write-downs have been formed for trade receivables in the amount of TEUR 6,970 (previous year: TEUR 7,375) 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.

In line with IFRS 8, the identification of reportable operating segments is based on the "management approach". According to this, the external segment reporting is carried out based on the group's internal organization and management structure as well as the internal financial reporting to the highest management body ("chief operating decision maker"). In SMT Scharf Group, the Managing Board of SMT Scharf AG is responsible for the measurement and controlling of the business success of the segments and is the chief operating decision maker within the meaning of IFRS 8.

Deviating from the reporting up to now, SMT Scharf AG is reporting on two operating segments, which are managed independently by segment-responsible bodies in line with the type of products and services, brands, sales channels and customer profiles. The previous year figures were adjusted accordingly.

The "captivated railway systems" segment pools production and sales of captivated transport systems. The "roadheader technology" segment pools the activities of the Dosco subsidiary.

The revenue and input between the segments are of minor importance and are not reported separately.

The measurement principles for segment reporting are based on the IFRS used in the consolidated financial statements. SMT Scharf AG assesses the performance of the segments using earnings before interest and other financial results, which is made up of the profit from operating activities (EBIT) plus earnings from companies accounted for at equity.

Segment assets and liabilities comprise all assets and liabilities which can be allocated to the segments and their positive and negative results which influence the operating result. Segment assets notably include intangible assets, property, plant and equipment, inventories, trade receivables and other liabilities as well as major provisions. Segment capital expenditure contains additions to intangible assets and property, plant and equipment.

If a segment can be directly attributed in line with the equity method in the consolidated financial statements, its proportion of the profit and loss for the period and carrying amount are stated there.

	Segment Rail-bound transport systems		Segment Roadheader technology		Not allocated		Group	
in TEUR	2012	2011	2012	2011	2012	2011	2012	2011
Revenue	76,648	68,377	28,715	13,741	0	0	105,363	82,118
Profit from operating activities (EBIT)	12,858	14,091	2,524	456	0	0	15,382	14,547
Result from companies accounted for at equity	671	592	0	0	0	0	671	592
Earnings before interest and other financial results	13,529	14,683	2,524	456	0	0	16,053	15,139
Segment assets	61,939	59,925	13,134	19,359	4,097	3,399	79,170	82,683
Segment liabilities	23,694	26,687	11,088	16,125	1,055	1,541	35,837	44,353
Segment capital expenditure	1,304	927	299	457	0	0	1,603	1,384
Interests in companies accounted for at equity	1,939	1,372	0	0	0	0	1,939	1,372
Depreciation	1,504	1,256	495	228	0	0	1,999	1,484
Impairments	461	0	0	0	0	0	461	0
Employees (average)	252	229	63	59	0	0	315	288

The following table shows the transfer of the key figure earnings before interest and other financial results into earnings before and after taxes:

in TEUR	2012	2011
Earnings before interest and other financial results	16,053	15,139
Interest income	-480	-169
Earnings before taxes	15,573	14,970
Income taxes	3,859	4,313
Earnings after taxes	11,714	10,657

Non-current assets and external sales are split up by region at SMT Scharf Group. The allocation of non-current assets into the regions is carried out based on the location of the asset in question. Non-current assets include intangible assets, property, plant and equipment, participating interests in companies accounted for at equity as well as other non-current assets. The allocation of external sales is based on the location of the respective customer and is located under the notes to the income statement.

From the non-current assets, which comprise intangible assets and property, plant and equipment, TEUR 5,816 (previous year: TEUR 6,453) was attributable to Germany and TEUR 5,845 (previous year: TEUR 5,756) to other countries.

(18) 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 Hanse Yachts AG, Greifswald, Member of the Supervisory Board (until 06.02.2012) Lotus AG, Grünwald, Chairman of the Supervisory Board SKW-Stahl Metallurgie Holding AG, Unterneukirchen, Member of the Supervisory Board
Christian Dreyer, Salzburg (Deputy Chairman until 25.04.2012)	Entrepreneur	MS Industrie AG (former GCI Industrie AG), Munich, Chairman of the Supervisory Board
Dr.-Ing. Rolf-Dieter Kempis, Waldenburg (Deputy Chairman from 25.04.2012)	Management consultant	(no other mandates)
Dr. Harald Fett, Monheim (from 25.04.2012)	Management consultant	Pflegezeit AG, Hamburg, Member of the Supervisory Board

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 TEUR 15, 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 TEUR 10 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 2012:

	Dr. Markus	Dreyer	Dr. Kempis	Dr. Fett
Fixed remuneration	23	5	15	10
Variable remuneration	10	3	10	7
Expenses	4	1	0	0
Total	**37**	**9**	**25**	**17**

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 held 1,000 shares of the company.

(19) Managing Board

During the fiscal year, SMT Scharf AG's Managing Board comprised Dr. Friedrich Trautwein (CEO until March 31, 2012), Christian Dreyer (CEO since May 1, 2012) and Mr. Heinrich Schulze-Buxloh. Dr. Trautwein is the Chairman and Mr. Schulze-Buxloh is Chairman 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 2012:

	Dreyer	Schulze-Buxloh	Dr. Trautwein
Basic remuneration	82	166	39
Bonus	166	198	136
Additional payments	10	9	9
Total	**258**	**373**	**184**

components for previous fiscal years of TEUR 196 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, 2012, Mr. Dreyer did not hold any 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. Pension obligations worth TEUR 713 exist for Dr. Trautwein. The payment from pension obligations as well as from obligations from salary conversions due on February 15, 2013 is reported in other current liabilities.

There are no advances, loans or contingent liabilities in favor of members of the Managing Board.

(20) Related party transactions

In 2012, services totaling less than TEUR 156 were purchased at arm's length conditions from related parties as defined by IAS 24. No services were provided to related parties.

(21) Events after the balance sheet date

On January 10, 2013, SMT Scharf GmbH acquired a 50% interest from Mr. Viktor Poteraylo in the Ukrainian joint venture "TOW SMT Scharf Ukrainia", Donetsk for a purchase price of TEUR 40. As a result, the company in the Ukraine is now a wholly-owned investment.

Hamm, February 26, 2013

The Management Board

Christian Dreyer Heinrich 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, 2012, 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 2012 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 26, 2012

The Management Board

Christian Dreyer Heinrich 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, 2012 to December 31, 2012. 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 manage-ment, 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 26, 2013

Verhülsdonk & Partner GmbH
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Rainer Grote
Wirtschaftsprüfer

Christian Weyers
Wirtschaftsprüfer

FINANCIAL CALENDER 2013

April 17	Annual general meeting
May 15	Publication of the financial report for the 1st quarter 2013
August 14	Publication of the financial report for the 2nd quarter 2013
November 11	Publication of the financial report for the 3rd quarter 2013
November	Analyst conference as part of the german equity forum in Frankfurt / Main
December 31	End of the fiscal year

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LEGAL NOTICE

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

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

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

Photo: Page 38: GettyImages, 295706-002

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