SCHARF
SOLUTIONS FOR MINING TRANSPORT

# ANNUAL REPORT 2008

# TABLE OF CONTENTS

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

# LETTER TO SHAREHOLDERS

Dear shareholders and business partners,

2008 was a successful year for SMT Scharf AG – the group enjoyed major progress in its internationalization. We formed a subsidiary in Russia, allowing us to offer our own services there in future. As a result of our more intense sales efforts, we have also been able to acquire several new customers, including in China, South Africa and Ukraine. At the same time, the fourth quarter was also characterized by the impact of the recession on some key markets.

The SMT Scharf Group generated revenues of EUR 49.7 million in 2008, after EUR 51.2 million in the previous year (-3%). This was primarily due to the fact that Russian customers postponed orders at the start of November that would originally have been shipped before the end of 2008. This was coupled with the fact that no follow-on orders for materials handling equipment could be signed that would have been comparable with the major projects in 2007. In spite of this, we were able to increase the proportion of foreign revenues once again to 75% compared to 74% in 2007.

EBIT fell from EUR 7.5 million to EUR 7.4 million (-1%). However, we were able to increase the EBIT margin further from 14.6% to 14.9%. In particular the further increase in foreign assembly activities and measures to cut product costs played a role in this regard. In contrast, negative developments in exchange rates and one-off costs for capacity adjustments at German facilities depressed earnings.

Net income in 2008 fell by 12% to EUR 5.3 million from EUR 6.0 million. Last year, this was positively impacted by the reduction in deferred tax liabilities as a result of the reform of corporate taxation in Germany.

All in all, the SMT Scharf Group was able to conclude 2008 with a better result than we had expected early November after the surprising postponements of orders from Russia. Our shareholders should enjoy a reasonable participation in this result. This is why the Managing and Supervisory Boards are making a proposal to the General Meeting for fiscal year 2008 to disburse a dividend of EUR 0.70 and a bonus dividend of EUR 0.15, or a total of EUR 0.85 per share. This corresponds to a distribution rate of 68% of the consolidated net income for the year. That means that we continue to offer our shareholders a highly attractive dividend yield, and also uphold the foundations for sufficient intrinsic financing for our further international expansion. The progress we made in 2008 has reinforced us in our corporate strategy which is geared to internationalization – irrespective of individual set backs. It also confirms our expectation that we will be able to further increase the SMT Scharf Group's revenues and earnings on average over the coming years.

We would like to thank you – our investors, business partners and customers – for the trust you 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 2008, 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 about the direction of SMT Scharf AG and the Group's companies, the company's strategic orientation and its planned acquisitions, as well as the status of implementation of the strategy.

In its four ordinary meetings on February 28, April 10, October 2 and December 5, 2008, all of which were attended by all of its members, the Supervisory Board held in-depth discussions of all issues of relevance for the company. The Supervisory Board discussed ongoing business growth, strategic concepts, short and medium-term company forecasts, capital expenditure forecasts, income and liquidity developments, actual risks and risk management as well as key organizational and staff changes with the Managing Board. The Supervisory Board also dealt thoroughly with corporate governance issues, also including a review of its own efficiency.

The Supervisory Board received in-depth information on the course of the fiscal year in all of its meetings. Key transactions and the development in financial indicators were also discussed at all of the Supervisory Board meetings. The meeting on February 28, 2008, focused on the annual financial statements and the IFRS consolidated financial statements for fiscal year 2007 together with the associated management reports. During this meeting, the Supervisory Board discussed the current situation for hard coal mining in Germany's Saarland region after the earthquake and the possible impact on SMT Scharf Saar GmbH. The meeting on April 10, 2008, again dealt with the likely development of SMT Scharf Saar GmbH. In addition, the Supervisory Board discussed activities to drive international sales. The meeting on October 2, 2008, focused on the Group's medium-term staffing plans, and its current and pending product development projects. On December 5, 2008, the Supervisory Board discussed, in particular, the company's forecast for 2009, the impact of the increasingly apparent economic crisis on SMT Scharf's business and possible countermeasures. In addition, this meeting focused on the declaration of conformity within the meaning of Section 161 of the Aktiengesetz (German Public Limited Companies Act) for 2008, which was then passed by the Supervisory and Managing Boards.

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 the acquisition of Sareco Engineering and changes to the group's structure. 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 the Supervisory Board during the course of fiscal year 2008. There were no committees. By way of a resolution dated July 11, 2008, the Supervisory Board prolonged Mr. Heinrich Schulze-Buxloh's appointment as a member of the Managing Board by two years through to December 31, 2011.

The members of the Supervisory Board fulfilled and continue to fulfill the independence criteria stipulated by the German Corporate Governance Code. Conflicts of interest within the meaning of the Corporate Governance Code were avoided. The Managing and Supervisory Boards issued a declaration of conformity according to Section 161 of the Aktiengesetz on December 5, 2008. This has been published in the meantime and made accessible 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 2008 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 all of the findings that are material for the Supervisory Board's work that he became aware of while conducting the audit.

In its meeting on March 5, 2009, 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 2008. 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 2008. 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 2008.

The company's Managing Board proposes to distribute a dividend of EUR 0.70 per share and a bonus dividend of EUR 0.15, or a total of EUR 0.85 per share from the company's net retained profits totaling EUR 3,953 thousand. This corresponds to a total disbursement of EUR 3,570 thousand. The remaining amount of EUR 383 thousand will be carried forward to new account. The Supervisory Board has reviewed and approved this proposal.

The Supervisory Board would like to thank all of the members of the Managing Board and all of the employees for their dedication and commitment during the past fiscal year, and wishes them the very best success for the challenges they will face in 2009.

Hamm, March 5, 2009

Dr. Markus
Chairman of the Supervisory Board

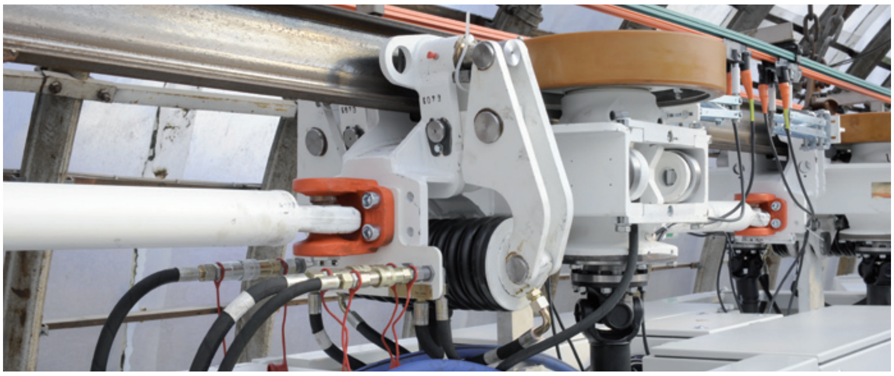
# BUSINESS MODEL

## 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 railway at work carrying a load

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.


Friction wheels are the mostly used means of power transmission

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 4 meter, and vertical radii of up to 10 meter.

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.


EMTS, the electric monorail hanging railway offers an alternative to diesel engines

## Mining chairlifts

Chairlifts offer a highly economical transport solution to mines that have to transport a large number of people over long distances underground. They are widespread in mining in South Africa, India and China in particular. There are many mines in these countries where the actual excavation work takes place relatively far away from the closest shaft, that have inclines on the connecting routes, and which are operated with a low degree of automation. This offers SMT Scharf a special opportunity, because these very connecting routes are also suitable for use with rail-bound railways if the mines are to be automated or expanded in future.


Chairlift drive, designed by SMT Scharf

SMT Scharf has already been supplying chairlifts to mines in South Africa and neighbouring countries since the mid-eighties. In order to expand its business, the company developed a new drive design last year. After just a few months, the first customer placed an order for a latest generation chairlift. Customers are also increasingly preferring the new drive when modernizing existing chairlifts.

In order to further expand this line of business, SMT Scharf acquired the South African manufacturer Sareco in 2008. This company specializes in chairlifts for ore mining. It was formed in 1982 and leads the Southern African market.

SARECO
SOUTH AFRICAN ROPEWAY ENGINEERING COMPANY

A key characteristic of chairlifts is that they can adjust flexibly to the various route profiles – this is very similar to SMT Scharf's rail-bound railways. They can transport between 400 and 900 people per hour in each direction on a route of up to 3,000 m. It is also possible to use them for horizontal curves with a four-meter radius and to change between routes with inclines and declines, up to a maximum decline of 45 degrees. Interim stations for mounting and dismounting can be added to serve several points in the mine.

The chairlifts for transporting personnel underground are substantially more compact and can deal significantly better with curves than traditional lifts – for example those used above ground as ski-lifts. The drive station is generally at the higher end of the route for mining chairlifts. They are driven either electro-mechanically or electro-hydraulically. In hard coal mining in particular the drives are encapsulated, as are the other electrical components, so that they fulfill the national regulations concerning explosion protection (e.g. ATEX). At the other end of the chairlift, a return station with a tensioning device ensures that the cable is re-directed and remains under tension, even given the great changes in load. Cable guidance rolls and mounting and dismounting stations are located along the route, depending on the route's profile.

## 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 830 systems installed worldwide, 375 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 100% of the systems in Germany, and 29% 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.

Specially trained experts assemble a monorail hanging railway in Hamm

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.

## The importance of coal – then and now

*Commodity with a long history*

Coal hasn't only just started to play a key role in the global energy supply. It has a long-standing tradition: According to reports it was already used around 1,000 bc to smelt copper and to mint coins. There is evidence from the period around 400 ad that the Romans used energy produced from coal. The first written evidence of coal mining in Europe stems from the middle ages. There was already some coal trade in the middle ages, too. Coal dust from open faced coal deposits was collected on the English coast and exported to Belgium.

Demand for coal increased significantly in the 18th and 19th century, driven in particular by the industrial revolution, the increasing iron and steel production and the spread of steam engines. This was coupled with the production of coal gas for public lighting in many cities. The increase in the use of coal was also closely linked to electricity production: The first coal-fired power plant was opened in 1882 in New York, and generated electricity for domestic lamps. In the 1960s as a result of the enormous growth in the transport sector, oil finally overtook coal as the largest source of primary energy.

A difference is made between steam coal and coking coal, depending on their respective uses. Steam coal is used in power plants to generate electrical energy and district heating. Hard coal, brown coal and peat can be used in this regard. After being transformed into coke, coking coal is used to create pig iron in the steel industry. Only certain types of hard coal are suitable to be further processed to become coke. As the coal mined often does not have the requisite characteristics for further processing, it is prepared by washing, grading and breaking.

*Coal: Jack of all trades*

One of the reasons for coal's historic success is its versatility. At present, coal covers 30 % of global primary energy consumption according to surveys by the International Energy Agency (in 2007). This means that it is the second most important energy commodity next only to crude oil. It's most important uses are:

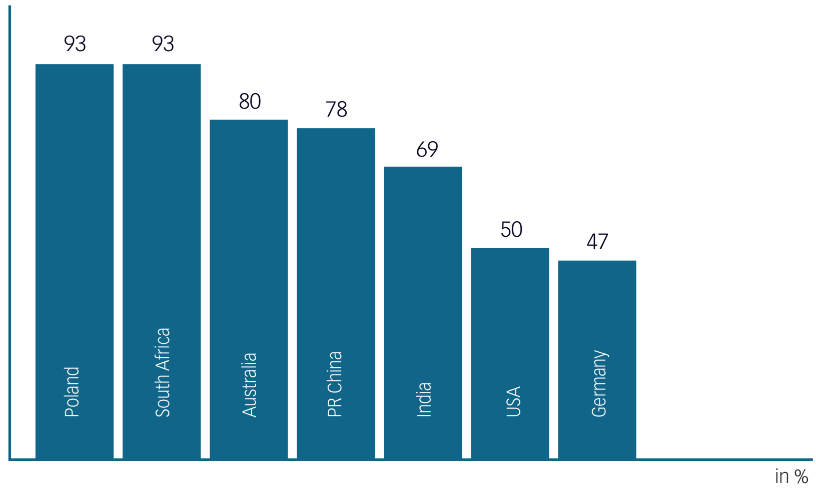
- Combustion to generate electricity, in some cases also with use of the resulting heat
- Smelting together with iron ore to create pig iron and further processing to create steel
- Combustion to generate heat in the industrial manufacture of cement and other materials
- Liquefaction to create fuels and plastics, among others

Other major coal users include aluminum oxide refineries, paper manufacturers and the chemicals and pharmaceuticals industry. Coal's byproducts can also be used to produce a large number of chemical products. Refined coal tar is used to produce chemicals such as creosote, napthalene, phenol and benzene. The chemical industry uses the ammonia gas produced in coking ovens to generate ammonia salts, nitric acid and agricultural fertilizers. Coal and its byproducts are included in many products, although this is not immediately visible. These include soap, aspirin, solvents, dyes, plastics and artificial fibers such as viscose and nylon.

*Coal – a vital source of electricity*

Coal is by far the most important raw material in global electricity generation. In 2007 37 % of global electricity was generated from coal. This proportion is significantly higher in many countries. It accounts for 78 % in China, 69 % in India and 50 % in the USA. A key factor for the far-reaching electrification in emerging nations is the availability of low-priced coal. For example, in China 700 million people have been connected to the electricity grid over the past 15 years. 99 % of the country now has an electricity supply. The electrification of this country and thus its dynamic economic growth would not have been possible to this extent without low-priced coal being available.

## Coal in Electricity Generation




Source: World Coal Insitute - Coal Facts 2008

When electricity is produced in power plants, steam coal is ground to a fine powder and is combusted at a high temperature. The resulting hot gases and heat energy are used to turn water which runs through pipes integrated into the boiler walls into steam. This steam is fed into a turbine. A generator at the end of the turbine shaft generates electricity. The steam then condenses again, is returned to the boiler, where it is heated again.

*Coal as the basic material for iron, steel and cement production*

Coal is one of the most important raw materials for iron and steel production. Around 66 % of global steel production is made from iron that is produced in coal-powered furnaces. In 2007, 1,344 million tons of raw steel was produced worldwide using around 750 million tons of coal.

Furnaces use iron ore, coke (which is produced from coking coal) and small amounts of limestone. Some furnaces use lower-priced steam coal to cut costs. The raw materials are added to the top of the furnace. Air is heated to around 1,200 degrees Celsius and jet-fed into the lower part of the furnace. The air causes the coke to burn producing carbon monoxide, which creates the chemical reaction. Iron ore is reduced to molten iron as the oxygen is removed. The iron then flows to an OBM converter, where steel scrap and more limestone are added and 99 % pure oxygen is blown into the mixture. The reaction with the oxygen causes the temperature to increase to up to 1,700 degrees Celsius, the impurities oxidize and nearly pure liquid steel remains. Around 630 kg of coke is required to produce 1,000 kg of steel. OBM converters currently produce around 66 % of the world's steel.

Coal is also used as a source of energy for other steel producing technologies and in cement production. Around 450 kg of coal are needed for every 900 kg of cement produced. When this is mixed with water and gravel it becomes concrete, the basic building material for modern society. More than 1,350 million tons of cement are used in building world wide every year. Coal combustion products can also play a key role in concrete production. These include flue dust, ground dust, boiler slag and gypsum from flue gas desulfurization. Flue dust can be used, for example as a cement additive in concrete.

*Coal as a liquid fuel – South Africa is the pioneer*

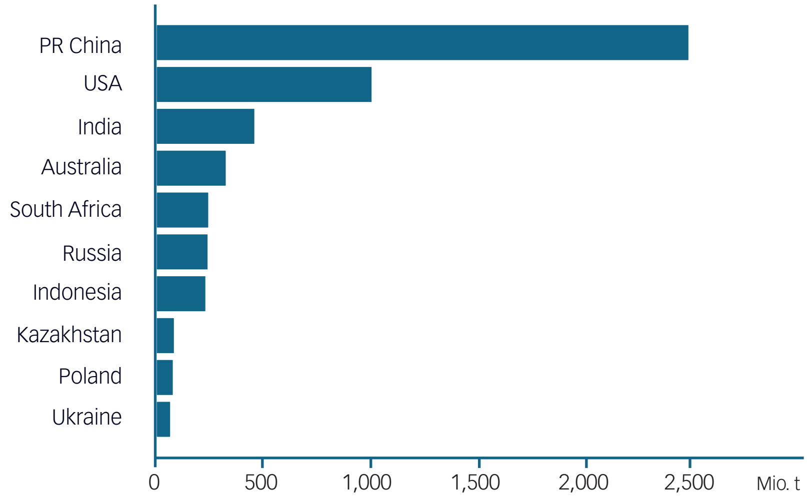
In some countries, such as South Africa, coal is also turned into a liquid fuel. This is refined to produce petrochemical products such as transport fuels, plastics and solvents. This allows coal to be used as a replacement for crude oil – the economic effectiveness of this process thus depends on the global oil price. The more expensive oil becomes, the more economic coal liquefaction becomes. Over the past decades, some countries have produced liquid fuels from coal on a large scale as they were cut off from sources of crude oil. South Africa still produces large quantities of liquid fuel and is the world's leader for coal liquefaction technologies. This country covers around one third of its own requirements for liquid fuels from coal. Coal liquefaction projects are also currently being driven in the USA, Australia and China. These countries plan to thus use their enormous coal deposits, and reduce their future dependency on imported crude oil.

*Global deposits*

Another reason for coal's historic success over the past centuries is its broad availability. While almost two thirds of the world's oil deposits are to be found in a single region, the Middle East, coal deposits are significantly wider spread. North America accounts for the largest share of the world's deposits at slightly more than one quarter.

Coal production also spans many countries. According to a survey by the Federal Institute for Geosciences and Commodities (BGR), more than 6,500 million tons of coal were mined in 2007, of which 5,523 million tons were hard coal. Of this total, China accounted for 2,479 million tons as the largest producer, followed by the USA with 981 million tons. European countries, where industrial coal use started in the eighteenth century, accounted for 166 million tons. Poland produced around half of this total, making it by far the largest coal-producing country in Europe.

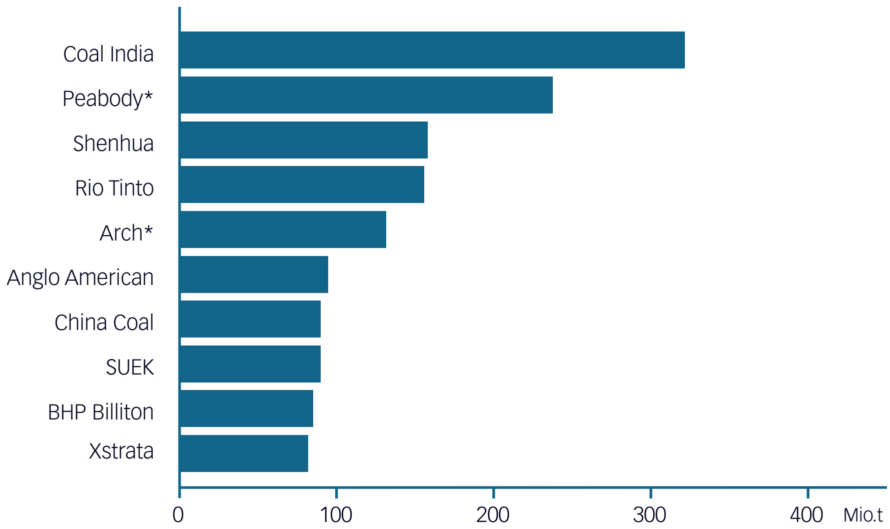
## Top ten hard coal producing countries (2007)




Source: Federal Institute for Geosciences and Natural Resources (BGR)

The geographic concentration of production is partially reflected in the location of the companies that are regarded as being the largest coal producers. In China, more than three quarters of production is now due to mining groups with national operations. The two most important groups, Shenhua and China Coal, rank among the ten largest producers of hard coal world wide. This ranking is topped by Coal India, which accounts for around 80 % of Indian coal mining. In addition, the top ten also includes several US and Australian mining groups with international operations. For example, Rio Tinto operates coal mines in Australia, Indonesia and the USA. Finally, a Russian company also ranks among the world's ten largest coal producers, the semi-state company SUEK.

## Top ten hard coal producing companies (2007)



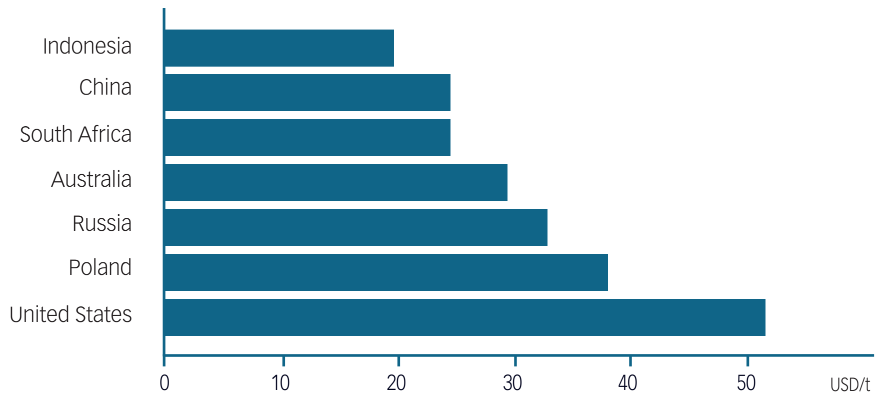

* Own production and trading

Source: McCloskey Group

*Low-cost production*

According to estimates by the International Energy Agency, the costs for producing exportable hard coal in countries that account for the bulk of production are between approx. $20 per ton in Indonesia, China and South Africa and approx. $50 in the USA. Of this total, the pure mining costs account for between one third and half of costs depending on the country and the deposit. with the remainder relates to costs for preparation, transport costs within the country to the harbor, and taxes. Estimates by the International Energy Agency do not include any write-downs or financing costs. These are high absolute amounts, however these are distributed over long useful lives of the equipment. They differ significantly depending on country, mining and transport method. Typically, they account for less than $10 per ton mined.

**Production costs for internationally traded steam coal**




Source: IEA Clean Coal Centre

A little more than 15% of the hard coal mined world wide is exported. Freight costs have fluctuated greatly over the past few years. They thus made a major contribution to the temporary significant increase in coal prices in 2008. Without taking temporary increases as a result of scarce freight capacity, see freight costs for hard coal were mostly between $10 and $20 per ton, and sometimes up to $30 according to surveys by the International Energy Agency. Depending on the type of coal and transport, they thus account for one third to more than half of the price of coal in the import harbor.

Including all freight costs and other charges, import prices for hard coal are still significantly below the current production costs in a country such as Germany. The German Verein der Kohlenimporteure (VDKI) estimates the production costs in Germany to be around € 170 per ton of coal. There are no official figures.

*Underground moves: A look into a Chinese coal mine*

In 2008 SMT Scharf was able to convince several new customers in China of the advantages offered by rail-bound railways technology – including a company originally formed in 1956 which now ranks among the top 25 Chinese coal producers. This company opened a new mine in Shandong province in the fall of 2008. In future, this mine is to produce around 8 million tons of hard coal per year. The bulk of this will be for use in power plants, and there are also smaller deposits of coke. The mining company plans to use SMT Scharf's transport technology to become one of China's most modern and productive hard coal mines.

The shafts and the connections to the first intended mining point were dug up through to September 2008, and then the mining equipment was taken to its point of use. As is the case at many other coal deposits, the valuable commodity in this mine is to be found in several bands, some of which are wave-shaped or which lie diagonally, at depths of 600 to 800 meters. Moving all of the components to their next point of use as quickly as possible is a logistics challenge – a lot of the items of equipment weigh many tons. Transporting the powered roof support units is particularly time-intensive. These supports, which can be moved hydraulically and allow efficient coal mining, are around three meters tall in this mine, weighing in at 18 tons each.

In other mines, the Chinese workers have to disassemble these units into easier to handle individual components every time they are transported – and that takes time and effort. They are then moved over the ground using winches and railcars. If the incline changes, or if the connecting tunnel goes around a curve, the respective item being transported is passed from one winch to the next – a method prone to disruptions and accidents. Finally, the workers put the units back together again at their next point of use. This work demands a lot of time and staff.

But that will be a thing of the past as soon as SMT Scharf's state-of-the-art transport systems have been installed. The Shandong mine now moves these items, which weigh several tons, from one location to the next without the effort of disassembling them. As soon as mining has stopped at one location, they are folded together one after another, and pulled out of the face that has just been finished. They are then attached to the lifting beams on the SMT Scharf trains using safety chains. Then they are driven to their next point of use. Because these connecting routes follow the coal deposits, inclines of 10 degrees, and sometimes up to 22 degrees, have to be overcome. This is coupled with the fact that water makes its way into the tunnels through the rock. The water has temperatures of between 40 and 50 degrees Celsius, with humidity in the tunnels of approx. 97 %. SMT Scharf's railways also function reliably even under these adverse conditions.

Using rail-bound railway technology saves mine operators more than half the time – thus significantly improving the mine's productivity. This is coupled with the increased degree of safety which is also becoming an increasingly important factor in investment decisions in China. Despite these clear advantages, the prevalence of rail-bound railways is still in its infancy in many countries, including in China, as underground mines are only starting to automate step-by-step.

In contrast, diesel-engine rail-bound railways have been on the scene in European hard coal mines since the 1960s thanks to their versatility and great reliability. Major mines with more than 1.5 million tons of production each year use ten or even more of these trains to solve a wide variety of underground transport tasks

# 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. SMT Scharf was one of four new issues in the Prime Standard to enjoy positive share price performance over the year. This positive trend initially continued in 2008 – in particular compared to the SDAX. Until mid-August 2008, SMT Scharf AG's shares were able to continue to break away from the general weak performance among small caps, and reached a new high price of EUR 12.15 on April 9, 2008. The SDAX fell during this period. However, SMT Scharf AG's shares were then not able to escape the clutches of the global financial crisis and the surrounding market. On October 8, 2008, the shares bottomed out at EUR 5.50. They recovered slightly in November, closing at EUR 7.00 on December 30. This means that the share price was down 29.7 % year on year, however the SDAX fell by 46.1 % to 2,800 points over the same period.

### Share price information for 2008 (XETRA)

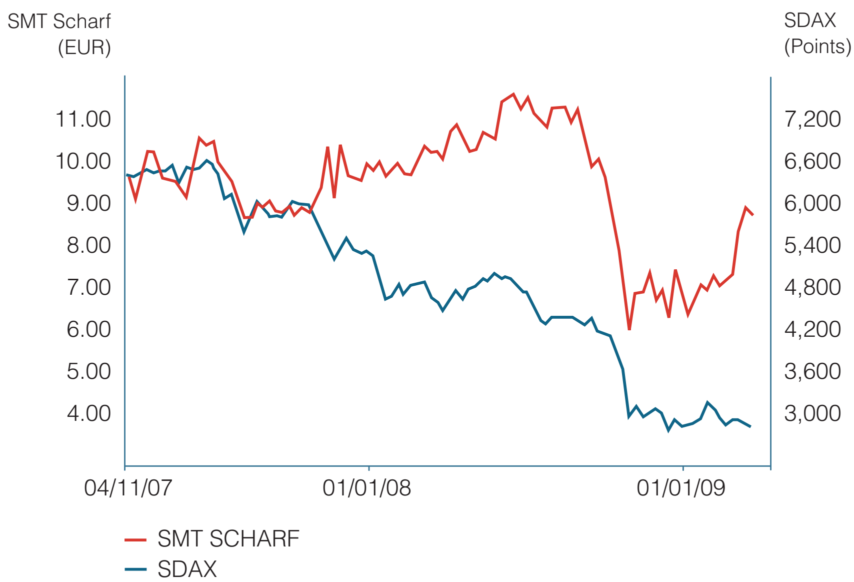
| | |
|---|---|
| Closing price 2007 | EUR 9.95 |
| Highest price | EUR 12.15 |
| Lowest price | EUR 5.50 |
| Closing price 2008 | EUR 7.00 |

Since the start of 2009, SMT Scharf AG's shares have again clearly set themselves apart from the performance of the SDAX: On February 28, 2009, the shares cost EUR 8.60, and thus 22.8 % more than at the end of 2008. In contrast, the SDAX fell again by 21.1 % since the start of the year, and totaled 2,210 points at the end of February.

### 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 |

## Share performance since IPO




**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 and ad hoc disclosures on business developments. In addition, SMT Scharf presented itself at several investors' conferences, the last of which was the Germany Equity Forum in Frankfurt in November 2008. The Company enjoyed great attention from institutional and retail investors and from analysts at these events. 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 Meeting 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 Board 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 that the declaration of conformity with the German Corporate Governance Code issued by the Managing and Supervisory Boards is 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). Notices of corresponding transactions in 2008 were submitted to the German company register and can be viewed online at www.unternehmensregister.de. The shareholdings of members of the Supervisory and Managing Boards on December 31, 2008, are listed in the notes to the IFRS consolidated financial statements.

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 systems" 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 5, 2008. 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 14, 2007, and June 6, 2008, with the following exceptions:

- 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 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. It is intended to develop a longer term succession planning. Not including an upper age limit upholds the German law on equal opportunities.
- 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.

Hamm, December 5, 2008

Dr. Markus Kawohl Radlmayr

Dr. Trautwein Schulze-Buxloh

# GROUP MANAGEMENT REPORT

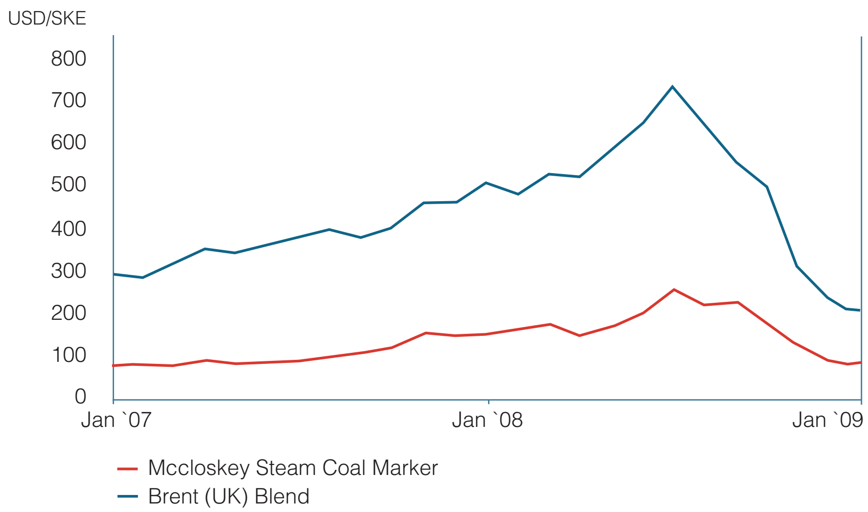
## Macroeconomic environment

The SMT Scharf group develops, builds and maintains rail-bound railway systems for mining and use in tunnels. The trains 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 with working loads of up to 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 raw materials, in particular for hard coal, is the key factor to influence the SMT Scharf Group's business. In 2008, demand enjoyed positive growth, however it fell in the fall as a result of the financial crisis and the ensuing recession on several key markets. Many coke mines whose output is used in steelmaking slashed their production from November, because demand from steel mills vanished. In contrast, coal mining for electricity generation remained at a high level, and even increased somewhat. Global hard coal production growth is estimated to be 5 % to 7 % in 2008 as a whole, in line with previous years.

Prices for coal mostly tagged oil prices during the year, however coal prices were more stable than oil. The Mccloskey Group's Steam Coal Marker Price lifted by around 70 % in the first half of 2008, falling to around one third of this high in the second half of the year. At the start of 2009 it was thus around 35 % lower than one year previously, however it was around 25 % higher than at the start of 2007. In contrast, at the start of 2009 the price of Brent crude oil was around 60 % lower than one year previously, and around 40 % lower than the figure at the start of 2007.

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




Source: Energy Information Adminstration, Verein Deutscher Kohlenimporteure

It is currently difficult to see how demand for commodities will develop in 2009. The recession, which started in the US, has led to lower demand for imports which in turn perceptibly slowed economic growth in countries such as China – which had previously enjoyed double-digit growth rates over several successive years. Although sales of coal to power plants is expected to increase in the current year, sales of coke and most metals, including gold and platinum, are stagnating or even falling. As a result, many mines have announced that they will slow their investments in 2009 compared to the previous year.

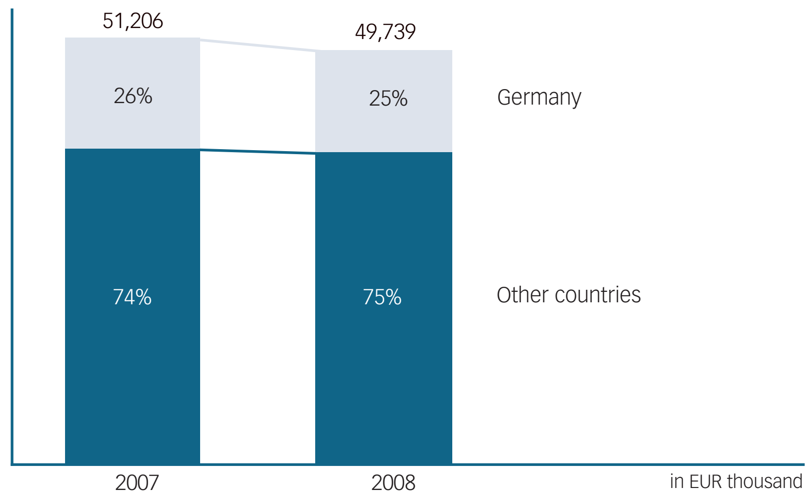
However, over the coming few years mines are expected to return to the growth they have enjoyed in the past. Countries such as China, India, Russia and South Africa, which grew at above average rates in the past few years, will have increasing requirements for energy, steel and other metals in line with their continued economic growth. That is why they remain those markets which will generate the greatest demand for the SMT Scharf Group in coming years. This demand will also continue to be driven by many mine operators specifically investing in technologies to boost their productivity. The SMT Scharf Group's transport systems play a key role in this regard when it comes to transporting 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. The Steinkohlefinanzierungsgesetz (German Hard Coal Financing Act) passed in 2007 stipulated that hard coal mining should draw to an end by 2018. SMT Scharf continues to believe that this decision will not be changed in 2012.

## Business development

Revenues in 2008 fell by EUR 1,467 thousand year-on-year to EUR 49,739 thousand. Foreign revenues fell slightly year-on-year by EUR 368 thousand to a current total of EUR 37,489 thousand, after having grown substantially for the past three successive years. This was due on the hand to the fact that Russian customers postponed orders at the start of November that would originally have been shipped by the end of 2008. On the other hand, SMT Scharf's materials handling business was not able to generate any follow-on orders last fiscal year that were comparable with the major orders in 2007. Foreign markets accounted for 75% of total revenues in 2008 (previous year: 74%).

## Revenues per region




SMT Scharf continued to expand its international sales and service activities in 2008. Staffing levels in Poland, Russia, China and South Africa were increased again in this regard. SMT Scharf formed a subsidiary in Russia, so that it will be able to offer its own services there in future. In so doing, the company took over staff who had previously been employed by its partners. As a result of the more intense sales efforts, several new customers have been acquired, including in China, South Africa and Ukraine.

SMT Scharf acquired the South African mining supplier Sareco Engineering in June 2008. This company is the market leader for mining chair lifts in South Africa. Sareco contributed EUR 1,385 thousand to the SMT Scharf Group's revenues last fiscal year.

In Germany, SMT Scharf's business with Deutsche Steinkohle AG was restricted to spare parts and services, as had been expected. Business fell as the quantities of hard coal mined in Germany continued to fall compared to 2007, and because the mine in Germany's Saarland region did not operate for three months after the earthquake in February.

At the end of 2008, our order book totaled EUR 26,216 thousand, and was thus up 180% year-on-year. Of this total, EUR 23,649 thousand was due to international orders. This increase was mostly due to orders in which mine operators asked for several machines to be shipped over a staggered period. In addition, it was influenced by the unscheduled postponement of several orders from Russia.

## Research and development

In 2008 SMT Scharf finished developing the rack-and-pinion railway, which it had presented to the specialist public for the first time at the „China Coal & Mining Expo" trade fair in November 2007. The European license was issued in the first quarter. SMT Scharf delivered the first train to a Russian coal mine in the summer. A weight-optimized heavy-duty lifting beam was added to the modular program for lifting beams. This allows mine operators to transport roof support units and other equipment with item weights of up to 32 tons. Development work also focused on projects to standardize and cut manufacturing costs – as was also the case last year. In this regard, value analyses of several competitors' products were conducted.

The SMT Scharf Group invested almost 4% of its revenues in research and development. This level was slightly lower than in 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 continue to be higher than average in the German engineering industry.

## Human resources

Production was scaled down in Hamm during the course of 2008. At the Neunkirchen facility SMT Scharf had to reduce staff more strongly than had originally been planned. This was due to the downturn in mining in the Saarland region after the earthquake there. SMT Scharf Saar GmbH's management and works council agreed a social plan in this regard in November. These activities meant that staff numbers at our German facilities fell to 179 at the end of the year (previous year: 203 employees).

The staff cuts in Germany were offset by an increase in employee numbers at our foreign facilities. This is due to the expansion of the branches in China, Russia and South Africa as well as the Sareco acquisition. The number of employees in our foreign facilities increased to 62 (previous year: 39 employees). They thus now account for 26% of all 241 employees.

At the start of 2006 SMT Scharf 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 866 thousand at the end of the fiscal year.

A total of 11,700 shares were sold to employees during 2008 as part of an employee equity participation plan. SMT Scharf had previously acquired these shares on the stock exchange in line with the provisions of Regulation (EC) No. 2273/2003.

## Net assets, 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 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 Managing Board is not aware of any restrictions relating to the transfer of the company's shares, including any restrictions resulting from agreements between shareholders. The lock-up undertaking that pre-IPO shareholders and the CEO made to Baader Wertpapierhandelsbank AG which supported the company's IPO expired on April 9, 2008.

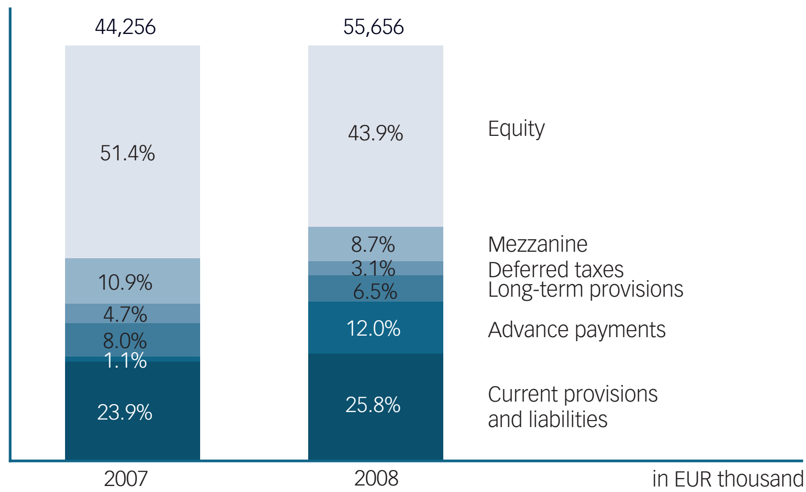
There are no shares with extraordinary rights that grant the holders controlling powers. The company is not aware of any equity interests held by employees who do not exercise their controlling rights directly. The Supervisory Board can make changes to the articles of incorporation that only affect the 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*

SMT Scharf AG's subscribed capital has totaled EUR 4,200 thousand since its IPO in April 2007. There is also a share premium of EUR 9,517 thousand. Equity including net income for the period and other changes totaled EUR 24,394 thousand as of December 31, 2008 (previous year: EUR 22,730 thousand). Given total assets of EUR 55,656 thousand, this corresponds to an equity ratio of 44 % (previous year: 51 %). Including the mezzanine financing, which has a carrying amount of EUR 4,864 thousand, this ratio is 53 % of total assets.

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



Inventories increased substantially year on year. These totaled EUR 12,463 thousand at the end of the fiscal year (previous year: EUR 8,604 thousand). The main influencing factors where short-term postponements of orders by customers in November, with the result that the pre-manufactured machines and assemblies could no longer be used in other orders, and advance work on orders which are to be shipped at the start of 2009. Trade receivables increased again year-on-year from EUR 10,151 thousand to EUR 12,977 thousand. The main influence in this regard was the fact that an even higher proportion of revenues was recorded in the last weeks of the year than had been the case last year. Trade payables increased to a similarly strong extent to EUR 6,114 thousand from EUR 2,943 thousand. Despite the strong increase in inventories, SMT Scharf was able to cut its working capital as this was offset by advance payments of EUR 6,685 thousand (previous year: EUR 496 thousand).

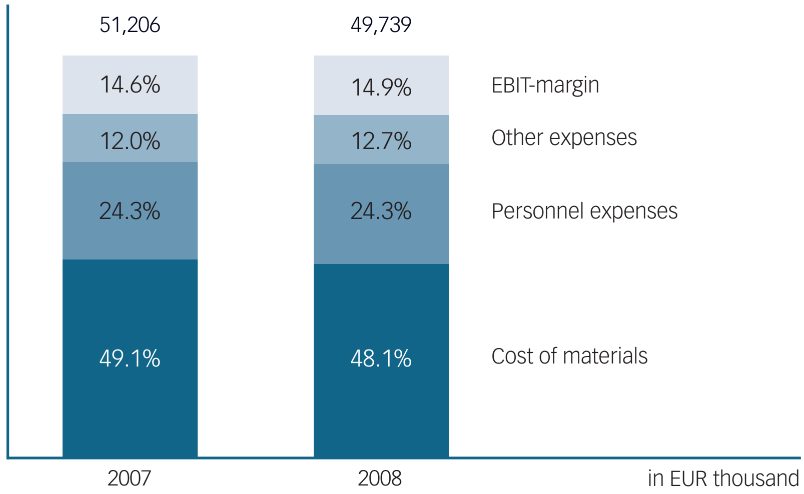
Intangible assets increased to EUR 2,571 thousand from EUR 970 thousand. The primary influencing factors were the capitalization of goodwill from the Sareco acquisition and the capitalization of development costs for the rack-and-pinion railway. In contrast, property, plant and equipment fell to EUR 8,332 thousand from EUR 9,319 thousand. This was impacted, in particular, by the sale of part of the company's real estate in the Saarland region.

*Earnings position*

At EUR 7,399 thousand (previous year: EUR 7,453 thousand), the SMT Scharf Group was able to link in to last year's EBIT. This corresponds to an increase in the EBIT margin to 14.9 % (previous year: 14.6 %). The cost of materials ratio fell from 49.1 % to 48.1 % as a result of changes in the product mix. Higher purchasing prices were partially compensated for by bringing in new suppliers and designing products for lower costs. The personnel expenses ratio totaled 24.3 % as was the case last year. EUR 501 thousand of the EUR 12,080 thousand personnel expenses was due to compensation (previous year: EUR 28 thousand). Other operating expenses increased significantly as changes in exchange rates led to exchange rate losses of EUR 983 thousand. The selling prices for the products continued to exhibit no uniform trend: SMT Scharf was able to implement isolated price increases, however it had to accept lower prices in other areas.

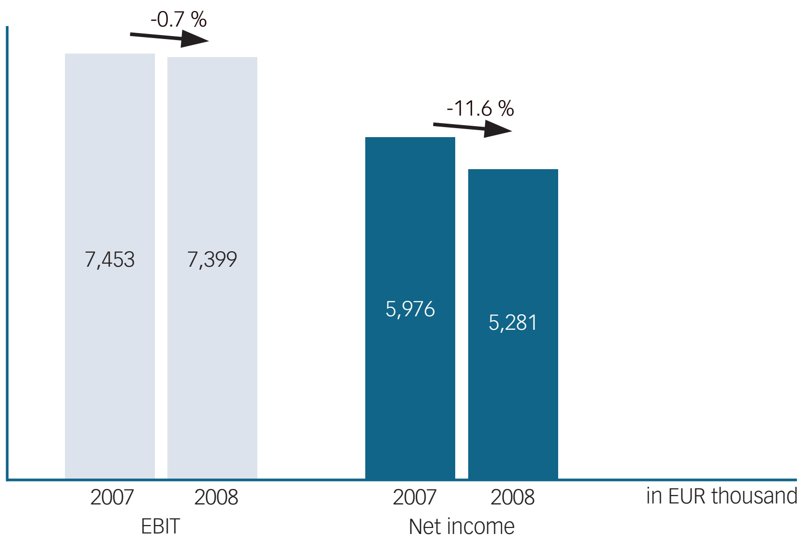
The financial result increased to EUR 143 thousand from EUR -57 thousand. This was primarily impacted by higher interest income from the temporary investment of cash and cash equivalents after the IPO.

## Income statement




Consolidated net income for the year fell to EUR 5,281 thousand from EUR 5,976 thousand. Last year, this was positively impacted as a result of the reduction in deferred tax liabilities in the wake of the reform of corporate taxation in Germany.

## Development of earnings




*Financial position*

The positive business growth caused cash and cash equivalents and marketable securities to increase to EUR 17,138 thousand (previous year: EUR 12,307 thousand). The increase in advance payments from customers to EUR 6,685 thousand (previous year: EUR 496 thousand) had a positive impact. In contrast, short-term postponements of orders by customers and advance work for orders to be shipped at the start of 2009 led to an increase in inventories to EUR 12,463 thousand from EUR 8,604 thousand. This had not been anticipated in this amount. The balance of receivables from customers and liabilities to suppliers only changed slightly. Of the securities, ,cash and cash equivalents, EUR 866 thousand is designated for the hardship and social fund.

*Capital expenditure*

In 2008, most of SMT Scharf's investments for its property, plant and equipment were for replacement and rationalization purposes. Expansion investments related to tenant fittings at the Johannesburg facility, where the company moved into a larger hall, and the testing area in Hamm. The number of leased engines increased from three to five over the course of the year. SMT Scharf sold part of the land with two halls at its facility in Neunkirchen. Capitalized development costs include a further addition for further development of the rack-and-pinion railway. SMT Scharf acquired the South African mining supplier Sareco Engineering (Pty.) Ltd. in June 2008.

## 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's period of office runs until the end of the General Meeting which resolves ratification for fiscal year 2010.

The Supervisory Board is responsible for decisions on the Managing Board's remuneration. Members of the Managing Board receive remuneration comprising a fixed basic annual salary and an annual bonus. The basic salary is paid monthly and, in part, quarterly in arrears. The members also receive non-cash remuneration from the private use of their company cars, life insurance coverage and the reimbursement of out-of-pocket expenses. The amount of the annual bonus is based on the extent to which specific personal targets have been reached. These targets are agreed at the start of each year based on the company's forecasts for the respective fiscal year. Remuneration is to be reviewed at regular intervals to ensure that it is in line with the market and is reasonable. Mr. Schulze-Buxloh's variable remuneration was increased in 2008 via an offer to acquire shares of the company. There are only pension obligations for members of the Managing Board from the conversion of salary components for previous fiscal years. The company regulations for the conversion of salaries up to and including fiscal year 2007 provide for a fixed upper age limit of 65 years and 6,0% interest on the converted salary components. The age limit has been adjusted to the annual changes in the pensionable age from 2008 on, with interest now set to 4.5%. There are no agreements for compensation in the event of an acquisition offer. The above regulations for the remuneration of members of the Managing Board have been agreed in the Board members' employment contracts. These contracts run until December 2009 (Dr. Trautwein) and December 2011 (Mr. Schulze-Buxloh) 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.

There are internal regulations for our risk management system. These 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, preparing weekly, monthly and quarterly reports and preparing investment decisions. Periodic reporting is used throughout the group to communicate ongoing opportunities and risks and also to control 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 our 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 via increased 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. One example of this is the recession, which has also been seen on some of the SMT Scharf Group's key markets since the fall of 2008 following the crisis on the financial markets. 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 and health and safety at work as well as for environmental protection to effectively reduce these risks. Losses from downtime for production lines are kept within limits by insurance for disruption to operations.

*Purchasing risks*

Negative developments in material and energy prices and problems with deliveries of pre-products constitute potential purchasing risks. 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*

SMT Scharf has centralized liquidity management to control our liquidity. This system ensures that the funds required to finance our ongoing operating business and current and future investments in all of the group companies are available on time and in the required currency. There are no liquidity risks as a result of the current positive cash flow, our existing bank balances and lines of credit and guarantee credit lines. We invest cash and cash equivalents so that they are available short-term and generate relatively secure returns. Cash deposits are held with several banks in order to minimize the risk of counterparty default.

*Other financial risks*

SMT Scharf is exposed to currency and default risks in particular as part of its entrepreneurial activities. We combat these risks by using suitable hedges. For example, select foreign currency items are hedged using currency forwards. Counterparty risks are limited, for example by concluding documentary credits and by limiting credit for individual customers. Possible counterparty risks are being monitored intensely given the current recession. 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 February 2009, SMT Scharf concluded a lease agreement with a Polish mine operator for six trains with DZ 1500 diesel cats. The lease has a term of four years and a volume of around EUR 1.7 million including maintenance.

SMT Scharf AG intends to implement an employee equity participation program within the meaning of Section 71 (1) No. 2 of the Aktiengesetz in April. The acquisition of up to 39,000 shares will be in line with the provisions of Regulation (EC) No. 2273/2003 and will be published online at www.smtscharf.com.

## Forecast

It is currently difficult to see how demand for commodities will develop in 2009. There is no uniform forecast from market-watchers. A downturn in demand is forecast, mostly for raw materials that are used in products for the automotive and construction industries. This relates to coke and platinum, for example. A downturn is also expected for crude oil as a result of the reduction in demand for fuel. However, this does not affect the SMT Scharf Group's business. In contrast, further increases in international demand for other energy commodities, such as power-plant coal, is expected. In particular the increasing electrification in emerging nations, for example in India, and the increasing proportion of coal being used to generate electricity, for example in Russia, are playing a role in this regard.

After the recession has been overcome, market-watchers believe that international mining will return to the dynamic growth enjoyed over the past few years. Expansion was mostly driven by the increase in demand for energy commodities and metals as a result of industrialization in countries with a large population such as China and India. It is expected that this trend will become prominent again. The medium-term forecast growth rates on the commodities markets are between around 2 % to 5 % per year depending on the particular commodity and region. Market-watchers (Freedonia Group) are forecasting medium-term annual growth rates of 6 % for global investments in mining technologies.

Despite selective setbacks, 2008 was yet another year of successful international expansion for SMT Scharf. This reinforces the Managing Board's expectations that it will be able to further increase revenues and earnings on average over the coming years. The most important markets will be Russia, Poland, China and South Africa, as was the case in 2008. In contrast, business in Germany will continue to fall, and will focus on spare parts and services.

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's will further develop its units on its primary markets. The aim is to cover local production, quality control, the sale of spare parts and service with a group company on the respective market. Local partners may also be included in this process. In parallel, SMT Scharf aims to make further acquisitions in associated lines of business.

Hamm, February 16, 2009

Dr. Trautwein Schulze-Buxloh

# IFRS CONSOLIDATED FINANCIAL STATEMENTS

## Consolidated balance sheet as of December 31, 2008

### Assets

| In EUR | Notes | 31.12.2008 | 31.12.2007 |
|---|---|---|---|
| Inventories | (10) | 12,462,873.66 | 8,604,099.04 |
| Trade receivables | (11) | 12,976,881.79 | 10,150,971.09 |
| Other current receivables/assets | (11) | 1,800,219.45 | 2,560,237.45 |
| Deferred tax assets | (7) | 373,911.73 | 343,858.13 |
| Securities | (12) | 920,110.88 | 739,912.56 |
| Cash and cash equivalents | (12) | 16,218,108.31 | 11,567,377.64 |
| **Current assets** | | **44,752,105.82** | **33,966,455.91** |
| Intangible assets | (9) | 2,571,309.79 | 970,262.71 |
| Property, plant and equipment | (9) | 8,332,359.25 | 9,318,874.40 |
| **Non-current assets** | | **10,903,669.04** | **10,289,137.11** |
| **Total assets** | | **55,655,774.86** | **44,255,593.02** |

### Equity and liabilities

| In EUR | Notes | 31.12.2008 | 31.12.2007 |
|---|---|---|---|
| Other current provisions | (15) | 4,608,751.75 | 4,828,396.42 |
| Current income tax | (15) | 1,523,010.53 | 1,271,323.25 |
| Advance payments received | (16) | 6,685,162.60 | 495,878.08 |
| Current financial liabilities | (16) | 0.00 | 48,748.39 |
| Trade payables | (16) | 6,113,922.91 | 2,942,750.04 |
| Other current liabilities | (16) | 2,112,438.42 | 1,455,301.16 |
| **Current provisions and liabilities** | | **21,043,286.21** | **11,042,397.34** |
| Provisions for pensions | (14) | 2,920,871.00 | 2,762,849.52 |
| Other non-current provisions | (15) | 709,876.87 | 790,757.00 |
| Deferred tax liabilities | (7) | 1,723,202.51 | 2,090,437.51 |
| Non-current financial liabilities | (16) | 4,864,277.50 | 4,839,049.54 |
| **Non-current provisions and liabilities** | | **10,218,227.88** | **10,483,093.57** |
| Subscribed capital | | 4,200,000.00 | 4,200,000.00 |
| Share premium | | 9,517,195.40 | 9,517,195.40 |
| Retained earnings | | 2,803,332.68 | 2,803,332.68 |
| Profit brought forward | | 8,317,646.36 | 5,976,238.47 |
| Currency translation difference | | -443,913.67 | 233,335.56 |
| **Equity** | (13) | **24,394,260.77** | **22,730,102.11** |
| **Total equity and liabilities** | | **55,655,774.86** | **44,255,593.02** |

## Consolidated income statement for the period from January 1, to December 31, 2008

### Income statement acc. to IFRS (total cost method)

| In EUR | Anhang | 2008 | 2007 |
|---|---|---|---|
| Revenue | (1) | 49,738,824.83 | 51,205,520.51 |
| Other operating income | (2) | 1,881,699.36 | 1,435,410.47 |
| Changes in inventories | | 69,564.99 | -137,008.02 |
| Cost of materials | (3) | 23,911,161.81 | 25,132,107.79 |
| Personnel expenses | (4) | 12,080,175.41 | 12,447,248.88 |
| Depreciation and amortization | (5) | 1,210,628.19 | 1,186,767.54 |
| Other operating expenses | (6) | 7,089,415.19 | 6,284,449.80 |
| **Profit from operating activities (EBIT)** | | **7,398,708.58** | **7,453,348.95** |
| Interest income | | 595,472.91 | 415,949.06 |
| Interest expenses | | 452,728.90 | 472,765.88 |
| **Financial result** | | **142,744.01** | **-56,816.82** |
| **Profit before tax** | | **7,541,452.59** | **7,396,532.13** |
| Income taxes | (7) | 2,260,044.70 | 1,420,293.66 |
| **Net income** | (8) | **5,281,407.89** | **5,976,238.47** |

## Consolidated cash flow statement from January 1 to December 31, 2008

### Cash flow statement acc. to IFRS

| In EUR | 2008 | 2007 |
|---|---|---|
| Net income | 5,281,407.89 | 5,976,238.47 |
| Depreciation and amortization | 1,210,628.19 | 1,186,767.54 |
| Gain/loss on the disposal of intangible assets and property, plant and equipment | -138,401.92 | 296,941.65 |
| Changes in assets and liabilities items | | |
| Changes in provisions | -384,808.37 | 49,766.06 |
| Changes in taxes | -145,601.32 | -3,987,406.27 |
| Changes in inventories | -3,593,388.04 | 809,496.43 |
| Changes in receivables/other current assets | -1,384,939.03 | -5,135,537.37 |
| Changes in liabilities | 9,654,508.84 | 1,275,960.82 |
| **Net cash flows from operating activities** | **10,499,406.24** | **472,227.33** |
| | | |
| Investments in intangible assets and property, plant and equipment | -937,249.70 | -1,238,824.22 |
| Proceeds from the disposal of intangible assets and property, plant and equipment | 841,022.92 | 10,397.56 |
| Acquisition | -1,943,991.25 | 0.00 |
| **Net cash flows used in investing activities** | **-2,040,218.03** | **-1,228,426.66** |
| | | |
| IPO | 0,00 | 10,401,747.66 |
| Change in hardship and social funds | 101,345.88 | -9,124.79 |
| Dividend payment | -2,940,000.00 | 0.00 |
| Repayment of/proceeds from financial liabilities | 25,227.96 | 12,916.04 |
| **Net cash flows from/used in financing activities** | **-2,813,426.16** | **10,405,538.91** |
| Effect of changes in exchange rates and group composition on cash and cash equivalents | -664,738.79 | 240,140.03 |
| **Change in net financial position** | **4,981,023.26** | **9,889,479.61** |
| | | |
| Net financial position – start of period | 11,290,904.29 | 1,401,424.68 |
| Net financial position – end of period | 16,271,927.55 | 11,290,904.29 |

## Consolidated statement of changes in shareholders' equity from January 1 to December 31, 2008

| In EUR | Subscribed capital | Share premium | Retained earnings | Profit/loss brought forward | Currency translation difference | Total equity |
|---|---|---|---|---|---|---|
| **Balance at January 1, 2008** | **4,200,000.00** | **9,517,195.40** | **2,803,332.68** | **5,976,238.47** | **233,335.56** | **22,730,102.11** |
| Dividend disbursement | | | | -2,940,000.00 | | -2,940,000.00 |
| Currency difference from translation of foreign financial statements | | | | | -677,249.23 | -677,249.23 |
| Net income | | | | 5,281,407.89 | | 5,281,407.89 |
| **Comprehensive income** | | | | **5,281,407.89** | **-677,249.23** | **4,604,158.66** |
| **Balance at December 31, 2008** | **4,200,000.00** | **9,517,195.40** | **2,803,332.68** | **8,317,646.36** | **-443,913.67** | **24,394,260.77** |
| | | | | | | |
| **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 recorded directly in equity | | | | | | |
| Transaction costs of capital increase | | -998,252.34 | | | | -998,252.34 |
| Tax advantage | | 315,447.74 | | | | 315,447.74 |
| Currency difference from translation of foreign financial statements | | | | | 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** |

## Notes to the consolidated financial statements for fiscal year 2008

### Information on SMT Scharf AG and the 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, 2008 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 IFRSs and their interpretations that applied for fiscal years ending on December 31, 2008 have been applied in the consolidated financial statements. The IASB's changes to IFRS 7 and IAS 39, which were adopted by the EU in October 2008, have been taken into account to the extent that these are of relevance. IFRS 7 impacts the type and scope of information published on financial instruments, but not, however, their recognition and their carrying amount in the consolidated financial statements, IAS 39 impacts the methods used to value financial instruments and the disclosure of fluctuations in value in the income statement and in equity. The changes do not affect SMT Scharf, as no reclassifications were made. The IASB's new changes in November 2008 have not yet been adopted by the EU, and have thus not been applied ahead of time.

The IASB's regulations for which application is not mandatory for fiscal years commencing on January 1, 2009 or thereafter were not taken into account. Accordingly, the revised version of IAS 1, IAS 23, IFRS 2 and IFRIC 13 and their implications for other IASB regulations 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 IASB's changes to existing standards and their interpretations that the EU has not yet adopted were not voluntarily applied ahead of time. The company is currently reviewing the future impact on the consolidated financial statements.

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 March 5, 2009 and these are then expected to be released for publication.

## Consolidated group

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

| | Interest | IFRS equity Dec. 31, 2008 in EUR thousand | IFRS annual results 2008 in EUR thousand |
|---|---|---|---|
| SMT Scharf GmbH, Hamm, Germany | 100 % | 6,161 | 3,580 |
| SMT Scharf Polska Sp. z o. o., Tychy, Poland | 100 % | 3,315 | 1,671 |
| SMT Scharf Saar GmbH, Neunkirchen, Germany | 100 % | 238 | -924 |
| Sareco Engineering (Pty.) Ltd., Brakpan, South Africa | 100 % | 757 | 134 |
| OOO SMT Scharf, Moscow, Russian Federation | 100 % * | 30 | 28 |
| SMT Scharf Sales and Services GmbH, Hamm, Germany | 100 % ** | 22 | -1 |
| SMT Scharf Africa (Pty.) Ltd., Kya Sands, South Africa | 100 % ** | 779 | 850 |
| SMT Scharf International OÜ, Tallinn, Estonia | 100 % ** | 403 | 129 |
| SMT Scharf Mining Machinery (Beijing) Co., Ltd., Beijing, China | 100 % ** | 35 | -39 |

* of which 50 % indirectly via SMT Scharf GmbH

** indirectly via SMT Scharf GmbH

The company acquired a 100 % interest in Sareco Engineering (Pty.) Ltd. with effect from June 30, 2008. The subscribed capital totals 100 South African Rand. The balance sheet upon first-time consolidation was as follows:

| in EUR thousand | 30.06.2008 |
|---|---|
| Assets | |
| Non-current assets | 323 |
| Current assets | 946 |
| Total | 1,269 |
| Liabilities and equity | |
| Equity | 664 |
| Liabilities | 605 |
| Total | 1,269 |

Prior to its acquisition, the company only had limited accounting requirements as it was a closed corporation. Therefore it is practically impossible to state comparable balance sheet figures prior to acquisition and pro forma revenues and earnings. Since becoming part of the SMT Scharf Group, the company recorded EUR 1,385 thousand revenues with third parties and EUR 181 thousand EBIT.

OOO SMT Scharf was also formed in 2008. This company has a share capital of 100,000 Russian rubles.

## 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 annual average 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 annual average rate of exchange. Differences in the currency translation of balance sheet items compared to the previous year are taken directly to equity.

The exchange rates for the key currencies were:

| | Closing rate | | Average rate | |
|---|---|---|---|---|
| 1 Euro = | 31.12.2008 | 31.12.2007 | 2008 | 2007 |
| Estonian Crown | 15.6466 | 15.6466 | 15.6490 | 15.6500 |
| Polish Zloty | 4.1535 | 3.5935 | 3.5026 | 3.7814 |
| South African Rand | 13.0667 | 10.0298 | 11.9760 | 9.6931 |
| Chinese Renminbi Yuan | 9.4956 | 10.7524 | 10.1626 | 9.5800 |
| Russian ruble | 41.2830 | * | 36.6839 | * |

* not calculated, as the subsidiary in Russia was only added in 2008.

## Accounting and valuation policies

The income statement is prepared using the total cost (nature 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 contracts, subsequent claims or performance premiums are taken into account to the extent that these have already been bindingly agreed with the customer. If the result of a construction contract cannot be reliably estimated, the revenues that are likely to be achieved are recorded up to the amount of the costs incurred. Order-based costs are recorded in the period in which they are incurred. If it can be foreseen that the total costs from the contract will exceed the income from the contract, the anticipated losses are recorded directly as expenses.

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

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

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

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

Goodwill is carried at acquisition cost and is subject to an impairment test both on an annual basis and if there are signs of possible impairment. The test is made using a DCF calculation with a 5-year horizon. No value is set for perpetuity. Present values are calculated by discounting with an interest rate of 8%.

Acquired 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.

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

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

| | in years |
|---|---|
| Buildings | 10 to 50 |
| Technical equipment and machinery | 5 to 20 |
| Other office equipment, fixtures and fittings | 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 2008.

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, 2008 and 2007, the SMT Scharf Group had assets in two of these categories: Originated loans and receivables not held for trading and securities carried at fair value.

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

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

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

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

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

The other provisions are formed for all recognizable risks and uncertain liabilities if it is probable that these will occur and it is possible to reliably estimate their amount. To the extent that the group expects at least a partial refund for a provision carried as a liability (as is the case, for example, in insurance policies), the refund is only then recorded as a separate asset if the refund is as good as secure. Expenses for the formation of provisions are disclosed in the 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 damage. Provisions for other business-related liabilities are measured based on the performance still to be provided, as a rule in the amount of the production costs still to be incurred.

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

The 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 | 2008 | 2007 |
|---|---|---|
| Sale of new equipment | 25,253 | 26,492 |
| Spare parts/service/other | 24,486 | 24,714 |
| Total | 49,739 | 51,206 |

Revenue by region was as follows:

| in EUR thousand | 2008 | 2007 |
|---|---|---|
| Germany | 12,250 | 13,349 |
| Poland | 12,063 | 11,024 |
| Russia and other CIS states | 8,338 | 16,510 |
| Africa | 7,926 | 560 |
| Rest of Europe | 3,964 | 3,902 |
| China | 3,777 | 1,407 |
| North America incl. Mexico | 1,150 | 3,418 |
| Other countries | 271 | 1,036 |
| Total | 49,739 | 51,206 |

### *(2) Other operating income*

Other operating income is composed of the following items:

| in EUR thousand | 2008 | 2007 |
|---|---|---|
| Reversal of provisions | 1,013 | 858 |
| Use of provisions | 255 | 168 |
| Rental income | 54 | 20 |
| Miscellaneous other operating income | 560 | 389 |
| Total | 1,882 | 1,435 |

The miscellaneous other operating income includes income from the sale of land and buildings and exchange rate gains.

### *(3) Cost of materials*

The cost of materials is composed of the following items:

| in EUR thousand | 2008 | 2007 |
|---|---|---|
| Cost of raw materials, consumables, supplies, and goods purchased for resale | 19,977 | 22,223 |
| Cost of purchased Services | 3,934 | 2,909 |
| Total | 23,911 | 25,132 |

### *(4) Personnel expenses*

Personnel expenses are composed of the following items:

| in EUR thousand | 2008 | 2007 |
|---|---|---|
| Wages and salaries | 10,380 | 10,584 |
| Social security contributions | 1,700 | 1,863 |
| Total | 12,080 | 12,447 |

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

| | 2008 | 2007 |
|---|---|---|
| Hourly-paid employees | 118 | 128 |
| Salaried employees | 117 | 103 |
| Trainees | 14 | 21 |
| Total | 249 | 252 |

*(5) Depreciation and amortization*

Depreciation and amortization are composed of the following items:

| in EUR thousand | 2008 | 2007 |
|---|---|---|
| Amortization of purchased intangible assets | 61 | 46 |
| Amortization of capitalized internally generated intangible assets | 155 | 112 |
| Depreciation of property, plant and equipment | 995 | 1,029 |
| Total | 1,211 | 1,187 |

No value adjustments within the meaning of IAS 36 were performed in 2008 or 2007.

*(6) Other operating expenses*

Other operating expenses are composed of the following items:

| in EUR thousand | 2008 | 2007 |
|---|---|---|
| Third-party services | 1,445 | 1,434 |
| Special direct cost of sales | 1,405 | 1,384 |
| Travel expenses | 621 | 579 |
| Rent and leases | 326 | 273 |
| Contributions/fees | 223 | 295 |
| Maintenance costs | 175 | 343 |
| Cleaning | 158 | 177 |
| Office supplies/communication | 133 | 113 |
| Advertising | 120 | 129 |
| Insurance | 109 | 105 |
| Miscellaneous other operating expenses | 2,374 | 1,452 |
| Total | 7,089 | 6,284 |

The miscellaneous other operating expenses mostly include exchange rate losses (EUR 983 thousand), additions to provisions and individual and lump-sum write downs, expenses for training and meal subsidies. During the fiscal year, the auditor's fees are also carried under third-party services as expenses. These are broken down as follows:

| in EUR thousand | 2008 | 2007 |
|---|---|---|
| Audit | 127 | 88 |
| Tax consulting | 21 | 0 |
| Other services | 0 | 15 |
| Total | 148 | 103 |

### *(7) Income taxes*

Income taxes are composed of the following items

| in EUR thousand | 2008 | 2007 |
|---|---|---|
| Current tax expense | 2,657 | 2,349 |
| Thereof current income tax expense for the period | 2,657 | 2,367 |
| Thereof restatement of current income taxes incurred in prior periods | 0 | -18 |
| Deferred taxes | -397 | -929 |
| Thereof creation or reversal of temporary differences | -413 | -929 |
| Thereof other changes | 16 | 0 |
| Total | 2,260 | 1,420 |

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. A group tax rate of 31.6 % was applied in 2008 as a result of the reform of corporate taxation in Germany.

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.

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, 2008, deferred tax assets were carried for tax losses carried forwards in the amount of EUR 281 thousand (previous year: EUR 635 thousand). According to the current legal situation, there are no temporal or amount-based restrictions on carrying these losses forwards. Further tax losses carried forward in the amount of EUR 397 thousand were not recognized.

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

| in EUR thousand | 2008 | 2007 |
|---|---|---|
| Deferred tax assets | | |
| Provisions for pensions | 311 | 313 |
| Other assets and liabilities | 266 | 1,458 |
| Deferred tax liabilities | | |
| Intangible assets | 297 | 259 |
| Property, plant and equipment | 1,742 | 2,093 |
| Other assets and liabilities | 84 | 1,378 |

Deferred tax assets and liabilities totaling EUR 400 thousand were netted as these relate to future charges or reductions for the same taxpayer to the same tax authority (previous year: EUR 1,640 thousand). Consolidation effects resulted in deferred tax assets of EUR 108 thousand (previous year: EUR 0 thousand) and the recognition of tax losses carried forward resulted in deferred tax assets of EUR 89 thousand (previous year: EUR 213 thousand).

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 | 2008 | 2007 |
|---|---|---|
| Result before income taxes | 7,541 | 7,397 |
| Expected tax expense (31.6 % or 39.9 %) | 2,383 | 2,951 |
| International tax rate differences | -336 | -533 |
| Tax rate change 2007 | 0 | -515 |
| Effect of external audits for previous years | 0 | -481 |
| Non-capitalization of deferred taxes on losses carried forward | 123 | 0 |
| Tax additions/reductions not impacting the tax base | 100 | 42 |
| Other differences | -10 | -44 |
| Reported income tax expense | 2,260 | 1,420 |

The dividend disbursement proposed by the Managing and Supervisory Boards for fiscal year 2008 will neither lead to a reduction or an increase in income taxes for the SMT Scharf Group.

### *(8) Earnings per share*

Given the weighted average of 4,198,889 (previous year: average of 3,897,534) issued shares, earnings per share for fiscal year 2008 total EUR 1.26 (previous year: EUR 1.53). 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 non-current 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) format, and then eliminated in the relevant period. The amortization of capitalized internally generated intangible assets is carried under amortization/depreciation. In 2008, development costs totaling EUR 288 thousand were capitalized for a project which fulfills the requirements of IAS 38.

SMT Scharf acquired a 100 % interest in Sareco Engineering (Pty.) Ltd. in South Africa in 2008. The difference resulting from the acquisition under IFRS is carried as goodwill. According to the company's forecast, the future discounted cash flows for this company exceed the goodwill carried.

The SMT Scharf Group leases diesel cats and powerpacks from its own production as a lessor. On the balance sheet date, five leased items were carried in the statement of changes in non-current assets as leased assets.

Consolidated statement of changes in non-current assets from January 1 to December 31, 2008

| in EUR thousand | | Initial balance 01.01.2008 | Exch. rate difference from initial balance | Additions | Exch. rate difference from additions | Disposals | Exch. rate difference from disposals | Final balance 31.12.2008 |
|---|---|---|---|---|---|---|---|---|
| Goodwill from consoli-dation | Gross | 107 | 0 | 1,280 | 0 | 0 | 0 | 1,387 |
| | D/A | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | Net | 107 | 0 | 1,280 | 0 | 0 | 0 | 1,387 |
| Acquired intangible assets | Gross | 341 | -5 | 248 | 0 | 0 | 0 | 584 |
| | D/A | 249 | -5 | 61 | -2 | 0 | 0 | 303 |
| | Net | 92 | 0 | 187 | 2 | 0 | 0 | 281 |
| Own work capitalized (development costs) | Gross | 955 | 0 | 288 | 0 | 0 | 0 | 1,243 |
| | D/A | 184 | 0 | 155 | 0 | 0 | 0 | 339 |
| | Net | 771 | 0 | 133 | 0 | 0 | 0 | 904 |
| **Intangible assets** | **Gross** | **1,403** | **-5** | **1,816** | **0** | **0** | **0** | **3,214** |
| | **D/A** | **433** | **-5** | **216** | **-2** | **0** | **0** | **642** |
| | **Net** | **970** | **0** | **1,600** | **2** | **0** | **0** | **2,572** |
| Land and buildings | Gross | 13,460 | -2 | 27 | 0 | 1,248 | 0 | 12,237 |
| | D/A | 6,888 | 0 | 388 | 0 | 812 | 0 | 6,464 |
| | Net | 6,572 | -2 | -361 | 0 | 436 | 0 | 5,773 |
| Plant and machinery | Gross | 2,857 | -60 | 56 | 0 | 107 | 0 | 2,746 |
| | D/A | 2,090 | -27 | 225 | -24 | 94 | 0 | 2,170 |
| | Net | 767 | -33 | -169 | 24 | 13 | 0 | 576 |
| Office and operating equipment | Gross | 6,536 | -25 | 639 | 0 | 428 | 0 | 6,722 |
| | D/A | 4,563 | -18 | 382 | -4 | 175 | 0 | 4,748 |
| | Net | 1,973 | -7 | 257 | 4 | 253 | 0 | 1,974 |
| Prepayments | Gross | 7 | -1 | 3 | 0 | 0 | 0 | 9 |
| | D/A | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | Net | 7 | -1 | 3 | 0 | 0 | 0 | 9 |
| **Property, plant and equipment** | **Gross** | **22,860** | **-88** | **725** | **0** | **1,783** | **0** | **21,714** |
| | **D/A** | **13,541** | **-45** | **995** | **-28** | **1,081** | **0** | **13,382** |
| | **Net** | **9,319** | **-43** | **-270** | **28** | **702** | **0** | **8,332** |
| **Non-current assets** | **Gross** | **24,263** | **-93** | **2,541** | **0** | **1,783** | **0** | **24,928** |
| | **D/A** | **13,974** | **-50** | **1,211** | **-30** | **1,081** | **0** | **14,024** |
| | **Net** | **10,289** | **-43** | **1,330** | **30** | **702** | **0** | **10,904** |

Consolidated statement of changes in non-current 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 additions | Disposals | Exch. rate difference from disposals | 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 | 316 | 2 | 23 | 0 | 0 | 0 | 341 |
| | D/A | 201 | 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 |
| Prepayments | 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** | **23,236** | **34** | **733** | **0** | **1,143** | **0** | **22,860** |
| | **D/A** | **13,327** | **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** |

### (10) Inventories

| in EUR thousand | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Raw materials, consumables and supplies | 2,976 | 1,799 |
| Unfinished goods and work in progress | 4,928 | 4,326 |
| Finished goods and merchandise | 4,559 | 2,479 |
| Total | 12,463 | 8,604 |

In 2008, write-downs for inventories to their lower realizable value totaled EUR 1,155 thousand (previous year: EUR 1,128 thousand).

### (11) Receivables and other assets

Trade receivables and other current receivables all have remaining terms of less than one year. The receivables include security deposits in standard industry amounts. These have been contractually agreed with the customers. These deposits cover SMT Scharf's incidental services that are only to be provided once the risk has been transferred. Last year, trade receivables included PoC receivables totaling EUR 4,920 thousand.

### (12) Securities and cash and cash equivalents

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

Of the securities and cash and cash equivalents, EUR 866 thousand are due to a hardship and social fund (previous year: EUR 967 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 last year. The share premium includes the premium from the capital increase less the transaction costs taking tax factors into account.

As at December 31, 2008, 4,200,000 ordinary bearer shares of SMT Scharf AG have been issued in the form of no-par value shares with a notional value of EUR 1 per share. All shares have been fully paid in and grant the holders the same rights. Shares from the 2007 capital increase carry full dividend rights. 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 and/or non-cash 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 3,953 thousand. The Managing and Supervisory Boards will propose to the ordinary General Meeting, which is to be held on April 23, 2009, to pay a dividend of EUR 0.85 per share for fiscal year 2008 from these net retained profits. This will result in a dividend disbursement of EUR 3,570 thousand, payable in 2009. The remaining EUR 383 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 its company pension scheme for its employees. The pension commitments result from various employer-financed direct commitments and from salary conversions based on a company agreement. In addition, there are indirect pension commitments according to the articles of association of the benefit fund of DBT e.V. All pension commitments are financed with provisions. There are no plan assets.

The amount of the pension commitments (projected unit credit of the benefit commitment or „defined-benefit obligation") was calculated using actuarial methods. 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. | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Rate of benefit increases | 2.0 % | 2.0 % |
| Rate of pension increases | 1.0 - 2.0 % | 1.0 - 2.0 % |
| Discount rate (DBO) | 6.1 % | 5.4 % |

The changes in provisions for pensions are derived as follows:

| in EUR thousand | 2008 | 2007 |
|---|---|---|
| Carrying amount – start of period | 2,763 | 2,690 |
| Current service cost | 166 | 90 |
| Interest cost | 111 | 115 |
| Recognized actuarial loses (gains) | 0 | 0 |
| Pension payments | -119 | -132 |
| Carrying amount – end of period | 2,921 | 2,763 |

The current service cost and interest expense are recorded in personnel expenses.

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

| in EUR thousand | 2008 | 2007 |
|---|---|---|
| Defined-benefit obligation – start of period | 2,278 | 2,561 |
| Current service cost | 166 | 90 |
| Interest cost | 111 | 115 |
| Pension payments | -119 | -132 |
| Actuarial gains/losses | -206 | -356 |
| Defined-benefit obligation – end of period | 2,230 | 2,278 |
| Unrecognized actuarial gains | 691 | 485 |
| Carrying amount – end of period | 2,921 | 2,763 |

*(15) Provisions*

Non-current provisions relate exclusively to personnel.

Current provisions are as follows:

| in EUR thousand | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Personnel | 1,728 | 2,101 |
| Sales | 886 | 1,472 |
| Income taxes | 1,523 | 1,271 |
| Miscellaneous other provisions | 1,995 | 1,255 |
| Total | 6,132 | 6,099 |

Provisions for personnel relate, in particular, to performance-related remuneration for employees, redundancy payments and possible compensation payments after the introduction of the uniform Entgeltrahmenabkommen der Metall- und Elektroindustrie (Salary Framework Agreement for the Metalworking and Electrical Industries).

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

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 2008 can be seen in the following statement of changes in provisions.

*(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. Trade payables last year included PoC receivables totaling EUR 1,020 thousand.

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.

## Consolidated statement of changes in provisions from January 1 to December 31, 2008

| in EUR thousand | Initial balance 01.01.2008 | Currency translation | Transfers | Utilization | Additions | Reversal | Final balance 31.12.2008 |
|---|---|---|---|---|---|---|---|
| Retirement benefits | 2,756 | 0 | 156 | 119 | 172 | 44 | 2,921 |
| Other non-current provisions | 798 | 0 | 144 | 193 | 14 | 53 | 710 |
| Total non-current provisions | 3,554 | 0 | 300 | 312 | 186 | 97 | 3,631 |
| Taxes | 1,271 | 0 | 0 | 497 | 764 | 15 | 1,523 |
| Personnel | 2,101 | -4 | -335 | 1,157 | 1,250 | 127 | 1,728 |
| Sales | 1,472 | -14 | 0 | 469 | 517 | 620 | 886 |
| Other current provisions | 1,255 | -1 | 35 | 410 | 1,270 | 154 | 1,995 |
| Total current provisions | 6,099 | -19 | -300 | 2,533 | 3,801 | 916 | 6,132 |
| Total provisions | 9,653 | -19 | 0 | 2,845 | 3,987 | 1,013 | 9,763 |

## 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 non-current provisions | 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 current provisions | 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 |

## 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. In the previous year's figures, EUR 315 thousand in changes in deferred taxes relating to the costs of the IPO were reclassified from the cash flow from financing activities to the cash flow from operating activities.

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

| in EUR thousand | 2008 | 2007 |
|---|---|---|
| Interest received | 595 | 416 |
| Interest paid | 453 | 473 |
| Income tax paid | 2,405 | 5,413 |

The net financial position in the cash flow statement comprises all of the cash and cash equivalents carried on the balance sheet, i.e., cash in hand and bank balances, to the extent that these are available within three months (from the date of acquisition) without any notable fluctuations in value, as well as marketable securities less current financial liabilities and less the hardship and social funds. The net financial position is derived from the cash and cash equivalents stated in the consolidated balance sheet as follows:

| in EUR thousand | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Cash and cash equivalents | 16,218 | 11,567 |
| + Securities | 920 | 740 |
| ./. Hardship and social funds | -866 | -967 |
| ./. Current financial liabilities | 0 | -49 |
| Net financial position | 16,272 | 11,291 |

## Other disclosures

*(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 2008, the rental and lease agreements resulted in payments totaling EUR 326 thousand being recognized in other operating expenses (previous year: EUR 273 thousand).

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

| in EUR thousand | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Due within one year | 241 | 210 |
| Due in one to five years | 383 | 521 |
| Due after more than five years | 0 | 0 |
| Total | 624 | 731 |

### *(18) Present 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 when these are acquired:

- Originated loans and receivables
- Held-to-maturity financial investments
- Original and derivative financial assets held for trading
- Available-for-sale financial assets
- Financial assets/liabilities recognized in income at fair value
- Financial liabilities measured at amortized costs taking the effective interest rate method into account

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 2008 or 2007. The fair value option was only used for securities (EUR 920 thousand). There were no reclassifications in 2008 or 2007. The valuation of financial assets and liabilities is discussed above in the section on the general accounting and valuation methods.

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

| in EUR thousand | 31.12.2008 | | 31.12.2007 | |
|---|---|---|---|---|
| | Carrying amount | Present value | Carrying amount | Present value |
| Originated loans and receivables | 14,777 | 14,777 | 12,711 | 12,711 |
| (thereof < 1 year) | 14,777 | 14,777 | 12,711 | 12,711 |
| Securities valuated at fair value | 920 | 920 | 740 | 740 |
| (thereof < 1 year) | 920 | 920 | 740 | 740 |
| Trade payables and advance payments | 12,799 | 12,799 | 3,439 | 3,439 |
| (thereof < 1 year) | 12,799 | 12,799 | 3,439 | 3,439 |
| Other liabilities | 2,112 | 2,112 | 1,455 | 1,455 |
| (thereof < 1 year) | 2,112 | 2,112 | 1,455 | 1,455 |
| Loans received | 4,864 | 4,627 | 4,888 | 4,804 |
| (thereof < 1 year) | 0 | 0 | 49 | 49 |

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 its mezzanine financing, the company's banks provided the company with an indication of the interest rate applicable to comparable financing on December 31, 2008; this resulted in a market value of EUR 4,627 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.

Management reviews the company's capital structure regularly upon the reporting dates. In doing so, it reviews the capital costs, the collateral provided and the open lines of credit and opportunities for borrowing. The Group has a target equity ratio of above 30 % over the longer term. It is anticipated that this will be maintained during the Group's further expansion.

The Group's capital structure changed as follows during the fiscal year:

| | 31.12.2008 | 31.12.2007 | % of previous year |
|---|---|---|---|
| in EUR thousand | | | |
| Equity | 24,394 | 22,730 | 107 % |
| Liabilities | 31,261 | 21,526 | 145 % |
| (thereof < 1 year) | 21,043 | 11,043 | 191 % |
| (thereof > 1 year) | 10,218 | 10,483 | 97 % |
| In % of total assets | | | |
| Equity | 43.8 | 51.4 | |
| Liabilities | 56.2 | 48.6 | |
| (thereof < 1 year) | 37.8 | 25.0 | |
| (thereof > 1 year) | 18.4 | 23.6 | |

### *(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 can use lines of credit. The total unused amount totaled EUR 7,500 thousand on the balance sheet date (previous year: EUR 7,500 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 cash flow from operating activities and the proceeds from maturing financial assets.

Credit risks: The maximum risk of default is the carrying amount of the financial assets disclosed in the consolidated financial statements, less write-downs. This totals EUR 15,697 thousand (previous year: EUR 13,451 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. Doubtful receivables were written down in the amount of EUR 579 thousand (previous year: EUR 300 thousand). No write-downs have been formed for trade receivables in the amount of EUR 1,575 thousand (previous year: EUR 1,922 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 | 31.12.2008 | 31.12.2007 |
|---|---|---|
| 1 to 30 days | 981 | 1,568 |
| From 31 days | 594 | 354 |
| Total | 1,575 | 1,922 |

Market risks: Market risks can result from changes to exchange rates (exchange rate risk) or interest rates (interest rate risk). SMT Scharf combats these risks by using suitable hedges. For example, select foreign currency items are hedged using currency forwards. These are managed by constantly monitoring the cash flow and monthly reporting to the Group's management. Exchange rate risks are limited in that the Group mostly issues its invoices in Euros or in local currency. Exchange rate hedges are concluded for major transactions. The group is currently not subject to any major interest rate risks as it borrows at fixed interest rates.

### *(21) Supervisory Board*

The members of the Supervisory Board of SMT Scharf AG in fiscal year 2008 were:

| | | |
|---|---|---|
| Dr. Dirk Markus, Feldafing (Chairman) | CEO of Aurelius AG | AUR Beteiligungsberatungs AG, Munich, Chairman of the Supervisory Board<br>Berentzen-Gruppe AG, Member of the Supervisory Board<br>Compagnie de Gestion et des Prêts S.A., Saran (France), Member of the Board<br>Investunity AG, Munich, Chairman of the Supervisory Board<br>Lotus AG, Feldafing, Chairman of the Supervisory Board<br>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 and member of the Managing Board of Aurelius AG | AUR Beteiligungsberatungs AG, Munich, Member of the Supervisory Board<br>Aurelius Enterprises Holding AG, Deputy Chairman of the Supervisory Board<br>Aurelius Portfoliomanagement AG, Deputy Chairman of the Supervisory Board<br>Berentzen-Gruppe AG, Member of the Supervisory Board<br>Quelle La Source S.A., Saran (France), Member of the Board |

The members of the Supervisory Board receive fixed remuneration of EUR 10 thousand, the Chairman receives EUR 15 thousand for each fiscal year. In addition, their out of pocket expenses are reimbursed. Remuneration is paid on a pro-rata basis if members leave the Supervisory Board during the year. As of December 31, 2008, the only member of the Supervisory Board who held shares of the company was Dr. Markus (4,500 shares).

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*

During the fiscal year, the Managing Board of SMT Scharf AG comprised Dr. Friedrich Trautwein (CEO) and Mr. Heinrich Schulze-Buxloh. Dr. Trautwein is the Chairman and Mr. Schulze-Buxloh is a member of the Supervisory Board of SMT Scharf Polska Sp. z o.o..

Members of the Managing Board receive remuneration comprising a fixed basic annual salary and an annual performance-related bonus, plus reimbursement of their out-of-pocket expenses. The bonus for a fiscal year is set and becomes due in the following fiscal year in each case; a provision is formed in this regard at the end of the fiscal year. The following remuneration and out-of-pocket expenses were recognized as expenses in fiscal year 2008:

| in EUR thousand | Dr. Trautwein | Schulze-Buxloh |
|---|---|---|
| Basic remuneration | 120 | 131 |
| Bonus | 247 | 91 |
| Additional payments | 21 | 20 |
| Total | 388 | 242 |

There were provisions of EUR 310 thousand for Dr. Trautwein and EUR 75 thousand for Mr. Schulze-Buxloh from the conversion of remuneration 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, 2008, Dr. Trautwein held 44,400 shares of the company, and Mr. Schulze-Buxloh held 6,000 shares.

There is no remuneration for former members of the Managing Board or their survivors, nor are there any pension obligations for this group of people. There are no advances, loans or contingent liabilities in favor of 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 5, 2008. It has been made available to shareholders online at www.smtscharf.com.

*(24) Related party disclosures*

In fiscal year 2008, services totaling EUR 30 thousand were purchased from related parties as defined by IAS 24 at standard market conditions. These were from Metraplan Research und Beratungs GmbH and the law firm Aigner Fischer Radlmayer. 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.

SMT Scharf AG intends to implement an employee equity participation program within the meaning of Section 71 (1) No. 2 of the Aktiengesetz in April. The acquisition of up to 39,000 shares will be in line with the provisions of Directive (EC) No. 2273/2003 and will be published online at www.smtscharf.com.

Hamm, February 16, 2009

Dr. Trautwein Schulze-Buxloh

# RESPONSIBILITY STATEMENT

To the best of our knowledge, and in accordance with the applicable reporting principles, SMT Scharf AG's consolidated financial statements as of December 31, 2008 give a true and fair view of the Group's assets, liabilities, financial position and results of operations, and the group management report for fiscal year 2008 presents the Group's business including its results and the Group's position such as to provide a true and fair view and describes the major opportunities and risks of the Group's anticipated growth.

Hamm, February 16, 2009

Dr. Trautwein Schulze-Buxloh

# AUDITORS' 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 fiscal year from January 1, 2008 to December 31, 2008. 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) of the HGB (German Commercial Code) is the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and the group management report based on our audit.

We conducted our audit 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 also includes evaluating the annual financial statements of the consolidated companies and the scope of consolidation, assessing the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the IFRS consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

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

Dusseldorf, February 16, 2009

Verhülsdonk & Partner GmbH
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

| | |
|---|---|
| Dr. Michael Hüchtebrock<br>Auditor | Rainer Grote<br>Auditor |

# FINANCIAL CALENDAR 2009

| | |
|---|---|
| March 9, 2009 | Publication of the financial report for 2008 |
| April 23, 2009 | Annual general meeting |
| May 15, 2009 | Publication of the financial report for the 1st quarter 2009 |
| August 14, 2009 | Publication of the financial report for the 2nd quarter 2009 |
| November 9-11, 2009 | Analyst conference as part of the German Equity Forum in Frankfurt / Main |
| November 13, 2009 | Publication of the financial report for the 3rd quarter 2009 |
| December 31, 2009 | End of the fiscal year |

Changes being reserved.

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### Legal Notice

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

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

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

## Imprint

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