SMT Scharf AG
Group financial report 2017

Contents

Group management report for the 2017 fiscal year

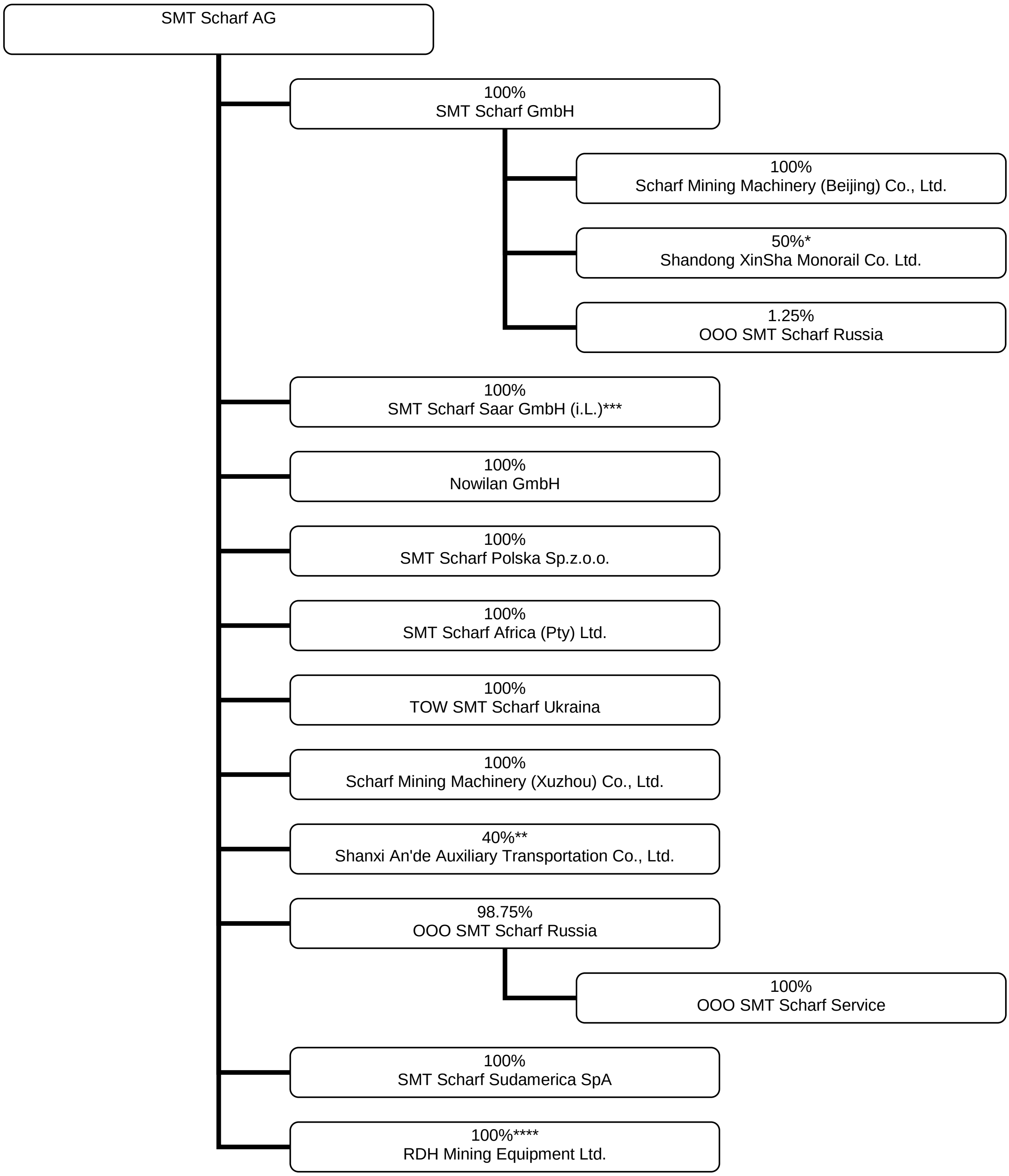
Background information on the Group

Business model and Group structure

The SMT Scharf Group ("SMT Scharf") develops, manufactures and services transportation equipment and logistics systems for underground mining and tunnel construction. The business profile of SMT Scharf can be described on the basis of the following criteria:

- **Business areas:** Captivated railway systems deployed in underground mines are the company's main product. Such systems are technically capable of transporting personnel and materials up to 45 tons on gradients of up to 35 degrees. Chairlifts for mining applications constitute an ancillary product. The product range also includes the development and installation of open air rail and cable management systems, including for energy supplies to machines, for example. The tunnel logistics business area is still in the process of being established. It promises great potential for generating sales over the coming years and is to be expanded to form a further business pillar.
- **Nature of business:** The production and installation of new equipment forms the core of the operating activities. To these are added downstream services such as replacement parts, maintenance and repairs and maintenance work. While the new systems and service business developed well in the year under review, the share of the service business, expressed as a percentage of revenue, declined year on year due to the higher level of investment by mine operators in new systems. SMT Scharf occasionally acts as a railway operator in response to customer demand.
- **Customer groups:** SMT Scharf products are utilised mainly in hard coal mining (the Coalmining segment), as well as increasingly in producing gold, platinum, copper, nickel (hard rock) and salts (aggregated within the Non-Coalmining segment). Tunnel construction companies are to be added in the future (Tunnel segment).
- **Regions:** SMT Scharf markets its products through its own subsidiaries located in the world's most important mining countries, above all including the export markets in Russia, Poland, China and South Africa. The German domestic mining market plays only a minor role nowadays. In smaller markets, SMT Scharf works together with dealers or agents.

Ownership interests within the SMT Scharf Group



* A further 50%: Shandong Liye Equipment Co. Ltd.
**Since January 31, 2018; another 51 % held by Shanxi Lu'an Coal Technology Equipment Co., Ltd., and another 9% held by Shanxi Lu'an Haitong Industry & Trade Co., Ltd.
*** In liquidation
**** since February 7, 2018

Corporate objectives and strategy

SMT Scharf pursues a strategy based on three areas of activity. To this end, the Managing Board team has defined an extensive **list of measures** which are being consistently addressed and implemented. The **three strategic areas of activity** are:

- **Organic growth:** new products, expanding the hard rock area, tapping new geographic markets and setting up and establishing tunnel logistics as a third business area.

- **External growth:** takeovers and partnerships aimed at promoting and securing the core positioning of SMT Scharf. Takeovers, strategic partnerships and joint ventures have already been brought to completion and established. This will remain a strategic thrust of SMT Scharf AG.

- **Operational excellence:** SMT Scharf has made further progress in improving productivity and profitability, along with strengthening its market position. Part of SMT Scharf's permanent strategy is to leverage optimisation potential more effectively through the interplay of international locations as well as in the management of development processes. The targeted analysis of specific markets and customer requirements helps SMT Scharf to further sharpen its competitive edge in this context.

The Managing Board team deploys these strategies to progress the measures derived from it in order to further develop the company into a **system supplier of logistics solutions**, while at the same time positioning it in **adjacent markets** (through the core positioning in the mining supply market). The aim of this approach is to tap additional sales revenue potential and make sales trends less dependent on the cyclical business in traditional mining.

SMT Scharf responded with a **CSI program** to the pronounced phase of weakness which has now come to an end in the mining sector. This program comprised – on a summarised basis – short-term cost cuts (C) accompanied at the same time by a strengthening of sales (S) and innovative capability (I). In this context, positive value contributions have become increasingly evident over the past fiscal years, enabling SMT Scharf to reach its target of a marked **improvement in results**. The introduction of a standardised **Enterprise Resource Planning** (ERP) system on a global scale should help to further boost the efficiency of international collaboration within the Group, improve processes, and identify and realise optimisation potential at an early stage in future. Process analyses are conducted within the Group for this purpose and taken as a basis for contacting and reviewing ERP system providers. The selection process is due for completion in the second half of 2018.

Management and control system

SMT Scharf AG manages and controls its business by applying financial and non-financial performance indicators whose development affect the company's value positively in different ways. Financial and non-financial performance indicators are monitored continuously, and included in monthly reporting to the Managing Board and in discussions with the Supervisory Board. Reporting is by subsidiary, and includes an analysis of actual outcomes, a budget/actual analysis, and year-on-year comparisons. SMT Scharf undertakes further specific analyses where required.

Financial and non-financial performance indicators as well as current forward planning are presented in the following tables. The medium-term targets reflect the background assumption that the market environment continues to normalise, especially on the basis of stable or a further uptrend in raw materials prices.

Financial performance indicators:

Key indicator	Calculation method	Target (medium-term, 3-5 years)
Key income statement figures		
Consolidated sales revenue growth (organic and inorganic)	(Group revenue in reporting year / Group revenue in previous year)-1	>5%
Tunnel revenue share	Tunnel segment revenue / Group revenue	>10%
EBIT margin	Earnings before interest and tax (EBIT) / operating performance	>10%
Cost of materials ratio	Cost of materials / operating performance	~50%
Key balance sheet indicators		
Net working capital	Annual average current assets – annual average liquid assets – annual average current liabilities	EUR 20 million
Equity ratio (on the reporting date)	Equity / total assets	>=30%
Key efficiency figures		
Net working capital intensity	Net working capital / Group revenue	<50%
Days of sales outstanding	Number of days in reporting year * (annual average trade receivables / Group revenue)	<150 days

Non-financial performance indicators:

Key indicator	Calculation method	Target (medium-term)
Employee numbers		
Employee turnover	Employees leaving the company (FTEs / annual average number of employees (FTEs)	<10%
Sickness rate	Number of work days lost due to sickness / Planned working days	5%

Employees

SMT Scharf AG calculates the number of its employees in the form of full-time equivalents (FTEs). As of December 31, 2017, the SMT Scharf Group employed 317 staff (full-time employees), including six trainees at the Hamm location. The Group had a workforce of 308 FTEs in the previous year (including three trainees). In order to manage production capacity flexibly, SMT Scharf draws on temporary staff in accordance with the three layer model, which covered growth in 2017. In the event of sustainable growth, these temporary workers are then taken on accordingly in the respectively higher layer.

The changed international demand structure for SMT products has led to production capacity being gradually expanded, along with the workforce in the international companies. Especially in China, additional qualified staff members were hired to enable the expansion of our local technical expertise in terms of service and development, as well as production. In Germany as well, employee numbers rose to 87 FTE as of December 31, 2017 (previous year: 85 FTE). Moreover, in order to cover higher demand in production, temporary workers were increasingly hired, particularly in Germany.

SMT Scharf Group employees

	2017	**2016**
Total employees	317	308
Employees in Germany	87	85
Employees abroad	230	223
Female employees	48	50
Male employees	269	258

The number of employees at foreign sites increased by 7 FTEs to 230 FTEs in the 2017 fiscal year. The proportion of staff employed abroad grew slightly to 73% as a consequence (previous year: 72%). The greatest increase in personnel numbers was reported in the target market of Russia (from 98 FTE to 107 FTE). Employee turnover amounted to 4% in the year under review, in line with the medium-term target of <10%. The workforce sickness rate stood at 4.7% in 2017, below the 5% target.

Research and development

The local centres of competence with increasingly high level of vertical production were successfully developed, above all in Poland and China. In Russia as well, endeavours are under way built up expertise in the country. Creating synergies through furthering the network of the various locations is viewed by SMT Scharf as a future-oriented topic (ERP system).

International project teams are enabling important further developments and innovations to the existing product range to be accelerated and improved in line with demand in the respective markets through targeted coordination with customers. The communication of international project team is facilitated by the latest technology, as well as through regular personal meetings between the national department managers. At the same time, local production as well as a global supplier network ensures delivery times in line with requirements. An innovative, modular design of the machines enables highly flexible configuration options for sophisticated customer specifications while optimising costs. Serial production is already benefiting from phased implementation applied to each individual machine model.

For innovative applications beyond underground coal mining, new applications can be developed based on the SMT Scharf Group’s core competence in tunnelling and the exploitation of further mineral resources. Our partnership with the Sandvik Group highlights this aspect.

Expenses for research and development amounted to EUR 3.3 million in the 2017 fiscal year (previous year: EUR 2.8 million). The share of development costs in overall research and development costs (capitalisation ratio) stood at EUR 1.6 million (2016: EUR 0.0 million), while the write-downs on capitalised development costs posted EUR 27 thousand (2016: EUR 1.3 million) in the reporting period.

Economic and business report

Macroeconomic environment

According to preliminary data from the International Monetary Fund (IMF), the global economy grew by 3.7% in 2017, which is stronger than in the previous year (3.2%). The Chinese economy benefited from the uptrend in global trading and reported growth which was more dynamic than anticipated at the start of the year. The global upswing was also in evidence in Russia where the gross domestic product (GDP) began to pick up momentum following declining figures at the last count. South Africa also exceeded expectations of economic growth in the second half of 2017 when the pace accelerated slightly, although growth rates still remained low. In the meantime, Poland ranks among Europe’s most dynamic markets. The drivers here include private consumption as well as an uptrend in capital expenditure. The four aforementioned countries represent the most important sales markets of SMT Scharf. The customers there together generally account for more than 75 % of Group sales revenues.

Exchange rate changes in the most important sales markets for SMT Scharf AG* (in %)	**2017**	**2016**
World	3.7	3.2
China	6.8	6.7
Poland	3.8	2.6
Russia	1.8	-0.2
South Africa	0.9	0.3

* Sources: IMF World Economic Outlook Update, January 2018; IMF World Economic Outlook, October 2017 (for Poland)

SMT Scharf limits the impact of foreign exchange risks through partial relocation of production and purchasing processes to the company's sales markets. Most new plants are still built in Germany, however. In addition, SMT Scharf has adapted its organisation to these influences and reduced the costs incurred by exchange rate effects in the reporting period by using hedging transactions. The four most important currencies of SMT Scharf AG fluctuated strongly in part in the period under review:

Following considerable gains of the Russian rouble and the South African rand as against the euro in 2016, the European currency retained its purchasing power over the course of the fiscal year ended (increase in purchasing power of 8% and 3% respectively). As a result, the products of SMT Scharf have become somewhat more expensive in these countries when converted into the domestic currency. The same applies to the Chinese Yuan Renminbi where the strength of the euro in the last fiscal year led to an increase in purchasing power of 7% in comparison with 3% in the previous year. In Poland, by contrast, strong economic growth also impacted the currency. The euro declined by 5% against the zloty.

Exchange rate changes in the most important sales markets for SMT Scharf AG* (in %)	**2017**	**2016**
Yuan Renminbi (China) / euro	+7	+3
Zloty (Poland) / euro	-5	+3
Rouble (Russia) / euro	+8	-19
Rand (South Africa) / euro	+3	-15

* Source: ECB, change over course of year

Sector trends

Prices of the most important energy raw materials and metals continued to recover and stabilise during the reporting period. Given the brighter prospects of the industries business activities, there is reason to believe that the mining sector and its suppliers have emerged from their cyclical downturn for the time being and, the trend reversal having been completed, a sustained uptrend in raw material prices can be anticipated. This is especially true of the coal sector which is so important for SMT Scharf. After the already sharp increase at the turn of the year 2016/2017, the price of coal had risen again by around 30% (based on the USD price of a tonne of hard coal) by year-end 2017, following a brief phase of weakness in the first four months. Whereas the sales volume of coal had settled at a stable level in recent years, coal nevertheless experienced a price crisis. As expected the recovery in raw materials prices led to brisker activity on the market for mining equipment. The operators of the world's coal mines have begun to reduce the investment backlog which has built up over many years and invest in new conveyor systems and a modern infrastructure.

Also in the assessment of the Specialist Mining Equipment Association of the German Engineering Federation (VDMA), the recovery in raw materials prices will enable German mining machinery manufacturers to pass the cyclical low point. Sales revenues in 2017 are likely to have remained unchanged from the previous year at EUR 2.95 billion. The positive trend reversal on the back of rising order intake from abroad since the fourth quarter of 2016 is expected to result in an export rate of 96% in the year now ended. The anticipated downturn in domestic sales revenues is therefore practically negligible. Instead, momentum is setting in visibly in large parts of the raw materials industry. Given the necessary political stability in the relevant foreign markets, this should continue to have a positive impact on order intake of mining equipment manufacturers. Demand is also being bolstered by the fact that digitalisation and Industry 4.0 are also increasingly making inroads into the mining industry. Innovative technologies envisage far-reaching automation and autonomous management of mining and transportation systems in this context, creating great incentives for mine operators to invest.

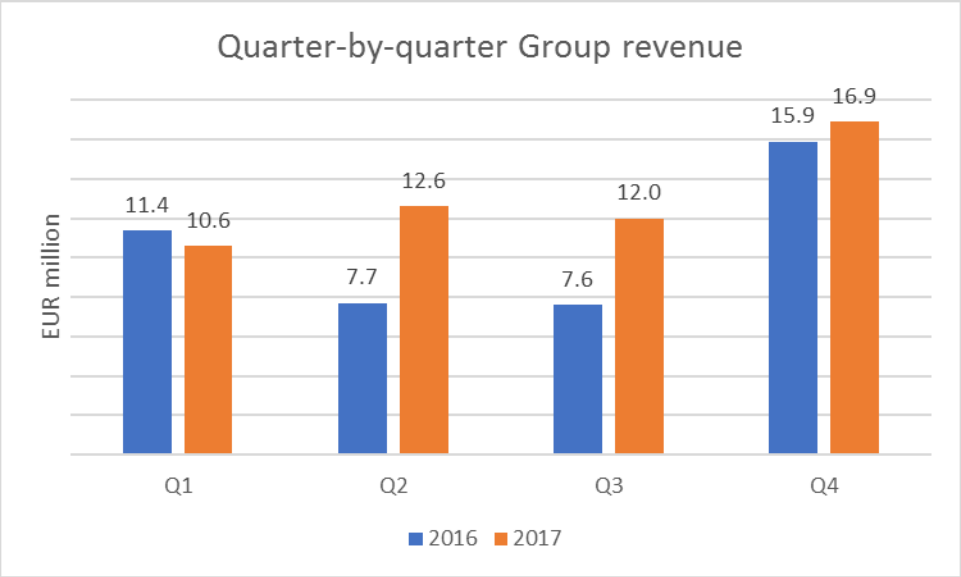
SMT Scharf also sees positive growth prospects in the tunnel segment: According to the International Tunnelling and Underground Space Association (ITA), the global tunnel construction market is worth around USD 86 billion per year (based on 2016 data), which represents an increase of 23% compared with 2013. An average 5,200 km of tunnels have been built worldwide every year since 2013, with Asia reporting the strongest growth. The ITA predicts that China, for instance, with an annual economic production worth EUR 37 billion, will represent around 50% of the tunnel construction market in the next decade. The study indicates that the European market's is developing steadily at rates of between EUR 10 and 12 million a year. All in all, a global output in tunnel construction of around EUR 680 billion is anticipated for a pipeline of more than eight years. The huge demand is also fuelled by the ongoing development in many cities and the linking of urban centres.

SMT Scharf supports its business model which rests on several pillars through its diversification by product, region, customer group and regional market. This approach serves to mitigate the impact of the coal mining business cycle on the business development of SMT Scharf.

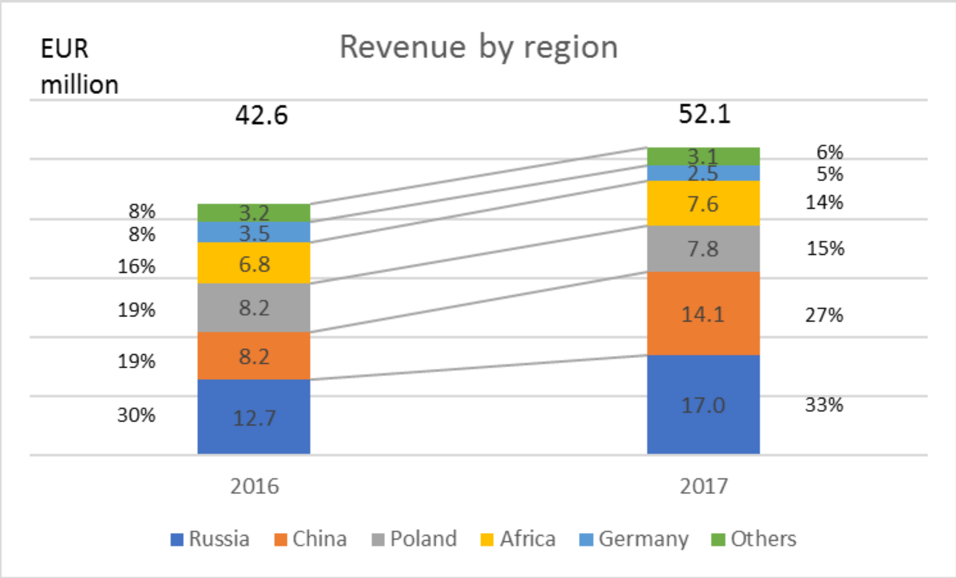
Development of business

Thanks to its market growth strategy and the improved industry environment, SMT Scharf AG raised its consolidated revenue notably by 22.6% to EUR 52.1 million in fiscal 2017 (2016: EUR 42.6 million). At the same time, operating earnings (EBIT) of EUR 4.5 million in the fiscal year elapsed soared by 84.2% compared with the previous year (2016: EUR 2.5 million). SMT Scharf has therefore succeeded in reinforcing its market position and in benefiting from the drive of leading mining companies all over the world to reduce their investment backlog. At the same time, profitability was raised significantly through economies of scale, enhancing efficiency and the lower level of provisions in the year under review.

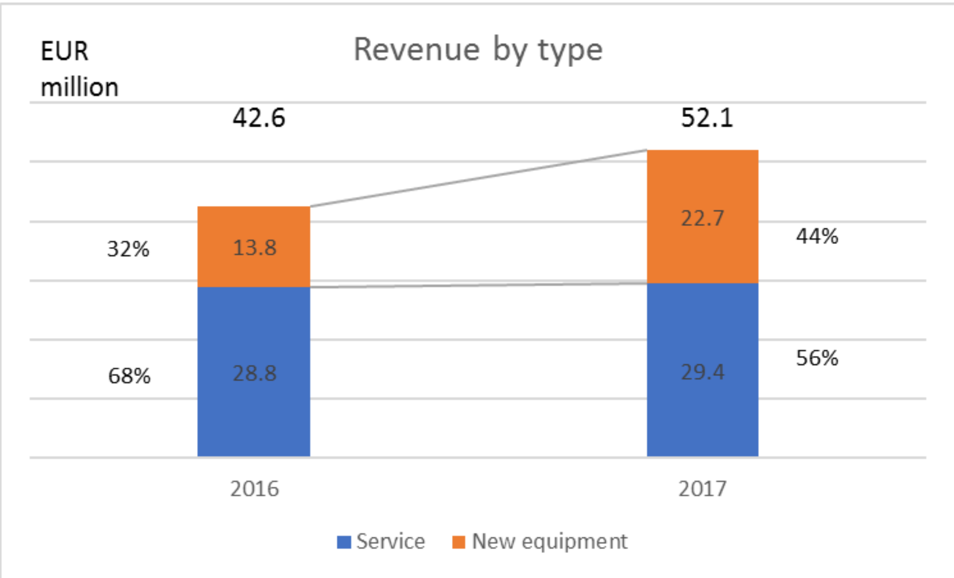
The success of SMT Scharf's strategy to grow in the market, with the company consciously adopting aggressive pricing in contract awards and tenders, boosted revenue in the fourth quarter as well. Following a strong revenue trend in the second and third quarter, consolidated revenue stood at EUR 16.9 million in the fourth quarter, which is 6.3% above the previous year's quarter (Q4/2016: EUR 15.9 million).



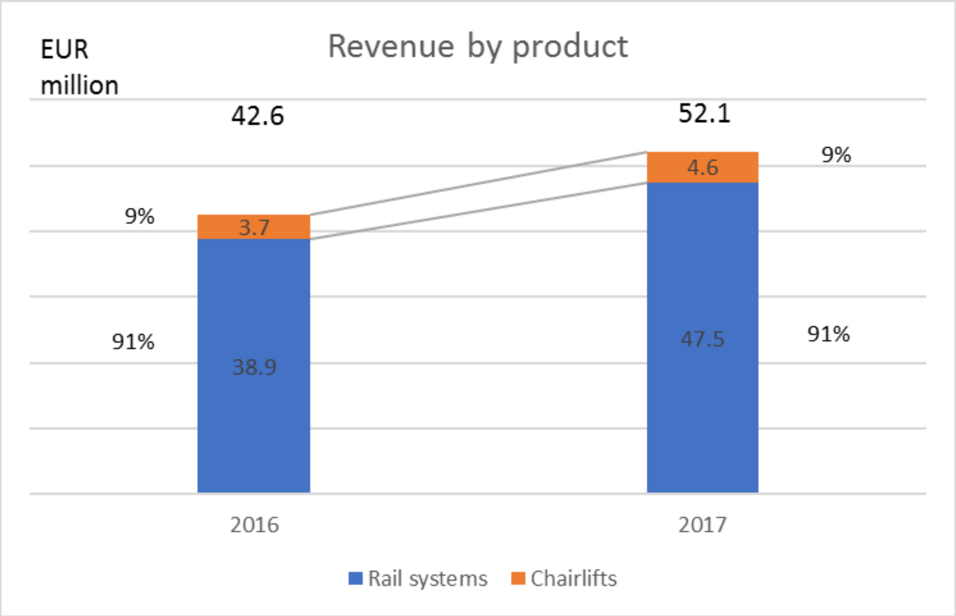
SMT Scharf generated almost 95% of its revenue abroad in the reporting year (2016: 92%). As in the previous year, Russia (and CIS) remained the most important market with a share of 32.6%, equivalent to EUR 17.0 million (2016: 29.8% or EUR 12.7 million). Russia's economy continued to recover over the course of 2017, followed by China in second place where SMT Scharf reported strong proportionate revenue growth of 27.1% or EUR 14.1 million (2016: 19.3% or EUR 8.2 million) in the reporting period. Growth in the Chinese economy, which accelerated in 2017 compared with the previous year, contributed to this development. Poland is another important market for SMT Scharf. With a share in revenue of 15.0% and revenue of EUR 7.8 million (2016: 19.3% or EUR 8.2 million), the business volume declined slightly in proportionate as well as in absolute figures compared with the previous year, but nevertheless continues to remain a relatively stable market through the multi-year leasing of machinery. Africa followed on in fourth place with 14.6% or EUR 7.6 million (2016: 15.9% or EUR 6.8 million). SMT Scharf is present in this country mainly in the South African hard rock market which has regained momentum, driven by the increase in commodity prices. The revenue apportioned to Germany declined in line with planning by 4.8% to EUR 2.5 million for reason of only one mine remaining open (2016: EUR 3.5 million or 8.2%).



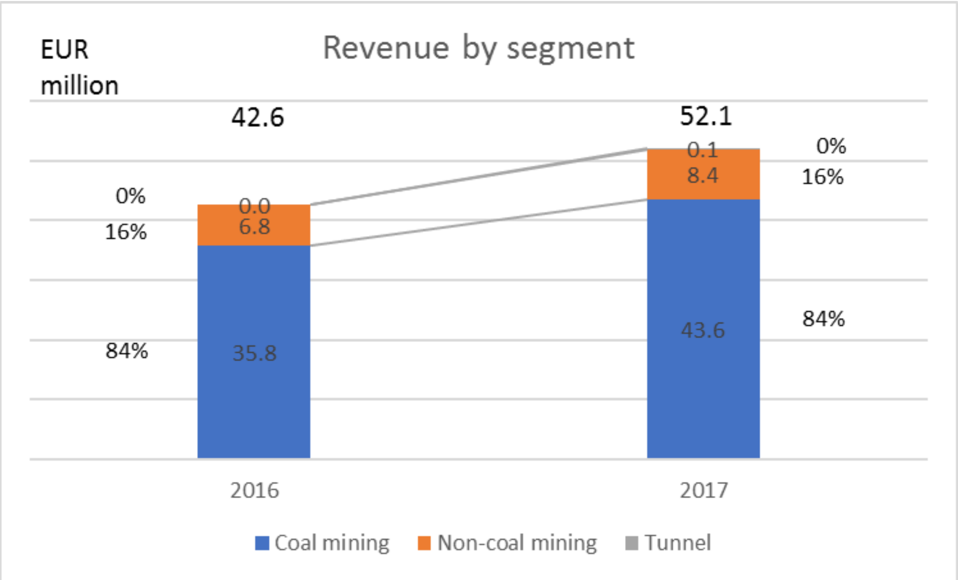
In 2017, revenue from the new systems business was raised substantially. Revenue from the service business also grew slightly compared with the previous year. The proportion of new business increased to 43.6% (2016: 32.4%) on the back of the strategy to grow in the market. This development is to be seen in the context of the improved market environment as many mine operators are now investing in new systems. Measured against total revenue, the share of the spare parts and service business dropped to 56.4% (2016: 67.6%).



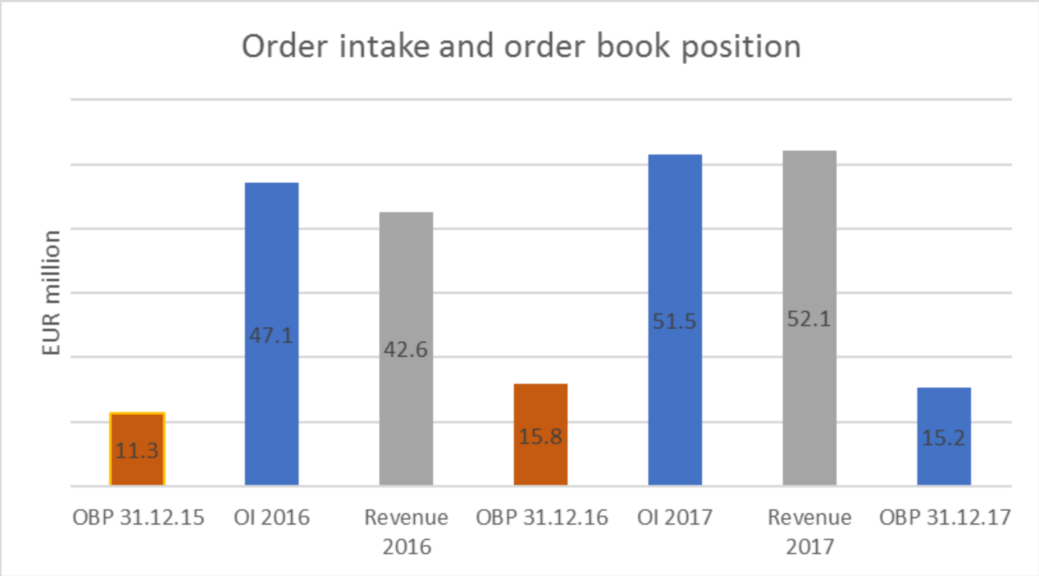
At 91.1%, most of total revenue was attributable to the Railways product, as in the previous year (2016: 91.4%), while Chairlifts accounted for 8.9 % of revenue (2016: 8.6%).



The Coal segment continued to account for most of consolidated revenue in the 2017 fiscal year, at 83.6% or EUR 43.6 million (2016: 84.1% or EUR 35.8 million). Accordingly, a smaller proportion of 16.2%, or EUR 8.4 million, was attributable to the Non-Coalmining segment (2016: 15.9% or EUR 6.8 million). As expected, the Tunnel segment, which was newly launched in 2016, contributed an only marginal share of 0.2 % or EUR 0.1 million to overall revenue in the reporting period. This segment is still in the process of being built up.



New order intake amounted to EUR 51.5 million in the year under review (2016: EUR 47.1 million). The order book position of the SMT Scharf Group stood at EUR 15.2 million as of December 31, 2017 (December 31, 2016: EUR 15.8 million).



Financial position and performance

Results of operations

In fiscal 2017, the SMT Scharf Group generated consolidated revenue of EUR 52.1 million (2016: EUR 42.6 million). In line with this trend, total operating revenue (consolidated revenue plus changes in inventories) rose to EUR 53.1 million (2016: EUR 42.2 million) accompanied by a significant increase in the inventories of finished goods and work in progress. Other operating income climbed to EUR 5.8 million on the back of the notably higher level of miscellaneous other operating income and gains from the release of provisions (2016: EUR 4.6 million), as opposed to exchange rate gains which declined in the period under review. Miscellaneous other operating income mainly comprised the reversals of specific valuation allowances and rental income.

The cost of materials advanced by 40.5% to EUR 30.5 million (2016: EUR 21.7 million), which resulted in an increase in the cost of materials ratio (in relation to total operating revenue) to 57.5% (2016: 51.5%). This development is attributable to the considerable upturn in the new systems business with aggressive pricing in the market. Personnel expenses rose by 10.1% to EUR 12.7 million, due to the higher number of employees (2016: EUR 11.6 million). The fact that the personal expense ratio (in relation to total operating revenue) lay significantly below the year-earlier figure (2016: 27.4%) reflects the increase in revenue levels in the 2017 fiscal year.

Accumulated depreciation, amortisation and impairment of EUR 1.3 million (2016: EUR 2.5 million) almost halved in the reporting period compared with the previous year when an impairment loss applied to a development project led to higher impairment. Accumulated depreciation resulted primarily from scheduled depreciation applied to property, plant and equipment. By contrast, other operating expenses increased by 13.8% to EUR 9.8 million (2016: EUR 8.6 million). This development was attributable first and foremost to higher exchange rate losses (EUR 2.3 million compared with EUR 1.9 million in 2016), external services (EUR 1.9 million compared with EUR 1.6 million in the previous year), as well as the increase in travelling expenses (EUR 1.1 million as against EUR 0.7 million in 2016). Overall in the fiscal year, exchange rate gains and exchange rate losses generated a net loss of EUR -0.8 million (2016: EUR 0.1 million).

Table: *Results of operations*

EUR million	**2017**	**2016**	**Change**
Revenue	52.1	42.6	22.5%
Total operating revenue	53.1	42.2	25.7%
EBIT	4.5	2.5	84.2%
EBIT margin (in %)	8.6	5.9	
Consolidated net profit	4.0	1.5	158.7%
Earnings per share (in EUR)	0.94	0.37	154.1%

All in all, the SMT Scharf Group generated a significantly higher operating profit (EBIT) of EUR 4.5 million in the year under review (2016: EUR 2.5 million). The EBIT margin (in relation to total operating revenue) stood at 8.6% (2016: 5.9%). This performance reflects improvements in efficiency as well as a lower level of provisions in the reporting period. The financial result came in at EUR 0.6 million compared with EUR 0.1 million in the previous year, which was mainly attributable to income of EUR 0.6 million from participating interests (Chinese joint venture) which was considerably higher year on year (2016: EUR 0.2 million).

On balance, the Group generated a profit before tax of EUR 5.1 million (2016: EUR 2.6 million). The tax expense of EUR 1.2 million in the reporting year remained around the previous year's level (2016: EUR 1.1 million). This figure comprised current tax expenses of EUR 0.6 million (2016: EUR 2.2 million) and deferred tax of EUR 0.5 million (2016: EUR -1.2 million). The decline is attributable, among other factors, to the profit-and-loss transfer agreement made for the German Group companies for the first time in the fiscal year. The Group's tax rate amounted to 32.1%, as in the previous year.

All in all, SMT Scharf AG achieved a consolidated net profit of EUR 4.0 million (2016: EUR 1.5 million), which represents another increase of EUR 2.5 million in a year-on-year comparison. This corresponds to earnings per share of EUR 0.94 (2016: EUR 0.37).

Net assets:

The total assets of the SMT Scharf Group rose to EUR 72.3 million as of December 31, 2017 (December 31, 2016: EUR 59.5 million). On the assets side of the balance sheet, non-current assets advanced to EUR 16.3 million (December 31, 2016: EUR 13.8 million). Property, plant and equipment recognised amounted to EUR 5.4 million due above all to the addition of technical systems and machinery (December 31, 2016: EUR 4.7 million), while intangible assets reported an increase of EUR 1.7 million to EUR 3.1 million due in particular to own development activities (December 31, 2016: EUR 1.4 million). Compared with the previous year's balance sheet date, deferred tax assets declined to EUR 3.1 million (December 31, 2016: EUR 3.3 million).

Current assets continued to comprise the largest proportion on the assets side. At EUR 15.1 million, inventories clearly exceeded the previous year’s level (December 31, 2016: EUR 13.0 million). Trade receivables increased slightly to EUR 24.7 million (December 31, 2016: EUR 23.4 million). In relation to consolidated revenue of EUR 52.1 million in the 2017 fiscal year (2016: EUR 42.6 million), average trade receivables outstanding of EUR 22.5 million (2016: EUR 23.6 million) and 365 days (2016: 366 days), days of sales outstanding stood at a lower level of 157 days (2016: 203 days). The high receivables position – deriving mainly from Chinese customers – is to be reduced on an ongoing basis. The payment plans concluded with major customers back in 2016 will be adhered to, as agreed. Cash and cash equivalents came in at EUR 12.9 million as of December 31, 2017 (December 31, 2016: EUR 6.6 million) and were therefore raised considerably. This growth was due to the capital increase carried out in November 2017, with SMT Scharf AG receiving gross proceeds of EUR 5.4 million.

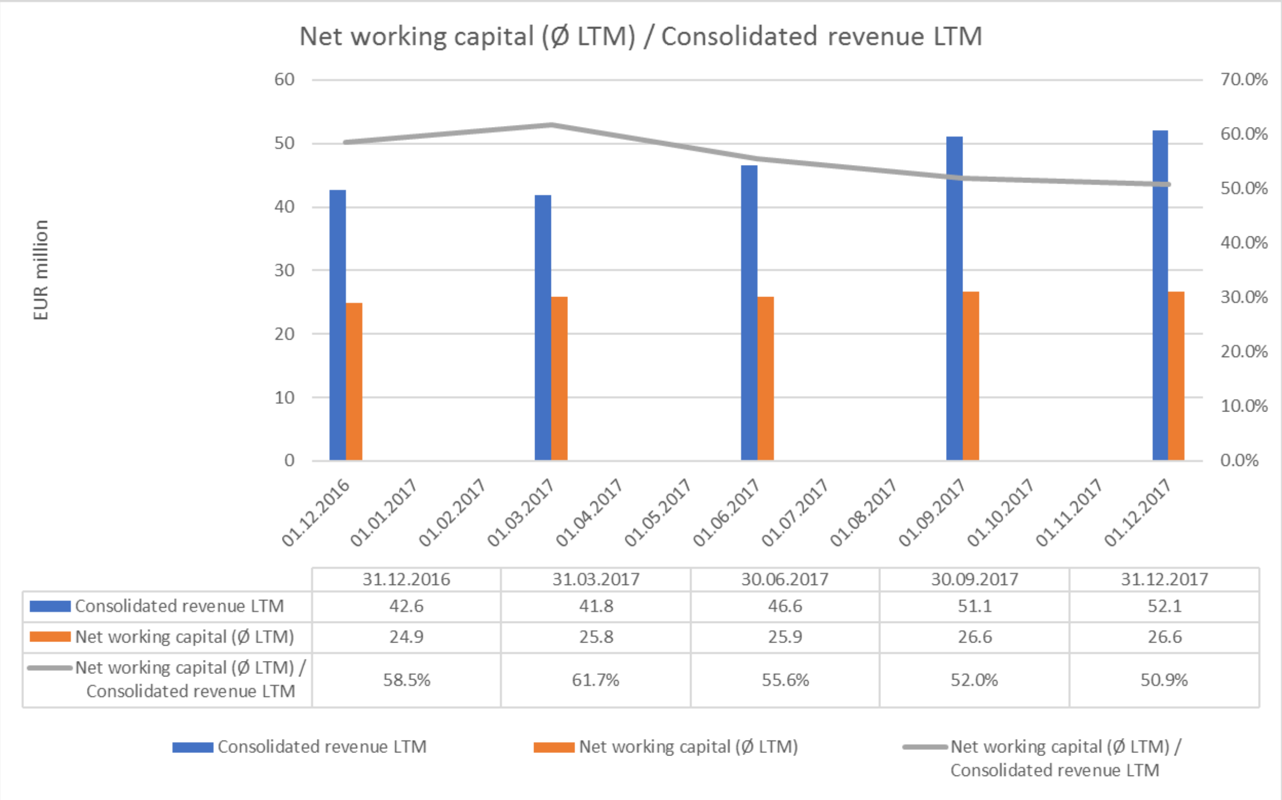
Despite the increase in total assets, alongside the positive consolidated net income, the equity ratio of the SMT Scharf Group rose to 67.4% (December 31, 2016: 66.2%).

Non-current provisions and liabilities amounted to EUR 6.0 million as of the balance sheet date (previous year: EUR 5.3 million). In the reporting period, non-current financial liabilities increased to EUR 1.5 million due to the drawdowns on a development loan (December 31, 2016: EUR 1.3 million). Pension provisions, however, declined to EUR 3.3 million (December 31, 2016: EUR 3.6 million).

Current provisions and liabilities totalled EUR 17.6 million as of the reporting date (December 31, 2016: EUR 14.8 million), reflecting an increase of EUR 2.8 million compared with the previous year. Trade payables of EUR 5.4 million exceeded the year-earlier figure (December 31, 2016: EUR 4.1 million). Current financial liabilities rose to EUR 5.0 million on the back of drawdowns on existing credit lines (December 31, 2016: EUR 2.2 million). A counter trend emanated from current provisions which declined to EUR 4.2 million (December 31, 2016: EUR 5.1 million).

Table: *Net assets:*

EUR million	**31/12/2017**	**31/12/2016**
Total assets	72.3	59.5
Equity	48.7	39.3
Equity ratio (in %)	67.4	66.2
Non-current and current provisions and liabilities	23.6	20.1
Non-current assets	16.3	13.7
Current assets	55.9	45.7
Days of sales outstanding	157	203
Net working capital on the balance sheet date	25.0	25.0
Net working capital – year-average	26.6	24.9
Net working capital intensity	50.9	58.5



(LTM: last twelve months, rolling 12-month basis)

Equity and particular legal relationships

The subscribed capital of SMT Scharf AG was raised from EUR 3.0 million to EUR 4.2 million against cash capital contributions as part of the IPO in April 2007. As part of the share capital increase completed in November 2017 with partial utilisation of Authorised Capital 2016, the share capital of SMT Scharf AG was raised again by EUR 420,000.00, from EUR 4,200,000.00 to EUR 4,620,000.00, against cash contribution and to the exclusion of shareholders' subscription rights. Since that date, it comprises 4,620,000 no-par value bearer shares, each with a notional interest of EUR 1 in the subscribed capital. After the capital increase, Authorised Capital 2016 still exists to issue a total of up to 1,680,000 further ordinary shares. With Supervisory Board approval, the Managing Board can utilise this authorised capital to raise the subscribed capital of SMT Scharf AG until April 19, 2021. Shareholders' subscription rights can be excluded in this context. In addition, Conditional Capital 2016 exists to issue additional ordinary shares up to a total of 2,100,000. With Supervisory Board approval, the Managing Board was authorised to issue once or on several occasions until April 19, 2021, bearer convertible bonds and/or bonds with warrants or profit participation rights (together referred to as "bonds") with or without restriction of term in a total nominal amount of up to EUR 70 million, and to grant to the holders or creditors of bonds conversion or warrant rights (also with conversion or subscription obligations) to the company's ordinary bearer shares with a nominal amount in the share capital totalling up to EUR 2.1 million according to the more detailed specifics of the terms and conditions of the convertible bonds are bonds with warrants. At present, no such securities have been issued.

The company still held a total of 49,477 of these shares at the end of the year under review (1.07% of the share capital).

The company is subject to general statutory restrictions on voting rights, in particular resulting from the German Stock Corporation Act (AktG) and the German Securities Trading Act (WpHG). The Managing Board is not aware of any restrictions on voting rights above and beyond the aforementioned, including any restrictions that could result from agreements between shareholders. In addition, the Managing Board is not aware of any restrictions relating to the transfer of the company's shares, including any restrictions resulting from agreements between shareholders.

The interest of the shareholders that held interests in SMT Scharf AG before the IPO fell below the 10% voting rights threshold in January 2010, and these shareholders left the shareholder base fully in February 2010. Since then, only the overall pool arising from Shareholder Value Beteiligungen AG/Share Value Stiftung/Christiane Weispfenning exceeds 10% of the voting rights, whether directly or indirectly.

No shares exist with extraordinary rights that grant the holders controlling powers. The company is not aware of any interests held by employees who do not exercise their controlling rights directly. The Supervisory Board can implement changes to the articles of incorporation that affect only their wording. Otherwise, changes to the articles of incorporation require a resolution by the General Meeting in the meaning of Sections 133, 179 of the German Stock Corporation Act (AktG), whereby pursuant to article 17 of the articles of incorporation, resolutions by the General Meeting are to be passed with a simple majority of votes cast, unless mandatory statutory requirements exist 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 amendments to the articles of incorporation.

Pursuant to article 8 of the articles of incorporation, the company's Managing Board comprises one or several members, including in the event that the share capital exceeds EUR 3.0 million, whereby the Supervisory Board determines the number of members of the Managing Board, and can appoint a Chair (CEO) as well as a Deputy Chair (Deputy CEO) of the Managing Board, and also deputy Managing Board members. In all other respects, the statutory regulations apply to the appointment and discharge of Managing Board members. 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.

Financial position:

SMT Scharf AG mainly performs the central steering financial management for the SMT Scharf Group. The Group's financial management comprises the management of cash and liquidity, the hedging of interest, currency and raw materials price risks, Group financing, the issuing of guarantees and letters of comfort, and communicating with rating agencies. We manage process centrally, which enables us to work efficiently and successfully control risks.

The main task is to minimise financial risks and capital costs and thereby maintain the Group's sustainable financial stability and flexibility. The Group's financial strategy is based on the principles and objectives of financial management, and takes into account not only shareholders' interests but also debt capital providers' claims. A high degree of continuity and predictability for investors aims to maintain financial flexibility and low capital costs for the SMT Scharf Group.

The SMT Scharf Group's financial position comprises all of the cash and cash equivalents carried on the balance sheet, in other words, cash on 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. Committed credit lines of EUR 2.3 million exist, but have not been utilised.

Given the net profit of EUR 4.0 million generated in 2017, the SMT Scharf Group reported cash flows from operating activities of EUR 1.0 million in the year under review (2016: EUR 4.5 million). The low cash flow from operating activities is largely attributable to a sharp increase in working capital. The cash flow from investing activities came in at EUR -3.0 million (2016: EUR -1.1 million) and mainly pertains to investments in intangible assets and property, plant and equipment. The cash flow from financing activities amounted to EUR 5.4 million the 2017 reporting period (2016: EUR -0.8 million) due to cash inflows from the successfully completed capital increase in November 2017. In total, the cash and cash equivalents position rose from EUR 4.5 million on December 31, 2016 to EUR 7.8 million on December 31, 2017.

Comparison of the actual financial position and performance with the forecast:

In the outlook of the 2016 Annual Report, SMT Scharf initially anticipated Group revenue within a range of at least EUR 40 to 44 million and EBIT of between EUR 2.2 and 3.0 million. Owing to the positive performance also against the backdrop of the industry environment' brightening prospects in the first nine months of 2017, SMT Scharf revised its revenue and profit forecast for the full-year 2017 upwards.

The actual results at the fiscal year-end were ahead of expectations:

- With effective consolidated revenue of EUR 52.1 million, SMT Scharf outperformed the revised revenue forecast of between EUR 44 to 48 million at minimum.
- Similarly, the adjusted EBIT forecast in a corridor of between EUR 3.7 million and EUR 4.2 million was exceeded. EBIT of EUR 4.5 million rose notably compared with the year-earlier figure of EUR 2.5 million.
- The cost of materials ratio (in relation to total operating revenue) increased to 57.5% on the back of strong revenue growth (2016: 51.5 %), which comprised a partly high proportion of material due to merchandise and contracts characterised by the nature of a pilot project. Accordingly, the cost of materials ratio is above the medium-term target of 50% but, contrary to expectations, has not resulted in a lower figure than 2016.

- Against expectations, net working capital which stood at EUR 25.0 million remained unchanged from the previous year's level. In relation to the considerably higher than consolidated revenue, however, net working capital intensity improved notably.
- Given the increase in total assets, the equity ratio rose again to 67.4% following on from 66.2% in 2016, the original aim being to keep the equity ratio at the year-earlier level.

Overall statement on the company's business position

The SMT Scharf Group achieved a significant increase in its revenue and results in the reporting year. The strategy to grow in the market is therefore bearing fruit against the backdrop of an improved industry environment. As a result, both the EBIT margin and consolidated net income increased substantially. With an EBIT margin of 8.6%, the SMT Scharf Group continues to approach the medium-term target of 10.0% envisaged by management.

The company's net assets and financial position has continued to firm up due to improved profitability: The equity ratio posts 67.4%, and net debt is low, as before. The chances of the SMT Scharf Group participating to an above average degree from the upswing in in the mining sector are good.

Events after the balance sheet date

Expansion of business activities in China

SMT Scharf has agreed a strategic partnership with Shanxi Lu'an Coal Technology Equipment Co. Ltd., Xiangheng Town, Shanxi Province China, one of China's leading mining companies. With this goal in mind, the Shanxi An'de Auxiliary Transportation Co. Ltd., Changzhi, Shanxi Province China, joint venture was founded in January 2018 in order to promote sales and the service and after-sales business of specific transport systems for the Chinese mining industry. Shanxi Lu'an Coal Technology Equipment Co. Ltd., Xiangheng Town, Shanxi Province China, is the largest shareholder with a stake of 51% in the joint venture. SMT Scharf AG is invested in the joint venture with 40%, while Shanxi Lu'an Haitong Industry & Trade Co. Ltd., Xiangheng Town, Shanxi Province China, is the third partner with a share of 9%. SMT Scharf AG is contributing funds in the mid-six-figure euro range to the cooperation. All the requirements of the Chinese Lu'an Group for the products of the SMT Scharf Group will be served through this new joint venture. This extensive access to the mining group also includes the delivery of replacement parts and service.

Takeover of RDH Mining Equipment

In February 2018, SMT Scharf AG acquired 100% of the shares in RDH Mining Equipment Ltd., a company headquartered in Alban, Canada, via SMT Scharf Corporation, a wholly owned subsidiary with head offices in Alban, Canada. The purchase price totals around CAD 8.0 million (corresponding to around EUR 5.17 million) plus an earn-out, paid to a small extent by granting shares in SMT Scharf AG and otherwise in cash. SMT Scharf AG drew on liquidity from the successful capital increase in November 2017 and on borrowed capital to finance the cash portion. The takeover ideally supplements SMT Scharf's portfolio by adding vehicles on rubber wheels, which will allow extensive synergies to be leveraged in the international hard rock and tunnel market through the new product program. RDH has specialised for more than 30 years in high quality mining equipment for mining and tunnel construction and has operated in the North American market in particular, with a share in revenues averaging more than 50%. RDH's leading position in battery-driven vehicles in particular, combined with SMT Scharf's international sales and after-sales competence, harbours potential for the future.

Changes to the Managing Board of SMT Scharf AG

The Supervisory Board of SMT Scharf AG and Rolf Ferdinand Oberhaus, member of SMT Scharf AG's Managing Board, and responsible in this role for the areas of Sales and Marketing, reached a consensus decision on March 12, 2018, not to renew the employment contract of Mr. Oberhaus which runs until December 31, 2018. Furthermore, the Supervisory Board decided to release Mr. Oberhaus from his duties with immediate effect.

Risk and opportunities report and outlook

Risk report

<u>Risk management</u>

SMT Scharf operates a **risk management system (RMS)** which is fully integrated into the company's planning, management and control processes. Consequently, the RMS forms a central element of value-oriented corporate management, and serves to secure existing and future success and profitability potentials in a targeted manner. The risk management system is aimed at the early identification of opportunities and risks for the purpose of initiating appropriate precautionary and securing measures without delay which are then subject to ongoing monitoring.

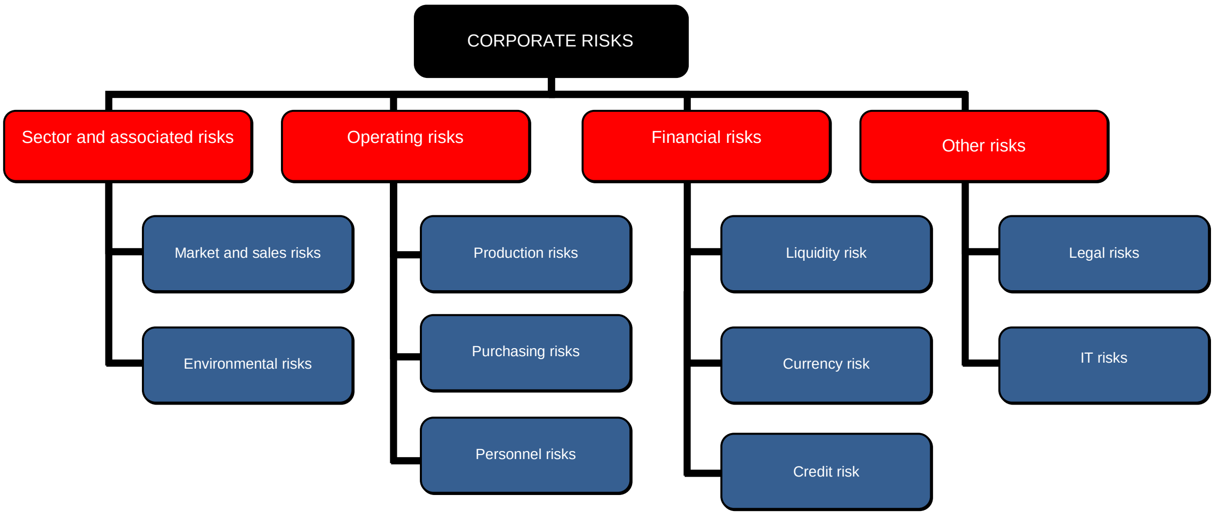
Risk management is based mainly on internal regulations set out in the form of guidelines and implemented in the process of corporate management and supervision. Key elements in this process include strategic and operational forecasting, the preparation of weekly, monthly and quarterly reports for the Managing Board, and preparing for investment decisions. Ongoing reporting serves the purpose of business performance management groupwide as well as ongoing monitoring and communication about opportunities and risks. Risks arising at short notice are communicated immediately and by direct routes to the organisational units responsible for the early identification, management and communication of the respective risks. Risk management officers within these organisational units have the task of coordinating the risk measures and ensuring risk communication to the relevant higher levels.

The **internal controlling system** (ICS) forms an integral component of risk management at SMT Scharf. The main aim of the ICS is to ensure that all business transactions are suitably recorded in the reporting system, thereby preventing deviations from internal and external regulations. In terms of external financial accounting and reporting, this primarily entails ensuring financial statements conform to applicable accounting standards. To this end, the internal controlling system and risk management function are organised in line with accounting units. Standard financial accounting regulations are applied within the SMT Scharf Group, and compliance with these regulations is monitored on an ongoing basis. In some cases, recourse is made to external specialists to manage specific accounting risks, such as in the case of actuarial valuations.

A **Compliance Management System (CMS)** has been successfully implemented in the company to assist in identifying and preventing potential infringements of the law in a timely manner. The CMS is instrumental in uniformly defining appropriate responses to compliance issues for all group companies and of communicating these issues. SMT Scharf has appointed an external compliance officer to monitor compliance management within the Group.

Corporate risks

SMT Scharf is subject to a number of risks arising from the Group companies' business activities. To make the risk report clearer and provide better overview, it allocates the risks to different categories, where they are presented in summarised form. SMT Scharf differentiates between sector and associated risks, operating risks, financial risks and other risks. The section entitled "Other disclosures" in the notes to the IFRS consolidated financial statements for the 2017 fiscal year includes detailed information on financial risk management.



Sector and associated risks

Market and sales risks

SMT Scharf AG and its subsidiaries operate worldwide and are exposed to different political, legal and economic conditions. SMT Scharf counters the resultant risks by carefully monitoring the environment and anticipating market trends as far as possible.

In macroeconomic terms, a recession or downturn in demand among individual customer groups could have a negative impact on the business of SMT Scharf. In addition, in many countries political continuity and stability in mine ownership play a role. A change of government or a change in mines' ownership structures could result in staffing changes at SMT Scharf customers, thereby potentially significantly delaying projects. SMT Scharf counters such risks by permanently monitoring the market and by advancing diversification through tapping new markets.

Environmental risks

The SMT Scharf Group is not aware of any environmental objections or impacts at its facilities. Some of the buildings that SMT Scharf utilises were built with materials that contain asbestos. These materials are monitored regularly, and the Group ensures appropriate disposal during any conversion work.

Operating risks

Production risks

As an industrial company, SMT Scharf is exposed to the risk of disruptions to operations, delays to suppliers' deliveries, quality problems and unanticipated technical difficulties. These can lead to divergences from planned results internally, and can disrupt agreements made with customers or suppliers. Internal guidelines for project and quality management, product safety, occupational health and safety, and environmental protection are aimed at helping to reduce such risks. Downtime production lines losses are covered by operational disruption insurance.

Purchasing risks

Negative trends in material and energy prices, and problems with deliveries of pre-products, constitute potential purchasing risks. SMT Scharf counters such risks through entering into the longest possible relationships with suppliers and through developing contact with alternative suppliers worldwide. In addition, SMT Scharf constantly overhauls its own products' designs with the aim of making them more cost effective.

Personnel risks

The business success of SMT Scharf depends partly on the extent to which the company is able to retain highly qualified technical and managerial staff and acquire further suitable employees – especially in the case of hiring more personnel in foreign markets. Wage increases and increases in incidental personnel expenses can lead to cost increases which SMT Scharf is unable to pass on through prices. SMT Scharf reduces such risks through production rationalisation measures.

Financial risks

Liquidity risks

SMT Scharf manages internal liquidity through central liquidity management. 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 local currency. Given positive operating cash flow, no liquidity risks exist, as sufficient existing bank deposits as well as lending and guarantee lines are available. SMT Scharf invests free liquid funds so they are available short term and generate relatively secure returns. Working together with several banks is aimed at limiting default risks.

Currency risks

SMT Scharf is exposed to currency and default risks through its business activities. The Group counters such risks by deploying appropriate hedging instruments. This includes deploying forward currency transactions and options for the purpose of hedging open positions denominated in foreign currencies. The risk of higher product prices on foreign markets due to a strong euro is mitigated by a rising international proportion of purchased components. A total of 58% of the workforce of SMT Scharf was employed outside the Eurozone as of the December 31, 2017 reporting date, thereby reducing the risk of higher personnel costs due to exchange rate effects (natural hedging).

Credit risks

Counterparty risks are limited by using documentary credits and by individual customer credit limits, among other measures. Interest-rate risks are presently of minor importance. No other risks arising from the deployment of financial instruments currently exist.

Other risks

Legal risks

SMT Scharf is subject to standard liability risks which result, in particular, from product liability, as well as from patent law, tax law, competition law and environmental law. A concept with high quality and security standards exists to manage such risks in a controlled manner. SMT Scharf has also taken out insurance cover for physical damages, product liability and other risks, to protect itself from any potential losses.

IT risks

Clear guidelines provide detailed regulations on handling information as well as the secure utilisation of information systems. SMT Scharf utilises up-to-date and application-specific technical protection to ensure the highest possible data security.

Report on opportunities

Positive effects of strategic measures

The extensive list of measures contained in the three strategic action areas of "Organic Growth", "External Growth" and "Operative Intelligence" aims to make SMT Scharf even more productive and more competitive overall. It enables SMT Scharf to respond to the anticipated upturn in the mining industry from a stronger position and to benefit from the upswing in the mining industry. SMT Scharf is tapping new markets and customer groups through further developing the company to become a system supplier of logistics solutions. This policy is creating additional potential to generate sales revenues.

Global economic growth

In the medium term, the manufacturing industry in emerging economies and industrialised nations will have a stronger demand for raw materials energy driving continued economic growth forward. Commodity prices should subsequently now rebound following the end of the last supercycle, making production profitable again for mining operators. The Managing Board of SMT Scharf AG anticipates a short- to medium-term catch-up effect for postponed or cancelled mining infrastructure investments during the next emerging upswing phase. This is expected to generate an ongoing increase in sales revenues for SMT Scharf, due to demand for mining equipment picking up.

Higher demand on local markets

After the current realignment of the Chinese economy and economic stabilisation, SMT Scharf assumes that Chinese mines will return to producing more coal and other raw materials to serve the domestic economy's high demand for resources – including in the case of reduced growth momentum. Although the increase in worldwide demand for coal will slow, it will continue to rise in absolute terms. China will remain the world's largest consumer of coal in 2035 according to forecasts by BP, with around half of global consumption being attributable to the country. At the same time, the share of demand from India will almost double by this date. Along with oil and gas, coal will remain one of the most important energy sources in the future, despite the increasing use of regenerative energies. All three energy types together will cover around 75 percent of global energy supplies in 2035, according to estimates.

Reducing the investment backlog in mines

Mining groups neglected their mines' productivity in recent years due to the difficult market environment. SMT Scharf believes that the investment backlog arising from these circumstances will continue to be pared down. In the medium term, the recovery in the global economy will be ongoing, which will boost demand for coal and other raw materials, so mine operators will have greater incentives to make more investments in new systems again

More complex geological locations of raw materials deposits

In the medium term, the mining of raw materials deposits will occur in increasingly inaccessible locations worldwide, incentivising the mining industry to deploy SMT Scharf products. Along with greater cost-efficiency, such products offer the benefit of being especially developed for demanding underground conditions, and have already proved themselves in the German hard coal mining industry.

Diversification advanced

SMT Scharf is expanding its non-coalmining segment, which is to grow to become a segment equivalent to that of the coal segment in the medium to long term. The utilisation of rail transportation and logistics systems in platinum, gold and copper mines will increase, and consequently exert a positive effect on the sales revenue contribution from this business. Through establishing new subsidiaries, SMT Scharf is positioning itself closer to its customers in this industrial segment through expanding sales activities into new regions of the world such as the Andes. Above and beyond this, salt deposits also offer opportunities for deploying SMT Scharf products.

Attractive growth opportunities in the coming year arise from the takeover of Canadian RDH Mining Equipment after December 31, 2017. RHD is the market leader for battery-driven vehicles for mining and tunnel construction. The combination of SMT Scharf's international sales and after-sales expertise and the new product program will enable the company to leverage further synergies in the international hard rock and tunnel market. SMT Scharf anticipates positive effects on its sales revenue and earnings trend in the current financial year and in the future.

Moreover, the new tunnel logistics segment promises the potential for significant sales revenues in the medium term, and the opportunity of becoming less dependent on the raw materials price cycle, as demand for infrastructure is driven by other factors such as growing population density in conurbation centres worldwide.

Summary of the opportunities and risk position

An overall assessment of the company's opportunities and risk position has shown that the identified risks, taking into account the measures taken and planned, do not – either individually or in combination with each other – have any impact on the SMT Scharf Group that could jeopardise it as a going concern. No absolute certainty exists, however, that all relevant risks can be identified and controlled.

Outlook

At the start of 2018, the International Monetary Fund (IMF) forecasts the following GDP growth rates in SMT Scharf's target markets.

GDP growth in the most important sales markets for SMT Scharf AG* (in %)	2018e	2017
World	3.9	3.7
China	6.6	6.8
Poland	3.3	3.8
Russia	1.7	1.8
Sourth Africa	0.9	0.9

* Sources: IWF World Economic Outlook Update, January 2018; IWF World Economic Outlook, October 2017 (for Poland)

China, Russia, Poland and South Africa will remain SMT Scharf's core markets for the foreseeable future. For 2018, the IMF expects that economic growth in China and Poland as well as Russia will slow slightly. With 0.9 % forecast GDP growth, the economy in South Africa is expected to expand at the same rate as in the previous year. Overall, the IMF experts anticipate that the global economy will gain further momentum, achieving 3.9 % GDP growth in 2018.

Given the signals that can be observed in the market, the Managing Board assumes that the sector environment and market conditions for mining equipment can continue to improve in

2018. For the 2018 fiscal year, the Managing Board of SMT Scharf anticipates consolidated revenue in a range between EUR 58 million and EUR 62 million. Thanks to the takeover of Canadian mining specialist RDH Mining Equipment, SMT Scharf expects positive effects for its revenue and earnings trends for the coming years. With the takeover in February 2018 of the leading supplier of battery-driven vehicles with lithium-ion technology for underground mining, SMT Scharf has added further to its product portfolio of rubber-wheeled vehicles and established a foundation to achieve far-reaching synergies in the international hard-rock and tunnel market. Furthermore, the Managing Board forecasts 2018 EBIT in a range between EUR 4.5 million and EUR 5.5 million. The positive effects from the RDH acquisition are included in this calculation.

In the Tunnel segment – a business area that is still new for the Group – the company continues to expect no significant revenues in 2018. This segment remains in its buildup phase. For this reason, the management does not anticipate major sales revenue growth in this segment until the medium term. In terms of the cost of materials ratio (based on total operating revenue), a higher figure than 2017 is anticipated, although it will continue to lie above the medium-term target of 50.0 %. Net working capital for 2018 is expected at the previous year's level, assuming a slight improvement in net working capital intensity in relation to revenue. Days of sales outstanding in 2018 are to lie slightly above the medium-term target of 150 days. An equity ratio at the previous year's level is also anticipated for 2018. The medium-term target range for the equity ratio between 35 % and 40 % is subject to the background assumption of exploiting further opportunities in the area of external growth over the coming years, and of also financing such transactions from the company's own funds.

Medium- to long-term, the management expects further improvements in the worldwide market for mining equipment and a further reduction in the sector's investment backlog. Due to the consolidation in China, this especially relates to Chinese mine operators that need to optimise infrastructure and invest in innovative transportation logistics. Over the coming years, the management expects rising demand for electric vehicles for deployment in underground mining. In this context, SMT Scharf regards itself as well positioned to exploit future growth opportunities thanks to the newly acquired battery and electrical expertise at RDH. SMT Scharf's expertise as an integrated system supplier also enables the Group to retrofit electric vehicles for coal mining purposes. Here, the company can make recourse to its established market access in target markets worldwide.

Commodity production will increase due to the long-term sustainable expansion of the global economy. Emerging economies' growth weakness can also be seen as temporary. Prosperity in such emerging economies will continue to rise in the long term, accompanied by sustainable growth in demand for energy. International Energy Agency (IEA) experts nevertheless forecast a significant increase by 2040 in the share that renewable energies will contribute to achieve the international climate targets agreed in Paris. Although demand for coal remains by far the greatest in China in absolute figures in this context, it will decline there too. Coal should account for around 45 % share of China's energy mix by 2040.

In order to diversify more and further reduce dependency on coal mine operators, SMT Scharf will endeavour to ensure that its business with hard rock mine operators as well as tunnel logistics develops into a second business pillar in the medium to long term. As part of its corporate strategy, the company will continue to focus in the future on operative excellence, external growth and organic growth, in order to further strengthen SMT Scharf's market position.

Corporate governance declaration

Corporate governance declaration pursuant to Section 161 of the German Stock Corporation Act (AktG)

The current corporate governance declaration pursuant to Section 161 of the German Stock Corporation Act (AktG) is available on the SMT Scharf Group's website (www.smtscharf.com) under the "Other publications" heading.

Working approach of the Managing and Supervisory Boards:

Upon application by the company, the District Court of Hamm has appointed Univ. Prof. Dr. Louis Velthuis as a new member of the Supervisory Board of SMT Scharf AG in September 2017. Univ. Prof. Dr. Louis Velthuis furthermore assumes the interim position of Chairman following on from Dipl.-Ing. Michael Reich, former Chairman of the Supervisory Board, who has withdrawn from the Board for reasons of health for an indefinite period of time.

The boards of SMT Scharf AG 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 as shareholder representatives by the General Meeting of Shareholders. The Supervisory Board does not include any former Managing Board members. It has not formed any committees. The Supervisory Board advises and consults with the Managing Board, and supervises the latter’s management of the business. It concerns itself with business development and growth, medium-term forecasts, and the further development of the company's strategy. It adopts the annual separate and consolidated financial statements, taking the auditors' reports into account. It also appoints and dismisses the members of the Managing Board. Selected Managing Board transactions as listed in its bylaws require prior approval by the Supervisory Board. The Supervisory Board can implement changes to the articles of incorporation that affect only their wording. The members of the Supervisory Board are obliged to disclose any conflicts of interest to the Supervisory Board. No conflicts of interest existed in relation to Supervisory Board members of SMT Scharf AG during the year under review.

The composition of the Supervisory Board is very diverse. In addition to the professional qualifications and industry background of the members, the members of the Supervisory Board have various other important competencies. This promotes the diversity of points of view in the internal discussion. An international staffing reflects the global activities of the Group. Adequate staffing with female members is also desired and taken into account. The Supervisory Board has set a 0% target for the proportion at the first management level (Managing Board) and at 19% for the management level below that (general managers of the subsidiaries and authorised signatories). For the Supervisory Board, the target for the proportion of women has been set at 33.3%. Since the first management level and the Supervisory Board are the current quotas, these targets have already been achieved when they were set.

In order to ensure the auditor's independence, the Supervisory Board obtains a declaration from the auditor in relation to existing reasons for exclusion or bias. When issuing the audit mandate, it is agreed that the auditor will inform the Supervisory Board without delay of any possible reasons for exclusion or bias which arise during the audit, of all findings which are material for the Supervisory Board's tasks and which result during the audit, and all findings which result in the declaration on the German Corporate Governance Code as issued by the Managing and Supervisory boards being incorrect. No such facts or reasons for exclusion or bias were ascertained in the fiscal year elapsed.

The Managing Board of SMT Scharf AG comprises three members and has one Chairman. The board has not formed any committees. The Managing Board's members are jointly responsible for managing the company's business, based on the bylaws as issued by the Supervisory Board. The Managing Board determines business targets, the company's policy and the Group's organisation. The Managing Board informs the Supervisory Board regularly, promptly and comprehensively about all questions of relevance for the company relating to planning, business development and risk management. Transactions requiring Supervisory Board approval are submitted in good time to the Supervisory Board. The Managing Board members are obligated to disclose conflicts of interest to the Supervisory Board without delay, and to only assume additional activities, especially supervisory board mandates at companies outside the Group, with Supervisory Board approval. No conflicts of interest existed in relation to the Managing Board members of SMT Scharf AG during the fiscal year elapsed.

The Managing Board regularly provides shareholders, all other capital market participants, and the media with up-to-date information on the company's business growth. The financial calendar provides a summary of current financial reporting dates. The financial calendar as well as current financial reports and ad-hoc disclosures are available on the Internet at www.smtscharf.com under the Investor Relations heading.

Remuneration systems for the Managing and Supervisory boards

The Supervisory Board's remuneration scheme was last supplemented by way of a resolution by the Annual General Meeting on April 17, 2013, based on the articles of incorporation of SMT Scharf AG. The members of the Supervisory Board receive fixed and variable remuneration for each fiscal year plus reimbursement of their out-of-pocket expenses, as well as meeting fees of EUR 1 thousand per Supervisory Board meeting. The variable remuneration is based on the level of consolidated net profit for the year, and is capped.

Decisions about the compensation the Managing Board fall within the Supervisory Board's scope of responsibility. Managing Board members receive remuneration comprising a fixed basic annual salary and an annual bonus. The fixed basic remuneration is paid monthly. The members also receive non-cash benefits from the private use of company cars, life insurance cover, and reimbursement of out-of-pocket expenses. The main proportion of the bonuses is measured on the basis of the level of consolidated net profit and/or EBIT for the year. The Managing Board members' contracts also include variable compensation based on the share price performance and sales revenue trends. Accordingly, a share price increase of one euro in each case is compensated with a contractually predetermined agreed amount. The sales revenue trend (taking 2015 as the basis year) is calculated based on accumulated consolidated sales revenue, with every EUR 1 million being compensated with a certain contractually agreed amount. Both the individual bonus components and total compensation are capped. The Supervisory Board reviews the compensation at regular intervals to ensure it is suitable and in line with market remuneration levels. Pension obligations exist only for members of the Managing Board arising from the conversion of salary components for previous fiscal years. The company regulations for the conversion of salaries up to and including the 2007 fiscal year provide for a fixed upper age limit of 65 years, and 6.0% interest on converted salary components. The age limit has been adjusted to annual changes in Germany's statutory pensionable age from 2008 on, with interest now set at 4.5%. No agreements exist 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 corresponding employment contracts.

No remuneration exists for former members of the Managing or Supervisory boards or their survivors, nor do any pension obligations exist for this group of individuals.

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.

Hamm, March 21, 2018

The Managing Board

Hans Joachim Theiss Wolfgang Embert

Consolidated balance sheet as at December 31, 2017

EUR	Note	31/12/2017	31/12/2016
Assets			
Intangible assets	(8)	3,050,914.20	1,373,161.96
Property, plant and equipment	(8)	5,397,054.68	4,656,510.08
Equity accounted investments	(9)	4,127,117.36	3,787,934.38
Deferred tax assets	(7)	3,092,237.93	3,259,011.49
Non-current lease receivables	(21)	579,409.07	673,241.94
Other non-current non-financial assets	(12)	85,811.89	59,499.09
Non-current assets		**16,332,545.13**	**13,809,358.94**
Inventories	(10)	15,100,425.15	13,008,783.66
Trade receivables	(11)	24,653,750.91	23,374,427.07
Current lease receivables	(21)	1.011.201.08	721,859.95
Other current non-financial assets	(12)	1,905,323.83	1,480,988.71
Other current non-financial assets in connection with employee benefit entitlements	(13)	377,361.60	424,644.00
Cash and cash equivalents	(14)	12,886,329.45	6,637,519.53
Current assets		**55,934,392.02**	**45,648,222.92**
Total assets		**72,266,937.15**	**59,457,581.86**

EUR	Note	31/12/2017	31/12/2016
Equity and liabilities			
Subscribed share capital		4,570,523.00	4,150,523.00
Capital reserve		16,597,437.33	11,642,272.90
Revenue reserves		30,552,296.68	26,417,238.47
Other reserves		-3,011,516.84	-2,867,712.22
Equity	(15)	**48,708,740.17**	**39,342,322.15**
Provisions for pensions	(16)	3,284,844.00	3,590,537.00
Other non-current provisions	(17)	318,365.32	349,415.38
Deferred tax liabilities	(7)	451,918.83	95,783.29
Advance payments received	(18)	247,849.97	0.00
Leasing liabilities	(21)	197,896.29	0.00
Non-current financial liabilities	(22)	1,488,972.00	1,312,690.00
Non-current provisions and liabilities		**5,989,846.41**	**5,348,425.67**
Current income tax	(7)	1,104,111.98	1,441,451.32
Other current provisions	(17)	4,221,224.59	5,107,207.44
Advance payments received	(18)	406,513.77	476,414.79
Trade payables	(18)	5,410,425.40	4,057,802.04
Leasing liabilities	(21)	71,622.61	0.00
Current financial liabilities	(22)	5,044,996.52	2,183,104.94
Other current non-financial liabilities	(18)	1,309,455.70	1,500,853.51
Current provisions and liabilities		**17,568,350.57**	**14,766,834.04**
Total assets		**72,266,937.15**	**59,457,581.86**

Consolidated statement of comprehensive income from January 1 to December 31, 2017

EUR	Note	2017	2016
Revenue	(1)	52,130,981.51	42,564,753.71
Changes in inventories		983,155.24	-323,892.55
Total operating revenue (100%)		53,114,136.75	42,240,861.16
Other operating income	(2)	5,808,471.83	4,618,472.89
Cost of materials		30,548,547.65	21,743,739.73
Personnel expenses	(3)	12,728,859.87	11,562,863.85
Depreciation, amortisation and impairment losses	(4)	1,298,130.13	2,476,661.87
Other operating expenses	(5)	9,792,775.14	8,603,171.49
Profit/loss from operating activities (EBIT)		**4,554,295.79**	**2,472,897.11**
Result from equity accounted investments	(6)	585,224.22	155,158.64
Interest income		216,954.56	125,089.79
Interest expenses	(19)	212,072.89	155,733.40
Financial result		**590,105.89**	**124,515.03**
Profit/loss before tax		**5,144,401.68**	**2,597,412.14**
Income taxes	(7)	1,162,541.49	1,058,325.15
Consolidated net profit		**3,981,860.19**	**1,539,086.99**
Other comprehensive income items recycled later to profit or loss:			
Currency differences from foreign annual financial statements		102,236.63	1,089,669.00
Share of other comprehensive income attributable to equity accounted investments		-246,041.25	-134,117.44
Other comprehensive income items not recycled later to profit or loss:			
Actuarial gains / losses	(16)	225,623.00	-433,849.00
Deferred taxes	(7)	-72,424.98	139,265.53
Other comprehensive income		**9,393.40**	**660,968.09**
Comprehensive income		**3,991,253.59**	**2,200,055.08**
Earnings per share *			
Basic / diluted		0.94	0.37

* Consolidated net income divided by an average number of 4,219,103 issued shares (previous year: 4,155,178)

Consolidated cash flow statement from January 1 to December 31, 2017

EUR	2017	2016
Consolidated net profit	3,981,860.19	1,539,086.99
+/- Income from equity accounted investments	-585,224.22	-155,158.64
+ Depreciation and amortisation of non-current assets	1,298,130.13	2,476,661.87
-/+ Gain/loss from disposal of fixed assets	8,836.36	211,521.17
+/- Increase/decrease in provisions	-906,655.58	-795,235.71
-/+ Increase/decrease in inventories, trade receivables and other assets not allocable to investing or financing activities	-5,141,747.53	2,458,609.20
+/- Increase/decrease in trade payables and other liabilities not allocable to investing or financing activities	2,451,446.74	-1,327,451.17
+/- Other non-cash expenses/income	-219,426.97	0.00
+/- Income tax	1,162,541.49	1,058,325.15
+/- Financial expenses	-4,881.67	30,643.61
-/+ Income tax paid/received	-1,081,889.55	-951,303.80
Cash flow from operating activities	**962,989.41**	**4,454,698.67**
+ Cash inflows from disposal of property, plant and equipment	101,163.64	1,036,113.72
- Capital expenditure on property, plant and equipment	-1,810,000.00	-1,788,997.03
- Capital expenditure on intangible assets	-1,539,000.00	-18,626.03
- Cash outflows from acquiring consolidated companies	0.00	-306,307.90
+ Interest received	206,954.56	27,193.69
Cash flow from investing activities	**-3,040,881.80**	**-1,050,623.55**
+ Proceeds from capital increase	5,375,164.43	0.00
+ Cash outflow for finance lease liabilities	-43,851.87	0.00
+ Cash inflow from borrowing	259,218.06	500,000.00
- Cash outflow for the redemption of loans	0.00	-1,245,712.00
- Interest paid	-186,072.89	-71,484.33
Cash flow from financing activities	**5,404,457.73**	**-817,196.33**
Net change in cash and cash equivalents	**3,326,565.34**	**2,677,878.79**
Changes in cash and cash equivalents due to effects from exchange rates and consolidated Group	60,353.01	-123,953.17
Cash and cash equivalents at start of period	4,454,414.59	1,900,488.97
Cash and cash equivalents at end of period	**7,841,332.93**	**4,454,414.59**

For details see (19) notes to the cash flow statement.

Consolidated statement of changes in equity from January 1 to December 31, 2017

EUR			Revenue Reserves		Other reserves	Total equity
	Subscribed share capital	Capital reserve	Actuarial gains and losses	Other revenue reserves	Difference from currency translation	
Balance on 01/01/2017	**4,150,523.00**	**11,642,272.90**	**-294,583.47**	**26,711,821.94**	**-2,867,712.22**	**39,342,322.15**
Capital increase	420,000.00	4,955,164.43				5,375,164.43
Consolidated net profit				3,981,860.19		3,981,860.19
Currency difference from translating results from foreign annual financial statements					102,236.63	102,236.63
Share of other comprehensive income attributable to equity accounted investments					-246,041.25	-246,041.25
Recognition of actuarial gains/losses			225,623.00			225,623.00
Deferred taxes on recognised actuarial gains/losses			-72,424.98			-72,424.98
Comprehensive income			153,198.02	3,981,860.19	-143,804.62	3,991,253.59
Balance on 31/12/2017	**4,570,523.00**	**16,597,437.33**	**-141,385.45**	**30,693,682.13**	**-3,011,516.84**	**48,708,740.17**
Balance on 01/01/2016	**4,140,523.00**	**11,614,772.90**	**0.00**	**25,092,834.95**	**-3,823,263.78**	**37,024,867.07**
Sale of treasury shares	10,000.00	27,500.00		79,900.00		117,400.00
Consolidated net profit				1,539,086.99		1,539,086.99
Currency difference from translating results from foreign annual financial statements					1,089,669.00	1,089,669.00
Share of other comprehensive income attributable to equity accounted investments					-134,117.44	-134,117.44
Actuarial gains/losses			-433,849.00			-433,849.00
Deferred taxes on recognised actuarial gains/losses			139,265.53			139,265.53
Comprehensive income			-294,583.47	1,539,086.99	955,551.56	2,200,055.08
Balance on 31/12/2016	**4,150,523.00**	**11,642,272.90**	**-294,583.47**	**26,711,821.94**	**-2,867,712.22**	**39,342,322.15**

Notes to the IFRS consolidated financial statements for the 2017 fiscal year

Information about SMT Scharf AG and the SMT Scharf Group

SMT Scharf AG, Römerstrasse 104, 59075 Hamm, Germany (hereinafter also referred to as the "company") was formed on May 31, 2000, under German law. The SMT Scharf AG is the management holding company for the companies in SMT Scharf Group. All 4,620,000 shares of SMT Scharf AG are listed on the regulated market of the Frankfurt Stock Exchange (Prime Standard). The purpose of the companies in the SMT Scharf Group is to plan, produce, sell, install and maintain machinery and equipment that transports people, equipment and materials. The Group companies' further purpose is to hold participating interests in other entities. SMT Scharf AG has it registered offices in Hamm and is entered into the commercial register at the District Court of Hamm under Number HRB 5845.

Information about the consolidated financial statements

As SMT Scharf AG is admitted to the regulated market, it prepares its consolidated financial statements according to IFRS. The consolidated financial statements, comprising balance sheet, statement of comprehensive income, cash flow statement, statement of changes in equity, and supplementary disclosures in the notes to the financial statements of the SMT Scharf Group as of December 31, 2017, have been prepared in accordance with the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB) valid as of the reporting date and as applied in the EU. 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 German Commercial Code (HGB) have been complied with.

The consolidated financial statements have been prepared in euros. Unless otherwise indicated, all amounts in the notes to the financial statements are stated and rounded to thousands of euros (EUR thousand).

The Supervisory Board is expected to ratify the IFRS consolidated financial statements on March 21, 2018, and approve their release for publication.

a) New and revised standards and interpretations requiring first-time application in the fiscal year under review

As of January 1, 2017, the Group applied the following new and revised standards and interpretations:

> IAS 7 "Statement of Cash Flows"
The amendments serve to clarify and improve information to be conveyed in relation to changes in liabilities arising from financing activities. Disclosure requirements were applied with through an additional reconciliation with the financial liabilities in the consolidated financial statements. Prior-year figures were not included in line with the standard.

> IAS 12 "Income Taxes"
The amendments serve to clarify various questions relating to recognising deferred tax assets for unrealised losses on assets measured at fair value.
These amendments have no significant effect on the Group.

b) Standards and interpretations not applied (published but not yet requiring mandatory application, or partly not yet to be applied in the EU)

The International Accounting Standards Board (IASB) and the IFRS Interpretations Committee (IFRS IC) have approved further standards and interpretations that do not yet require mandatory application for the 2017 fiscal year or that the EU has yet to recognise.

> IFRS 9 "Financial Instruments"
IFRS 9 “Financial Instruments” pertains to the classification and measurement of financial instruments as well as the recognition of derivatives and hedging arrangements, and will replace IAS 39 “Financial Instruments: Recognition and Measurement”. This standard is to be applied to fiscal years starting from January 1, 2018.

In future, financial assets will be classified and measured using the business model on which the portfolio is based and the cash flows typified by the financial instrument. The three importance classification categories in the future are as follows: “Measured at amortised cost”, “measured at fair value with changes through profit or loss” and “measured at fair value with changes in comprehensive income”. The rules concerning financial liabilities were largely adopted from IAS 39. Moreover, IFRS 9 sets out new rules on impairment of financial instruments and on the recognition of hedging arrangements. The new rules on impairment are based on expected loss and are therefore not restricted, as they were before before, to impairment on loss incurred but not yet known.

In the 2017 fiscal year, the financial instruments of the SMT Scharf Group were included, assigned to the business models, and the measurement categories thus determined according to IFRS 9. Compared with IAS 39, there are no material changes in the measurement from the categorisation of financial instruments. With the exception of securities which continue to be are measured at fair value, as before, financial instruments continue to be measured at amortised cost, applying the effective interest method, if appropriate. Models suitable for implementing the new impairment rules, in particular for calculating the default rates of trade payables (expected loss model), were investigated. Hedging arrangements which fulfil the preconditions of IFRS 9 do not exist.

The SMT Scharf Group will apply the standard for the first time in fiscal 2018. Changes in the accounting methods are always carried out in application of the retrospective method. Due to the initial application of IFRS 9, differences between the carrying amounts of financial assets and financial liabilities will be reported in revenue reserves and other reserves as of January 1, 2018. Based on the outcome of the analysis, the SMT Scharf Group anticipates that the effect of applying the new standard to the impact on the Group’s net assets, financial position and results of operations for first time will be negligible. In addition, IFRS 9 requires extensive new disclosures, in particular in relation to the credit risk and expected credit defaults.

> IFRS 9 “Prepayment features with negative compensation”
The changes pertain to the classification of certain financial instruments with prepayment features pursuant to IFRS. Moreover, an aspect of reporting financial liabilities is presented due to a modification. This amendment is to be applied to fiscal years starting from January 1, 2018. EU endorsement is still outstanding. These amendments have no significant effect on the Group.

> IFRS 15 "Revenue from Contracts with Customers"
This new standard specifies the timing and level of revenue recognition. The aim of the new standard on recognising revenue is to bring together the many rules formerly included in various standards and interpretations. Pursuant to IFRS 15, revenue is to be recognised when the control of the merchandise or of the service in question has transferred to the customer, meaning that the principle of the transfer of control replaces the principle of opportunity/risk transfer. In future, the question as to the amount and timing and during which period revenue is to be realised is to be answered by IFRS accountants in five steps. The amendments are

mandatorily applicable for fiscal years starting on or after January 1, 2018. IFRS 15 replaces IAS 11 Construction Contracts and IAS 18 Revenue, as well as the relevant interpretations.

The SMT Scharf Group has launched a groupwide project for the introduction of IFRS 15, which includes an analysis and implementation phase. The analysis phase consists of the analysis of the main types of contract in reference to IFRS 15 requirements. This analysis was concluded over the course of the reporting year. The subsequent implementation phase encompassed the implementation of the adjustments identified in the accounting processes, including raising the awareness of and providing guidance for the Group companies in relation to IFRS 15 requirements. SMT Scharf has identified the contractual obligations in accordance with the five phase model under IFRS 15 and assessed the impact for potential changes in realising revenue from these contractual obligations in line with IFRS 15.

The IFRS 15 analysis showed that there will be no significant changes from implementing IFRS 15 and the future application of IFRS 15 in the context of the service business including spare parts, which account for more than half of revenue.

Regarding business with new systems, the IFRS 15 analysis indicated that effects may generally arise from the fact that separate contractual obligations may exist within one contact with a customer, and that it may be expedient to break down the transaction price into the contractually agreed separate contractual obligations. In the context of the business model, there may be gaps in the timing between the individual contractual obligations which would incur the realisation of income upon performance of the individual contractual obligations over time even if, under certain circumstances, these are immaterial in comparison to the contractually agreed overall performance. In the new systems business, services have often been contractually agreed, alongside the delivery of the system. Such services include, for instance, system installation, testing and operation. The impact of implementing IFRS 15 will therefore primarily affect the timing of when revenue from of the service provided is recognised, the amounts of which, however, are generally of minor significance in comparison with the transaction price of delivering the system. A groupwide analysis of revenue accrued as of the reporting date therefore concentrated on business with new systems prior to the reporting date. This analysis revealed that, in respect of the sale of systems realised prior to the balance date, no open, partial services already invoiced existed. As a result, no divergent revenue recognition arose from the application of IFRS 15 compared with IAS 11 and IAS 18 on the reporting date. Revenue recognised by the SMT Scharf Group in the 2017 fiscal year would also be considered realised under the new standards. Adjusting revenue reserve will therefore not be required Cases eligible for application of the PoC method did not arise in the past and, after implementation of IFRS 15, will not arise under the current business model in the future either.

Owing to the requirements of IFRS 15, a different presentation will be made in the financial statements with regard to the explanatory notes. In future, qualitative and quantitative information will be made, particularly on contractual assets and liabilities from customer contracts. If one of the contractual parties has fulfilled its contractual obligations, a company must report the contract as a contractual asset or contractual liability depending on whether the company has fulfilled its contractual performance or the customer has remitted payment. Each unconditional claim to receiving compensation is to be recorded separately by a company as a receivable.
SMT Scharf will apply the standard for the first time to the fiscal 2018 year, using the modified retrospective method.

> IFRS 15 "Revenue from Contracts with Customers": clarification
This clarification of IFRS 15 was published in April 2016 and includes three specific amendments and transition exemptions for IFRS 15. This amendment is to be applied to fiscal years starting from January 1, 2018. The clarification was endorsed on November 6, 2017.

> IFRS 16 "Leases"
IFRS 16 governs the recognition, measurement, reporting and disclosure requirements in respect of leases. In future, IFRS 16 will replace the standards and interpretations of IAS 17 “Leases”, IFRIC 4 “Determining Whether an Agreement Contains a Lease”, SIC 15 “Operating Leases – Incentives” and SIC 27 “Evaluating the Substance of Transactions Involving the Legal Form of a Lease”. This standard comes becomes effective on January 1, 2019. It was endorsed by the EU on November 9, 2017. Early application is permitted provided that IFRS 15 is also applied. The SMT Scharf Group will not, however, avail itself of this option.

In terms of the lessee, the new standard provides for a uniform accounting model. This model will require the lessee to recognise all assets and liabilities under leasing agreements in the balance sheet unless the term is 12 months or less or the asset in question is of minor value (option in these cases). For the purposes of accounting, the lessor continues to differentiate between finance and operating leases. The IFRS 16 accounting model does not differ significantly from IAS 17 "Leases” in this case. The SMT Scharf Group concludes leases in the capacity of both lessor and lessee. As a lessor, it has concluded both finance and operating leases. Operating leases are concluded in the context of operator models which can be terminated at short notice. No material effects are expected from IFRS 16 in this domain. Regarding leases where the SMT Scharf Group is the lessee, the number of operating leases is significantly higher than the number of finance leases. The application of IFRS 16 in this area will therefore lead to an increase in assets and in financial liabilities at the SMT Scharf Group. In addition, the nature of the expenses associated with these leases will change as IFRS 16 replaces linear expenses for operating leases through depreciation expenses for right-of-use assets and interest expenses for liabilities arising from the lease. No significant effects are anticipated in respect of finance leases. The SMT Scharf Group is expected to use the option relating to short-term and low value leases. As regards the transitional provisions, the SMT Scharf Group is expected to apply modified retroactive recognition. The Group intends to apply IFRS 16 for the first time as of January 1, 2019. The quantitative impact of IFRS 16 is still currently being analysed. The sum total of outstanding leasing instalments on the reporting date from operating leases which are not short term, and which stood at EUR 374 thousand as of December 31, 2017, serves the purpose of orientation.

> IAS 28: “Investments in Associates and Joint Ventures”
The amendments serve to clarify that a company applies IFRS 9 to investments in associates or a joint venture which are part of the net investment in this associate or joint venture but are not, however, recognised in application of the equity method. This amendment is to be applied to fiscal years starting from January 1, 2019. EU endorsement is still outstanding. These amendments have no effects on the Group.

> IAS 40 “Transfers of Investment Property”
These amendments concern transfers of investment property. EU endorsement is still outstanding. This amendment is to be applied to fiscal years starting from January 1, 2018. These amendments have no effects on the Group.

Annual Improvements to IFRS (2014-2016 Cycle)
The IASB has published its 2014–2016 Cycle to its Annual Improvements to IFRS, resulting in clarifications of the following standards and areas:

- IFRS 1: First-time Adoption of the International Financial Reporting Standards: Cancellation of temporary exemptions
- IFRS 12: Disclosure of Interests in Other Entities: Clarification of the area of application, particularly with regard operations held for sale or discontinued
- IAS 28: Investments in Associates and Joint Ventures: Clarification that the option of measuring an investment in an associate or joint venture at fair value is available under certain circumstances on the basis of individual investments.

The amendment is to be applied to fiscal years starting from January 1, 2017 or January 1, 2018. EU endorsement is still outstanding. These amendments have no significant effect on the Group.

> IFRS 2 "Share-based Payment": clarification
The amendments to IFRS include clarifications relating to the recognition of certain share-based cash-settled payment transactions. The amendments to IFRS 2 are applicable to fiscal years starting on or after January 1, 2018. EU endorsement is still outstanding. These amendments have no significant effect on the Group.

> IFRS 4 “Application of IFRS 9 to Insurance Contracts“
The amendments are to be applied as from January 1, 2018. They have no effect on the Group.

> IFRS 17 “Insurance Contracts”
IFRS 17 includes rules on the accounting treatment of insurance contracts. It replaces the regulations under IFRS 4 Insurance Contracts. This standard is to be applied to fiscal years starting from January 1, 2021. EU endorsement is still outstanding. These amendments have no effects on the Group.

> IFRIC 22 “Foreign Currency Transaction and Advance Consideration”
IFRIC 22 clarifies the reporting of transactions involving the receipt of payment of consideration in a foreign currency. The clarifications are to be applied to fiscal years starting from January 1, 2018. EU endorsement is still outstanding. These clarifications have no significant effect on the Group.

> IFRIC 23 “Uncertainty over Income Tax Treatments”
IFRIC 23 clarifies the accounting treatment of uncertainty over income tax. The clarifications are to be applied to fiscal years starting from January 1, 2018. EU endorsement is still outstanding. These clarifications have no significant effect on the Group.

Information about subsidiaries

Along with SMT Scharf AG, the consolidated financial statements include all subsidiaries over which it exercises control:

	Interest	**Equity (IFRS) 31/12/2017**	**Profit/loss (IFRS) 2017**
SMT Scharf GmbH, Hamm, Germany	100%	19,776	1,826
SMT Scharf Saar GmbH i.L, Schmelz, Germany	100%	43	1
Nowilan GmbH, Dinslaken, Germany (since 01/09/2016)	100%	168	22
SMT Scharf Polska Sp. z o. o., Tychy, Poland	100%	5,566	1,139
SMT Scharf Africa (Pty.) Ltd., Germiston, South Africa	100%	3,624	726
TOW SMT Scharf Ukrainia, Kiev, Ukraine	100%	-126	52
SMT Scharf Sudamerica SpA, Santiago , Chile	100%	23	-80
OOO SMT Scharf, Novokuznetsk, Russian Federation	100% *	5,634	1,442
OOO SMT Scharf Service, Novokuznetsk, Russian Federation	100% ***	48	-115

Scharf Mining Machinery (Beijing) Co., Ltd., Beijing, China	100% **	2,730	701
Scharf Mining Machinery (Xuzhou) Ltd, Xuzhou, China	100%	3,480	986

* of which 1.25% indirectly through SMT Scharf GmbH
** indirectly through SMT Scharf GmbH
*** indirectly through OOO SMT Scharf

The main operating activity of all subsidiaries is the production, repair and marketing of machinery and equipment of any type, and trading in such assets.

SMT Scharf AG established SMT Scharf Sudamerica SpA, Santiago/Chile, on March 24, 2017, and has admitted his company to the group of consolidated companies based on control through the majority of voting rights.

In December 2017, SARECO Engineering (Pty.) Ltd., Germiston/South Africa, was liquidated and deconsolidated. All assets and all liabilities were transferred to SMT Scharf Africa (Pty) Ltd., Germiston/South Africa, at a prior date. Consequently, the liquidation had no material effect on the result.

The purchase price allocation from the acquisition of 100% of the shares in Nowilan Gesellschaft für Antriebstechnik in Dinslaken, and thus goodwill totalling EUR 377 thousand, have been confirmed as final.

Information about joint ventures

SMT Scharf AG holds a 50% interest in Shandong Xinsha Monorail Co. Ltd, Xintai/China through SMT Scharf GmbH. The main operating activity is the production, repair and marketing of machinery and equipment of any type, and trading in such assets. SMT Scharf AG classifies this company as a joint venture in accordance with IFRS 11, since, together with its partner entity, it owns the rights to the net assets. Joint ventures are recognised on the date of addition at cost, and measured subsequently applying the equity method.

In accordance with IFRS, the summarised financial information is provided below and corresponds to the amounts in the joint venture's financial statements.

EUR thousand	31/12/2017	31/12/2016
Non-current assets	385	194
Current assets	15,843	13,517
Current liabilities	7,974	6,136

The assets and liabilities listed above include the following amounts:

EUR thousand	31/12/2017	31/12/2016
Cash and cash equivalents	1,404	1,482
Current financial liabilities	5,436	4,274

EUR thousand	31/12/2017	31/12/2016
Revenue	11,177	11,010
Profit from continuing operations	1,170	244
Other comprehensive income	-492	-268
Comprehensive income	678	-24

The profit listed above includes the following amounts:

EUR thousand	31/12/2017	31/12/2016
Depreciation and amortisation	35	19
Interest income	31	0
Interest expenses	0	61
Income taxes	402	472

Deliveries of merchandise worth EUR 1,606 thousand (previous year: EUR 1,152 thousand) were made to the joint venture in the reporting year. As of the reporting date, there were outstanding receivables on this amount of EUR 297 thousand (previous year: EUR 150 thousand).

Reconciliation between the summarised financial information and the carrying amounts of the interest in the joint venture as recognised in the consolidated financial statements:

EUR thousand	31/12/2017	31/12/2016
Net assets of the joint venture	8,254	7,575
Interest held	50%	50%
Carrying amount of the interest	4,127	3,788

Consolidation principles

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

Subsidiaries are companies that SMT Scharf AG directly or indirectly controls. The Group obtains control when it can exercise power over the investee, is exposed to fluctuating returns from the investee, and possesses the capability of exercising its power over the investee to affect the level of return from the investee.

Control can also arise in cases where SMT does not hold the majority of the voting rights, if the Group is able to unilaterally determine the significant activities of the investee. All facts and circumstances are taken into consideration when assessing whether control exists. These especially include the purpose and structure of the investee, identifying its significant activities and decisions relating to them, and the relationship of the company's own voting rights in comparison to the scope and distribution of other voting rights, potential voting rights and rights arising from other contractual arrangements. All facts and circumstances subject to the exercising of management discretion must be taken into account when assessing whether control exist. There was no such case in the 2017 fiscal year.

SMT examines its assessment of control if indications exist that one or several of the aforementioned control criteria have changed.

Results from subsidiaries acquired or sold during the course of the fiscal year are recognised in the consolidated income statement and in the consolidated statement of comprehensive income with effect of the actual acquisition or disposal date. No acquisition or disposal transactions took place during the reporting year.

As a rule, capital for the companies in SMT Scharf Group is consolidated applying the purchase method pursuant to IFRS 3. This entails carrying acquired assets and liabilities at fair value. If these companies were not formed by the Group itself, and if a positive difference exists between acquisition cost and the subsidiary's proportionate revalued equity, the difference is carried as goodwill and tested regularly for impairment. Any remaining negative difference is recognised in profit or loss after a second assessment. Acquisition-related costs are expensed as incurred. Expenses, income, receivables and liabilities between the fully consolidated companies and intragroup profits from deliveries and services within the Group are eliminated. Deferred taxes are recognised if consolidation steps affect profit or loss.

Changes to the Group's shareholding quotas in subsidiaries which do not lead to a loss of control are recognised as transactions between owners.

Currency translation

The separate 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 consequently 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 statements of changes in assets, provisions and equity, the company translates balances at the start and end of fiscal years as well as consolidation scope changes, at the exchange rate on the respective date. The remaining items are translated at the annual average exchange rate. Year-on-year differences in the currency translation of balance sheet items are recognised in equity through other comprehensive income within other reserves.

Foreign-currency transactions are translated into the functional currency applying the exchange rate on the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated into the respective functional currency applying the exchange rate on the reporting date. The foreign currency gains and losses arising from these translations are recognised in the consolidated income statement under "other operating income" or "other operating expenses".

The exchange rates for the key currencies were:

	Closing rate		**Average rate**	
1 euro =	**31/12/2017**	**31/12/2016**	**2017**	**2016**
Polish Zloty	4.1770	4.4103	4.2570	4.3632
South African Rand	14.8054	14.4570	15.0490	16.2645
Chinese Renminbi Yuan	7.8044	7.3202	7.6290	7.3522
Russian Ruble	69.3920	64.3000	65.9383	74.1446

Accounting and valuation policies

The recognition, disclosure and measurement principles were applied unchanged from the application to the previous years' annual financial statements, unless indicated otherwise in the following.

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

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

Income from rental agreements is recognised under accrual basis accounting as other operating income in accordance with the provisions of the underlying agreements. Income from operating leases in the meaning of IAS 17 is recognised under accrual basis accounting as revenue in accordance with the provisions of the underlying leases.

Interest income is accrued pro rata temporis applying the effective interest method. Interest income in the amount of the interest portion of the leasing payments received within the period resulted from finance leases.

Borrowing costs are not capitalised as per IAS 23, but are instead expensed immediately if the criteria for a qualifying asset within the meaning of IAS 23 are not met.

Research and development costs that do not meet the IAS 38 capitalisation criteria are expensed immediately.

The goodwill of EUR 1,439 thousand reported as of December 31, 2017 (previous year: EUR 1,305 thousand) is allocated to two cash generating units: Sareco with EUR 1,062 thousand and Nowilan with EUR 377 thousand. These are recognised at amortised cost. As a matter of principle, goodwill is tested for impairment annually and also if indications of potential impairment otherwise exist. The recoverable amount of this CGU is measured through calculating the values in use by applying the discounted cash flow method. This approach utilises the planned after tax cash flow deriving from the five-year planning for the CGU, prepared on a bottom-up basis and approved by the Managing Board of SMT Scharf AG. Cash flows beyond the five-year horizon are calculated on the basis of the average for the five-year period, as a matter of principle. No growth rate is applied to extrapolate the five-year average. Present values are calculated by discounting, applying an interest rate of 10.5% (previous year: 10.0%).

No goodwill impairment losses were recognised in the year under review.

Assuming that the criteria of IAS 38 are met, purchased intangible assets are recognised at cost and amortised straight-line over a period of between three and six years depending on their useful life. To the exception of goodwill, all acquired intangible assets have a limited useful life.

Separate internally generated intangible assets are capitalised as soon as IAS 38 criteria are fulfilled cumulatively. 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 capitalised. The capitalised assets are amortised straight-line from the date that they are available for disposal (marketability) over the anticipated product life cycle of six to eight years. All capitalised internally generated intangible assets have a limited useful life. If an intangible asset developed in house cannot be capitalized or does not yet exist, the development costs are expensed the period in which they arise.

Property, plant and equipment utilised in operations is measured at cost less straight-line depreciation.

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 recognised as expenses to the extent that these are not subject to mandatory capitalisation.

Intangible assets and property, plant and equipment are impairment tested if there are indications of this based on cash-generating units.

Government grants are recognised if sufficient certainty exists that such subsidies will be granted, and that the company fulfils the conditions with which they are linked. Such grants were not received in 2017.

The SMT Scharf Group has concluded leases as a lessee (mostly for cars, offices and office equipment). 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 lease period. Furthermore, the SMT Scharf Group is the lessee of individual finance leases for office furniture and servers. In this case, the SMT Scharf Group is the economic owner of the leased assets and accounts for them in its fixed assets. At the time of addition, it recognises a debt item for its lease obligations in the same amount in accordance with the fair value of the leased asset and the present value of the minimum payments, whichever is lower. While the leased asset is written down over its useful life, the lease liability is reduced in instalments by the repayment component of the lease payments remitted.

The SMT Scharf Group has also concluded leases as a lessor (mostly for diesel cats and heavy load units). Leases where the economic ownership has transferred to the lessee as well as operating operating leases where most of the opportunities and risks that are associated with ownership remain with SMT Scharf exist. In the case of finance leases, a receivable in the amount of the net investment value is disclosed under other miscellaneous receivables and is reduced in instalments by the repayment components of the leasing payments. The rented leased assets are capitalised as technical equipment and machinery. Lease payments for these operating leases are recognised as revenue over the lease period.

The financial assets are classified on the basis of accounting and valuation according to IAS 39. As of December 31, 2017, the SMT Scharf Group had assets in the categories of loans and receivables as well as financial assets measured at fair value through profit and loss. Classification takes place upon initial recognition. Measurement at fair value serves the purpose of better control.

The loans granted and receivables are measured at amortised cost applying the effective interest method. All of the SMT Scharf Group's loans and receivables bear interest at standard market rates. As a rule, loans and receivables are originated at their nominal values. Individual write-downs are formed for receivables for which default is highly probable. General credit risk is reflected by way of write-downs for the stock of receivables which have not been adjusted through individual write-downs – these are based on empirical values, as a rule. Receivables denominated in foreign currencies are translated applying the closing rate of exchange, and any resultant exchange rate differences are carried under other operating income or expense.

The financial assets measured at fair value through profit and loss are disclosed in the value ascertained from the current market valuation. This pertains exclusively to securities.

Liquid assets comprise cash, sight deposits and short-term bank deposits which had a remaining term of up to three months on addition and are subject to only minor value fluctuations. These items are measured at amortised cost.

Inventories are measured at the lower of cost or net realisable value. Pursuant to IAS 2, manufacturing costs are identified as fully absorbed costs (comprising unit costs and reasonable overheads including production-related administrative expenses) applying the standard cost method. Purchase costs are measured applying the average cost method. Net realisable value corresponds to the selling price in the ordinary course of business, less estimated costs of completion and costs necessary to realise sale.

Deferred and current taxes are measured 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 realisable tax loss carryforwards. Calculations are based on the tax rates which apply in the respective country on the expected date of realisation, as passed by law on the balance sheet date. Deferred tax assets are recognised only to the extent that it is probable that the associated tax receivables will be used. Tax loss carryforwards are included in tax deferrals only if it is probable that these will be realised.

Provisions for pensions are measured applying the projected unit credit method. In this context, the future obligations are measured based on the benefit entitlements proportionately acquired by the balance sheet date. Measurement entails assumptions being made regarding the future development of specific parameters that affect the future benefit amount. The calculation is based on actuarial reports that apply biometric principles. Actuarial gains and losses are offset in full with equity. As a result, no amortisation of actuarial gains and losses is recognised in profit or loss.

The other provisions are formed for all identifiable risks and uncertain liabilities if it is probable that such risks will materialise 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 recognised as a separate asset if the refund is as good as certain to be paid. Expenses for the formation of provisions are reported in the consolidated statement of comprehensive income after deduction of the refund.

Other provisions are measured in line with IAS 37 applying 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 present value is measured by discounting.

The amount of the provision for warranties is measured applying the warranty expense that was incurred 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 services that are still to be rendered, in the amount of the production costs that are yet to be incurred, as a rule.

Financial liabilities are carried at cost on initial recognition. 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 amortised cost applying the effective interest method. Liabilities in foreign currencies are translated by applying the closing rate of exchange, and any resultant exchange rate differences are carried under other operating income or expense.

Accounting estimates and the exercising of discretion

The preparation of the consolidated financial statements requires the making of assumptions and utilisation of accounting estimates that relate to the recognition and measurement of assets and liabilities, income and expenses, and the extent of contingent liabilities. Estimates made by the company are based on historical amounts and other assumptions considered appropriate in the particular circumstances. Actual amounts may differ from estimates. The estimates and assumptions made are subject to constant review and adjusted accordingly.

The main estimates and related assumptions, as well as uncertainties connected with the selected accounting policies, as listed below, are critical to an understanding of the risks underlying the financial reporting, as well as the effects that such estimates, assumptions and uncertainties could have on the consolidated financial statements:

<u>Goodwill</u>

The SMT Group conducts a goodwill impairment test annually, and also whenever indications exist that goodwill might have become impaired. The recoverable amount of the cash-generating units is estimated for this purpose. This recoverable amount corresponds to the higher of fair value less costs of disposal, and value in use. Calculating value in use requires adjustments and estimates to be made in relation to the forecasting and discounting of future cash flows. Although the management assumes that the assumptions applied to calculate the recoverable amount are appropriate, any unforeseen changes to such assumptions could result in an impairment loss that could exert a sustainable negative effect on the company's financial position and performance. The carrying amount of both counts of goodwill amounts to EUR 1,439 thousand as of the balance sheet date.

<u>Useful lives of other intangible assets, and of property, plant and equipment</u>

At every fiscal year-end, the Group reviews the estimated useful lives of its other intangible assets, and of its property, plant and equipment. No modifications were required for such estimates in 2017 and 2016.

<u>Impairment testing of other intangible assets, and of property, plant and equipment</u>

On each balance sheet date, the Group is required to estimate whether any indication exists that the carrying amount of an item reported under other intangible assets, or of property, plant and equipment, might have become impaired. In such cases, the recoverable amount of the respective asset is estimated. The recoverable amount corresponds to the higher of fair value less costs of disposal, and value in use. To calculate value in use, the discounted future cash flows of the respective asset are calculated. Estimating discounted future cash flows includes significant assumptions, including especially those relating to future sales prices and sales volumes, costs, and discounting rates. Although management assumes that the estimates of the relevant expected useful lives, assumptions relating to economic conditions and trends in sectors where the Group operates, and estimates of the discounted future cash flows, are appropriate, a modification of the analysis might be necessitated by a change to the assumptions or circumstances. If the trends identified by management reverse in the future, or if the assumptions and estimates prove to be erroneous, additional impairment losses, or reversals of impairment losses, might be required.

<u>Taxes on income</u>

On each reporting date, the Group assesses whether the realisability of future tax benefits is sufficiently likely for the recognition of deferred tax assets. This requires management to assess, inter alia, tax benefits deriving from future available tax strategies and future taxable income, as well as to take further positive and negative factors into account. The reported deferred tax assets could diminish if the estimates of the planned tax income and tax benefits achievable through available tax strategies are reduced, or if changes to current tax legislation restrict the timeframe or scope of realisability of future tax benefits. A total of EUR 3,092 thousand of deferred taxes were capitalised as of December 31, 2017 (previous year: EUR 3,259 thousand), which were offset by deferred tax liabilities of EUR 452 thousand (previous year: EUR 96 thousand).

Employee benefits

Pensions and similar obligations are measured according to actuarial valuations. Such valuations are based on statistical and other factors in order to thereby anticipate future events. These factors include, among others, actuarial assumptions such as discount rates, expected salary increases and mortality rates. Such actuarial assumptions can differ considerably from actual developments due to changes in market and economic conditions, consequently resulting in a significant change to pension and similar obligations, as well as related future expense.

Notes to the income statement

(1) Revenue

Revenue is composed of the following items:

EUR thousand	2017	2016
Sale of new equipment	22,691	13,822
Spare parts sales and miscellaneous	29,440	28,743
Total	52,131	42,565

Revenue comprised under “Other” is mostly attributable to services.

Revenue by region was as follows:

EUR thousand	2017	2016
China	14,073	8,227
Russia and other CIS states	16,978	12,617
Poland	7,790	8,216
Germany	2,493	3,502
Africa	7,649	6,781
America	416	451
Other countries	2,732	2,771
Total	52,131	42,565

(2) Other operating income

Other operating income is composed of the following items:

EUR thousand	2017	2016
Capitalisation of development costs	1,523	0
Miscellaneous other operating income	929	1,699
Exchange rate gains	1,475	2,014
Release of provisions	1,881	905
Total	5,808	4,618

Miscellaneous other operating income mainly comprises overheads passed on, reversals of specific valuation allowances, and rental income.

(3) Personnel expenses

Personnel expenses are composed of the following items:

EUR thousand	2017	2016
Wages and salaries	10,884	9,839
Social security and pension contributions	1,845	1,724
Total	12,729	11,563

Expenses for defined contribution pension plans, especially statutory pension insurance, of EUR 92 thousand (previous year: EUR 90 thousand) were recognised during the fiscal year under review.

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

	2017	2016
Employees	312	298
of whom trainees	4	3
Total	312	298

(4) Depreciation, amortisation and impairment losses

	2017	2016
Amortisation and impairment losses assets	57	1,344
Depreciation and impairment losses applied to property, plant and equipment	1,241	1,132
Total depreciation, amortisation and impairment losses	1,298	2,476

(5) Other operating expenses

Other operating expenses are composed of the following items:

EUR thousand	2017	2016
Valuation allowances applied to receivables	0	500
Exchange rate losses	2,319	1,878
Special direct cost of sales	748	807
Third-party services	1,942	1,606
Travel expenses	1,054	721
Rent and leases	814	547
Maintenance costs	529	386
Advertising	215	73
Contributions/fees	214	188
Miscellaneous other operating expenses	1,958	1,897
Total	9,793	8,603

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

EUR thousand	2017	2016
Audit	85	98
Tax consulting	17	19
Other services	0	72
Total	102	189

Tax consulting services are largely accounted for by tax declaration services as well as by other tax consulting services.

(6) Result from equity accounted investments

Income from participating investments of EUR 585 thousand (previous year: EUR 155 thousand) results from the net profit generated by Chinese company Shandong Xinsha Monorail Co., Xintai/China in 2017.

The related items on the balance sheet and statement of comprehensive income were renamed for better comprehensibility.

(7) Income taxes

Income taxes are composed of the following items:

EUR thousand	2017	2016
Current tax expense	641	2,222
of which relating to the fiscal year under review	641	2,222
Deferred taxes	522	-1,164
of which: creation or reversal of temporary differences	118	-844
of which increase in loss carryforwards	404	-320
Total	1,163	1,058

Deferred taxes are measured based on the tax rates that apply, or are expected to apply, according to the current legal situation on the balance sheet date, or on the date when they are realised. The Group's tax rate stood at 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 which apply in the corresponding countries.

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

EUR thousand	2017	2016
Deferred tax assets		
Pension provisions	321	375
Miscellaneous assets and liabilities*	2,111	1,599
Loss carryforwards	1,290	1,694
Offsetting with deferred tax assets	-630	-409
	3,092	3,259
Deferred tax liabilities		
Intangible assets	432	0
Property, plant and equipment	397	435
Miscellaneous assets and liabilities*	253	70
Offsetting with deferred tax assets	-630	-409
	452	96

Deferred tax assets and liabilities totalling EUR 630 thousand were netted as they relate to future charges or reductions for the same taxpayer to the same tax authority (previous year: EUR 409 thousand). Consolidation effects resulted in deferred tax assets of EUR 668 thousand (previous year: EUR 548 thousand) (included in "miscellaneous assets and liabilities"). The deferred tax position relating to actuarial gains and losses recognised in other comprehensive income amounts to EUR 72 thousand (previous year: EUR 139 thousand) and has therefore declined by EUR 67 thousand. As of December 31, 2017, deferred tax assets were carried for tax loss carryforwards in an amount of EUR 1,290 thousand (previous year: EUR 1,694 thousand). According to the legal position currently prevailing in Germany, loss carryforwards are permanently eligible for carrying forward in terms of the amount and time (deferred taxes of EUR 1,111 thousand). The loss carryforwards in South Africa may only be used in the following year (deferred taxes of EUR 179 thousand). Loss carryforwards are regarded as realisable on the basis of the tax planning. No deferred taxes were recognised for loss carryforwards of EUR 3,203 thousand (previous year: EUR 959 thousand).

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 attributable to the following factors:

EUR thousand	2017	2016
Profit/loss before income taxes	5,144	2,597
Imputed tax expense	1,651	834
International tax rate differences	-652	-105
Non-tax-effective income from associates	-178	-18
Adjustment to deferred tax on loss carryforwards based on tax audit	42	0
Additional loss carryforwards generated in the reporting period	-616	0
Write-off of deferred tax relating to loss carryforwards	958	0
Other effects reducing deferred taxes on loss carryforwards	20	0
Non-capitalisation of deferred tax on loss carryforwards	0	410
Other income exempt from tax or tax reductions	-368	0
Reduction of deferred tax on temporary differences	46	0
Other differences	260	-63
Reported income tax expense	1,163	1,058

Notes to the balance sheet

(8) Intangible assets, property, plant and equipment and leased items

The composition of and changes to intangible assets, property, plant and equipment, and leased assets are presented in the statement of changes in non-current assets:

Statement of changes in non-current assets from January 1 to December 31, 2017

EUR thousand		Opening balance 01/01/2017	Currency translation	Addition	Disposal	Reclassi-fication	Closing balance 31/12/2017
Goodwill	Gross	1,412	134	0	0	0	1,546
	Value adjustments	107	0	0	0	0	107
	Net	1,305	134	0	0	0	1,439
Purchased intangible assets	Gross	671	0	16	72	-170	445
	Value adjustments	618	0	30	72	-170	406
	Net	53	0	-14	0	0	39
Own work capitalised (development costs)	Gross	3,369	2	1,523	0	61	4,954
	Value adjustments	3,354	1	27	0	0	3,382
	Net	15	1	1,496	0	61	1,572
Intangible assets	**Gross**	**5,452**	**136**	**1,539**	**72**	**-109**	**6,946**
	Value adjustments	**4,079**	**1**	**57**	**72**	**-170**	**3,895**
	Net	**1,373**	**135**	**1,482**	**0**	**61**	**3,051**
Land and buildings	Gross	9,326	-20	8	2,147	16	7,183
	Value adjustments	7,154	-2	240	2,000	14	5,406
	Net	2,172	-18	-232	147	2	1,777
Technical equipment and machinery	Gross	1,577	10	1,466	149	1,072	3,976
	Value adjustments	1,461	-13	505	270	-170	1,513
	Net	116	23	961	-121	1,242	2,463
Office equipment, fixtures and fittings	Gross	8,900	-133	685	1,728	-1,128	6,596
	Value adjustments	6,552	-38	476	1,653	117	5,454
	Net	2,348	-95	209	75	-1,245	1,142
Advance payments rendered	Gross	52	-3	0	0	-34	15
	Value adjustments	31	-1	20	0	-50	0
	Net	21	-2	-20	0	16	15
Property, plant and equipment	**Gross**	**19,855**	**-146**	**2,159**	**4,024**	**-74**	**17,770**
	Value adjustments	**15,198**	**-54**	**1,241**	**3,923**	**-89**	**12,373**
	Net	**4,657**	**-92**	**918**	**101**	**15**	**5,397**

Statement of changes in non-current assets from January 1 to December 31, 2016

EUR thousand		Opening balance 01/01/2016	Currency translation	Addition	Disposal	Reclassi-fication	Closing balance 31/12/2016
Goodwill	Gross	1,034	1	377	0	0	1,412
	Value adjustments	107	0	0	0	0	107
	Net	927	1	377	0	0	1,305
Purchased intangible assets	Gross	614	30	19	7	15	671
	Value adjustments	566	26	30	7	3	618
	Net	48	4	-11	0	12	53
Own work capitalised (develop-ment costs)	Gross	3,370	-1	0	0	0	3,369
	Value adjustments	2,040	0	1,314	0	0	3,354
	Net	1,330	-1	-1,314	0	0	15
Intangible assets	**Gross**	**5,018**	**30**	**396**	**7**	**15**	**5,452**
	Value adjustments	**2,713**	**26**	**1,344**	**7**	**3**	**4,079**
	Net	**2,305**	**4**	**-948**	**0**	**12**	**1,373**
Land and buildings	Gross	12,526	60	19	3,279	0	9,326
	Value adjustments	9,110	12	279	2,247	0	7,154
	Net	3,416	48	-260	1,032	0	2,172
of which leased to third parties	Gross	1,385	0	0	1,385	0	0
	Value adjustments	974	0	0	974	0	0
	Net	411	0	0	411	0	0
Technical equipment and machinery	Gross	1,593	19	12	47	0	1,577
	Value adjustments	1,406	20	75	40	0	1,461
	Net	187	-1	-63	7	0	116
Office equipment, fixtures and fittings	Gross	7,936	204	1,751	991	0	8,900
	Value adjustments	6,412	145	778	783	0	6,552
	Net	1,524	59	973	208	0	2,348
Advance payments rendered	Gross	57	-3	13	0	-15	52
	Value adjustments	22	9	0	0	0	31
	Net	35	-12	13	0	-15	21
Property, plant and equipment	**Gross**	**22,112**	**280**	**1,795**	**4,317**	**-15**	**19,855**
	Value adjustments	**16,950**	**186**	**1,132**	**3,070**	**0**	**15,198**
	Net	**5,162**	**94**	**663**	**1,247**	**-15**	**4,657**

Land and buildings with a carrying amount of EUR 1,777 thousand (previous year: EUR 1,816 thousand) serve as collateral for loans taken out.

The production costs of intangible assets which must be capitalised pursuant to IAS 38 are initially expensed (especially personnel expenses) according to the nature of expense format, and then eliminated through other income in the relevant period. The amortisation of internally generated intangible assets is carried as amortisation expense. Amortisation of EUR 1,298 thousand (previous year: EUR 2,477 thousand) does not include any impairment loss (previous year: EUR 1,008 thousand). In 2017, development costs for new product developments from the areas of drive concepts as well as diesel cats and emission-free electric cats which met the IAS 38 capitalisation criteria were expensed. A total of EUR 1,523 thousand (previous year: EUR 0 thousand) was capitalised. The sum total of research and development expenses stood at EUR 3,327 thousand in the reporting year (previous year: EUR 2,820 thousand).

The SMT Scharf Group leases internally developed drive systems as a lessor in the context of operating leases. On the balance sheet date, 42 leased items were carried as leased assets in the statement of changes in non-current assets. The carrying amount of the leased assets stood at EUR 2,354 (previous year: EUR 373) and is included in the technical equipment and machinery item.

(9) Equity accounted investments

For equity accounted investments, the company makes reference to the information on joint ventures in the first part of the Notes.

(10) Inventories

Inventories break down as follows:

EUR thousand	2017	2016
Raw materials, consumables and supplies	4,002	2,894
Work in progress	9,884	5,251
Finished goods and merchandise	1,214	4,864
Carrying amount	15,100	13,009

As of December 31, 2017, write-downs of inventories to their lower net realisable value totalled EUR 3,906 thousand (previous year: EUR 3,881 thousand).

EUR thousand	2017	2016
Inventories with write-downs	9,009	6,818
Inventories with no write-downs	6,091	6,191
Carrying amount	15,100	13,009

(11) Receivables

Trade receivables include security deposits in standard industry amounts that have been contractually agreed with the customers. These deposits cover the incidental services of SMT Scharf that are to be rendered once the risk has been transferred.

EUR thousand	2017	2016
Carrying amount of trade receivables	24,654	23,374
– of which specific valuation allowances	888	2,056

Reconciliation of specific valuation allowances:

EUR thousand	2017	2016
As of January 1	2,056	3,010
Reversals	-1,168	-1,454
Additions	-	500
As of December 31	888	2,056

The trade receivables listed in the table are allocated to the loans & receivables (LaR) category and measured at amortised cost.

Specific valuation allowances are applied to trade receivables to reflect related default risk, where required. Indications of impairment to receivables include unreceived payments and information about changes to customers' creditworthiness. No significant credit risk clusters exists due to the diversification of the customer base.

The due dates of trade receivables are as follows:

EUR thousand	2017	2016
Receivables not due	20,497	21,198
Value-adjusted due receivables	888	2,056
Due receivables not value-adjusted	4,157	2,176
- of which due between 1 and 30 days	1,594	323
- of which due from 31 days	2,563	1,853
Trade receivables, total	24,654	23,374

(12) Other non-financial assets

Other non-financial assets comprise receivables and assets that do not fall within the scope of IAS 39 and largely include tax receivables and advance payments rendered.

(13) Other current non-financial assets in connection with employee benefit entitlements

EUR thousand	2017	2016
Securities	377	425

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

Of the securities, EUR 350 thousand (previous year: EUR 356 thousand) are attributable to a hardship and social fund. This fund is managed in trust by a commission which includes both employer and employee representatives.

(14) Cash and cash equivalents

Cash and cash equivalents comprise cash positions and bank deposits available short term.

(15) Equity

The changes in the SMT Scharf Group's equity are shown in the statement of changes in equity. Accumulated comprehensive income in the statement of changes in equity amounts to EUR -3,153 thousand (previous year: EUR -3,162 thousand). It comprises actuarial gains and losses of EUR -141 thousand (previous year: EUR -295 thousand) and differences in currency translation of EUR -3,012 thousand (previous year: EUR -2,868). The development of the individual components are shown in the statement of changes in equity.

With the approval of the Supervisory Board, the Managing Board of SMT Scharf AG passed a resolution on November 6, 2017, to carry out a capital increase, making partial use of Authorised Capital 2016, to the exclusion of shareholder subscription rights. The share capital was raised against capital contribution by EUR 420 thousand, from EUR 4,200 thousand to EUR 4,620 thousand through the issuing of 420,000 new no-par value bearer shares with a nominal amount in the share capital of EUR 1.00 per bearer share (“New Shares”). The New Shares are entitled to dividend as from January 1, 2017, and were included in the existing listing on the regulated market of the Frankfurt Stock Exchange (Prime Standard) on November 10, 2017.

Pursuant to IAS 33.26, the weighted average of the ordinary shares outstanding in the period and all other periods presented is to be adjusted if an event occurs which causes the number of ordinary shares in circulation to change without incurring a change in resources. Under IAS 33.27 (b), this is the case if an issue has a bonus element attached to it. This results in a recalculation of the average number of shares to be taken into account without incurring a change in the earnings per share. The newly calculated average number of shares for the 2016 fiscal year stands at 4,155,178 units (formerly 4,143,675). In the reporting year 2017, the average number of shares posts 4,219,103.

The capital reserve includes the premium from the capital increases in 2007 and 2017, less the transaction costs, taking tax effects into account and additions from the sale and transfer of Treasury shares.

On December 31, 2017, 4,570,523 ordinary bearer shares of SMT Scharf AG were issued in the form of no par value shares with a notional value of EUR 1 per share. All shares have been fully paid up and grant the holders the same rights. The development in the fiscal year can be viewed in the statement of changes in equity.

With Supervisory Board approval, the Managing Board can increase the subscribed capital on one or several occasions until April 12, 2016, by up to EUR 2,100 thousand against cash or non-cash capital contributions (Authorised Capital). Shareholders' subscription rights can be excluded in this context. Authorised Capital was extended through to April 19, 2021, through a resolution passed by the Annual General Meeting of April 20, 2016. By way of partial use of this Authorised Capital, the aforementioned capital increase in a nominal amount of EUR 420 thousand was approved by the Managing Board on November 6, 2017, with the consent of the Supervisory Board.

In addition, conditional capital existed to issue up to EUR 2,100 thousand additional ordinary shares. The contingent capital increase can only be carried out to the extent that the holders of convertible bonds, issued by the company over the period up until May 6, 2019, exercise their subscription rights or the holders of bonds obliged to convert them fulfil their conversion obligations.
The Shareholders' General Meeting on April 14, 2010, authorised the company's Managing Board to acquire treasury shares equivalent in a volume of up to 10% of the then current share capital until April 13, 2015. This purchase could also take place through the use of equity derivatives. In addition, the resolution included the further conditions for the purchase and sale of treasury shares. The company still held 49,477 treasury shares on December 31, 2017,

equivalent to 1.07% of the share capital. The treasury shares can be utilised for all of the purposes stated in the authorisation resolution.

The annual financial statements of SMT Scharf AG, which are prepared in accordance with the principles of the German Commercial Code (HGB), disclose an accumulated loss of EUR -365 thousand. The Managing and Supervisory boards will propose to the Annual General Meeting to be held on May 23, 2018 that this accumulated loss be carried forward to new account.

(16) Provisions for pensions

The SMT Scharf Group's German companies have defined benefit commitments for post-retirement, invalidity and surviving dependant benefits in its employee pension scheme. The pension commitments result from various employer-financed direct commitments and from salary conversions based on a company agreement. In addition, indirect pension commitments exist according to the articles of association of the benefit fund of DBT e.V. No plan assets exist.

The amount of the pension commitment (defined benefit obligation) was calculated applying actuarial methods. In addition to the assumptions on life expectancies according to the 2005 G mortality tables, the following assumptions were applied:

In % p. a.	**31/12/2017**	**31/12/2016**
Qualifying trend	2.0	2.0
Rate of pension increases	1.0	1.0
Discount rate (DBO)	1.95	1.50

The current service cost and interest expense are reported under personnel expenses. The defined benefit obligation reports the following changes:

EUR thousand	**2017**	**2016**
Defined Benefit Obligation on January 1	3,591	3,289
Current service cost	7	10
Past service cost	7	6
Interest cost	53	44
Pension payments and transfers	-147	-192
Actuarial gains / losses	-226	434
thereof financial effects	-209	332
thereof experience adjustments	-17	102
Defined benefit obligation on December 31	3,285	3,591

A -0.5% change in the interest rate would result in an increase in the pension obligation of EUR 234 thousand. A 0.5% increase in the interest rate would feed through to a EUR 209 thousand reduction in the pension obligation. The sensitivity calculations were performed while keeping all other assumptions unchanged.

Sensitivities (IAS 19.145)	**DBO**	**Change**
Actuarial interest + 0.5%	3,075	- 209
Actuarial interest - 0.5%	3,519	234
Pension trend + 0.5%	3,476	191
Pension trend - 0.5%	3,109	- 175
Life expectancy 1	3,485	200

The expected pension payments within the next twelve months amount to EUR 153 thousand (previous year: EUR 161 thousand).

(17) Other provisions

The other current provisions are all due within one year. They are attributable to personnel, sales and other areas. Provisions for personnel relate, in particular, to performance-related remuneration for employees and overtime pay. Provisions in the sales and marketing area relate, in particular, to warranty and follow-up costs. The costs in this regard were estimated on a project-by-project basis, applying prudent commercial judgement. 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 predicted reliably, 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.

The other non-current provisions mostly relate to obligations for personnel, in particular for early retirement agreements (term until 2021), and to long-term risks from litigation (term until 2022).

The changes to other provisions in 2017 can be seen in the following statement of changes in provisions.

Consolidated statement of changes in other provisions from January 1 to December 31, 2017

EUR thousand	Opening balance 01/01/2017	Currency translation	Consumption	Additions	Reversals	Closing balance 31/12/2017
Personnel	1,413	-16	1,095	1,686	44	1,944
Sales and marketing	1,615	-12	353	394	516	1,128
Miscellaneous	2,079	-25	566	976	1,315	1,149
Other current provisions	5,107	-53	2,014	3,056	1,875	4,221
Other non-current provisions	349	-1	76	50	6	318

Consolidated statement of changes in other provisions from January 1 to December 31, 2016

EUR thousand	Opening balance 01/01/2016	Currency translation	Consumption	Additions	Reversals	Closing balance 31/12/2016
Personnel	2,513	-26	1,965	1,103	264	1,413
Sales and marketing	1,404	19	377	757	150	1,615
Miscellaneous	2,197	-9	505	869	491	2,079
Other current provisions	6,114	-16	2,847	2,729	905	5,107
Other non-current provisions	384	-2	179	146	0	349

(18) Liabilities

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

No liabilities exist that are secured by rights of lien; a land charge has been registered as collateral for the utilisation of the KfW loan arising from the ERP innovation programme.

(19) Notes to the cash flow statement

The cash flow statement shows the changes in the SMT Scharf Group's net financial position as a result of cash inflows and outflows during the period under review. In accordance 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, in other words, these are related to payments. In contrast, the cash flow from operating activities is derived indirectly from the net profit/loss for the period. The cash flow from operating activities includes the following receipts and payments:

EUR thousand	**2017**	**2016**
Interest received	207	27
Interest paid	186	71
Income taxes paid	1,082	951

The net financial position in the cash flow statement comprises all of the cash and cash equivalents carried on the balance sheet, in other words, cash on 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.

EUR thousand	**31/12/2017**	**31/12/2016**
Cash and cash equivalents	12,886	6,637
./. Current financial liabilities	-5,045	-2,183
Net financial position	7,841	4,454

The table below shows a reconciliation of the financial liabilities underlying the non-cash changes:

	01/01/2017	Cash flows	Non-cash changes			31/12/2017
EUR thousand			Addi-tions	Currency differences	Changes in fair value	
Non-current financial liabilities	1,313	259	0	-83	0	1,489
Current financial liabilities	2,183	2,862	0	0	0	5,045
Sum total of liabilities from financing activities	3,496	3,121	0	-83	0	6,534

Other disclosures

(20) Other financial liabilities and contingent liabilities

At the end of the fiscal year under review, contingent liabilities existed from advance payment and warranty guarantees with a total value of EUR 288 thousand (previous year: EUR 184 thousand).

(21) Leases

The Group is a lessee under leases for cars, office premises and office equipment. There operating leases exist, along with finance leases for the first time.

Finance leases pertain exclusively to fixtures and fittings. They have terms of up to five years. Their classification as finance leases was carried out mainly based on the net present value criterion (IAS 17.10 (d)). Liabilities of EUR 270 thousand from the leases existed as of the reporting date. They are disclosed under other liabilities and measured at amortised cost. Their fair value stood at EUR 281 thousand as of the balance sheet date. The carrying value of the assets capitalised in the context of finance leases totalled EUR 274 thousand (previous year: EUR 0 thousand) on the reporting date. As of December 31, 2017, the liabilities from finance leasing break down as follows:

EUR thousand	Future payments from finance lease obligations	Interest portion	Present value of future leasing instalments
Due within one year	77	5	72
Due in one to five years	213	15	198
Due after more than five years	0	0	0
Total	290	20	270

The operating leases have terms of up to nine years and in some cases include extension options and price adjustment clauses. In 2017, the rental and lease agreements resulted in payments totalling EUR 814 thousand being recognised in other operating expenses (previous year: EUR 547 thousand). The total nominal amount of the future minimum lease payments under operating leases is composed as follows by term:

EUR thousand	31/12/2017	31/12/2016
Due within one year	618	390
Due in one to five years	519	1,417
Due after more than five years	0	0
Total	1,137	1,807

The Group is also a lessor as part of finance and operating leases. In both cases, the assets concerned are drive units. In the case of finance leases, classification is essentially based on the transfer of ownership criterion and the lease term criterion (IAS 17.10 (a) and (c)). In the case of operating leases, the leased property can be acquired by purchase after a leasing period by the lessee.

Receivables from finance leases of EUR 1,591 thousand (previous year: EUR 1,395 thousand) existed as of the reporting date. They are disclosed under other liabilities and measured at amortised cost. They resulted in interest income of EUR 79 thousand (previous year: EUR 44 thousand) in the year under review, and their fair value stood at EUR 1,611 thousand as of the reporting date (previous year: EUR 1,411 thousand). The following information is provided on receivables from finance leases:

Sum total of future minimum leasing payments (gross investment) in EUR thousand	31/12/2017	31/12/2016
Due within one year	1,067	756
Due in one to five years	602	690
Due after more than five years	0	0
Total	1,669	1,447
Present value of the outstanding minimum lease payments in EUR thousand		
Due within one year	1,011	722
Due in one to five years	580	673
Due after more than five years	0	0
Total	1,591	1,395
Finance income included in the outstanding minimum lease payments	78	52

The sum of future minimum lease payments from uncancellable operating leases is as follows:

EUR thousand	31/12/2017	31/12/2016
Due within one year	326	29
Due in one to five years	240	23
Due after more than five years	0	0
Total	566	52

(22) Other disclosures about financial instruments

The valuation of financial assets and liabilities is discussed in the section on accounting and valuation methods. SMT Scharf Group did not hold any held-to-maturity or available-for-sale financial instruments in either 2017 or 2016. No regroupings were implemented.

The fair values of the financial assets and liabilities were measured by applying the following hierarchy: If available, fair value was determined based on listed market prices. If no such market prices were available, the fair value was determined in accordance with generally recognised valuation models based on DCF analyses, current market transactions, and traders' listings for similar instruments. In the absence of listed market prices, the fair value was calculated by applying the aforementioned method on the reporting date (Level 2). The carrying values of current financial instruments correspond to fair value.
The fair values are presented in the following table:

31/12/2017

Balance sheet items in EUR thousand	Category pursuant to IAS 39	Carrying amount	Fair value
Trade receivables	LaR	24,654	24,654
Leasing receivables	n.a.	1,591	1,611
Non-current financial liabilities	FLAC	1,489	1,489
Trade payables	FLAC	5,410	5,410
Current financial liabilities	FLAC	5,045	5,045
Leasing liabilities	n.a.	270	281

31/12/2016

Balance sheet items in EUR thousand	**Category pursuant to IAS 39**	**Carrying amount**	**Fair value**
Trade receivables	LaR	23,374	23,374
Leasing receivables	n.a.	1,395	1,411
Non-current financial liabilities	FLAC	1,313	1,376
Trade payables	FLAC	4,058	4,058
Current financial liabilities	FLAC	2,183	2,183

Note: LaR = Loans & Receivables, FLAC = Financial Liabilities at Amortised Cost

Net gains or losses by individual IAS 39 category:

EUR thousand	**2017**	**2016**
Loans and receivables (LaR)	-840	-500
Financial assets at fair value through profit or loss (FVTPL)	-17	4
Financial liabilities measured at amortised cost (FLAC)	0	-156
Total	-857	-652

Net gains comprise value allowances and currency translation.
Interest expenses of EUR 212 thousand in 2017 (previous year: EUR 156 thousand) are mainly accounted for by overall interest expense calculated in application of the effective interest method for financial instruments measured at amortised cost and only to a minor extent to accrued interest on provisions.

Interest income of EUR 217 thousand in the year (previous year: EUR 125 thousand) is mainly accounted for by total interest income calculated in application of the effective interest method for financial instruments measured at amortised cost.

The contractual cash flows for financial liabilities are as follows:

Balance sheet items as at December 31, 2017	**Carrying amount in EUR thousand**	**Contractually agreed cash flows**	**Up to 1 year**	**1 – 5 years**	**More than 5 years**
Credit	658	quarterly	164	516	0
Credit	375	quarterly	129	253	0
Credit	840	quarterly	239	622	0

Balance sheet items as at December 31, 2016	**Carrying amount in EUR thousand**	**Contractually agreed cash flows**	**Up to 1 year**	**1 – 5 years**	**More than 5 years**
Credit	813	quarterly	155	658	0
Credit	500	quarterly	125	375	0

As in the previous year, value allowances applied to financial instruments did not exist, to the exception of valuation allowances applied to trade receivables.

(23) Capital management

The company's management manages SMT Scharf Group's capital (equity and liabilities) with the aim of maintaining financial flexibility so as to achieve the Group's growth targets while at the same time optimising financing costs. The overall strategy in this regard is unchanged year on year.

Management reviews the company's capital structure regularly on 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 under review:

	31/12/2017		31/12/2016	
	EUR thousand	**in %**	**EUR thousand**	**in %**
Equity	48,709	67.4	39,342	66.2
Non-current liabilities	5,990	8.3	5,349	9.0
Current liabilities	17,568	24.3	14,767	24.8
Total assets	72,267	100.0	59,458	100.0

(24) Financial risk management

The Managing Board of SMT Scharf AG manages the purchase and sale of financial assets and liabilities, and monitors associated financial risks. The details of implementing financial risk management are as follows:

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 has access to credit lines. The undrawn amount totalled EUR 2,339 thousand on the balance sheet date (previous year: EUR 6,321 thousand). The Group also has access to guarantee credit lines. Management anticipates that the Group will be able to fulfil its other financial liabilities from its cash flow from operating activities, and from the proceeds from maturing financial assets. In addition, the Group has further funds available from the capital increase for promoting the internal and external growth of the SMT Scharf Group.

Credit risks: The maximum risk of default is represented by the carrying amount of the financial assets, less impairment losses, as recognised in the consolidated financial statements. This amounts to EUR 27,570 thousand (previous year: EUR 25,577 thousand).

The Group engages in business only with creditworthy parties, if necessary obtaining collateral to minimise any default risk. The Group obtains information from independent rating agencies, other available financial information, and its own trade notes to assess creditworthiness, in particular for key accounts. Credit risks are controlled using limits for each party. These limits are reviewed and approved at least once per year. Open items are also monitored. The SMT Scharf Group does not believe that it is subject to any major risks of default from a party, or group of parties, to a contract with similar characteristics. Trade receivables exist which are due from a large number of customers distributed over various regions.

No uniform payment conditions exist within the Group, as agreements for equipment orders are concluded individually. The value of the receivables is examined on a case-by-case basis, taking account of special customer attributes. Doubtful receivables were written down in the amount of EUR 888 thousand (previous year: EUR 2,056 thousand). No valuation allowances were made for trade receivables of EUR 4,157 thousand (previous year: EUR 2,176 thousand) which were overdue on the balance sheet date, as no material change in the contractual party's creditworthiness was ascertained, and it is expected that the outstanding amounts will be paid. The Group holds no 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 counters such risks by deploying suitable hedging and management instruments. Management and control is realised by constantly monitoring cash flow, and monthly reporting to Group management. Exchange rate risks are limited insofar as the Group mostly issues its invoices in euros or in local currency. Otherwise, exchange rate hedges are agreed for significant transactions taking cost benefit aspects into account. As in the previous year, no hedging of this nature existed as of December 31, 2017. The Group is not exposed to any major interest-rate risks at present as it borrows at fixed interest rates. An imputed increase or reduction in the market interest rate level of +/- 200 basis points on the balance sheet date would affect earnings before tax by +/- EUR 20 thousand.

(25) Segment reporting

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 organisation and management structure as well as the internal financial reporting to the highest management body ("chief operating decision maker"). In the SMT Scharf Group, the Managing Board of SMT Scharf AG is responsible for the assessment and control of the performance of the segments, and is the chief operating decision maker within the meaning of IFRS 8.

As a modification compared with the previous year, SMT Scharf AG reports on three operating segments (previous year: two segments), which are independently managed by segment boards based on the type of product and service, brands, sales channels and customer profiles. The previous year's figures were restated accordingly.

The operating segments each combine their respective activities in the areas of Coalmining and Non-Coalmining as well as the new Tunnel segment.

In the Coalmining segment, SMT Scharf sells captivated railway systems and chairlifts for underground mining. Transport equipment and logistics systems are used in hard coal mines around the world and feature sophisticated explosion protection. Monorail, suspended from a single track and used in mining operations in coal mines is offered as a core product.

In the Non-Coalmining segment, SMT Scharf sells rail systems and high-performance vehicles equipped with rubber wheels to operators of underground mines for the production of metals such as gold, platinum, copper and other raw materials. The company sells customised transport and logistics solutions for hard rock mining which, in contrast to coal mining, does not require special explosion protection.

in the Tunnel segment, SMT Scharf focuses on the tunnel logistics business for large-scale construction sites. The company offers a wide range of vehicles equipped with rubber wheels which can be used in the realisation of infrastructure projects in tunnel construction.
Intersegment revenues and inputs are of minor significance, and are not reported separately.

The measurement principles for segment reporting are based on the IFRS applied in the consolidated financial statements. SMT Scharf AG assesses segment performance also by utilising earnings before interest and other financial results, which comprises profit from operating activities (EBIT) plus earnings from equity accounted interests.

Segment assets and liabilities comprise all assets and liabilities that can be allocated to the operating segments, and whose positive and negative results determine the operating result. Segment assets especially include intangible assets, property, plant and equipment, inventories, trade receivables and other liabilities, as well as significant provisions. Segment capital expenditure comprises additions to intangible assets and to 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 its carrying amount are stated there.
The degree of dependence on key customers is low as SMT Scharf products can be modified for other customers with a minimum amount of effort.

	Coal mining		Non-coalmining		Tunnel		Not allocated		SMT Scharf Group	
EUR thousand	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Revenue	43,555	35,783	8,424	6,781	152	1	-	-	52,131	42,565
Operating result (EBIT)	3,944	2,310	919	157	-308	7	-	-	4,554	2,473
Earnings from equity accounted companies	585	155	-	-	-	-	-	-	585	155
Segment assets	64,150	51,420	4,902	4,530	123	249	3,092	3,259	72,267	59,458
Segment liabilities	22,024	18,681	1,048	1,236	35	103	452	96	23,559	20,116
Segment investments	1,854	1,658	13	-	1	533	-	-	1,868	2,191
Interests in equity accounted companies	4,127	3,788	-	-	-	-	-	-	4,127	3,788
Depreciation, amortisation and impairment losses	1,233	2,416	61	59	4	1	-	-	1,298	2,476
FTEs	283	277	31	29	3	2	-	-	317	308

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

EUR thousand	**2017**	**2016**
Result before net interest and other net financial result	5,149	2,628
Net interest result	-5	-31
Profit/loss before tax	**5,144**	**2,597**
Income taxes	1,162	1,058
Profit/loss after tax	**3,982**	**1,539**

Non-current assets and external sales are analysed by region at SMT Scharf Group. Non-current assets are allocated to the regions according to the location of the respective asset. Non-current assets include intangible assets, property, plant and equipment, interests in equity accounted companies, and other non-current assets. The allocation of external sales is based on the location of the respective customer and is presented among the notes to the income statement.

Of the non-current assets comprising intangible assets and property, plant and equipment, EUR 4,402 thousand (previous year: EUR 2,449 thousand) relate to Germany, and EUR 4,046 thousand (previous year: EUR 3,581 thousand) relate to other countries.

(26) Supervisory Board

The members of the Supervisory Board of SMT Scharf AG during the fiscal year under review comprised:

Period from January 1 to December 31, 2017:

Univ. Prof. Dr. Louis Velthuis (Chairman since September 7, 2017)	Chair of Controlling at the Johannes Gutenberg University, Mainz	Intershop Communications AG, Supervisory Board member
Dipl.-Ing. Michael Reich, Hamm (Chairman until September 7, 2017)	CEO DSI Underground	DSI International Luxemburg, S.a r.l., Supervisory Board member OOO DSI Techno, Chairman of the Supervisory Board RocBolt Resins Pty Ltd (Sydney), Supervisory Board member RMS Australia PTY Ltd, Director REICH GROUP Pty Ltd, Director EDVIRT Australia Pty Ltd, Chairman of the Board
Dr. Dipl.-Ing. Dirk Vorsteher, Werne (Vice Chairman)	Management consultant	(no positions held at other companies)
Dipl. Volkswirtin Dorothea Gattineau, Herdecke	Business manager	(no positions held at other companies)

The Supervisory Board members receive fixed and variable remuneration for each fiscal year plus reimbursement of their out-of-pocket expenses, as well as meeting fees of EUR 1 thousand per Supervisory Board meeting. The fixed remuneration totals EUR 15 thousand, and the Chairman receives one and a half times this amount. The variable remuneration is based on the consolidated net profit for the period, and is limited to EUR 10 thousand per Supervisory Board member per year. Remuneration is paid pro rata if members leave the Supervisory Board over the course of the fiscal year. The following remuneration was recognised as expenses for the 2017 fiscal year:

EUR thousand	**Reich**	**Velthuis**	**Vorsteher**	**Gattineau**
Fixed remuneration	15	7	15	15
Variable remuneration	6	3	8	8
Meeting fees	3	3	6	6
Total	24	13	29	29

No remuneration exists for former members of the Supervisory Board or their surviving dependants. No advances, loans, or contingent liabilities exist in favour of members of the Supervisory Board. Michael Reich, Supervisory Board Chairman, held a total of 6,000 shares in the company as of December 31, 2017 (previous year: 6.000 shares).

(27) Managing Board

During the fiscal year under review, the Managing Board of SMT Scharf AG consisted of Mr. Hans Joachim Theiss (Managing Board Chairman/CEO), Mr. Wolfgang Embert and Mr. Rolf Ferdinand Oberhaus (until March 12, 2018).

Managing Board members receive remuneration comprising a fixed basic annual salary and an annual performance-related bonus, plus reimbursement of their out-of-pocket expenses. Pension commitments of EUR 215 thousand exist for former Managing Board members. In respect of current Managing Board members, pension commitments of EUR 23 thousand exist. 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 was recognised in the reporting year:

	Theiss			Embert			Oberhaus		
EUR thousand	2017	Min. 2017	Max. 2017	2017	Min 2017	Max 2017	2017	Min 2017	Max 2017
a) Non-performance-related remuneration	266	266	266	201	201	201	191	191	191
b) Performance-related remuneration 2017	181	0	487	104	0	365	104	0	365
Total remuneration (a+b)	447	266	753	305	201	566	295	191	556
Payment from performance-related remuneration 2016	90			52			52		

Share-based compensation exists for all members of the Managing Board of SMT Scharf AG. This scheme entails paying a contractually agreed bonus amount for each annual one euro increase in the share price. As of the fiscal year-end, this is included in the provision, but has not yet been paid out to the Managing Board members. The figures in the table for basic salary, additional benefits and part of the bonus that is based on EBIT and sales revenue target attainment tally in terms of the provisioning and accrual amounts. Managing Board Chairman (CEO) Mr. Hans Joachim Theiss held a total of 10,000 shares as of December 31, 2017.

To the exception of pensions, no remuneration exists for former members of the Managing Board or their surviving dependants. No advances, loans or contingent liabilities exist in favour of members of the Managing Board.

(28) Related parties

Besides the Managing and Supervisory boards of SMT Scharf AG, related parties pursuant to IAS 24 include key management personnel at companies that SMT Scharf AG controls or significantly influences.

Business transactions between the parent company and its subsidiaries which are regarded as related enterprises are eliminated through consolidation and are not explained in these notes to the financial statements. In respect of the mutual relationships at equity, reference is made to the explanations on joint ventures.

Along with these business relationships, the following transactions existed in the respective fiscal year:

Consultancy services for a kaizen project with the volume of EUR 9 thousand (previous year: 0) were purchased from a key management personnel member in 2017. No open liabilities exist as of the balance sheet date (previous year: 0). No services were provided to related parties.

For further details on the remuneration of key management personnel, please refer to the information on the Managing and Supervisory boards as only they are defined as such.

(29) Events after the balance sheet date

Expansion of business activities in China

SMT Scharf has agreed a strategic partnership with Shanxi Lu'an Coal Technology Equipment Co. Ltd., Xiangheng Town, Shanxi Province China, one of China’s leading mining companies. With this goal in mind, the Shanxi An'de Auxiliary Transportation Co. Ltd., Changzhi, Shanxi Province China, joint venture was founded in January 2018 in order to promote sales and the service and after-sales business of specific transport systems for the Chinese mining industry. Shanxi Lu'an Coal Technology Equipment Co. Ltd., Xiangheng Town, Shanxi Province China, is the largest shareholder with a stake of 51% in the joint venture. SMT Scharf AG is invested in the joint venture with 40%, while Shanxi Lu'an Haitong Industry & Trade Co. Ltd., Xiangheng Town, Shanxi Province China, is the third partner with a share of 9%. SMT Scharf AG is contributing funds in the mid-six-figure euro range to the cooperation. All the requirements of the Chinese Lu'an Group for the products of the SMT Scharf Group will be served through this new joint venture. This extensive access to the mining group also includes the delivery of replacement parts and service.

Takeover of RDH Mining Equipment

In February 2018, SMT Scharf AG acquired 100% of the shares in RDH Mining Equipment Ltd., a company headquartered in Alban, Canada, via SMT Scharf Corporation, a wholly owned subsidiary with head offices in Alban, Canada. The purchase price amounts to around CAD 8.0 million (equivalent to ca EUR 5.17 million), plus an earn-out. A small portion of it will be paid in SMT Scharf AG shares and the rest in cash. SMT Scharf AG drew on liquidity from the successful capital increase in November 2017 and on borrowed capital to finance the cash portion of CAD 7.0 million. The portion paid in shares will only be determined once the opening balance sheet has been prepared. More details, such as information on the assets acquired, can only be provided once the opening balance sheet has been finalised. The takeover ideally supplements SMT Scharf’s portfolio by adding vehicles on rubber wheels, which will allow extensive synergies to be leveraged in the international hard rock and tunnel market through the new product programme. RDH has specialised for more than 30 years in high quality mining equipment for mining and tunnel construction and has operated in the North American market in particular, with a share in revenues averaging more than 50%. RDH’s leading position in battery-driven vehicles in particular, combined with SMT Scharf’s international sales and after-sales competence, harbours potential for the future.

Changes to the Managing Board of SMT Scharf AG

The Supervisory Board of SMT Scharf AG and Rolf Ferdinand Oberhaus, member of SMT Scharf AG’s Managing Board, and responsible in this role for the areas of Sales and Marketing, reached a consensus decision on March 12, 2018 not to renew the employment contract of Mr.

Oberhaus which runs until December 31, 2018. Furthermore, the Supervisory Board decided to release Mr. Oberhaus from his duties with immediate effect.

Hamm, March 21, 2018

The Managing Board

Hans Joachim Theiss Wolfgang Embert

Responsibility Statement

We assure that, to the best of our knowledge, and in accordance with the applicable reporting principles, the IFRS consolidated financial statements of SMT Scharf AG as of December 31, 2017, provide a true and fair view of the Group's financial position and performance, and the Group management report for the 2017 fiscal year 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 pertaining to Group's anticipated growth and development.

Hamm, March 1, 2018

The Managing Board

Hans Joachim Theiss Wolfgang Embert

Audit certificate of the independent auditor of the financial statements

to SMT Scharf AG, Hamm

Certificate concerning the audit of the annual financial statements and management report

Audit opinions

We have audited the consolidated financial statements of SMT Scharf AG and its subsidiaries (the Group) – consisting of the consolidated balance sheet as of December 31, 2017, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, and the consolidated statement of cash flows for the fiscal year from January 1 to December 31, 2017, as well as the notes to the consolidated financial statements, including a summary of significant financial accounting policies. We have also audited the Group management report of SMT Scharf AG for the fiscal year from January 1 to December 31, 2017. In accordance with German statutory regulations, we have not audited the content of the parts of the Group management report specified in the annex.

Based on the findings gained from our audit, and in our opinion

- the attached consolidated financial statements correspond in all significant matters to IFRS, as applicable in the EU, and the German statutory regulations to be additionally applied pursuant to Section 315e (1) of the German Commercial Code (HGB), and in compliance with such regulations convey a true and fair view of the Group's net assets and financial position as of December 31, 2017, as well as its results of operations for the fiscal year from January 1 to December 31, 2017 and
- the attached Group management report conveys overall a true and fair view of the Group's position. In all significant matters, this Group management report is consistent with the consolidated financial statements, complies with German statutory regulations, and appropriately presents the opportunities and risks pertaining to future development. In accordance with German statutory regulations, we have not audited the content of the corporate governance declaration pursuant to Section 289f (4) of the German Commercial Code (HGB) (disclosures concerning the ratio of women).

Pursuant to Section 322 (3) Clause 1 HGB, we declare that our audit has not led to any objections concerning the proper nature of the consolidated financial statements and the Group management report.

Basis for the audit opinions

We conducted our audit of the consolidated financial statements and the Group management report in accordance with Section 317 of the German Commercial Code (HGB) and Regulation (EU) 537/2014 relating to the statutory auditing of public-interest entities, in compliance with German proper accounting principles as determined by the Institute of Public Auditors in Germany (IDW). Our responsibility according to these regulations and principles is described in more detail in the section "Auditor's responsibility for the audit of the consolidated financial statements and the Group management report" of our audit certificate. In compliance with European statutory as well as German commercial law and professional regulations, we are independent of the Group companies, and fulfilled our other German professional obligations in accordance with such requirements. Moreover, pursuant to Article 10 (2) lit. f) Regulation (EU) 537/2014, we declare that we have not rendered any prohibited non-auditing services pursuant to Article 5 (1) Regulation (EU) 537/2014. We believe the audit evidence we have gathered is sufficient and appropriate to serve as the basis for our audit opinions on the consolidated financial statements and the Group management report.

Particularly important audit matters in the audit of the consolidated financial statements

Particularly important audit matters include such matters which, in our professional judgment, proved most important in our audit of the consolidated financial statements for the fiscal year from January 1 to December 31, 2017. These matters were considered in connection with our audit of the consolidated financial statements as a whole, and in the formation of our audit opinion; we do not issue a separate audit opinion relating to such matters.

1. *The value retention of trade receivables*

Please refer to the section "Accounting and valuation policies" in the notes to the consolidated financial statements for information about the financial accounting policies applied. Section 11 of the notes to the consolidated financial statements provides information about the age structure.

The risk for the financial statements

Trade receivables comprise an important item in the consolidated financial statements, amounting to EUR 24.7 million as of December 31, 2017 (December 31, 2016: EUR 23.4 million), and representing 34 % of total assets (previous year: 39 %).

Due to the operating activities of SMT, the receivables position exists mainly in relation to customers abroad. Especially Chinese customers have repeatedly failed to comply with payment targets in previous fiscal years. The receivables position is being gradually reduced thanks to agreeing payment plans with such customers.

Along with the trade receivables' age structure, assessing the requirement for valuation allowances is based mainly on estimates and appraisals relating to the respective customers' creditworthiness, country-specific risks and current economic developments, as well as an analysis of historical default events. Valuation allowances applied to trade receivables are calculated on a specific case basis utilising an analysis of ratios of actual collectability. Particular attention is paid in this context to the special customer characteristics of mine operators, operated predominantly by companies backed by government investment. This is especially the case with customers in China, Poland and Russia.

Estimating value retention, especially in the case of trade receivables deriving from revenues generated with mine operator companies (Coal segment), is particularly discretionary, and depends on the estimates and assumptions made by the legal representatives. Accordingly, the risk exists that insufficient levels of valuation allowances have been formed for trade receivables.

Our approach in the audit

As part of our audit of the financial statements, we concerned ourselves with processes, and audited the underlying controls over the subsequent measurement of trade receivables. Our audit actions particularly comprised auditing the completeness and correctness of the trade receivables position, as well as assessing the related valuation as of the balance sheet date. We audited the receivables position through checking the existence of receivables through balance confirmation queries, and also performed audit actions to verify the internal control system in the sales and debt management areas.

We assessed the assumptions and discretionary decisions of importance for the value calculation as to their appropriateness to measure such value retention. The appraisal of SMT concerning the creditworthiness of the respective customers as well as current economic trends were evaluated at the level of the operative companies. Here, we also analysed the trade receivables' age structure. We audited on an individual basis the overdue receivables for which long-term payment plans had been agreed. Based on risk considerations, we also analysed overdue trade receivables by way of random sampling.

We compared the approach with the accounting policies applied at the company, and checked them arithmetically in random samples. In the light of past experience, we also assessed the calculated valuation allowances through analytical comparisons with valuation allowances applied in previous years to individual debtors, and in relation to the overall trade receivables position.

Our conclusions

SMT applies an objective process to test the impairment of trade receivables. The underlying estimates and judgments are balanced overall. The valuation allowances applied to trade receivables were implemented in an appropriate scope.

2. *Revenue recognition within the Group*

Please refer to the section "Accounting and valuation policies" in the notes to the consolidated financial statements for information about the financial accounting policies applied. Section 1 of the notes to the consolidated financial statements presents information relating to the related composition and distribution by region. Please see the section "Information about the consolidated financial statements" in the notes to the consolidated financial statements concerning the potential effects from transitioning to the application of IFRS 15.

The risk for the financial statements

Revenue represents an important item in the consolidated financial statements and is utilised as a key performance indicator (KPI) in managing the company.

SMT differentiates the type of its revenue business according to new systems and service business. In the 2017 reporting year, 44 % (previous year: 32 %) of revenue was attributable to business generated with new systems and, accordingly, 56 % (previous year: 68 %) to revenue generated from replacement parts and service contracts. The regional distribution of revenue shares exhibits very significant differences.

Various performance obligations (goods and/or services) exist especially in the case of new system projects. Revenue is recognised when the power of disposal over an asset transfers to the customer of SMT, or when a service is rendered. With the delivery of the system, SMT renders the by far predominant proportion of the performance obligation. This is reflected in the company's recognition of the revenue. Performance obligations not yet rendered as of the balance sheet date are analysed individually and deferred.

Our approach in the audit

As part of our audit of the financial statements, we concerned ourselves with processes, and audited the recognition of revenue. Our audit actions especially comprised the audit of the completeness and correct periodic deferral of revenue recognised during the fiscal year under review. We audited the revenue through verifying the internal control system in the sales area and, in particular, evaluated the structure of the significant controls SMT has implemented to identify the revenue recognition date. Moreover, we gained an in-depth understanding of all revenue transactions that we appraised as significant individually, and, for a random sample from the remaining transactions, through examining the underlying contractual arrangements and other related documents, as well as through explanations from SMT staff. We examined whether the prevailing revenue recognition guidelines were appropriately applied, and consequently whether the correct periodic recognition of revenues was ensured. Furthermore, we evaluated an in-house survey on the potential transition effects due to applying IFRS 15, and investigated it for plausibility and completeness.

We appraised the consistency of the recognition and measurement bases SMT applied to recognise revenues from new system and service business with the IFRS framework concept and relevant IFRS. We also evaluated the appropriateness of significant estimates and discretionary judgements.

Our conclusions

SMT has implemented an appropriate set of regulations for its approach in recognising revenue. The estimates and judgments underlying revenue recognition are balanced overall. The presentation of this set of rules in the notes to the consolidated financial statements is appropriate.

3. *Measurement of inventories*

Please refer to the section "Accounting and valuation policies" in the notes to the consolidated financial statements for information about the financial accounting policies applied. Section 10 of the notes to the consolidated financial statements provides information about composition and valuation.

The risk for the financial statements

Inventories comprise an important item in the consolidated financial statements, amounting to EUR 15.1 million as of December 31, 2017 (December 31, 2016: EUR 13.0 million), and representing 21 % of total assets (previous year: 22 %).

The significant proportion of service business generates a relatively high level of inventories, in order to be able to deliver in instances of demand. As a rule, new systems are only constructed in response to a corresponding customer order.

In principle, inventories are measured by the system at cost. Inventory risks arising from warehousing duration and/or reduced marketability are reflected through corresponding impairment losses. Impairment losses are estimated based mainly on an analysis of how many days' supply is in stock. Impairment testing is based on a standardised procedure and is consequently subject to discretionary judgement to only a minor extent. The analysis of the number of days' supply of stock is based on historical movement data.

Our approach in the audit

As part of the audit of the financial statements, we concerned ourselves with processes, and audited the measurement of inventories. Our audit actions particularly comprised auditing the completeness and correctness of the inventories position, as well as assessing the valuation as of the balance sheet date. We examined the inventories position through stock monitoring for completeness, as well as through audit actions to verify the internal control system in the purchasing and materials management areas. We evaluated the appropriateness of the significant assumptions for the respective valuation. We appraised the suitability of the IT-supported impairment test to gauge inventory risks. We also evaluated the system-related implementation of the impairment test. We compared the model's calculation logic with the accounting policies applied at the company, and checked them arithmetically in random samples. In the light of past experience, we also assessed the calculated impairment losses through analytical comparisons with impairment losses applied in previous years to individual articles, and in relation to the overall position.
The measurement of inventories by SMT was assessed at the level of the operating companies, as well as the correct implementation of the stocktaking.

Our conclusions

SMT has established an appropriate set of regulations for its approach to calculate the volume parameters and to measure its inventories. The analysis of days' supply of stock generates the main impairment effect. The underlying estimates and assumptions are comprehensible overall.

Other information

The legal representatives are responsible for the other information. The other information comprises:

- corporate governance declaration pursuant to Section 289f (4) of the German Commercial Code (HGB) (disclosures concerning the ratio of women),
- the remaining sections of the annual report, apart from the audited consolidated financial statements and the Group management report, as well as our audit certificate,
- the corporate governance report pursuant to section 3.10 of the German Corporate Governance Code, and
- the assurance pursuant to Section 315 (1) Clause 6 HGB relating to the Group management report.

Our audit opinions relating to the consolidated financial statements and the Group management report did not include the other information, and accordingly we issue neither an audit opinion nor any other type of audit conclusion in this relation.

In connection with our audit, we are responsible for reading the other information and thereby appraising whether the other information

- exhibits significant inconsistencies in relation to the consolidated financial statements, the Group management report or the information we gained as part of our audit, or
- appears to be presented significantly erroneously in another manner.

Responsibility of the legal representatives and Supervisory Board for the consolidated financial statements and Group management report

The legal representatives are responsible for the preparation of the consolidated financial statements, corresponding in all important matters to IFRS, as applicable in the EU, and the supplementary German statutory regulations to be additionally applied pursuant to Section 315e (1) HGB, and for ensuring that the consolidated financial statements convey a true and fair view of the Group's financial position and performance in compliance with such regulations. Moreover, the legal representatives are responsible for the internal controls they deem necessary to enable the preparation of consolidated financial statements that are free of significant – intended or unintended – erroneous presentations.

In preparing the consolidated financial statements, the legal representatives are responsible for assessing the Group as a going concern. Furthermore, they are responsible for disclosing matters connected with the Group as a going concern, where relevant. In addition, they are responsible for preparing accounts based on the financial accounting going concern principle, unless the Group intends to liquidate, or to discontinue its business operations, or no realistic alternative exists in such a case.

Moreover, the legal representatives are responsible for the preparation of the Group management report, which overall conveys a true and fair view of the Group position and is consistent in all important aspects with the consolidated financial statements, complies with German statutory regulations, and appropriately presents the opportunities and risks entailed in future development. Furthermore, the legal representatives are responsible for the precautions and measures (systems) they deem necessary to enable the preparation of a Group management report in compliance with applicable German statutory regulations, and to provide sufficient appropriate evidence for the statements made in the Group management report.

The Supervisory Board is responsible for the supervision of the Group's financial accounting process relating to the preparation of the consolidated financial statements and Group management report.

Auditor's responsibility for the audit of the consolidated financial statements and Group management report

Our aim is to achieve sufficient certainty as to whether the consolidated financial statements, as a whole, are free of significant – intended or unintended – erroneous presentations, and whether the Group management report conveys overall a true and fair view of the Group's position and is consistent in all important aspects with the consolidated financial statements as well as the knowledge gained as part of our audit, complies with German statutory regulations, and appropriately presents the opportunities risks pertaining to the future development, as well as to issue an audit certificate that includes our audit opinions relating to the consolidated financial statements and Group management report.

Sufficient certainty refers to a high degree of certainty but is not a guarantee that an audit conducted in compliance with Section 317 of the German Commercial Code (HGB) and Regulation (EU) 537/2014, in compliance with German proper auditing principles as promulgated by the Institute of Public Auditors in Germany (IDW), always uncovers a significantly erroneous presentation. Erroneous presentations can derive from offences or errors, and are regarded as significant if it could have been reasonably expected that, individually or together, they affect the economic decisions of addressees based on these consolidated financial statements and this Group management report.

During the audit, we exercise discretion and maintain a basically critical stance. Above and beyond this,

- we identify and assess the risks of significant – intended or unintended – erroneous presentations in the consolidated financial statements and in the Group management report, plan and execute audit actions as a response to such risks, and obtain sufficient and appropriate audit evidence to serve as the basis for our audit opinions. The risk that significant erroneous presentations are not uncovered is greater in the case of offences than in the case of errors, as offences can comprise fraudulent collaboration, forgeries, intended incompleteness, misleading presentations and the disabling of internal controls.
- we gain an understanding of the internal control system relevant to the audit of the consolidated financial statements and the precautions and measures relevant for the audit of the Group management report, in order to plan related audit actions that are appropriate in the given circumstances, although not with the aim of issuing an audit opinion on the efficacy of such systems.
- we assess the appropriateness of the financial accounting methods applied by the legal representatives as well as the feasibility of the estimated figures and related disclosures presented by the legal representatives.
- we draw conclusions about the appropriateness of the financial accounting going concern principle applied by the legal representatives, and, based on the audit evidence obtained, whether a significant uncertainty exists in connection with events or circumstances that can lead to considerable doubts about the Group as a going concern. If we arrive at the conclusion that a considerable uncertainty exists, we are obligated to draw attention in the audit certificate to the related disclosures in the notes to the consolidated financial statements and in the Group management report, or, if such disclosures prove unsuitable, to modify our respective audit opinion. We draw our conclusions based on the audit evidence obtained until the date of our audit opinion. Future events or circumstances can nevertheless lead the Group to no longer represent a going concern.
- we assess the overall presentation, structure and content of the consolidated financial statements, including the disclosures, as well as whether the consolidated financial statements present the underlying business transactions and events so that the consoli-

dated financial statements convey a true and fair view of the Group's financial position and performance in compliance with IFRS, as applicable in the EU, and the German statutory regulations to be additionally applied pursuant to Section 315e (1) HGB.

- we obtain sufficient and appropriate audit evidence for the financial accounting information of the companies or operating activities within the Group, in order to issue audit opinions relating to the consolidated financial statements and Group management report. We are responsible for the direction, supervision and implementation of the audit of the consolidated financial statements. We bear sole responsibility for our audit opinions.
- we evaluate the consistency of the Group management report with the consolidated financial statements, its legal conformity, and the view it conveys of the Group's position.
- we conduct audit actions in relation to the forward-looking disclosures in the Group management report presented by the legal representatives. Based on sufficient appropriate audit evidence, we especially investigate the significant assumptions taken as the basis for the forward-looking disclosures by the legal representatives, and appraise the objective derivation of the forward-looking disclosures from such assumptions. We do not issue a separate audit opinion relating to the forward-looking disclosures and underlying assumptions. A considerable unavoidable risk exists that future events differ significantly from the forward-looking disclosures.

Topics we discuss with those individuals responsible for supervision include the planned scope and time planning of the audit as well as significant audit findings, including any defects in the internal control system we identify during our audit.

We issue a statement to those individuals responsible for supervision that we have complied with the relevant impartiality requirements, and discuss with them all relationships and other matters where it can be reasonably assumed that they affect our impartiality, and the related protective measures.

From the matters we discuss with the individuals responsible for supervision we determine those matters that proved most significant for the current reporting period in the audit of the consolidated financial statements, and consequently comprise particularly important audit matters. We describe such matters in the audit opinion unless laws or other legal regulations prohibit public disclosure of the related matter.

Other statutory and legal requirements

Miscellaneous disclosures pursuant to Article 10 Regulation (EU) 537/2014

We were elected as the auditor of the consolidated financial statements by the Shareholders' General Meeting on April 26, 2017. The Supervisory Board issued its mandate to us on November 15, 2017. We have been the auditor of the consolidated financial statements of SMT Scharf AG without interruption since the 2016 financial year.

We declare that the audit opinions contained in this audit certificate are consistent with the additional report to the Audit Committee pursuant to Article 11 Regulation (EU) 537/2014,

Certified Public Auditor

Stefan Schumacher is the Certified Public Auditor responsible for the audit.

Cologne, March 21, 2018

Rödl & Partner GmbH
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

[signed] Stramitzer
Certified Public Auditor

[signed] Schumacher
Certified Public Auditor

Joint Declaration by the Executive and Supervisory Boards of SMT Scharf AG in accordance with Section 161 of the German Public Companies Act (AktG) on the Recommendations by the "Regierungskommission Deutscher Corporate Governance Kodex" ("Government Commission on the German Corporate Governance Code") (Version dated: 7 February 2017)

The Executive and Supervisory Boards of SMT Scharf AG declare that the recommendations of the "Regierungskommission Deutscher Corporate Governance Kodex" ("Government Commission on the German Corporate Governance Code") of the version dated 7 February 2017 have - **apart from the following exceptions** - been complied with in the past and will continue to be complied with.

- The Supervisory Board has not established any committees because it consists of only three members. In view of the size of the company, this number appears appropriate.

- Diversity was not a separate criterion in the composition of the Executive Board. This may also be the case in the future as the Board has only three members.

- Currently, there are no age limits for the members of the Executive Board or the Supervisory Board. This will satisfy the requirements of the German Equal Treatment Act (AGG).

- If Board activities are ended prematurely, the service contracts of the members the Executive Board do not provide for any limitation to payments to two years' work. To date, such a limit appears unnecessary because the service contracts run for three years only.

- There is no intention to agree any excess in D&O insurance for the Supervisory Board.

- The incentive scheme for Supervisory Board remuneration was reviewed with regard to the amendment to the Code dated 7 February 2017. The provisions of the new Code have not been complied with to their full extent and the incentive scheme will therefore be reviewed in order to bring it into line with the Code.

- Efforts will be made to review the performance-based remuneration of the Supervisory Board – which is oriented to long-term company growth – in order to bring it into line with the Code.

Hamm, December 15, 2017

(Prof. Dr. Velthuis) (Dr. Vorsteher) (Gattineau)

(Theiss) (Embert) (Oberhaus)

Supervisory Board report for the 2017 fiscal year

In 2017 fiscal year, the Supervisory Board of SMT Scharf AG diligently performed the tasks required of it by law and the company's articles of incorporation. It supervised and consulted with the Managing Board on a running basis. The Supervisory Board received regular, up-to-the-minute, comprehensive written and oral reports from the Managing Board about the development of SMT Scharf AG's business and the Group companies, the company's strategic orientation, as well as strategy implementation status. Between meetings, the Managing Board also informed the Supervisory Board of plans of particular importance or urgency. When resolutions were passed, approval requirements for certain transactions as defined in the Managing Board's bylaws procedure were always upheld.

Owing to changes in personnel at Supervisory Board level as of September 7, 2017, this report was prepared with the participation of Dipl.-Ing. Michael Reich, the former Chairman of the Supervisory Board, who is responsible for the content up until the aforementioned date. Upon application by the company, the Local Court of Hamm appointed Univ.-Prof. Dr. Louis Velthuis as a new member of SMT Scharf AG's Supervisory Board. In addition, he has taken on the role of Chair from former Chairman Dipl.-Ing. Michael Reich in an interim capacity. Mr Reich is withdrawing indefinitely from the Supervisory Board for reasons of health.

The Supervisory Board met in five regular meetings held on March 1, April 26, June 29, September 22, November 6 and December 15, 2017. All the meetings took place in the offices and workshop facilities in Hamm. At its meetings, the Supervisory Board concerned itself with all matters of relevance for the company. In advance of these meetings, the Managing Board of SMT Scharf AG regularly informed the Supervisory Board about the Group's current business position by way of written reports.

Given brighter prospects for the sector's business activities in the reporting year 2017, the topics accorded special consideration included the development in the core markets and the implementation of the corporate strategy promoted by the Managing Board. In this context, the Supervisory Board noted the ongoing successes of the structural program launched in 2015, which focused especially on further improving profitability in the period under review. In macroeconomic terms, a sustained recovery in the price of raw materials took place in 2017 fiscal year, with a sustained upswing in the sector's business activities expected as a result. Based on the progress achieved, the Supervisory Board regards the company as well-positioned to successfully and profitably participate in this development.

The ongoing further development and adjustment of SMT Scharf AG's localisation strategy to accommodate developments in the Group's core markets was addressed in depth by the Supervisory Board and the Managing Board. A decisive step was taken through the founding of a sales company in Chile, where SMT Scharf AG has achieved even closer proximity to South American customers in the non-coal mining business. In this context, another key focus of the work of the Supervisory Board and the Management Board in 2017 fiscal year was placed on forging ahead with introducing a new Enterprise Resource Planning (ERP) system aimed at fostering international cooperation within the Group and further optimising processes.

- In its meeting on March 1, 2017, the Supervisory Board had the auditor Rödl und Partner present and explain the 2016 annual financial statements. The outcome of the auditing process, the presentation of the results and the commercial situation of the Group, along with the assets, financial position and results of operations of the company and of the Group were elaborated on. Both the separate financial statements and consolidated financial statements for 2016 were approved unanimously. Tax issues and the new reporting requirements valid as from 2017 fiscal year were also discussed. In addition, the Supervisory Board and the Managing Board dealt with the Group's current development of business along with the strategy and personnel topics in detail. The Supervisory Board therefore discussed the introduction of a quota for women employees in detail and unanimously approved the request of the Managing Board for the introduction of a quota at the various management levels within the Group. Furthermore, the Supervisory Board approved the disbursement of bonuses for 2016 fiscal year within the Group.

- At its meeting on April 26, 2017, the Supervisory Board initially reflected on the immediately preceding AGM. The Managing Board informed the Supervisory Board about the current status of business. In addition, the Supervisory Board consulted on various topics concerning personnel together with the Managing Board, including considering revising the bonus system in the regional companies and the introduction of structured appraisals within the Group. Furthermore, the Supervisory Board and the Managing Board discussed business activities in China and the development of the Shandong XinSha Monorail Co. Ltd joint venture. In the meantime, activities at the Saarland location have been concluded. The Supervisory Board therefore approved the sale of the property and inventory at the price of between EUR 130,000 and EUR 150,000.

- In the context of its meeting on June 29, 2017, the Supervisory Board obtained information on the current status of business. Topics of particular discussion included the measures for optimising working capital and the introduction of a new ERP system. Moreover, the Managing Board and the Supervisory Board discussed their opinions and thoughts in detail on developing the corporate mission statement. Deliberations on developing business in the Chinese market, which is important for SMT Scharf were taken further in the meeting. In this context, the Supervisory Board engaged in a detailed discussion of the development of the Shandong XinSha Monorail Co. Ltd joint venture with the Managing Board.

- In the meeting on September 22, 2017, the Managing Board presented a detailed report to the Supervisory Board on the current status of business. In this context, the issue of exchange rates, the Group's liquidity and the implementation of a new ERP system were discussed. The Managing Board also elaborated on the situation concerning the Shandong XinSha Monorail Co. Ltd joint venture. In addition, the Managing Board and the Supervisory Board weighed up the current possibilities of strategic partnerships, participations and takeovers in detail. In this connection, in-depth discussions on the various financing alternatives, in particular the form a capital increase could take, took place together with the Managing Board.

- In the meeting on November 6, 2017, the Managing Board reported on the current status of the implementation of strategic measures. Following detailed discussions, the Supervisory Board conditionally approved the purchase of the Canadian mining company RDH Mining Equipment Ltd. Another key topic of the meeting concerned the structuring of Managing Board compensation. The Supervisory Board presented its views on this topic in detail and discussed possible changes with the Managing Board.

- The last Supervisory Board meeting of 2017 was held on December 15. The auditing company Rödl & Partner submitted a detailed report on its audit of the 2017 annual financial statements which progressed according to schedule. The Managing Board also provided information on various strategic options and discussed possible financing models in depth with the Supervisory Board in this context. After due consideration, the Supervisory Board approved the establishing of the planned joint venture with the Lu'an Group for the purpose of expanding business activities in the Chinese market. The Managing Board subsequently presented a report on the current status of business. Among other issues, measures due to be initiated in 2018 fiscal year by the Managing Board with the aim of further improving liquidity were discussed. Following detailed discussion, the Supervisory Board approved the budget for the 2018 fiscal year.

The separate financial statements and separate management report, as well as the IFRS consolidated financial statements and Group management report for the 2017 fiscal year, which the Managing Board prepared, were audited by Rödl & Partner GmbH Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Cologne branch, and issued with unqualified auditors' opinions. As part of statutory requirements, SMT Scharf Group's risk management system and internal control system, as well as the data system, were also covered by the audit. At its meeting on March 21, 2018, also attended by the auditor, the Supervisory Board reviewed the separate financial statements and separate management report, as well as the IFRS consolidated financial statements and Group management report for the 2017 fiscal year. After thorough discussion and based on its own review, the Supervisory Board concurs with the results of the audit of the separate financial statements and consolidated financial statements by the auditor, and raises no reservations against either the separate or consolidated financial statements. The Supervisory Board expressly approved the separate financial statements and separate management report, as well as the consolidated financial statements and Group management report, prepared by the Managing Board for the 2017 fiscal year. The corresponding financial statements have been adopted as a consequence.

The Supervisory Board, together with the Managing Board, refrains from a dividend proposal for the 2017 fiscal year given the continued challenging market situation, the company's strategic further development and sector consolidation.

The Supervisory Board thanks 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 Managing Board and the employees much success in meeting the challenges posed in the new fiscal year.

Hamm, March 21, 2018

Univ.-Prof. Dr. Louis Velthuis