SCHARF
SOLUTIONS FOR MINING TRANSPORT

ANNUAL REPORT 2007

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LETTER TO SHAREHOLDERS

Dr. Friedrich Trautwein
Chief Executive Officer

Heinrich Schulze-Buxloh
Managing Board Member

Dear shareholders and business partners,

We are very pleased to present you with SMT Scharf AG's first annual report since our shares were admitted to Frankfurt Stock Exchange's Prime Standard in April 2007.

The SMT Scharf Group generated revenues of EUR 51.2 million in 2007, after EUR 48.7 million in the previous year (+5%). Our revenues in Germany fell, while foreign markets – Russia in particular – enjoyed very dynamic growth. The positive investment climate in the international mining sector and our enhanced sales and service activities on our primary markets allowed us to increase the proportion of our foreign revenues significantly to 74%, compared to 52% in 2006.

Despite our international expansion costs, we were able to increase profit from operating activities (EBIT) disproportionately to EUR 7.5 million after EUR 6.7 million in 2006 (+11%). Our EBIT margin thus lifted from 13.8% to 14.6%. This was possible primarily as a result of reducing vertical integration, expanding foreign assembly activities and measures to cut production costs.

Net income in 2007 grew even faster than EBIT as a result of the increased internationalization of our business and changes in deferred taxes in connection with the reform of German corporate taxation. It amounted to EUR 6.0 million (previous year: EUR 4.3 million) which was a 38% increase.

Our shareholders should enjoy a reasonable participation in this pleasing growth. Therefore the Managing and Supervisory Boards propose a dividend of EUR 0.70 per share for fiscal year 2007 to the General Meeting. This corresponds to a 49% distribution rate. In this way we offer our shareholders a highly attractive dividend yield, and also create the foundations for sufficient internal financing for our further international expansion. SMT Scharf is aiming to generate further revenue and EBIT growth for the current and coming fiscal years.

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

Yours sincerely,

Dr. Friedrich Trautwein Heinrich Schulze-Buxloh

REPORT OF THE SUPERVISORY BOARD

Dr. Dirk Markus
Chairman of the Supervisory Board

In fiscal year 2007, SMT Scharf AG's Supervisory Board thoroughly performed the tasks required of it by law and the articles of incorporation. It constantly monitored and advised the management. It received regular, up-to-the minute, comprehensive written and verbal reports from the Managing Board on the direction of SMT Scharf AG and the Group's companies, the company's strategic orientation and its planned acquisitions, as well as the implementation status of the strategy.

In its four ordinary meetings on February 1, April 23, August 2 and October 30, 2007, all of which were attended by all of its members, the Supervisory Board dealt in depth with all issues of relevance for the company. The Supervisory Board held in-depth discussions of ongoing business growth, strategic concepts, short and medium-term company forecasts, capital expenditure forecasts, income and liquidity developments, actual risks and risk management as well as key organizational and staff changes with the Managing Board. The Supervisory Board also dealt thoroughly with corporate governance issues including a review of its own efficiency.

The Supervisory Board received in-depth information on the course of the fiscal year in all of its meetings. Key transactions and the development in financial indicators were also discussed at all of the Supervisory Board meetings. The meeting on February 1, 2007 focused on the annual financial statements and the IFRS consolidated financial statements for fiscal year 2006 together with the associated management reports and on preparations for the company's IPO. The meeting on April 23, 2007 included an in-depth discussion of the subsequent obligations resulting from listing and questions regarding the group's structure. The meeting on August 2, 2007 focused on internationalizing the sales and service activities while the meeting on October 30, 2007 served, in particular, to discuss the company's forecast for 2008.

The Managing Board also informed the Supervisory Board of plans of major importance or particular urgency in between its meetings. If necessary, it also passed resolutions in writing. The approval requirements for certain transactions as defined in the Managing Board's bylaws were upheld. This related, in particular, to staffing issues, issues concerning the group's structure and agreeing the company's forecast. In addition, the Chairman of the Supervisory Board was in regular contact with the Managing Board, in particular the CEO, and discussed strategic issues, business growth, key staff issues and risk management with him. The CEO always informed the Chairman of the Supervisory Board without delay of extraordinary events of key importance in assessing the position and growth of the SMT Scharf Group.

There were no changes to the members of Supervisory Board during the course of fiscal year 2007. There were no committees. In its Meeting on February 1, 2007, the Supervisory Board appointed Mr. Heinrich Schulze-Buxloh as a member of the Managing Board. Dr. Friedrich Trautwein was appointed as CEO on this date.

The members of the Supervisory Board fulfilled and continue to fulfill the independence criteria stipulated by the German Corporate Governance Code. Conflicts of interest within the meaning of the Corporate Governance Code were avoided. The Managing and Supervisory Boards issued a declaration of conformity according to Section 161 of the Aktiengesetz (German Public Limited Companies Act) on December 14, 2007. This will be published together with the annual financial report and the group's annual financial report for fiscal year 2007 and made available to shareholders at www.smtscharf.com.

The annual financial statements and management report as well as the IFRS consolidated financial statements and group management report prepared by the Managing Board for fiscal year 2007 were audited by Verhülsdonk & Partner GmbH, Düsseldorf, and issued with an unqualified auditors' opinion. According to the requirements of the Gesetz zur Kontrolle und Transparenz im Unternehmensbereich (German Act on Control and Transparency in Business), the SMT Scharf Group's risk management system was also covered by the audit.

Prior to issuing the mandate to audit the financial statements and consolidated financial statements, the Chairman of the Supervisory Board discussed the focus of the audit, the content of the audit and the costs in detail with the auditor. The auditor reported to the Chairman of the Supervisory Board on the pre-audit results. He also made certain to report immediately on any findings that are material for the Supervisory Board's work that he might become aware of while conducting the audit.

In its meeting on February 28, 2008, also attended by the auditor, the Supervisory Board reviewed the annual financial statements and the management report as well as the IFRS consolidated financial statements and group management report for fiscal year 2007. The audit reports were available to all members of the Supervisory Board in good time prior to its meeting to adopt the financial statements. The auditor reported in depth to the Supervisory Board and was available for extensive questions. After a thorough discussion, the Supervisory Board concurs with the results of the audit of the annual financial statements and the consolidated financial statements by the auditor as a result of its own review. As a final result of its review, the Supervisory Board does not have any objections to the annual financial statements or the consolidated financial statements. The Supervisory Board expressly approves the annual financial statements and management report prepared by the Managing Board for fiscal year 2007. The annual financial statements are thus adopted. The Supervisory Board also approves the IFRS consolidated financial statements and group management report prepared by the Managing Board for fiscal year 2007.

The company's Managing Board proposes to distribute a dividend of EUR 0.70 per share from the company's net retained profits totaling EUR 3,094 thousand. This corresponds to a total disbursement of EUR 2,940 thousand. The remaining amount of EUR 154 thousand will be carried forward to new account. The Supervisory Board has reviewed and approved this proposal.

The Supervisory Board would like to thank all members of the Supervisory Board and all of the employees for their dedication and commitment during the past fiscal year, and wishes them the very best success for the challenges they will face in 2008.

Hamm, February 28, 2008

Dr. Dirk Markus
Chairman of the Supervisory Board


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BUSINESS MODEL

Market environment

The SMT Scharf Group develops, builds and services rail-bound mining railway systems. The trains are primarily used in hard coal mines as well as in underground mining for gold, platinum, diamonds, copper and nickel. SMT Scharf operates on a market that is thousands of years old: mining is one of the very oldest human activities. Traces of copper mining can be found going all the way back to 7.000 BC. From that time on, people have been mining raw materials and using them to improve their lives.

Developments in mining

Today, mining is an industry that generates around 5% of the gross global product. According to the ILO (International Labour Organization) it has more than 11 million employees or around 0.5% of the world's workforce – not including subsequent stages such as refining mined ore. The number of employees totaled around 25 million at the end of the 1990s. This number has fallen since then as a result of increasing rationalization, however the economic importance of mining has tended to increase. As was the case in Europe during the industrial revolution, the supply of raw materials is now a key condition for the increasing industrialization in emerging nations in Asia and South America.

During the past few years, the international mining sector has been characterized in particular by the fact that demand for many raw materials has outstripped production. Demand has mainly been driven by the dynamic economic growth in many emerging nations and the resulting increase in requirements for energy and metals. In contrast, the growth in production capacities was limited because developing new deposits requires many years of advance work. The imbalance between supply and demand caused the prices of many minerals to skyrocket.

Future mining trends

As a result, we must ask ourselves whether the coming years will see a counter-development, with the commodities sector entering a cyclical low, or if demand will continue to increase, with production only just being able to keep pace. We believe that the coming years will be characterized by a further increase in demand for commodities. Economic growth in countries such as China and India is enjoying uninterrupted dynamism, and we believe that any temporary lower demand for imports, for example from the USA, will not have a permanent negative impact on this growth. At the same time, there are no signs that production capacity will increase faster than demand – which would put pressure on prices. The following section discusses the reasons for this using two minerals as an example – hard coal and platinum. These are key for the SMT Scharf Group's business.

Coal

Demand for coal, and thus coal production has increased constantly over the past few years. According to surveys by the IEA (International Energy Agency), production grew by 8.8% in 2006, and at an average of 7.4% p.a. in 2001 to 2006. Global hard coal production is estimated to have again increased at around 5% to 7% in 2007. China is by far the most important country for both production and consumption. According to the most recent figures (2006), China accounted for 46% of production and 47% of consumption. Other key producers are the USA, India, Australia, South Africa and Russia. The largest European producer is Poland, which accounts for 2% of global production. Germany's share has fallen to less than 0.5% in the past few years.

Coal's most important use is to produce energy. According to the IEA, this accounts for 77% of consumption. Steel production takes second place at 13%, followed by other industry at 5%. Other uses, including the transport sector, account for 5%. Many countries depend on coal for their energy supply. For example, coal accounts for 93% of electricity production in Poland and South Africa, 78% in China, 69% in India, 50% in the USA and 47% in Germany.

Over the coming years, market observers are forecasting further growth in demand for coal, and thus also in production. According to the IEA's most recent long-term forecast, coal will grow at an annual rate of 2.2% per year through to 2030. The forecast differentiates between developed nations in North America and Europe with annual growth of between 0% and 0.5% p.a., and emerging nations such as China and India. Growth in energy demand of between 3.2% and 3.6% p.a. is forecast in these countries – with similarly large growth in demand for coal. Governments in these emerging nations, for example in India, are aiming for annual growth of 5% to 7% for coal as an energy source, as the production of electricity and steel play a key role in the further industrialization of their economies.

Platinum

Platinum is the most important metal in a group also including palladium, rhodium, iridium and ruthenium. All of these metals are mostly used in industrial applications as a result of their particular chemical properties. In 2006, global platinum consumption totaled around 6.8 million fine ounces according to surveys by Johnson Matthey's analysts; the other metals in the platinum group accounted for around 8.8 million fine ounces. This corresponds to 1.2% year-on-year growth for platinum. Platinum demand has grown at an average annual rate of 3.1% over the past ten years. South Africa is by far the most important producer. This country covers 78% of global demand. Russia is the second most important producer at 13%.

The most important and by far the best known use of platinum is in catalytic converters, in particular for cleansing vehicle exhaust fumes. This application accounted for around 49% of demand in 2006. The quantities gained from recycling used catalytic converters have already been deducted from this amount. Industrial applications take second place, accounting for around 28% of demand. The chemicals industry (around 6%) is a key member of this second group as it often uses platinum as a catalytic material. The electronics industry also accounts for around 6%, for example for magnetic coatings in hard drives. The glass industry accounts for another 6%. It uses platinum in, for example, the production of LCD and plasma screens. Jewelry manufacture accounts for the remaining 23% of platinum demand.

Market observers believe that the multi-year growth in demand for platinum will continue in the coming years. They believe that the production of goods that form the key applications for platinum will continue to increase, and related applications will gain in importance. One such example is particle filters for diesel vehicles. In contrast, soaring platinum prices could act as an incentive for industrial users to reinforce the recycling of catalytic converters, and to look for alternatives – such as palladium. In 2004, the U.S. Geological Survey forecast annual growth of 4.9% for platinum production through to 2010.

Mining methods

A mineral deposit must have a sufficient concentration and size to be economically recovered. The threshold will vary by the type of mineral because of their different economic values. Geologists employ various methods to identify deposits and to assess their qualities. These exploration methods include airborne evaluations, collections of stream sediments and drilling rock chips or cores. In addition, models of grades and known structures (often using computer models) are used to determine the likely deposit configuration. Industry sources estimate that at present world-wide the number of active mines corresponds to an equally large number of feasibility studies and around ten times that number of drilling projects.

The results of exploration also greatly influence the mining method selected for exploitation. This is determined mainly by the characteristics of the mineral deposit, such as its dip, shape, and strength and the characteristics of the surrounding rock. In addition, limits imposed by safety, technology and environmental concerns have to be taken into account. Exploitation methods fall into two broad categories: Surface and underground. Underground mining is primarily relevant for SMT Scharf, as this is the main are of use for the company's rail-bound railways.

SMT Scharf's focus: Underground mining

Underground mining is usually classified in three categories of methods: Unsupported, supported and caving. These are differentiated by the type of wall and roof supports used, the configuration and size of production openings and the direction in which mining operations progress.

The unsupported mining methods owe their name to the fact that they do not use any artificial pillars to support the openings. Room-and-pillar mining is the most common unsupported method. It is broadly used for flat-lying seams or bedded deposits of e.g., coal, limestone or salt. Natural pillars of the mineral that are left standing in a systematic pattern provide the necessary support of the roof. There is a related method in which the pillars are positioned randomly and are located in low-grade mineral so that the high-grade mineral can be extracted.

Supported mining methods are often used in mines with weak rock structure. Cut-and-fill stoping is the most common of these methods and is used primarily in steeply dipping metal deposits. The cut-and-fill method is practiced both in upward and in downward directions. As each horizontal slice is taken, the voids are filled with a variety of fill times to support the walls. The fill can be rock waste, cemented tailings or other suitable materials.

Caving methods are varied and versatile and involve caving either the mineral or the overlying rock. Longwall mining is a caving method particularly well adapted to horizontal seams. It is widely used in hard coal mining because of its high productivity. In longwall mining, a face (or wall) of considerable length is maintained and as the mining progresses the overlying strata are caved. This in turn promotes the breakage of the mineral.

The means of transport in underground mining differ significantly depending on the amounts and sizes of goods to be transported and on the paths to be taken. Vertical transport in shafts is usually by rope-driven skips. Horizontal transport of the extracted minerals is by continuous conveyors, railways or haulers. Transport of equipment and personnel is by either railways, trucks or haulers. Rail-bound railways such as those manufactured by SMT Scharf are particularly suited to underground transport along inclines. Most of the applications are in mines using longwall mining where the transport of the faces and supplying the mining operations with consumables are pivotal tasks to which rail-bound railways are particularly well-suited.

Mining technology market volume

Over the course of the past few years, the rationalization in the mining industry described above has caused mine operators' capital expenditures to increase faster than mineral extraction. This is in part due to greater safety requirements. In addition, the ongoing exploration of deposits and the increasingly difficult mining circumstances have led to increasing demand for state-of-the-art mining technology.

According to surveys by the Freedonia Group, the global market for mining technology totaled EUR 14 billion in 2004, without transportation technology. We estimate that the market for mining transportation technology totals around a further EUR 5 to 7 billion. Rail-bound railways form a special segment in transportation technology, however this segment is enjoying rapid growth and is forcing other technologies out of the market for many applications. Around 100 new systems were installed in 2007, and the global market volume including service totaled around EUR 120 million.

SMT Scharf Group's products

Rail-bound railways are the only means of transport that can be used underground on branching lines to cope with inclines of more than 13 degrees. The railways developed by SMT Scharf are characterized, above all, by high-performance engines, great achievable transport performance and low operating and maintenance costs. The main products are monorail hanging railways and floor-mounted railways.

Monorail hanging railways have a rail-bound suspension on a track with a double-T profile, they are driven by friction wheels (in some applications supported by a rack-and-pinion system) and their locomotives are constructed in a modular way. The tracks are suspended using chains, either from the roof support of the underground section or from anchors in the rock. In most cases the trains are driven by a diesel engine, in addition there are also battery-powered or conductor-rail powered electric engines. The diesel or electric engine powers a hydraulic system which feeds hydraulic engines that drive the friction wheels. In addition, there is a version in which the electric motors drive the friction wheels directly with the help of frequency converters. Since the trains are suspended on the rails using running gear that can be compared with crane cats the name "diesel cat" became common for the most-used diesel-driven locomotives.

The locomotives comprise two driver's cabins, an engine section, a cooling section and three to six driving units. These assemblies are linked flexibly to each other using coupling rods, so that the tight curves and the changes between descents, straight sections and inclines in the underground tracks can be passed. The trains are set up for horizontal radii of up to 4m, and vertical radii of up to 10m.

The trains each comprise one locomotive and up to ten transport units that take the payload. There are lifting beams to take containers, heavy load units to take larger items with single loads of up to 35 tons and units for transporting people. The trains as well as the locomotives are put together based on the mine's specific transportation tasks.

Floor-mounted railways differ from monorail hanging railways in that their stretch of rails is made of U-profiles. They run on these rails without derailing.

SMT Scharf's positioning

In terms of the number of systems it has installed, the SMT Scharf Group leads the global market for rail-bound railways. Of the 800 systems installed worldwide, 360 or 45% were supplied by SMT. Poland and Germany are the two markets with the highest level of penetration of these systems to date. The SMT Scharf Group installed 97% of the systems in Germany, and 28% in Poland. In the past, monorail hanging railways and floor-bound railways have only enjoyed a limited spread in Russia, South Africa and China. In terms of the number of systems installed, the SMT Scharf Group has the strongest or even a dominant position on all three of these markets.

Comparing the SMT Scharf Group's trains with competitors' products with comparable functions, our products offer a range of advantages:

- Greater performance: The products offer better transport performance than competitors' products, as the diesel engine used by SMT Scharf can be set up for particularly high drive performance. As a result, greater loads can be transported than are possible with any other product available on the market, and higher speeds can be achieved with comparable loads.
- Lower operating costs: The SMT Scharf Group's products have lower specific fuel requirements and lower specific exhaust emissions. As a result, mine operators need to ventilate mines less compared to other products.
- Lower costs for maintenance and repairs: The SMT Scharf Group's products have longer lives and need fewer repairs than other available products. This results in greater availability for the customer.
- Fulfillment of high regulatory requirements: The SMT Scharf Group's products are subject to an extensive development process, to ensure that they meet high regulatory requirements.

History of the company

SMT Scharf is a well-established specialty engineering company with more than 50 years' experience. Formed on March 1, 1951 as a small repair shop, Heinrich Scharf GmbH started with ten shop-floor employees. The range of products to be repaired grew quickly, causing Scharf's workforce to grow to 50 within one year. Scharf launched its own products on the market for the first time in 1953 with its Scharf's coal trucks and its elastic coupling. One year later, the company started to produce a mine bicycle, the final step away from being a repair shop to becoming a manufacturing company.

At the world mining exhibition in 1958 in Essen, Scharf GmbH presented the first monorail hanging railway to the specialist international audience. This technology has been constantly further developed since then – from cable driven monorail hanging railways, DZ44 and DZ66 through to the development of the DZ2000, the world's strongest diesel cat, in 2000. Tailored to the transportation requirements of customers in international mining, the DZ1500 and DZ1800 series were launched in recent years.

The range of rail-bound railways has been constantly expanded since the 1960s. For example, Scharf developed the first rack-and-pinion-driven floor-mounted railway, which was also available in a cable-driven version and with a friction-wheel driven engine. In addition, Scharf developed the first light lifting beam, which could transport a normal hauled load of 1.5t. The first lifting beam for 3t was supplied in 1964. The lifting beam program has been constantly improved over the years to meet ever increasing hauled loads. Finally, Scharf's shunting cats and brake cats conquered the market. In Russia and Poland in particular brake cats are still of major importance today, as they have to be included in each train according to these countries' safety requirements.

Another Scharf development was taken into operations in South Africa for the first time in 1997: EMTS – an electrically driven monorail hanging railway, which can be powered using conductor rails. It offers a practical alternative to diesel drives in methane-free mines.

The SMT Scharf Group has not only constantly expanded its product range over the past few years – SMT Scharf has also expanded its network of facilities in line with its increasingly international business. The increasing demand for the company's transportation solutions in Poland led to the subsidiary SMT Scharf Polska being formed in 1992. A branch in South Africa followed shortly after. Our group has significantly accelerated its international expansion over the past two years. We formed new subsidiaries in China (2007) and Russia (2008) and increased staff levels at our foreign facilities. We plan to continue the SMT Scharf Group's expansion in the coming years, and to expand our position on high-growth foreign markets.


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SMT SCHARF AG'S SHARES

Share performance

SMT Scharf AG's shares have been quoted on Frankfurt Stock Exchange's Prime Standard since April 11, 2007. During this period, it has exhibited a convincing performance compared to the SDAX, the German index for small caps. The share moved in a corridor between EUR 9 and 11 between April and July, peaking on July 3 at EUR 11.35, an intermediate high. During the summer months, the share price fell together with the entire market, as economic concerns dominated developments on the stock markets. After publication of the group's 9-month figures in November, SMT Scharf's shares started to set themselves apart from the increasingly weak trend on the market.

On the last day of trading in fiscal year 2007, December 28, the shares closed at EUR 9.95 – up 4.7 % on the issuing price. In contrast, the SDAX closed at 5,191 points, down 18.4 % compared to the date on which our shares were quoted for the first time. SMT Scharf AG had a market capitalization of EUR 41.8 million at the end of the year.

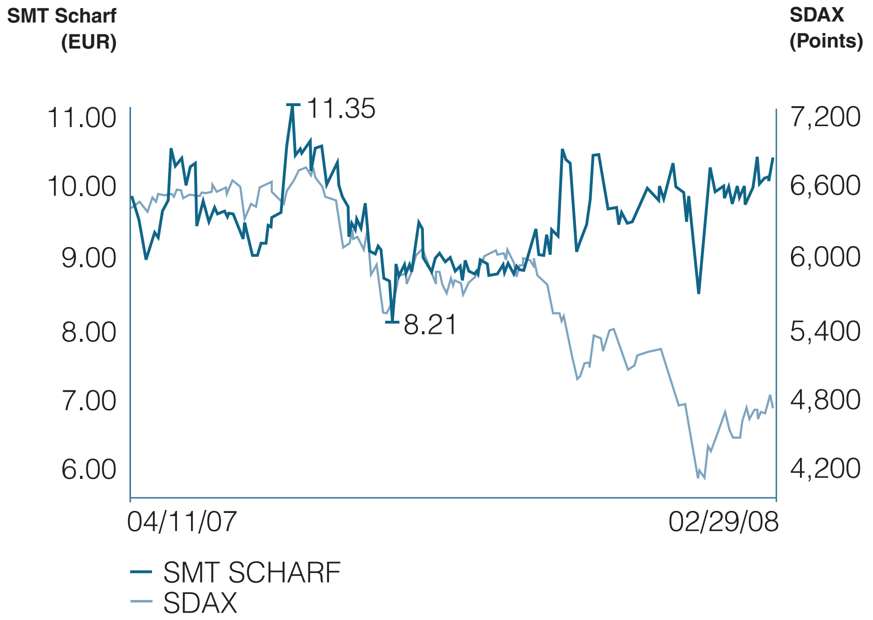
SMT Scharf was thus one of four new issues in the Prime Standard to enjoy positive share price performance over the year. An additional 18 new Prime Standard issues and 33 of the total of 44 new issues suffered substantial share price losses, listing at below their issuing prices for sustained periods. To the contrary, SMT Scharf's shares were able to compensate for temporary downshifts in the share price, with comparatively stable performance compared to the market. And this was in the face of a marked downturn in liquidity for small and mid-caps since the summer of 2007, with increased volatility.

Share price information for 2007 (XETRA)

Issuing price	EUR 9.50
Highest price	EUR 11.35
Lowest price	EUR 8.21
Closing price	EUR 9.95

Since the start of the year 2008, SMT Scharf AG's shares have outperformed the SDAX to a substantially greater extent than in 2007: On February 29, 2008 the shares traded at 10.40 EUR, thus up 4.5 % in comparison to year end 2007. The SDAX hast lost 9.7 % in value since that date.

Share



Key data

German Securities Code Number (WKN)	575198
ISIN	DE0005751986
Stock exchange symbol	S4A
Segment	Prime standard (regulated market)
Number of shares	4,200,000
Free float	42.9 %
Initial quotation	April 11, 2007

IR activities

SMT Scharf leads a constant and open dialog with its investors. They receive in-depth financial information in the quarterly, six-month and annual reports as well as up-to-the-minute press releases on business developments. In addition, SMT Scharf presented itself at several investors' conferences, the last of which was in November 2007 at the German Equity Forum in Frankfurt, where it enjoyed great attention from institutional and retail investors as well as analysts. In addition, SMT Scharf is in regular contact with investors and financial analysts regarding the company's growth.

CORPORATE GOVERNANCE

SMT Scharf AG's Managing and Supervisory Boards regard their primary task as managing the company in a responsible, value-oriented manner. The following principles apply in this regard.

Management and control structure

Supervisory Board: The Supervisory Board has three members, elected as shareholder representatives by the General Meeting. The Supervisory Board does not include any former members of the Managing Board. The members of the Supervisory Board are obliged to disclose any conflicts of interest to the Supervisory Board. There were no conflicts of interest for the members of SMT Scharf AG's Supervisory Board during the year under review. The Supervisory Board advises the Managing Board and monitors its management. It deals with business growth, medium-term forecasting and the further development of the company's strategy. Taking into account the auditor's reports, it adopts the annual financial statements and consolidated financial statements. In addition, it appoints and dismisses the members of the Managing Board. Select transactions by the Managing Board, which are listed in its bylaws, require prior approval from the Supervisory Board. The Supervisory Board can make changes to the articles of incorporation that only affect the wording.

Managing Board: SMT Scharf AG's Managing Board comprises two members and has one Chairman. The Managing Board members are jointly responsible for managing the company's business. The CEO determines the entrepreneurial objectives, the company's policy and the group's organizational structure. The Managing Board provides the Supervisory Board with regular, up-to-the-minute, comprehensive information on all of the issues of relevance to the company with regard to forecasting, business growth and risk management. Transactions that require the Supervisory Board's approval are presented to the Supervisory Board in good time. The members of the Managing Board are obliged to disclose any conflicts of interest to the Supervisory Board without delay. Managing Board members may only perform additional activities, in particular memberships in Supervisory Boards for non-group companies, with the Supervisory Board's approval. During the past fiscal year, there were no conflicts of interest for SMT Scharf AG's Managing Board members.

General Meeting: SMT Scharf AG's shareholders exercise their rights in the General Meeting, where they also exercise their voting rights. They receive regular information on key dates in the financial calendar, which is published in the annual report as well as in the Internet at www.smtscharf.com. Shareholders can either exercise their voting rights at the General Meetings in person, or have themselves represented by a proxy of their choice or a proxy appointed by the company and subject to instructions. As a rule, the Chairperson of the Supervisory Board shall chair the Shareholders' Meetings. The statutory provisions apply to changes to the articles of incorporation.

Accounting and auditing

Entities whose equity or debt securities are publicly traded in the EU are obliged to prepare their consolidated financial statements according to International Financial Reporting Standards (IFRS). SMT Scharf AG's financial statements are prepared according to the Handelsgesetzbuch (German Commercial Code). The General Meeting chooses the auditor according to the statutory provisions. In order to ensure that the auditor is independent, the Supervisory Board obtains a declaration from the intended auditor regarding any existing reasons for exclusions or prejudice. When the auditor is engaged, it is agreed that the auditor will report immediately to the Chairman of the Supervisory Boards on possible reasons for exclusion or prejudice that arise during the audit, that the auditor will report on any findings that are key for the Supervisory Board's tasks that result while the audit is being conducted, and that the auditor will inform the Chairman of the Supervisory Board if, while conducting the audit, the auditor ascertains any facts that demonstrate the declaration of conformity with the German Corporate Governance Code issued by the Managing and Supervisory Boards being incorrect. No such facts or reasons for exclusion or prejudice were ascertained.

Transparency and dealing with risks

Transparent management is a top priority for SMT Scharf AG's Managing and Supervisory Boards. Our shareholders, all of the participants on the capital markets and the media receive regular, up-to-the-minute information on the company's business growth. This information is provided in quarterly reports, annual reports, telephone conferences and numerous events with financial analysts and investors. The dates for the regular financial reports are summarized in the financial calendar. If facts arise in between SMT Scharf AG's regular reporting that could have a material impact on the price of SMT Scharf's shares, these are announced in ad hoc disclosures. In line with the Wertpapierprospektgesetz (German Securities Prospectus Act), SMT Scharf publishes an "annual document" which summarizes the publications under company law and capital markets law from the last twelve months. The financial reports, the financial calendar, the ad hoc disclosures and the "annual document" are available on the Internet at www.smtscharf.com.

Persons with management tasks, in particular members of SMT Scharf AG's Managing and Supervisory Boards, and their related parties, are obliged to disclose transactions in shares of SMT Scharf AG or financial instruments based on these shares according to the Wertpapierhandelsgesetz (German Securities Trading Act). We published information on corresponding transactions in 2007 on the Internet at www.smtscharf.com. There were no shareholdings with a reporting requirement within the meaning of Item 6.6 of the German Corporate Governance Code on December 31, 2007.

Details of the risk management system can be found in the section "Risk report" in the group management report.

Remuneration report

The system for the Managing and Supervisory Boards' remuneration is discussed in the section "Remuneration Report" in the group managing report. The notes to the IFRS consolidated financial statements include individual remuneration details.

Declaration of conformity

The Managing and Supervisory Boards issued their declaration of conformity within the meaning of Section 161 of the Aktiengesetz (German Public Limited Companies Act) on December 14, 2007. According to this declaration SMT Scharf corresponds with the vast majority of the recommendations and suggestions in the German Corporate Governance Code. The declaration reads as follows:

The Managing and Supervisory Boards of SMT Scharf AG declare that up to and including today's date they have corresponded to the respective applicable recommendations of the "German Corporate Governance Code Government Commission" in the versions dated June 12, 2006 and June 14, 2007 with the following exceptions:

- The recommendations and suggestions for holding the General Meeting were not applicable in 2007 as the General Meeting in 2007 was held before the company became a listed company.
- The Supervisory Board did not form any committees, as it comprises three members. This number of members appears reasonable given the company's size.
- The company did not prepare a separate remuneration report and a corporate governance report in 2007. The corresponding information was provided in the securities offering prospectus – insofar as this was required by EU prospectus regulation no. 809/2004 dated April 29, 2004.
- The remuneration for the members of the Supervisory Board does not include a performance-related component. This is balanced by the fact that their remuneration is at the lower end of the scale when compared to other companies of a comparable size.
- At present there is no succession planning and no upper age limit for members of the Managing Board. There is also no upper age limit for the members of the Supervisory Board. The contracts with both the members of the Managing Board run until the end of the year after next. Not including an upper age limit upholds the German law on equal opportunities.
- To date, members of the Supervisory Board have neither been elected on different dates nor for different periods of office. It is intended to bear this in mind upon future elections for the Supervisory Board.

- The company's D&O insurance policy does not include any agreement on a deductible. A deductible does not appear particularly pertinent to further enhance the management's risk consciousness; in addition, a deductible does not result in a significantly lower premium.
- The interim reports were published within 60 days of the end of the period under review. The company aims to publish these within 45 days.

Hamm, December 14, 2007

Dr. Markus Kawohl Radlmayr

Dr. Trautwein Schulze-Buxloh

GROUP MANAGEMENT REPORT

Macroeconomic environment

The SMT Scharf Group develops, builds and maintains rail-bound railway systems for mining and use in tunnels. The railways are used all over the world, primarily in hard coal mines, but also in underground mining for platinum, gold and other metals. They are used to transport material and personnel up to loads of 35 tons. Rail-bound railways are the only means of transport that can be used on branching lines to cope with inclines of more than 13 degrees.

That is why the global demand for commodities, in particular for hard coal, is the most important influence on business at SMT Scharf Group. As in previous years, there was positive demand-side growth in 2007. This is reflected in the further price increases for many commodities. For example, the price for hard coal (CIF ARA) increased by 21% during the course of 2007 to US$ 81 per ton, the gold price was up 31% to US$ 831 per fine ounce, and the price of platinum lifted 36% to US$ 1536 per fine ounce. In addition, the production of key commodities has increased further in line with demand. For example, the increase in global hard coal production in 2007 is again estimated at around 5 to 7% after increasing at an average rate of 7.4% annually over the past five years.

This growth takes place in particular in countries undergoing strong economic growth, and which thus have increasing requirements for energy, steel and other metals. These countries include China and Russia, and also South Africa, India and other countries. As a result, the increasing demand for the SMT Scharf Group's products is being fueled by countries such as these, and not by developed economies such as OECD countries. Economic downturns, as can currently be observed in the USA, do not have any direct impact on the SMT Scharf Group's business. There may be an indirect impact if, for example, a downturn in the USA's demand for imports perceptibly slows economic growth in China.

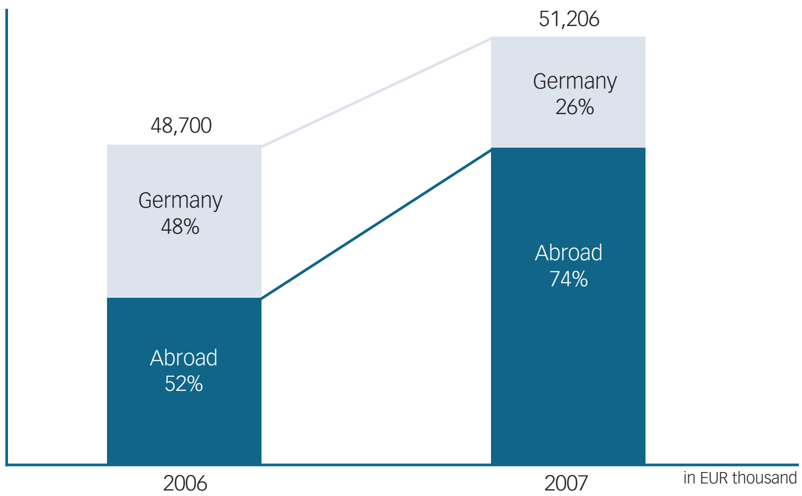
The strong demand for commodities is not the only force shaping the positive climate for capital expenditure among mine operators, in particular hard coal mine operators. The latter is also driven by many mine operators specifically investing in technologies to boost their productivity. The SMT Scharf Group's products play a key role in this regard when it comes to transport materials in underground mining operations.

Although hard coal mining in other countries is growing, this sector is shrinking in Germany as costs in Germany are high compared to those in other countries. In 2007, Germany decided to discontinue hard coal mining by 2018 – first in a compromise by the country's Grand Coalition government, and then in the Steinkohlefinanzierungsgesetz (German Hard Coal Financing Act). At present, SMT Scharf does not believe that this decision will be changed in 2012.

Business growth

Revenues in 2007 lifted by EUR 2,506 thousand year-on-year to EUR 51,206 thousand. Foreign revenues again lifted substantially compared to the previous year by EUR 12,438 thousand to a current total of EUR 37,857 thousand, after having already enjoyed significant growth in the past two years. Foreign markets now account for 74 % of total revenues (previous year: 52 %).

Revenues per region



The continued international growth is based on a continued positive climate for capital expenditure by mine operators – the SMT Scharf Group's key customers. The growth is also based on the expansion of the SMT Scharf Group's international sales and service activities. In 2007, we increased staff levels (including external employees) in Poland, Russia, China and South Africa. We also formed a subsidiary in China, so that we will be able to offer our own services there in future. We have started to form a subsidiary in Russia. We have been able to gain several new customers thanks to our various sales activities.

In Germany, as expected, we did not receive any more orders for new machines from Deutsche Steinkohle AG. Our service business was also in decline, as the quantities of hard coal being mined in Germany fell still further compared to 2006.

At the end of the year, our order book totaled EUR 9,387 thousand, and was thus up 34 % year-on-year. Of this total, EUR 7,315 thousand was due to international orders.

Research and development

The DZ 1800 diesel cat series and the rack-and-pinion mining railways were brought to the market in 2007. Development work on the DZ 1800 series was finished in the spring, so that we were able to obtain approvals for key markets, in particular Russia, Poland and China in 2007. Several customers in these and other countries are already successfully using diesel cats from this series. The rack-and-pinion mining railway was presented to the public for the first time at the "China Coal & Mining Expo" trade fair, which was held in November. In addition, we conducted standardization projects and programs to cut manufacturing costs for several product groups.

The SMT Scharf Group invested more than 4% of its revenues in research and development. This level is on a par with the previous year. This figure includes order-related development work and approvals, as well as own work capitalized. As a result, SMT Scharf's R&D investments are higher than average in the German engineering industry.

Human resources

During the course of 2007 we completed the measures agreed with our works council in the third quarter of 2006 to adjust staffing levels at our Hamm facility. We also adjusted staffing levels at our Neunkirchen facility in 2007 as a result of the downturn in our German business. These activities meant that staff numbers at our German facilities fell to 203 at the end of the year (previous year: 235 employees).

The staff cuts in Germany were offset by an increase at our foreign facilities. New hires and the formation of our own subsidiary in China took the number of employees at our foreign facilities to 39 (previous year: 29 employees). As a result, our foreign facilities account for 16% of our total employees – this figure lifted to 242.

At the start of 2006 we set up a hardship and social fund in the amount of EUR 990 thousand as a result of an agreement with the works councils. This fund aims to reduce the impact of redundancies for operational or health reasons or other hardships at SMT Scharf GmbH and SMT Scharf Saar GmbH. In addition, according to the agreement, its funds are to be used to secure funding for early retirement schemes. A commission which includes both employer and employee representatives will decide on the appropriation of the funds. The hardship and social fund totaled EUR 967 thousand at the end of the fiscal year.

Financial position and results of operations

Equity and particular legal relationships

SMT Scharf AG's subscribed capital was increased against cash contributions from EUR 3,000 thousand to EUR 4,200 thousand as part of the IPO in April 2007. Since then it comprises 4,200,000 no-par value bearer shares, each with a notional interest of EUR 1 in the subscribed capital. In addition, the company also has Authorized Capital I and II to issue a total of up to 2,100,000 further ordinary shares. With the approval of the Supervisory Board, the Managing Board can use this authorized capital to increase SMT Scharf AG's subscribed capital until February 1, 2012. Shareholders' subscription rights can be excluded during this process. There is no authorization over and above the general statutory regulations to buy back SMT Scharf AG's own shares.

The company is subject to the general statutory restrictions on voting rights, in particular resulting from the Aktiengesetz (German Public Limited Companies Act) and the Wertpapierhandelsgesetz (German Securities Trading Act). The Managing Board is not aware of any further restrictions on voting rights, including any restrictions that could result from agreements between shareholders.

According to the notifications of voting rights received by SMT Scharf AG, the pre-IPO shareholders held the following interests directly after the IPO:

MS Mining Solutions GmbH, Schondorf	1,350,000 voting rights (32.1 %)
Marfleet Ltd., Douglas	90,000 voting rights (2.1 %) directly and 1,350,000 voting rights (32.1 %) via MS Mining Solutions GmbH, or a total of 1,440,000 voting rights (34.2 %)
Field Point (Luxembourg) II S.a.r.l., Luxembourg	960,000 voting rights (22.9 %)
Field Point (Europe) I, LLC, Greenwich	960,000 voting rights (22.9 %) via Field Point (Luxembourg) II S.a.r.l.
Strategic Value Global Opportunities Master Fund, LP, George Town	960,000 voting rights (22.9 %) via Field Point (Luxembourg) II S.a.r.l. and Field Point (Europe) I, LLC
Strategic Value Partners GP II, LLC, Greenwich	960,000 voting rights (22.9 %) via Field Point (Luxembourg) II S.a.r.l., Field Point (Europe) I, LLC and Strategic Value Global Opportunities Master Fund, LP
Victor Khosla, Greenwich	960,000 voting rights (22.9 %) via Field Point (Luxembourg) II S.a.r.l., Field Point (Europe) I, LLC, Strategic Value Global Opportunities Master Fund, LP and Strategic Value Partners GP II, LLC.

SMT Scharf AG has not received any more recent notifications of voting rights from its pre-IPO shareholders. No new participating interests have been reported to SMT Scharf AG since the IPO that directly or indirectly exceed more than 10 % of the voting rights. The existing shareholders have made an undertaking to Baader Wertpapierhandelsbank AG, which supported the IPO, that they will not sell any shares before April 9, 2008 without Baader's approval. Dr. Trautwein has entered into the same lock-up agreement for the shares he acquired. The Managing Board is not aware of any other restrictions relating to the transfer of the company's shares, including any restrictions resulting from agreements between shareholders.

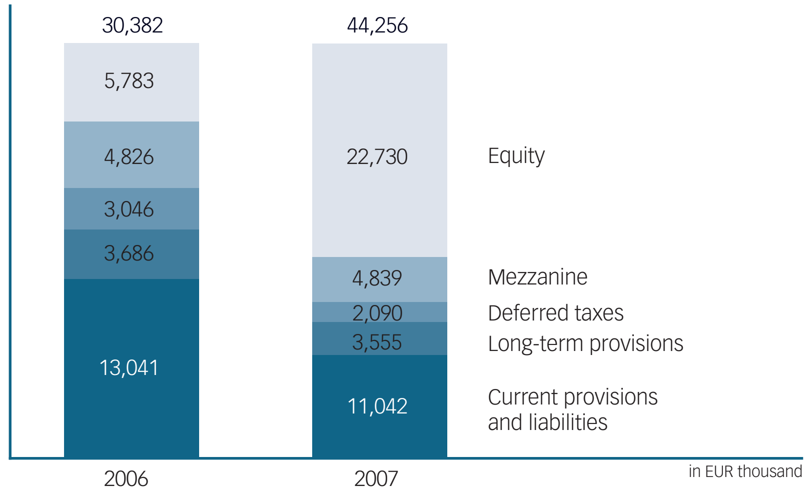
There are no shares with extraordinary rights that grant the holders controlling powers. The company is not aware of any equity interests held by employees who do not exercise their controlling rights directly. The Supervisory Board can make changes to the articles of incorporation that only affect the wording. Otherwise, changes to the articles of incorporation require a resolution by the General Meeting within the meaning of Sections 133, 179 of the Aktiengesetz. According to Article 17 of the articles of incorporation resolutions by the General Meeting are passed with a simple majority of votes cast, to the extent that there are not compulsory statutory requirements to the contrary, and, to the extent that the law prescribes a capital majority in addition to the majority of votes cast, with a simple majority of the share capital represented when the resolution is passed; this also applies to resolutions on changes to the articles of incorporation.

According to Article 8 of the articles of incorporation, the company's Managing Board comprises one or several members, including in the event that the share capital exceeds EUR 3,000 thousand. The Supervisory Board determines the number of members of the Managing Board and can appoint a Chairman as well as a Deputy Chairman of the Managing Board and also deputy members of the Managing Board. In all other respects, the statutory regulations apply to the appointment and discharge of members of the Managing Board. The company has not concluded any key agreements that are subject to the condition of a change in control as a result of an acquisition offer.

Net assets

The equity base increased substantially as a result of the successful IPO in April 2007. SMT Scharf AG's subscribed capital now totals EUR 4,200 thousand compared to EUR 3,000 thousand in the previous year. There is also a share premium of EUR 9.517 thousand. Equity including the net income for the period and the other changes totaled EUR 22,730 thousand as of December 31, 2007 (previous year: EUR 5,783 thousand). Given total assets of EUR 44,256 thousand, this corresponds to an equity ratio of 51% (previous year: 19%). Including the mezzanine financing, which has a carrying amount of EUR 4,839 thousand, this ratio is 62% of total assets.

Balance sheet – Liabilities and shareholders' equity



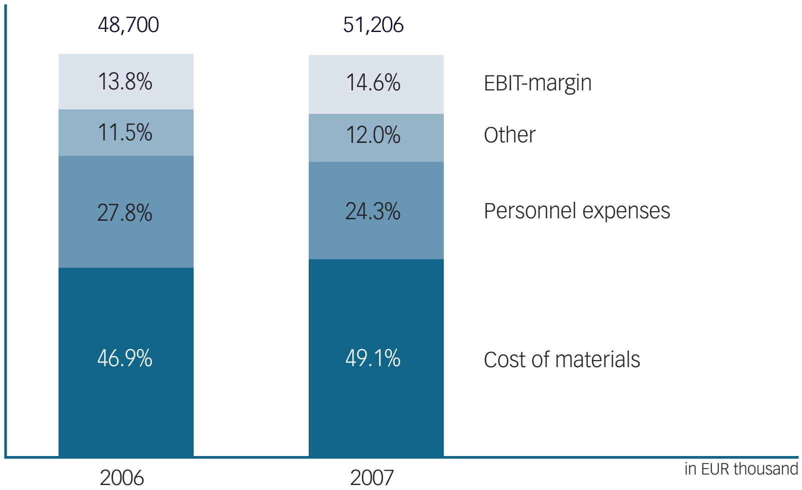
Trade receivables increased year-on-year as a result of one order being carried at its percentage of completion. These totaled EUR 10,151 thousand at the end of the fiscal year (previous year: EUR 7,011 thousand). At the same time, trade payables increased at less than half this rate. Working capital thus grew despite a downturn in stocks. The provisions for income taxes fell to EUR 1,271 thousand from EUR 4,330 thousand as a result of substantial tax payments for previous years; at the same time deferred tax liabilities fell – primarily as a result of the reform of corporate taxation in Germany – to EUR 2,090 thousand (previous year: EUR 3,046 thousand).

Earnings position

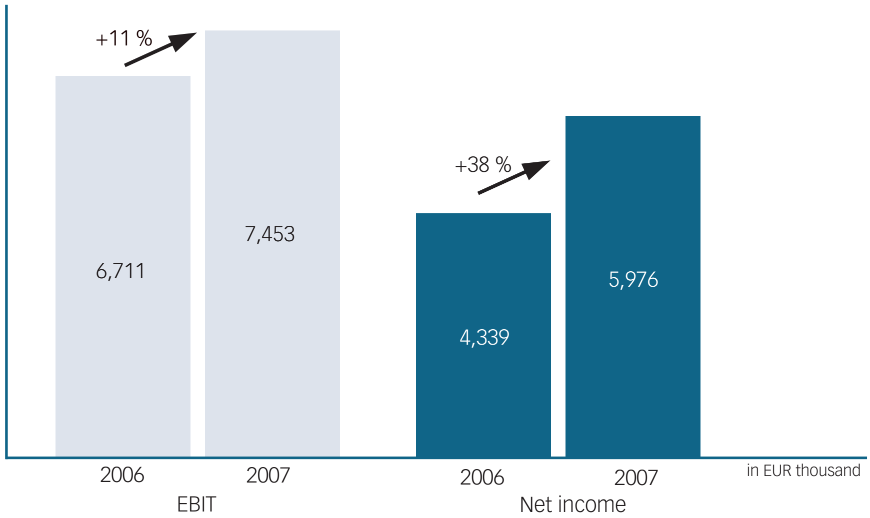
The SMT Scharf Group increased its EBIT to EUR 7,453 thousand (previous year: EUR 6,711 thousand) – up 11 % year-on-year. This corresponds to an increase in the EBIT margin to 14.6 % (previous year: 13.8 %). The cost of materials ratio increased to 49.1 % from 46.9 % as a result of higher procurement prices and a change in the product mix. This was offset by a downturn in the personnel expenses ratio to 24.3 % from 27.8 % as a result of a slight reduction in vertical integration and setting up local assembly activities. Other operating income, for example from the reversal of provisions no longer required and from book profits, fell, depressing the EBIT margin by 1.3 percentage points year-on-year. The selling prices for the products exhibited no uniform trend: SMT Scharf was able to implement isolated price increases, however it had to accept lower prices in other areas.

The financial result increased from EUR -298 thousand to EUR -57 thousand. This was primarily impacted by higher interest income from the temporary investment of cash and cash equivalents after the IPO.

Income statement



Development of earnings



Consolidated net income enjoyed above average growth to EUR 5,976 thousand after EUR 4,339 thousand in 2006 – up 38 %. This was primarily due to the reduction in deferred tax liabilities as a result of the reform of corporate taxation in Germany. This was coupled with a reduction in the average tax rate as a result of the SMT Scharf Group's increasing internationalization of its value chain.

Financial position

The company's cash and cash equivalents increased due to the positive growth in its business and due to the IPO, which resulted in proceeds of EUR 11,400 thousand for the company before issuing costs. This was offset by a substantial reduction in provisions for taxes as a result of extensive subsequent tax payments and an increase in working capital. On balance, cash and cash equivalents plus marketable securities increased year-on-year from EUR 2,806 thousand to EUR 12,307 thousand. Of this total, EUR 967 thousand is designated for the hardship and social fund.

Capital expenditure

In 2007, in addition to the standard replacement and rationalization investments, SMT Scharf AG made two major investments to increase its capacity. SMT Scharf moved into a new assembly hall in Poland, where it added fittings. The testing area in Hamm was also expanded. In addition, development costs for the rack-and-pinion mining railways were capitalized. This development project was completed in 2007 and marketing has now started. As a result, the scheduled amortization of capitalized development costs over an eight-year period was started in 2007. Ownership of a hall at the Hamm location, which had been sold last year, was transferred in 2007.

Environmental protection

Two environmental surveys prepared in 2005 for the facilities operated by SMT Scharf GmbH and SMT Scharf Saar GmbH found no objections that were relevant to environmental protection in Hamm and Neunkirchen. Since these surveys were prepared, no new facts have come to light, nor have there been any events which could endanger the environment.

Remuneration systems for the Managing and Supervisory Board

The Supervisory Board's remuneration was defined by way of a resolution by the General Meeting on February 1, 2007 based on SMT Scharf AG's articles of incorporation. The members of the Supervisory Board receive a fixed remuneration for each fiscal year plus reimbursement of their out-of-pocket expenses.

The Supervisory Board is responsible for decisions on the Managing Board's remuneration. Members of the Managing Board receive remuneration comprising a fixed basic annual salary and an annual bonus. The basic remuneration is paid monthly and, in part, quarterly in arrears. The members also receive non-cash remuneration from the private use of their company cars, life insurance coverage, and the reimbursement of out-of-pocket expenses. The basic remuneration is to be reviewed at regular intervals to ensure that this is in line with the market and that it is reasonable. Remuneration was not adjusted in 2007. The amount of the annual bonus is based on the extent to which specific personal targets have been reached. These targets are agreed at the start of each year based on the company's forecasts for the respective fiscal year. There are only pension obligations for members of the Managing Board from the conversion of salary components for previous fiscal years. The company regulations for the conversion of salaries up to and including fiscal year 2007 provide for a fixed upper age limit of 65 years and 6 % interest on the converted salary components. There are no agreements for compensation in the event of an acquisition offer. The above regulations for the remuneration of members of the Managing Board have been agreed in the Board members' employment contracts. These contracts run until December 2009 and can only be terminated for cause by both parties prior to this date.

There is no remuneration for former members of the Managing or Supervisory Boards or their survivors, nor are there any pension obligations for this group of people.

Risk report

SMT Scharf's risk management system is based on including risk management in the existing forecasting, management and control workflows. This means that it is a central component of our value-oriented company management and it serves to specifically secure existing and future potential for success. Our risk management system aims to identify opportunities and risks at an early stage, to estimate their impact and to start suitable preventative and security activities, including monitoring these activities.

The internal regulations for our risk management system are set out in our risk management guidelines and implemented in our company's management and monitoring process. Key elements in this process are strategic and operational forecasting, weekly, monthly and quarterly reporting, and preparing investment decisions. Periodic reporting is used throughout the group to communicate ongoing opportunities and risks and also to control our company's success. In addition, risks which arise on short notice are communicated directly to the responsible management members, irrespective of the standard reporting channels. We follow the principle that our organizational units are the first link in the chain when it comes to taking responsibility for risks, and these units are responsible for the early identification, control and communication of the respective risks. Risk management officers in our organizational units are responsible for coordinating the respective risk management activities and ensuring that risks are communicated to the next highest level.

The SMT Scharf Group is subject to a number of risks which are inherent in its entrepreneurial activities.

Market and sales risks

The SMT Scharf Group is subject to constantly changing political, social, legal and economic underlying conditions. We counter the resulting risks by keeping a very keen eye on these underlying conditions and by anticipating developments on the market. We combat competition from low-wage countries with aggressive price policies by increasing our regional diversification and improving our cost position and the services we offer. Downturns in demand in our customers' industries could have a negative impact on SMT Scharf's business. In addition, in many countries political continuity and stability in mine ownership play a role. A change of government or a change in the mines' ownership structures could result in staffing changes at the mines that could result in substantial delays to the projects. We counter these risks by permanently observing the market and by developing new markets.

Production and environmental risks

As an industrial company, SMT Scharf is subject to the risk of disruptions to operations, quality problems and unanticipated technical difficulties. We have guidelines for project and quality management, product safety safety at work as well as for environmental protection to effectively reduce these risks. Losses from downtime for production lines are kept within limits by business interruption insurance.

Purchasing risks

Negative developments in material and energy prices and problems with deliveries of pre-products constitute potential purchasing risks. We counter these risks by entering into long-term agreements with existing suppliers and developing alternative suppliers around the world. In addition, we constantly overhaul our designs with the aim of making these more cost effective.

Liquidity risks

We have centralized liquidity management to control our liquidity. This system ensures that the funds required for financing our ongoing operating business, current and future investments in all of the group companies are available on time and in the required currency. There are no liquidity risks as a result of the current positive cash flow, our existing bank balances and lines of credit and guarantee credit lines.

Other financial risks

SMT Scharf is exposed to currency and default risks in particular as part of its entrepreneurial activities. We counter these risks by using suitable hedges. For example, select foreign currency items are hedged using currency forwards. Default risks are hedged by concluding, for example, letters of credit. At present, interest rate risks are of minor importance. There are not currently any other risks from the use of financial instruments.

Legal risks

SMT Scharf is subject to standard liability risks, which result in particular from product liability, patent law, tax law, competition law, and environmental law. We have developed a concept with high quality and security standards to deal with these risks in a controlled manner. We have insurance for property damage, product liability and other risks to safeguard against the financial consequences of any damage that may still result.

HR risks

Realizing our strategic and operating targets is based on being able to keep our highly qualified specialist employees and managers with our company and gaining additional highly qualified employees – in particular at new locations. Wage increases and increases in incidental personnel expenses can lead to cost increases that SMT Scharf is not able to pass on in its prices. We address this by rationalizing our production.

IT risks

Dealing with information and the secure use of IT systems is described in detail in our guidelines and regulations. We use state-of-the-art technical protection to ensure the highest possible data security.

An overall assessment of our risk position has shown that the existing 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 which could endanger our continued existence.

Report on events after the balance sheet date

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

In January, SMT Scharf AG resolved to implement an employee equity participation program within the meaning of Section 71 (1) No. 2 of the Aktiengesetz. Up to 14,400 shares will be acquired from January to March 2008. The purchases will be published under www.smtscharf.com. The program will be implemented in accordance with Regulation (EC) No. 2273/2003.

Forecast

Market experts are forecasting a further significant expansion in international mining in the coming years. This applies in particular to hard coal – the key commodity for the SMT Scharf Group – but also to gold, platinum and other commodities that the SMT Scharf Group's systems are used to mine. The forecast growth rates on the commodities markets are between around 2% to 5% per year depending on the particular commodity and region.

Growth in capital expenditure by mine operators and thus on the relevant market for the SMT Scharf Group may even be slightly higher. One of the reasons behind this is that production of all commodities is progressively moving away from areas that offer favorable geological conditions for the operators, and towards areas with increasingly difficult conditions. The more difficult the conditions become, the greater the probability that the mine operators use systems such as those offered by the SMT Scharf Group in order to boost the economic efficiency of their mining operations. Other reasons include increasing demands for security and the reliability of the technology used. For these reasons, market experts (Freedonia Group) are forecasting growth of 9% for global investments in mining technology.

The Group's continued successful international expansion in 2007 has reinforced SMT Scharf's expectations that it will be able to further increase its revenues and earnings in 2008 and the coming years. This growth will take place abroad – subject to the condition that underlying political and global economic conditions remain stable. The key international markets will be Russia, Poland, and China, followed by South Africa – as was the case in 2007. In contrast, business in Germany will continue to decline, and will focus on replacement parts and service.

Further investments in setting up international sales and service structures are required to enable SMT Scharf to increase its revenues still further over the medium term. In this regard, the SMT Scharf Group will further develop its units that currently exist or which are being set up on its key markets. The aim is to cover local production, quality control, the sale of replacement parts and service with a group company on the respective market. Local partners may also be included in this process.

Hamm, February 1, 2008

Dr. Friedrich Trautwein Heinrich Schulze-Buxloh

IFRS CONSOLIDATED FINANCIAL STATEMENTS

Consolidated balance sheet as of December 31, 2007 (acc. to IFRS)

Assets

in EUR	Notes	31.12.2007	31.12.2006
Inventories	(10)	8,604,099.04	9,413,595.47
Trade receivables	(11)	10,150,971.09	7,010,610.72
Other current receivables/assets	(11)	2,560,237.45	565,060.45
Deferred tax assets	(7)	343,858.13	0.00
Securities	(12)	739,912.56	492,935.17
Cash and cash equivalents	(12)	11,567,377.64	2,313,465.76
Current assets		**33,966,455.91**	**19,795,667.57**
Intangible assets	(9)	970,262.71	621,957.00
Property, plant and equipment	(9)	9,318,874.40	9,909,143.03
Deferred tax assets	(7)	0.00	55,235.01
Non-current assets		**10,289,137.11**	**10,586,335.04**
Total assets		**44,255,593.02**	**30,382,002.61**

Liabilities and shareholders' equity

in EUR	Notes	31.12.2007	31.12.2006
Other current provisions	(15)	4,828,396.42	4,646,154.88
Current income tax	(15)	1,271,323.25	4,329,850.00
Advance payments received	(16)	495,878.08	837,322.07
Current financial liabilities	(16)	48,748.39	446,463.52
Trade payables	(16)	2,942,750.04	1,705,978.93
Other current liabilities	(16)	1,455,301.16	1,074,667.46
Current provisions and liabilities		**11,042,397.34**	**13,040,436.86**
Provisions for pensions	(14)	2,762,849.52	2,690,233.00
Other non-current provisions	(15)	790,757.00	995,849.00
Deferred tax liabilities	(7)	2,090,437.51	3,046,141.65
Non-current financial liabilities	(16)	4,839,049.54	4,826,133,50
Non-current provisions and liabilities		**10,483,093.57**	**11,558,357.15**
Subscribed capital		4,200,000.00	3,000,000.00
Share premium		9,517,195.40	0.00
Retained earnings		2,803,332.68	1,091,740.78
Profit brought forward		5,976,238.47	1,711,591.90
Currency translation difference		233,335.56	-20,124.08
Equity	(13)	**22,730,102.11**	**5,783,208.60**
Total liabilities and shareholders' equity		**44,255,593.02**	**30,382,002.61**

Consolidated income statement for the period from January 1 to December 31, 2007

Income statement acc. to IFRS (total cost method)

in EUR	Notes	2007	2006
Revenue	(1)	51,205,520.51	48,700,436.97
Other operating income	(2)	1,435,410.47	1,984,880.85
Changes in inventories		-137,008.02	-366,624.50
Cost of materials	(3)	25,132,107.79	22,843,556.45
Personnel expenses	(4)	12,447,248.88	13,524,804.57
Depreciation and amortization	(6)	1,186,767.54	1,129,331.58
Other operating expenses	(6)	6,284,449.80	6,110,245.12
Profit from operating activities (EBIT)		**7,453,348.95**	**6,710,755.60**
Interest income		415,949.06	239,335.76
Interest expenses		472,765.88	536,909,20
Net financial income/net financial costs		**-56,816.82**	**-297,573.44**
Profit before tax		**7,396,532.13**	**6,413,182.16**
Income taxes	(7)	1,420,293.66	2,073,700.80
Net income	(8)	**5,976,238.47**	**4,339,481.36**

Consolidated cash flow statement from January 1 to December 31, 2007

Cash flow statement acc. to IFRS

in EUR	2007	2006
Net income	5,976,238.47	4,339,481.36
Depreciation and amortization	1,186,767.54	1,129,331.58
Loss on the disposal of intangible assets and property, plant and equipment	296,941.65	176,052.00
Changes in working capital		
Changes in provisions	49,766.06	-700,123.37
Changes in taxes	-4,302,854.01	1,236,469.75
Changes in inventories	809,496.43	347,741.00
Changes in receivables/other current assets	-5,135,537.37	-1,291,009.78
Changes in liabilities	1,275,960.82	-1,335,696.48
Net cash flows from operating activities	**156,779.59**	**3,902,246.06**
Payments to acquire intangible assets and property, plant and equipment	-1,238,824.22	-722,267.70
Proceeds from the disposal of intangible assets and property, plant and equipment	10,397,56	77,846.00
Net cash flows used in investing activities	**-1,228,426.66**	**-644,421.70**
Payments to previous shareholders	0.00	-24,103,879.23
Consolidation of SMT Scharf AG	0.00	46,966.85
IPO	10,717,195.40	0.00
Change in hardship and social fund	-9,124.79	-958,512.73
Payment of dividends to shareholders	0.00	-1,800,000.00
Repayment of/proceeds from financial liabilities	12,916.04	-8,776.22
Issuance of non-current liabilities (mezzanine financing)	0.00	4,800,000.00
Net cash flows from/used in financing activities	**10,720,986.65**	**-22,024,201.33**
Effect of changes in exchange rates and group composition on liquid assets	240,140.03	11,402.80
Net change in net financial position	**9,889,479.61**	**-18,754,974.17**
Net financial position – start of period	1,401,424.68	20,156,398.85
Net financial position – end of period	11,290,904.29	1,401,424.68

Consolidated statement of changes in shareholders' equity from January 1 to December 31, 2007

in EUR	Subscribed capital	Share premium	Retained earnings	Profit/loss brought for-ward	Currency translation difference	Total equity
Balance at January 1, 2007	**3,000,000.00**		**1,091,740.78**	**1,711,591.90**	**-20,124.08**	**5,783,208.60**
Reclassification			1,711,591.90	-1.711,591.90		0.00
Capital increase	1,200,000.00	10,200,000.00				11,400,000.00
Amounts directly included in equity						
transaction costs of capital increase		-998,252.34				-998.252.34
tax advantage		315,447.74				315,447.74
Currency translation difference from equity consolidation					253,459.64	253,459.64
Net income				5,976,238.47		5,976,238.47
Comprehensive income	**0.00**	**-682,804.60**	**0.00**	**5,976,238.47**	**253,459.64**	**5,546,893.51**
Balance at December 31, 2007	**4,200,000.00**	**9,517,195.40**	**2,803,332.68**	**5,976,238.47**	**233,335.56**	**22,730,102.11**
Balance at January 1, 2006	**14,830,000.00**		**7,534,704.60**	**4,895,656.92**	**28,113.48**	**27,288,475.00**
Payment to shareholder	-14,830,000.00		-4,910,000.00	-4,363,879.23		-24,103,879.23
Reclassification			1,354,985.30	-1,354,985.30		0.00
Profit distribution				-1,800,000.00		-1,800,000.00
Addition to statutory reserve			1,648.70	-1,648.70		0.00
Consolidation of SMT Scharf AG	50,000.00			-3,033.15		46,966.85
Capital increase	2,950,000.00		-2,950,000.00			0.00
Currency translation difference from equity consolidation			60,402.18		-48,237.56	12,164.62
Net income				4,339,481.36		4.339.481,36
Comprehensive income	**0.00**	**0.00**	**60,402.18**	**4,339,481.36**	**-48,237.56**	**4,351.645.98**
Balance at December 31, 2006	**3,000,000.00**	**0.00**	**1,091,740.78**	**1,711,591.90**	**-20,124.08**	**5,783,208.60**

Notes to the consolidated financial statements for fiscal year 2007

Information on SMT Scharf AG and SMT Scharf Group

SMT Scharf AG, Roemerstr. 104, 59075 Hamm, Germany, (hereinafter also referred to as the "company") was formed on May 31, 2000 with subscribed capital of EUR 50 thousand and its registered office in Gottmadingen. On December 14, 2006, subscribed capital was increased by EUR 2,950 thousand by way of a non-cash contribution (contribution of a 100 % interest in SMT Scharf GmbH, Hamm). On April 3, 2007, a capital increase against cash contributions was executed. This increased the subscribed capital by EUR 1,200 thousand to its current total of EUR 4,200 thousand. On April 10, 2007, all of the 4,200,000 shares of SMT Scharf AG were admitted to trading on Frankfurt Stock Exchange's regulated market (Prime Standard).

SMT Scharf AG is the management holding company for the companies in the SMT Scharf Group. The purpose of the companies in the SMT Scharf Group is to plan, produce, sell, install and maintain machinery and equipment to transport people, equipment and material and to hold participating interests.

Information on the consolidated financial statements

As SMT Scharf AG is admitted to the regulated market, it prepares its consolidated financial statements according to IFRS. The SMT Scharf Group's consolidated financial statements as of December 31, 2007 have been prepared according to the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB), as these are to be applied in the EU on the balance sheet date. The term IFRS also includes the International Accounting Standards (IAS) and the interpretations of the Standing Interpretations Committee (SIC) and the International Financial Reporting Interpretations Committee (IFRIC) that are still valid. In addition, the requirements of Section 315a of the HGB have also been taken into account.

All of IFRSs, IFRICs and SICs that applied for fiscal years ending on December 31, 2007 have been applied in the consolidated financial statements. IFRS 7 "Financial Instruments" has been applied for the first time in these consolidated financial statements (this standard influences the type and scope of publication of information on financial instruments but not their carrying amounts and measurement in the consolidated financial statements) and changes to IAS 1 "Presentation of Financial Statements" (the changes to the standard impact the information in the notes with regard to the objectives, guidelines and methods of equity management but not the carrying amounts and measurement in the consolidated financial statements). The changes to IFRIC 7, IFRIC 8, IFRIC 9 and IFRIC 10 have no impact on the company.

The IASB's regulations for which application is not mandatory for fiscal years commencing on January 1, 2008 or thereafter were not taken into account. Accordingly, the revised version of IAS 1, IAS 23, IFRS 8, IFRIC 11 to 14 and their implications for other IASB regulations (for example IAS 32) have not been applied in these financial statements. Application of these standards and interpretations is not expected to have any material impact on these consolidated financial statements. No segment reports have been prepared as the new equipment business and the service business are not conducted separately.

The consolidated financial statements have been prepared in euros. If not otherwise stated, all of the amounts in the notes are stated in thousands of euros and have been rounded if necessary.

The Supervisory Board is expected to approve the IFRS consolidated financial statements on February 28, 2008 and these are then expected to be released for publication.

Consolidation

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

	Interest	IFRS equity Dec. 31, 2007 in EUR thousand	IFRS annual results 2007 in EUR thousand
SMT Scharf GmbH, Hamm, Germany	100 %	5,581	6,120
SMT Scharf Polska Sp. z o. o., Tychy, Poland	100 %	3,315	1,688
SMT Scharf Saar GmbH, Neunkirchen, Germany (before transfer of results)	100 % *	1,162	871
SMT Scharf Sales and Services GmbH, Hamm, Germany	100 % **	23	-1
SMT Scharf Africa (Pty.) Ltd., Kya Sands, South Africa	100 % **	1	11
SMT Scharf International OÜ, Tallinn, Estonia	100 % **	274	272
SMT Scharf Mining Machinery (Beijing) Co., Ltd., Beijing, China	100 % **	68	-33

* Thereof 5.7% indirectly via SMT Scharf GmbH

** Indirectly via SMT Scharf GmbH

The company now known as SMT Scharf International OÜ in Estonia was acquired in 2007. The ordinary share capital totals EEK 40,000. In addition, SMT Scharf Mining Machinery (Beijing) Co., Ltd was formed in 2007. The ordinary share capital totals CNY 1,075,180.

Consolidation principles

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

As a rule, capital for the companies in the SMT Scharf Group is consolidated according to the acquisition method pursuant to IFRS 3. In so doing, the acquired assets and liabilities are carried at their fair values. If these companies were not formed by the Group itself, and if there is a positive difference between the acquisition costs and the proportionate newly valued equity of the subsidiary, this is carried as goodwill and subject to regular impairment testing. Any remaining negative difference is recognized in income after a second assessment. Expenses, income, receivables and liabilities between the fully consolidated companies and interim profits from deliveries and services within the group are eliminated. If consolidation steps have an effect on earnings deferred taxes are recognized.

Currency translation

The single-entity statements for the fully consolidated subsidiaries are translated based on the functional currency concept according to IAS 21. The functional currency for the subsidiaries is based on the primary economic environment and thus corresponds to the respective local currency. Balance sheet items are translated at the rate of exchange on the balance sheet date, items in the income statement are translated at the average annual rate of exchange. The average annual rate of exchange is calculated using the monthly average rates of exchange. In the statement of changes in net assets, provisions and equity, the balances at the start and end of the fiscal year and changes to the group of consolidated companies are translated using the rate of exchange on the respective date. The other items are translated at the average annual rate of exchange. Differences in the currency translation of balance sheet items compared to the previous year are taken directly to equity.

The exchange rates for the key currencies were:

	Closing rate		Average rate	
1 Euro =	31.12.2007	31.12.2006	2007	2006
Polish Zloty	3.5935	3.8310	3.7814	3.8913
Estonian Crown	15.6466	*	15.6500	*
Chinese Renminbi Yuan	10.7524	*	9.5800	*
South African Rand	10.0298	9.2124	9.6931	8.6158

* Not calculated, as the subsidiaries in Estonia and China only joined the group in 2007

Accounting and valuation policies

The income statement is prepared using the total cost (type of expenditure) method.

Revenues from the sale of equipment and replacement parts are recorded when ownership and risk are transferred to the customer to the extent that a price has been agreed or can be determined and it is probable that this will be paid. Revenues from services are recorded when the services have been provided, a price has been agreed or can be determined, and it is probable that this will be paid. In the case of master agreements for services, the services provided are invoiced regularly, generally once per month. The revenues are carried after discounts, rebates or other price reductions.

Revenues and expenses from construction contracts are carried according to their percentage of completion according to IAS 11. The percentage of completion is given by the ratio of the costs from the contract incurred by the respective date to the total estimated costs from the contract on the respective date (cost-to-cost method). The costs relating to the construction contract incurred by the respective date plus the proportionate profits resulting from the degree of completion achieved are recorded under trade receivables. Changes to a contract, subsequent claims or performance premiums are taken into account to the extent that these have already been bindingly agreed with the customer. If the result of a construction contract cannot be reliably estimated, the revenues that are likely to be achieved are recorded up to the amount of the costs incurred. Order-based costs are recorded in the period in which they are incurred. If it can be foreseen that the total costs from the contract will exceed the income from the contract, the anticipated losses are recorded directly as expenses.

Income from rental agreements is recorded on an accrual basis in accordance with the provisions of the underlying agreements as other operating income. Income from operating leases within the meaning of IAS 17 is recorded as revenues on an accrual basis in accordance with the provisions of the underlying leases.

Interest income is recorded on a pro-rata basis taking the effective interest method into account.

Financing costs are not capitalized as a part of acquisition or historical costs, but are recognized immediately as expenses.

Research and development costs that do not fulfill the criteria required to be carried under IAS 38 are recorded immediately as expenses.

Goodwill is carried at acquisition cost and is subject to an impairment test both on an annual basis and if there are signs of possible impairment.

Acquired and internally generated intangible assets are capitalized according to IAS 38 if it is probable that their use will result in future economic benefits and it is possible to reliably estimate the costs of the asset.

The acquired intangible assets are carried at cost and subject to scheduled amortization using the straight line method in line with their useful lives over three to six years. All acquired intangible assets have a limited useful life.

Separable internally generated intangible assets are capitalized as soon as the carrying requirements stipulated by IAS 38 have been cumulatively fulfilled. From this date, the development or historical costs that can be directly allocated to the individual intangible assets (mostly personnel expenses) including development-related overheads are capitalized. The capitalized assets are subject to scheduled amortization from the date that they are available for disposal (marketability) using the straight line method over the anticipated product life cycle of eight years. All capitalized internally generated intangible assets have a limited useful life.

Property, plant and equipment used in operations is measured at cost less scheduled straight-line depreciation. Scheduled depreciation is based on the following useful lives throughout the entire group:

	In years
Buildings	10 to 50
Plant and machinery	5 to 20
Other equipment, operating and office equipment	3 to 13

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

The intangible assets and property, plant and equipment are subject to regular impairment testing based on cash generating units. If required, corresponding write-downs are performed in line with IAS 36.

Public subsidies are recorded if there is sufficient certainty that the subsidies will be granted and that the company fulfills the conditions with which these are linked. The SMT Scharf Group did not receive any major subsidies in 2007.

The SMT Scharf Group has concluded leases as a lessee (mostly for cars and photocopiers). According to IAS 17 these are to be classified as operating leases as most of the opportunities and risks that are associated with the ownership remain with the lessor. Lease payments for these operating leases are carried as other operating expenses in the income statement over the period of the lease. In addition, the SMT Scharf Group has concluded leases as a lessor (mostly for type DZ 1500 and DZ 1800 diesel cats). According to IAS 17 these are to be classified as operating leases as most of the opportunities and risks that are associated with the ownership remain with the SMT Scharf Group. These leased assets are capitalized under property, plant and equipment as office and operating equipment. Lease payments for these operating leases are carried as other revenues in the income statement over the period of the lease.

Other financial assets are classified in four different categories according to IAS 39 for accounting and valuation. As of December 31, 2007 and 2006, the SMT Scharf Group had assets in two of these categories: Originated loans and receivables and securities, which are carried at their fair values.

The originated loans and receivables are measured at amortized cost using the effective interest method. All of the SMT Scharf Group's loans and receivables bear interest at standard market rates. As a rule, loans and receivables are originated at their nominal values. Individual write-downs are formed for receivables for which a default is highly probable. The general credit risk is taken into account by way of write-downs for the stock of receivables which have not been adjusted via individual write-downs – as a rule these are based on past experience. Receivables in foreign currencies are converted using the closing rate of exchange and any resulting exchange rate differences are carried under other operating income or expense.

Cash and cash equivalents comprises cash, demand deposits and current balances with banks which have a residual term of up to three months and which are only subject to minor fluctuations in value. These are measured at amortized cost.

Inventories are measured at cost or their lower net realizable value. According to IAS 2, manufacturing costs are identified as fully absorbed costs (comprising unit costs and reasonable overheads including production-related administrative expenses) according to the standard cost method, acquisition costs are identified using the average cost method. The net realizable value corresponds to the selling price in the ordinary course of business less the estimated costs of completion and costs necessary to make the sale.

Deferred and ongoing taxes are calculated in accordance with IAS 12. Deferred taxes are determined for temporary differences between the carrying amounts of assets and liabilities in the IFRS balance sheet and their tax base and for realizable tax losses carried forward. Calculations are based on the tax rates which apply in the respective country on the expected date of realization, as they are passed by law on the balance sheet date. Deferred tax assets are only carried to the extent that it is probable that the associated recoverable taxes will be used. Tax losses carried forward are included in tax deferrals if it is probable that these will be realized.

Provisions for pensions are measured using the projected unit credit method. In so doing, the future obligations are measured based on the benefit entitlements proportionately acquired by the balance sheet date. During valuation, assumptions are made regarding the future development of specific parameters which will impact the future benefit amount. Provisions for pensions only show the portion of the benefit obligations which was recognized in expenses in the past. The portion of the benefit obligations not yet carried as a liability under provisions for pensions is based on actuarial gains and losses. If actuarial gains and losses exceed the corridor of 10% of the cash value of the obligation, these are recorded as expenses using the straight-line method over the average remaining period of service.

The other provisions are formed for all recognizable risks and uncertain liabilities if it is probable that these will occur and it is possible to reliably estimate their amount. To the extent that the group expects at least a partial refund for a provision carried as a liability (as is the case, for example, in insurance policies), the refund is only then recorded as a separate asset if the refund is as good as secure. Expenses for the formation of provisions are disclosed in the income statement after deduction of the refund.

Other provisions are measured in line with IAS 37 using the best possible estimate of the amount of the liability. If provisions only become due after one year and if it is possible to reliably estimate the amount or date of the payments, the cash value is identified by discounting.

The amount of the provision for warranties is identified using the warranty expense which resulted in the past, the warranty period, and the revenues affected by warranties. Individual provisions are formed for known damages. Provisions for other business-related liabilities are measured based on the performance still to be provided, as a rule in the amount of the production costs still to be incurred.

Financial liabilities are carried at acquisition cost at their first inclusion. This corresponds to the fair value of the compensation received. Transaction costs are also taken into account in this regard. All liabilities are measured in subsequent years at amortized cost using the effective interest method. Liabilities in foreign currencies are converted using the closing rate of exchange and any resulting exchange rate differences are carried under other operating income or expense.

The preparation of the consolidated financial statements necessitates certain assumptions and estimates. These relate to the recognition and measurement of assets and liabilities, income and expenses, and the extent of contingent liabilities. The assumptions and estimates mostly relate to the group-wide uniform definition of useful lives, the impairment testing for assets, the capitalization of deferred taxes, measuring benefit obligations and other provisions as well as estimating legal risks. Estimates made by the company are based on historical amounts and other assumptions considered to be appropriate in the particular circumstances. The actual amounts may differ from the estimates. The estimates and assumptions made are subject to constant review and adjusted accordingly.

Notes to the income statement

(1) Revenue

Revenue is composed of the following items:

in EUR thousand	2007	2006
Sale of new equipment	26,492	20,981
Spare parts/service/other	24,714	27,719
Total	51,206	48,700

Revenue included EUR 7,468 thousand from a construction contract which is to be accounted for in accordance with IAS 11. There was no such contract last year. Revenue by region was as follows:

in EUR thousand	2007	2006
Russia and Kazakhstan	16,510	4,295
Germany	13,349	23,282
Poland	11,024	8,662
Rest of Europe	3,902	2,950
North America incl. Mexico	3,418	3,260
China	1,407	4,732
Other countries	1,596	1,519
Total	51,206	48,700

(2) Other operating income

Other operating income is composed of the following items:

in EUR thousand	2007	2006
Reversal of provisions	858	1,267
Use of provisions	168	294
Rental income	20	72
Miscellaneous other operating income	389	352
Total	1,435	1,985

The miscellaneous other operating income includes income from the sale of property, plant and equipment and currency gains totaling EUR 68 thousand (previous year: EUR 8 thousand).

(3) Cost of materials

The cost of materials is composed of the following items:

in EUR thousand	2007	2006
Cost of raw materials, consumables, supplies and goods purchased for resale	22,223	20,299
Cost of purchased services	2,909	2,545
Total	25,132	22,844

(4) Personnel expenses

Personnel expenses are composed of the following items:

in EUR thousand	2007	2006
Wages and salaries	10,344	11,210
Post-employment benefit expenses	240	147
Social security contributions	1,863	2,168
Total	12,447	13,525

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

	2007	2006
Hourly-paid employees	128	144
Salaried employees	103	103
Trainees	21	25
Total	252	272

(5) Depreciation and amortization

Depreciation and amortization are composed of the following items:

in EUR thousand	2007	2006
Amortization of purchased intangible assets	46	49
Amortization of capitalized internally generated intangible assets	112	72
Depreciation of property, plant and equipment	1,029	1,008
Total	1,187	1,129

There was no impairment within the meaning of IAS 36 in 2007 or 2006.

(6) Other operating expenses

Other operating expenses are composed of the following items:

in EUR thousand	2007	2006
Third-party services	1,434	1,948
Special direct cost of sales	1,384	1,140
Travel expenses	579	493
Maintenance costs	343	393
Contributions/fees	295	165
Temporary staff	209	142
Cleaning	177	189
Rent and leases	130	124
Advertising	129	86
Office supplies/communication	113	147
Insurance	105	115
Other taxes	34	34
Miscellaneous other operating expenses	1,352	1,134
Total	6,284	6,110

The miscellaneous other operating expenses mostly include additions to provisions and individual and lump-sum write downs, expenses for training and meal subsidies. They also include currency losses totaling EUR 46 thousand (previous year: EUR 20 thousand).

Third-party services also include auditors' fees within the meaning of Section 319 (1) sentence 1, 2 of the Handelsgesetzbuch (German Commercial Code). These are broken down as follows:

in EUR thousand	2007	2006
Audit	88	91
Other opinion and valuation services	0	41
Other services	15	0
Total	103	132

(7) Income taxes

Income taxes are composed of the following items:

in EUR thousand	2007	2006
Current tax expense	2,349	2,743
Thereof current income tax expense for the period	2,367	2,719
Thereof restatement of current income taxes incurred in prior periods	-18	24
Deferred taxes	-929	-669
Thereof creation or reversal of temporary differences	-929	-669
Total	1,420	2,074

Deferred taxes are identified based on the tax rates which will apply or are expected to apply according to the current legal situation on the date they are realized. In 2007 and 2006, the total tax rate from corporation tax and trade tax totaled 39.9 %. The total tax rate will fall to 31.6 % from 2008 as a result of the reform of corporate taxation. This reduction was taken into account when identifying the deferred tax assets and liabilities on the balance sheet date. As a result, the deferred tax liabilities fell by EUR 515 thousand.

If deferred tax assets or liabilities are to be carried for foreign companies, these are measured at the tax rates that apply in the corresponding countries. As of December 31, 2007, deferred taxes were only carried for German companies.

Deferred taxes were netted directly with the share premium in the amount of EUR 315 thousand. This corresponds to the imputed tax reduction as a result of the costs which were incurred in connection with the company's capital increase in 2007 and which were netted directly with equity.

Deferred tax assets are only carried if it is probable that these tax advantages will be realized. The estimate to be performed in this regard can change as a result of future developments. As of December 31, 2007, deferred tax assets were carried for tax losses carried forwards in the amount of EUR 635 thousand (previous year: none). According to the current legal situation, there are no temporal or amount-based restrictions on carrying these losses forwards.

Deferred taxes are attributable to the following balance sheet items:

in EUR thousand	2007	2006
Provisions for pensions	313	242
Other assets and liabilities	1,671	214
Offset	-1,640	-401
Total deferred tax assets	344	55
Intangible assets	259	226
Property, plant and equipment	2,093	2,956
Other assets and liabilities	1,378	265
Offset	-1,640	-401
Total deferred tax liabilities	2,090	3,046

Deferred tax assets and liabilities are netted if these relate to future charges or reductions for the same taxpayer to the same tax authority.

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

in EUR thousand	2007	2006
Earnings before income taxes	7,397	6,413
Expected tax expense (39.9 %)	2,951	2,559
International tax rate differences	-533	-346
Tax rate change (39.9% to 31.6%)	-515	0
Effect of external audits for previous years	-481	0
Tax additions/reductions not impacting the tax base	42	42
Other differences	-44	-181
Reported income tax expense	1,420	2,074

Two external audits were completed for the period from 2000 to 2005 in 2007. Changes to the basis of taxation for the period from 2000 to 2003 were already taken into account in the consolidated financial statements as of December 31, 2006. There were no tax charges as provisions had been formed before for these changes. As a result of the subsequent external audit, there were also changes to the tax base resulting in a reduction of some of the deferred tax liabilities which had been formed as of December 31, 2006.

The dividend disbursement proposed by the Managing and Supervisory Boards for fiscal year 2007 will neither lead to a reduction nor an increase in income taxes for the SMT Scharf Group.

(8) Earnings per share

Given the weighted average of 3,897,534 issued shares, earnings per share for fiscal year 2007 total EUR 1.53. If the earnings from the previous year are based on the same number of shares to ease comparison, earnings per share total EUR 1.11. If the earnings from the previous year are based on the 3,000,000 shares of SMT Scharf AG which had been issued as of December 31, 2006, earnings per share total EUR 1.45 per share. Diluted earnings per share correspond to the basic earnings per share.

Notes to the balance sheet

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

The composition of and changes to intangible assets, property, plant and equipment and leased assets can be found in the statement of changes in fixed assets.

The historical or development costs for the intangible assets that must be capitalized according to IAS 38 are initially recorded under expenses (in particular personnel expenses) according to the total cost (type of expenditure) method, and then eliminated in the relevant period. The amortization of capitalized internally generated intangible assets is carried under depreciation and amortization. In 2007, development costs totaling EUR 376 thousand were capitalized for a project which fulfills the requirements of IAS 38.

Tallinn-based SMT Scharf International OÜ was acquired in fiscal year 2007. The difference resulting from the acquisition under IFRS is recorded under goodwill. The acquired company is a cash generating unit (CGU). According to the company's forecast, its future discounted cash flows exceed the goodwill disclosed. In addition, SMT Scharf Mining Machinery (Beijing) Co., Ltd was formed.

The SMT Scharf Group leases internally generated diesel cats and powerpacks as a lessor. On the balance sheet date, three leased items were carried in the statement of changes in fixed assets as leased assets. The resulting rental payments totaling EUR 123 thousand will end at the latest on June 30, 2008.

Consolidated statement of changes in fixed assets from January 1 to December 31, 2007

in EUR thousand		Initial balance 01.01.2007	Exch. rate difference from initial balance	Additions	Exch. rate difference from addition	Disposals	Exch. rate difference from disposal	Final balance 31.12.2007
Goodwill from consoli-dation	Gross	0	0	107	0	0	0	107
	D/A	0	0	0	0	0	0	0
	Net	0	0	107	0	0	0	107
Acquired intangible assets	Gross	315	2	23	0	0	0	341
	D/A	200	2	46	0	0	0	249
	Net	115	0	-23	0	0	0	92
Own work capitalized (development costs)	Gross	579	0	376	0	0	0	955
	D/A	72	0	112	0	0	0	184
	Net	507	0	264	0	0	0	771
Intangible assets	**Gross**	**895**	**2**	**506**	**0**	**0**	**0**	**1,403**
	D/A	**273**	**2**	**158**	**0**	**0**	**0**	**433**
	Net	**622**	**0**	**348**	**0**	**0**	**0**	**970**
Land and buildings	Gross	13,415	3	86	0	44	0	13,460
	D/A	6,525	3	397	0	35	2	6,888
	Net	6,890	0	-311	0	9	-2	6,572
Plant and machinery	Gross	3,489	25	93	0	750	0	2,857
	D/A	2,505	19	227	5	656	10	2,090
	Net	984	6	-134	-5	94	-10	767
Office and operating equipment	Gross	6,332	6	547	0	349	0	6,536
	D/A	4,297	7	405	0	145	1	4,563
	Net	2,035	-1	142	0	204	-1	1,973
Advance payments made	Gross	0	0	7	0	0	0	7
	D/A	0	0	0	0	0	0	0
	Net	0	0	7	0	0	0	7
Property, plant and equipment	**Gross**	**23,326**	**34**	**733**	**0**	**1,143**	**0**	**22,860**
	D/A	**13,600**	**29**	**1,029**	**5**	**836**	**13**	**13,541**
	Net	**9,909**	**5**	**-296**	**-5**	**307**	**-13**	**9,319**
Non-current assets	**Gross**	**24,131**	**36**	**1,239**	**0**	**1,143**	**0**	**24,263**
	D/A	**13,600**	**31**	**1,187**	**5**	**836**	**13**	**13,974**
	Net	**10,531**	**5**	**52**	**-5**	**307**	**-13**	**10,289**

Consolidated statement of changes in fixed assets from January 1 to December 31, 2006

in EUR thousand		Initial balance 01.01.2006	Exch. rate difference from initial balance	Additions	Exch. rate difference from addition	Disposals	Exch. rate difference from disposal	Final balance 31.12.2006
Acquired intangible assets	Gross	287	0	29	0	0	0	316
	D/A	152	0	49	0	0	0	201
	Net	135	0	-20	0	0	0	115
Own work capitalized (development costs)	Gross	530	0	49	0	0	0	579
	D/A	0	0	72	0	0	0	72
	Net	530	0	-23	0	0	0	507
Intangible assets	**Gross**	**817**	**0**	**78**	**0**	**0**	**0**	**895**
	D/A	**152**	**0**	**121**	**0**	**0**	**0**	**273**
	Net	**665**	**0**	**-43**	**0**	**0**	**0**	**622**
Land and buildings	Gross	13,853	0	86	0	524	0	13,415
	D/A	6,519	0	413	-3	404	0	6,525
	Net	7,334	0	-327	3	120	0	6,890
Thereof Investment Property	Gross	477	0	0	0	477	0	0
	D/A	345	0	13	0	358	0	0
	Net	132	0	-13	0	119	0	0
Plant and machinery	Gross	3,669	3	6	0	189	0	3,489
	D/A	2,297	1	257	2	52	0	2,505
	Net	1,372	2	-251	-2	137	0	984
Office and operating equipment	Gross	5,859	1	552	0	80	0	6,332
	D/A	4,038	0	338	0	79	0	4,297
	Net	1,821	1	214	0	1	0	2,035
Property, plant and equipment	**Gross**	**23,381**	**4**	**644**	**0**	**793**	**0**	**23,236**
	D/A	**12,854**	**1**	**1,008**	**-1**	**535**	**0**	**13,327**
	Net	**10,527**	**3**	**-364**	**1**	**258**	**0**	**9,909**
Non-current assets	**Gross**	**24,198**	**4**	**722**	**0**	**793**	**0**	**24,131**
	D/A	**13,006**	**1**	**1,129**	**-1**	**535**	**0**	**13,600**
	Net	**11,192**	**3**	**-407**	**1**	**258**	**0**	**10,531**

(10) Inventories

in EUR thousand	31.12.2007	31.12.2006
Raw materials, consumables and supplies	1,799	2,851
Work in progress	4,326	4,311
Finished goods and goods purchased for resale	2,479	2,252
Total	8,604	9,414

In 2007, write-downs for inventories to their lower realizable value totaled EUR 1,128 thousand (previous year: EUR 1,031 thousand).

(11) Receivables and other assets

None of the trade receivables or other current receivables have a remaining term of more than one year (previous year: EUR 62 thousand). The receivables include security deposits which have been agreed with customers in their delivery contracts in standard industry amounts. These deposits cover SMT Scharf's incidental services that are only to be provided once the risk has been transferred. Of the trade payables, EUR 4,920 thousand are due to a PoC receivable (previous year: none).

(12) Securities and cash and cash equivalents

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

Cash and cash equivalents exclusively comprises items that are subject to minor fluctuations in value and which have a remaining term of less than three months from their date of acquisition.

Of the securities and cash and cash equivalents, EUR 967 thousand are due to a hardship and social fund (previous year: EUR 959 thousand). This fund is managed in trust by a commission which includes both employer and employee representatives.

(13) Equity

The statement of changes in equity shows the development of the SMT Scharf Group's equity. The subscribed capital has totaled EUR 4,200 thousand since the capital increase in April. The share premium includes the premium from the capital increase less the transaction costs taking tax factors into account. Retained earnings contain prior-period profits generated by the Group, to the extent that they were not distributed.

As at December 31, 2007, 4,200,000 ordinary bearer shares of SMT Scharf AG had been issued in the form of no-par value shares with a notional value of EUR 1.00 per share. All shares have been fully paid in and grant the holders the same rights. The shares from the capital increase executed in 2007 carry full dividend rights for fiscal year 2007. The Managing Board was authorized by a resolution passed at the General Meeting on February 2, 2007 to increase the subscribed capital with the approval of the Supervisory Board by up to EUR 2,100 thousand until February 1, 2012. This can be done in one or more steps and against cash or in-kind contributions. Shareholders' subscription rights can be excluded during this process.

SMT Scharf AG's annual financial statements, which are prepared in accordance with the principles of the Handelsgesetzbuch (German Commercial Code) include net retained profits of EUR 3,094 thousand. The Managing and Supervisory Boards will propose to the ordinary General Meeting, which is to be held on April 10, 2008, to pay a dividend of EUR 0.70 per share for fiscal year 2007 from these net retained profits. This will result in a dividend disbursement of EUR 2,940 thousand, payable in 2008. The remaining EUR 154 thousand will be carried forward to new account.

(14) Provisions for pensions

The SMT Scharf Group has defined-benefit commitments to old-age, invalidity and survivors pensions in company pension schemes for its employees. The pension commitments result from various employer-financed direct commitments and from salary conversions based on a company agreement. In addition, there are indirect pension commitments according to the articles of association of the benefit fund of DBT e.V. All pension commitments are financed with provisions. There are no plan assets.

The amount of the pension commitments (projected unit credit of the benefit commitment or "defined-benefit obligation") was calculated using actuarial methods. The use of estimates is unavoidable in these calculations. In addition to the assumptions on life expectancies according to the K. Heubeck 2005 G mortality tables, the following assumptions were used:

in % p. a.	31.12.2007	31.12.2006
Rate of benefit increases	2.0%	2.0%
Rate of pension increases	1.0 – 2.0%	1.0 – 1.5%
Discount rate (DBO)	5.40%	4.75%

The changes in provisions for pensions are derived as follows:

in EUR thousand	31.12.2007	31.12.2006
Carrying amount – start of period	2,690	2,411
Current service cost	30	32
Interest expense	115	90
Recognized actuarial losses (gains)	0	0
Transfer of obligations less pension payments	-72	157
Carrying amount – end of period	2,763	2,690

The current service cost and interest expense are recorded in personnel expenses. The payments made comprise ongoing pension payments, the conversion of salaries and transfers of obligations. In fiscal year 2007, pension commitments were transferred for employees who have left the group. There was an outflow of cash from the SMT Scharf Group in the amount of the present value of the obligations transferred. One obligation was assumed in the previous year.

The changes in the defined-benefit obligation and the reconciliation to the carrying amount are as follows:

in EUR thousand	31.12.2007	31.12.2006
Defined-benefit obligation – start of period	2,561	2,322
Current service cost	30	32
Interest expense	115	90
Transfer of obligations less pension payments	-72	157
Actuarial gains/losses	-356	-40
Defined-benefit obligation – end of period	2,278	2,561
Unrecognized actuarial gains	485	129
Carrying amount – end of period	2,763	2,690

(15) Provisions

Non-current provisions exclusively relate to personnel. Current provisions are as follows:

in EUR thousand	31.12.2007	31.12.2006
Personnel	2,101	2,501
Sales	1,472	1,114
Income taxes	1,271	4,330
Miscellaneous other provisions	1,255	1,031
Total	6,099	8,976

Personnel-related provisions relate, in particular, to flexi-time balances, vacation entitlements and performance-related remuneration for employees.

Sales provisions relate, in particular, to warranty and follow-on costs. The costs in this regard were estimated on a project-by-project basis using prudent commercial judgment.

The miscellaneous other provisions relate, in particular, to expenses for missing incoming invoices and litigation costs. The results of current and future proceedings cannot be reliably predicted, with the result that expenses may be incurred that are not covered by insurance, rights of recourse or existing provisions, and which could have a material impact on the company and its results. The Managing Board believes that no decisions are to be expected in the currently pending or threatened litigation that could have a material negative impact on the SMT Scharf Group's financial position or results of operations.

All of the current provisions are due within one year. These have not been discounted as the impact would be minor.

The changes to provisions in 2007 can be seen in the following statement of changes in provisions:

Consolidated statement of changes in provisions from January 1 to December 31, 2007

in EUR thousand	Initial balance 01.01.2007	Currency translation	Transfers	Utilization	Additions	Reversal	Final balance 31.12.2007
Retirement benefits	2,690	0	-11	-121	205	0	2,763
Other	996	0	0	-91	0	-114	791
Total non-current provisions	3,686	0	-11	-212	205	-114	3,554
Taxes	4,330	0	0	-4,203	1,258	-114	1,271
Personnel	2,501	2	0	-1,327	984	-59	2,101
Sales	1,114	3	0	-33	685	-297	1,472
Other	1,031	0	0	-529	1,141	-388	1,255
Total current provisions	8,976	5	0	-6,092	4,068	-858	6,099
Total provisions	12,662	5	-11	-6,304	4,273	-972	9,653

Consolidated statement of changes in provisions from January 1 to December 31, 2006

in EUR thousand	Initial balance 01.01.2006	Currency translation	Transfers	Utilization	Additions	Reversal	Final balance 31.12.2006
Retirement benefits	2,411	0	202	122	199	0	2,690
Other	1,274	0	-2	16	33	293	996
Total non-current provisions	3,685	0	200	138	232	293	3,686
Taxes	2,424	0	0	0	1,906	0	4,330
Personnel	3,172	0	0	1,250	694	115	2,501
Sales	1,408	0	0	338	575	531	1,114
Other	767	0	0	350	942	328	1,031
Total current provisions	7,771	0	0	1,938	4,117	974	8,976
Total provisions	11,456	0	0	2,076	4,549	1,267	12,662

(16) Liabilities

As was the case in the previous year, none of the trade payables, advance payments received and other current liabilities including the current financial liabilities have a term of more than one year. The trade payables include PoC liabilities in the amount of EUR 1,020 thousand (previous year: none).

Mezzanine financing structured as a profit-participation certificate is carried under non-current liabilities. This has a term of seven years and is to be repaid in April 2013 in a lump sum.

There are no liabilities secured by liens.

Notes to the cash flow statement

The cash flow statement shows the changes in the SMT Scharf Group's cash and cash equivalents as a result of cash inflows and outflows during the period under review. In line with IAS 7, a distinction is made between cash flows from operating, investing and financing activities.

The net financial position in the cash flow statement comprises all of the cash and cash equivalents carried on the balance sheet, i.e., cash in hand and bank balances to the extent that these are available within three months (from the date of acquisition) without any notable fluctuations in value, less current financial liabilities.

The cash flows from investing and financing activities are identified directly, i.e., these are payment related. In contrast, the cash flow from operating activities is calculated indirectly from the earnings for the period. The cash flow from operating activities includes the following receipts and payments:

in EUR thousand	2007	2006
Interest received	416	239
Interest paid	473	537
Income tax paid	5,413	837

The net financial position included in the cash flow statement is derived from the cash and cash equivalents carried in the consolidated balance sheet as follows:

in EUR thousand	31.12.2007	31.12.2006
Cash and cash equivalents	11,567	2,313
Fixed-term deposit hardship and social fund	-227	-466
Current financial liabilities	-49	-446
Net financial position	11,291	1,401

Other information

(17) Other financial liabilities and contingent liabilities

The Company has no significant contingent liabilities that are unusual in the industry.

There are other financial liabilities in particular from rental and lease agreements for cars and photocopiers. The agreements have maturities of up to five years and in some cases include extension options and escalation clauses. In 2007, the rental and lease agreements resulted in payments totaling EUR 130 thousand (previous year: EUR 124 thousand) being recognized under other operating expenses.

The total of nominal future minimum lease payments under non-cancellable leases and operating leases is broken down by maturity as follows:

in EUR thousand	31.12.2007	31.12.2006
Due within one year	210	75
Due in one to five years	29	120
Due after more than five years	0	0
Total	239	195

(18) Fair values of financial assets and liabilities

When valuating the financial assets and liabilities, the management categorizes these in one of the following categories depending on their type and intended use upon their acquisition:

- Originated loans and receivables
- Held-to-maturity financial investments
- Original and derivative financial assets held for trading
- Available-for-sale financial assets
- Financial assets recognized in income at fair value

The SMT Scharf Group did not have any held-to-maturity financial investments, financial assets held for trading or available-for-sale financial assets in either 2007 or 2006. The Group did not engage in any derivative or hedge transactions. The fair value option was only used for securities in the hardship and social fund. No financial assets were recategorized in 2007 or in 2006. The valuation of financial assets and liabilities is discussed above in the information on the general accounting and valuation methods.

The carrying amounts and fair values of the SMT Scharf Group's financial assets and liabilities are broken down as follows for the categories:

in EUR thousand	31.12.2007		31.12.2006	
	Carrying amount	Fair value	Carrying amount	Fair value
Originated loans and receivables	12,711	12,711	7,576	7,576
(thereof < 1 year)	12,711	12,711	7,514	7,514
Trade payables and advance payments	3,439	3,439	2,543	2,543
(thereof < 1 year)	3,439	3,439	2,543	2,543
Other liabilities	1,455	1,455	1,075	1,075
(thereof < 1 year)	1,455	1,455	1,075	1,075
Loans received	4,888	4,804	5,272	5,272
(thereof < 1 year)	49	49	446	446

The fair values of the financial assets and financial liabilities are identified using the following hierarchy: If available, the fair value is determined based on listed market prices. If no such market prices are available, the fair value is determined in accordance with generally recognized valuation models based on DCF analyses and current market transactions and traders' listings for similar instruments. For the mezzanine financing the company's banks provided the company with an indication of the interest rate applicable to comparable financing on December 31, 2007; this resulted in a fair value of EUR 4,755 thousand.

(19) Capital risk management

Management controls the SMT Scharf Group's capital (equity plus liabilities) with the aim of maintaining financial flexibility so as to achieve the Group's growth targets while simultaneously optimizing financing costs. The overall strategy in this regard is unchanged year-on-year.

The management reviews the company's capital structure regularly upon the reporting dates. In doing so, it reviews the capital costs, the collateral provided and the open lines of credit plus 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 in 2007 as compared to 2006:

	31.12.2007	31.12.2006	% of previous year
in EUR thousand			
Equity	22,730	5,783	393 %
Liabilities	21,526	24,599	88 %
(thereof < 1 year)	11,043	13,040	85 %
(thereof > 1 year)	10,483	11,558	91 %
in % of total assets			
Equity	51.4	19.0	
Liabilities	48.6	81.0	
(thereof < 1 year)	25.0	42.9	
(thereof > 1 year)	23.6	38.1	

(20) Financial risk management

SMT Scharf AG's Managing Board controls the purchase and sale of financial assets and liabilities and monitors the associated financial risks. These risks are managed as described below:

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 lines of credit available. The total unused amount totaled EUR 7,500 thousand on the balance sheet date (previous year: EUR 2,585 thousand). The group also has guarantee credit lines available. Management expects that the Group will be able to fulfill its other financial liabilities from its operating cash flow and the proceeds from maturing financial assets.

Credit risks: The maximum risk of default is the carrying amount of the financial assets disclosed in the consolidated financial statements, less write-downs. This totals EUR 12,711 thousand (previous year: EUR 7,576 thousand).

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

There are no uniform payment conditions within the group, as individual agreements are concluded for equipment orders. SMT Scharf writes receivables off if targets are substantially exceeded. This approach is based on past experience which shows that, as a rule, no payment can be expected from receivables that are more than six months overdue. There were write-downs for doubtful receivables totaling EUR 300 thousand (previous year: EUR 90 thousand). No write-downs have been formed for trade receivables in the amount of EUR 1,922 thousand (previous year: EUR 1,654 thousand) that were overdue on the balance sheet date, as no material change was ascertained in the contractual party's creditworthiness, and it is expected that the outstanding amounts will be paid. The Group does not have any collateral for these unpaid items. The maturities of the overdue receivables that have not been written down are as follows:

in EUR thousand	31.12.2007	31.12.2006
1 to 30 days	1,568	1,375
From 31 days	354	279
Total	1,922	1,654

Market risks: Market risks can result from changes to exchange rates (exchange rate risk) or interest rates (interest rate risk). As these risks are currently of minor relevance for the group, these have not been hedged using derivative financial instruments. These are managed by constantly monitoring the cash flow and monthly reporting to the Group's management. Exchange rate risks are avoided in that the Group mostly issues its invoices in euros or in local currency. Exchange rate hedges are concluded for major transactions. The group is currently not subject to any major interest rate risks as it borrows at fixed interest rates.

(21) Supervisory Board

The members of the Supervisory Board of SMT Scharf AG in fiscal year 2007 were:

Dr. Dirk Markus, Feldafing (Chairman)	CEO of Aurelius AG	AURELIUS Beteiligungs AG, Munich, Chairman of the Supervisory Board (to 12/2007) AUR Beteiligungsberatungs AG, Munich, Chairman of the Supervisory Board Compagnie de Gestion et des Prêts S.A., Saran (France), Member of the Board Geyer AG, Nuremberg, Chairman of the Supervisory Board (to 08/2007) Investunity AG, Munich, Chairman of the Supervisory Board, Lotus AG, Feldafing, Chairman of the Supervisory Board Quelle La Source S.A., Saran (France), Member of the Board
Florian Kawohl, Frankfurt am Main, (Deputy Chairman)	Director Research	(no other mandates)
Ulrich Radlmayr, Schondorf a. A.	Lawyer, in addition from January 1, 2008 member of Aurelius AG's Managing Board	AUR Beteiligungsberatungs AG, Munich, Member of the Supervisory Board Geyer AG, Nuremberg, member of the Supervisory Board (to 08/2007) Quelle La Source S.A., Saran (France), Member of the Board

The members of the Supervisory Board receive fixed remuneration of EUR 10 thousand and the Chairman receives EUR 15 thousand for each fiscal year in addition to reimbursement of their out of pocket expenses. Remuneration will be paid for the first time for fiscal year 2007; it is paid on a pro rata basis if members leave the Supervisory Board during the year. As of December 31, 2007, the members of the Supervisory Board did not hold any shares of the Company.

There is no remuneration for former members of the Supervisory Board or their survivors, nor are there any pension obligations for this group of people. There are no advances, loans or contingent liabilities in favor of the members of the Supervisory Board.

(22) Managing Board

The members of the Managing Board of SMT Scharf AG in fiscal year 2007 were:

Dr. Friedrich Trautwein (CEO from February 1, 2007),
Heinrich Schulze-Buxloh (from February 1, 2007).

Dr. Trautwein is Chairman and Mr. Schulze-Buxloh is a member of the Supervisory Board of SMT Scharf Polska Sp. z o. o..

Members of the Managing Board receive remuneration comprising a fixed basic annual salary and an annual performance-related bonus, plus reimbursement of their out-of-pocket expenses. The bonus for a fiscal year is set and becomes due in the following fiscal year. A provision is formed in this regard at the end of the fiscal year. The following remuneration was recognized as expenses in fiscal year 2007:

in TEUR	Dr. Trautwein	Schulze-Buxloh
Basic remuneration	120	118
Bonus	360	32
Insurance	0	14
Total	480	164

There were pension commitments totaling EUR 70 thousand to Mr. Schulze-Buxloh from the conversion of salary components for previous fiscal years. There are no share-based payments, no commitments to make payments in the event that the employment relationship ends, and no agreements for compensation in the event of a takeover offer. On December 31, 2007, Dr. Trautwein held 39,400 shares of the company, and Mr. Schulze-Buxloh held 1,000 shares.

There is no remuneration for former members of the Managing Board or their survivors, nor are there any pension obligations for this group of people. There are no advances, loans or contingent liabilities in favor of the members of the Managing Board.

(23) Declaration pursuant to Section 161 of the Aktiengesetz

As a listed company, SMT Scharf AG has to issue a declaration within the meaning of Section 161 of the Aktiengesetz as to the extent to which it corresponds to the recommendations of the “German Corporate Governance Code Government Commission”. The Managing and Supervisory Boards issued this declaration on December 14, 2007. It will be published together with the 2007 annual financial statements and consolidated financial statements, and made available to shareholders at the same time at www.smtscharf.com.

(24) Related party disclosures

In fiscal year 2007, services totaling EUR 105 thousand were purchased from related parties as defined by IAS 24 at standard market conditions. These relate to Aurelius Management GmbH, Metraplan Research und Beratungs GmbH, Craftbond Ltd, MACH Holding GmbH and the law firm Aigner Fischer Radlmayr. No services were provided to related parties.

(25) Events after the balance sheet date

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

In January, SMT Scharf AG resolved to implement an employee equity participation program within the meaning of Section 71 (1) No. 2 of the Aktiengesetz. Up to 14,400 shares will be acquired from January to March 2008. The purchases will be published under www.smtscharf.com. The program will be implemented in accordance with Regulation (EC) No. 2273/2003.

Hamm, February 1, 2008

Dr. Friedrich Trautwein Heinrich Schulze-Buxloh

RESPONSIBILITY STATEMENT

To the best of our knowledge, and in accordance with the applicable reporting principles, the IFRS consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group, and the group management report includes a fair review of the development and performance of the business and the position of the group, together with a description of the principal opportunities and risks associated with the expected development of the group.

Hamm, February 1, 2008

Dr. Friedrich Trautwein　　Heinrich Schulze-Buxloh

AUDITOR’S REPORT AND OPINION

We have audited the IFRS consolidated financial statements, comprising the balance sheet, the income statement, the statement of changes in equity, the cash flow statement and the notes to the financial statements as well as the group management report of SMT Scharf AG for the business year from January 1, 2007 to December 31, 2007. The preparation of the IFRS consolidated financial statements and the group management report in accordance with the IFRS whose application is mandatory in the European Union (EU) and with the additionally applicable financial-accounting provisions of Art. 315a (1) HGB (German Commercial Code) is the responsibility of the Company’s management. Our responsibility is to express an opinion on the consolidated financial statements and the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Art. 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the IDW (Institute of Public Auditors in Germany). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the IFRS consolidated financial statements in accordance with applicable principles of proper accounting and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the IFRS consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes evaluating the annual financial statements of the consolidated companies and the scope of consolidation, assessing the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the IFRS consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the IFRS consolidated financial statements comply with the IFRS whose application is mandatory in the EU, and with the additionally applicable financial-accounting provisions of Art. 315a (1) HGB, and, with due regard to these standards, regulations and provisions, give a true and fair view of the net assets, financial position and results of operations of the group. The group management report is consistent with the IFRS consolidated financial statements and as a whole provides a suitable view of the group's position and suitably presents the opportunities and risks of future development.

Düsseldorf, February 1, 2008

Verhülsdonk & Partner GmbH
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Dr. Michael Hüchtebrock Auditor	Rainer Grote Auditor

FINANCIAL CALENDAR 2008

February 29, 2008	Publication of the financial report for 2007
April 10, 2008	Annual general meeting
May 6-7, 2008	Analyst conference as part of the V. Munich Capital Market Conference
May 30, 2008	Publication of the financial report for the 1st Quarter 2008
August 29, 2008	Publication of the financial report for the 2nd Quarter 2008
November 10-12, 2008	Analyst conference as part of the Eigenkapitalforum in Frankfurt / Main
November 28, 2008	Publication of the financial report for the 3rd Quarter 2008
December 31, 2008	End of the fiscal year

Changes being reserved.

Legal Notice

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

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

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

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