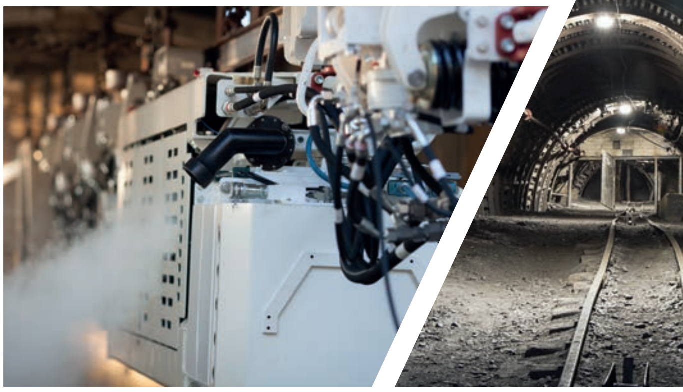





ANNUAL REPORT

2018

SEVEN-YEAR COMPARISON OF KEY FINANCES

		2012	2013	2014	2015	2016	2017	2018
Income statement data (without Dosco)								
Revenue	TEUR	76,648	63,251	47,820	50,303	42,565	**52,131**	**70,795**
Revenue share from outsite Germany	%	89	91	87	90	92	**95**	**98**
Operating output	TEUR	75,646	63,263	45,681	50,016	42,241	**53,114**	**71,028**
EBIT	TEUR	12,858	6,590	–1,511	2,263	2,473	**4,554**	**5,304**
EBIT margin	%	17.0	10.4	–3.3	4.6	5.9	**8.6**	**7.5**
Net income	TEUR	9,842	5,537	–1,082	1,472	1,873	**3,982**	**4,633**
		* incl. Dosco (all other figures without Dosco)						
Balance sheet data								
Total assets	TEUR	77,798*	61,097	60,480	58,629	59,412	**72,267**	**83,120**
Equity	TEUR	43,333*	39,381	36,869	37,025	39,297	**48,709**	**51,533**
Equity ratio	%	56*	64	61	63	66	**67**	**62**
Cash and cash equivalents	TEUR	13,192	10,566	6,647	5,197	6,638	**12,886**	**5,410**
		* incl. Dosco (all other figures without Dosco)						
Personnel Data								
Average number of employees		252	296	284	280	298	**312**	**389**
Share of employees outside Germany	%	50	59	63	69	72	**73**	**74**
Share data								
Earnings per share	EUR	2.82	0.77	–0.26	0.36	0.45	**0.94**	**1.01**
Dividend	EUR	0.98	0.25	0.00	0.00	0.00	**0.00**	**0.00**

CONTENTS

TO OUR SHAREHOLDERS

THE MANAGING BOARD OF SMT SCHARF AG

LETTER TO THE SHAREHOLDERS

Ladies and gentlemen,
dear shareholders,

SMT Scharf is looking back on a decidedly successful year 2018. In the fiscal year elapsed, we raised Group revenue markedly to EUR 70.8 million. At the same time, we achieved a profit from operating activities (EBIT) of EUR 5.3 million. Consequently, we have lifted both revenue and earnings substantially, and in some cases exceeded our original expectations at the start of the fiscal year under review. This shows that we are consistently implementing our strategic measures and are in a position to leverage the opportunities our markets present us to a disproportionate measure. In the current fiscal year, too, we intend to successfully continue our growth-oriented strategy, while at the same time maintaining operational excellence and implementing the right approach for our Group. We not only aim to develop innovative products for underground mining and tunnelling sites, but we are also continuously examining strategic options to ideally complement our product portfolio through M&A activity.

If the mining industry continues to enjoy a stable cyclical phase, the investment climate is expected to remain positive, as global mining companies continue to invest in new plant, equipment and technologies in line with higher commodity prices. However, we face intense competition in many markets. For this reason, too, SMT Scharf's profitability failed to match its strong revenue growth in the 2018 fiscal year. A further reason definitely lies in the investments we have realised in our new business areas. Overall, we believe we are well positioned to benefit from the sector's robust cyclical phase in key mining markets worldwide and successfully master the challenges facing the market.

With the acquisition of Canadian mining specialist RDH Mining Equipment in February 2018, we further strengthened our market position as an integrated systems provider in the underground logistics area, as well as our range of expertise. RDH ranks as one of the world's leading suppliers of battery-powered vehicles offering lithium-ion technology for underground mining. We intend to leverage our pioneering role in rubber-tired vehicles with electric drives to set new standards in underground mining in this area. For example, we are in a position to further develop diesel and electric vehicles for non-coal mining in line with our customers' respective needs. Having successfully completed the financial integration of RDH in the second quarter of 2018 and also successfully launched the sale of RDH products, we initiated the technical integration in the second half of the year, which we will continue to pursue with emphasis in 2019. Following our successful start to 2018, we still need to secure targeted improvements in 2019.

Meanwhile, electromobility represents only one of the trends in mining. Automation, data management and greater networking are playing an increasingly important role in the mining industry against the backdrop of rapidly advancing digitalisation. It is possible to speak of a so-called Mining 4.0 era. As a consequence, the demands placed on SMT Scharf as a special machine manufacturer for underground mining are also growing. Together with mine operators, we are exchanging information on these trends and implementing such projects within the context of intensive dialog. On the basis of our core competencies and expanded product portfolios, we will continue to respond individually to all our customers' needs.

We also perceive medium- and long-term growth potential in our new Tunnel segment. The growing number of tunnel projects worldwide reinforces our view that we have taken the right strategic step with our Tunnel segment. To date, however, we have not succeeded in generating significant revenue contributions in this area. We regard this as unsatisfactory and are consequently working meticulously to significantly expand and diversify our business.

We would like to take this opportunity to thank you as our investors, business partners and customers for the confidence you have invested in us, and we would be pleased to continue our cooperation into the future.

Kind regards

Hans Joachim Theiss　　　Wolfgang Embert

MEMBERS OF THE MANAGING BOARD

Dipl.-Kfm. Hans Joachim Theiss

Chief Executive Officer

Compliance, Finance & Controlling,
Strategic Corporate Development,
M&A, Investor Relations,
IT and Sales (New Business)

Dipl.-Ing. Wolfgang Embert

Managing Board member

HR, Product Development,
Production Areas, Engineering
and Sales (Order Processing,
Service & After Sales)

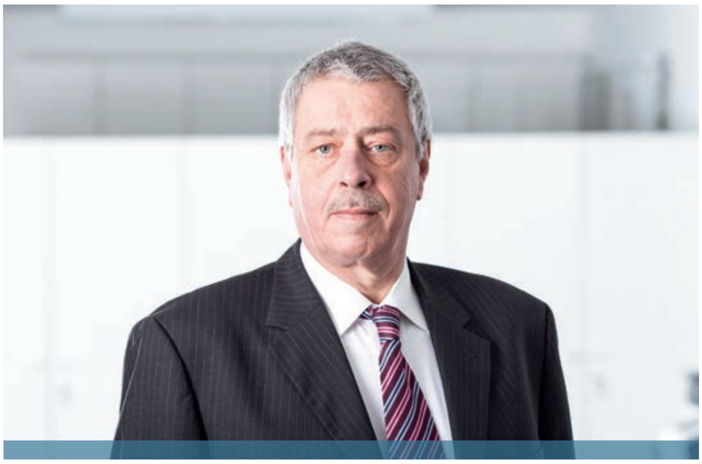
MEMBERS OF THE SUPERVISORY BOARD

Univ.-Prof. Dr. Louis Velthuis

Chairman

Mainz, Chair of Controlling at
Johannes Gutenberg University Mainz

Supervisory Board member at
Intershop Communications AG



Dr. Dipl.-Ing. Dirk Vorsteher

Werne, management consultant

No positions held at other companies

Dipl.-Volkswirtin
Dorothea Gattineau

Herdecke, business manager

No positions held at other companies

SUPERVISORY BOARD REPORT FOR THE 2018 FISCAL YEAR

In the 2018 fiscal year, the Supervisory Board of SMT Scharf AG diligently performed the tasks required of it by law and the company's articles of incorporation. It supervised and consulted with the Managing Board on an ongoing basis. The Supervisory Board received regular, up-to-date, comprehensive written and verbal reports from the Managing Board about business growth and development at SMT Scharf AG and the Group companies, the company's strategic orientation, as well as strategy implementation status. Between meetings, the Managing Board also informed the Supervisory Board of plans of particular importance or urgency. When resolutions were passed, approval requirements for certain transactions as defined in the Managing Board's rules of business procedure were always upheld.

The Supervisory Board convened for five regular meetings on February 5, March 21, May 22, August 30 to September 1, and on December 3, 2018. The three-day meeting in Canada took place at a different location every day, starting with Alban, followed by Timmins and finally in Toronto. All of the other four meetings were held at the business premises of SMT Scharf AG in Hamm. All three Supervisory Board members Professor Dr. Louis Velthuis, Dr. Dirk Vorsteher and Dorothea Gattineau participated in all meetings. At its meetings, the Supervisory Board concerned itself with all matters of relevance for the company. In advance of such meetings, the Managing Board of SMT Scharf AG regularly informed the Supervisory Board about the current business position of the SMT Scharf Group by way of written reports.

Given continued improvements in prospects for the sector's business activities in the 2018 reporting year, the topics accorded special consideration included the development in the core markets and the implementation of the corporate strategy promoted by the Managing Board. In this context, the Supervisory Board noted the ongoing successes of the structural program launched in 2015. This applies especially to growth acceleration in the reporting period. An improvement in the market environment was evident in the 2018 fiscal year, leading to the expectation of a pro-business sector trend in the current fiscal year. Based on the progress achieved, the Supervisory Board regards the company as well positioned to successfully and profitably participate in such growth.

The ongoing further development and adjustment of the localisation strategy of SMT Scharf AG to accommodate developments in the Group's core markets was addressed in depth by the Supervisory and Managing boards. Important decisions have been taken with the acquisition of Canadian mining specialist RDH Mining Equipment, with SMT Scharf AG now being able to better serve its customers' specific needs worldwide. In this context, a further focus of the work of the Supervisory and Managing boards in the 2018 fiscal year was to discuss adequate remuneration for the company's management in order to meet the growing requirements of various stakeholders as well as market conditions. The company decided at the end of the year to launch a new Enterprise Resource Planning (ERP) system. This is associated with the objective of enhancing efficiency in international collaboration within the SMT Scharf Group and of optimising operational processes.

- At the February 5 meeting, Management Board member Hans Joachim Theiss reported in detail on the planned acquisition of Canadian mining specialist RDH. Furthermore, parameters were defined in order to specify Managing Board compensation. The Managing and Supervisory boards exchanged views on the structure of fixed and variable compensation. They also discussed the composition of remuneration for managing directors at the second management level at the international subsidiaries. Moreover, the new Compliance Officer Dr. Phillip Seel, who succeeded Dr. Hanisch, introduced himself at the meeting. The Supervisory and Managing boards also engaged in intensive discussion concerning the Group's holistic strategy and its implementation.
- The Supervisory Board held its second meeting in the 2018 fiscal year on March 21. The annual reports for the 2016 and 2017 years were discussed with Rödl & Partner GmbH Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft and approved by the Supervisory Board after extensive discussion. Moreover, the auditor issued an unqualified audit certificate for the 2017 separate and consolidated financial statements. The Managing and Supervisory boards also concerned themselves with the preparation and planning for the forthcoming Annual General Meeting. Subsequently, the Managing Board reported on current business trends, trends in key financial figures and the situation at the international subsidiaries. One focus was on the business activities of the Canadian subsidiary RDH, which has been acquired. In addition, the Managing Board presented the new allocation of responsibilities to Managing Board members Wolfgang Embert and Hans Joachim Theiss following Mr. Oberhaus's departure. After considering the possibility of appointing an additional manager to offset the resultant overload, both parties agreed that two Managing Board members could

continue to perform the related tasks. The participants also continued their discussion concerning Managing Board compensation based on comparative studies. After joint discussion, it was agreed that the Managing Board would draw up alternative models in order to finalise the compensation. At major shareholder's suggestion, Prof. Dr. Velthuis also provided information about a legally audited concept for the structure of Supervisory Board compensation.

- The meeting on May 22 included a lively discussion concerning AGM agenda items. In particular, topics and questions relating to the preparation of the AGM were discussed. The Managing Board also submitted a list of capitalised development projects to the Supervisory Board. Furthermore, the Managing Board informed the Supervisory Board about the current business situation, with those present discussing developments in China as well as the distribution of the Group's purchasing volumes. Moreover, given the provisions to be formed for Mr. Oberhaus, the discussion concerning Managing Board compensation continued.

- The Managing and Supervisory boards visited the new RDH subsidiary in Canada for the three-day meeting from August 30 to September 1. The meetings were held at different locations daily. The first meeting was held at RDH in Alban, followed by a second meeting in Timmins, where the Supervisory and Managing boards also visited a major customer of RDH. A final meeting was then held in Toronto. The Managing Board reported on the operating business and financial position of SMT Scharf AG. In addition, various matters relating to the operational developments of the Chinese subsidiary Scharf Mining Machinery (Xuzhou) Co., Ltd. were approved. Production and technology were the main topics of the Supervisory Board meetings, with the participants especially discussing RDH's integration into the SMT Scharf Group. Furthermore, selected aspects of corporate strategy and international sales activities were discussed.

- At the final meeting of the past financial year on December 3, the Managing Board informed the Supervisory Board about procedure relating to the audit of the 2018 annual financial statements. In addition, the Managing Board reported on developments and key milestones in the 2018 fiscal year. Furthermore, various strategy topics were discussed and the introduction of the ERP system was approved.

The separate financial statements and separate management report, as well as the IFRS consolidated financial statements and Group management report for the 2018 fiscal year, which the Managing Board prepared, were audited by Rödl & Partner GmbH Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Cologne branch, and issued with unqualified auditors' opinions. As part of statutory requirements, SMT Scharf Group's risk management system and internal control system, as well as the data system, were also covered by the audit. At its meeting on March 28, 2019, which the auditor also attended, the Supervisory Board reviewed the separate financial statements and separate management report, as well as the IFRS consolidated financial statements and Group management report for the 2018 fiscal year. After thorough discussion and based on its own review, the Supervisory Board concurs with the results of the audit of the separate financial statements and consolidated financial statements by the auditor, and raises no reservations against either the separate or consolidated financial statements. The Supervisory Board expressly approved the separate financial statements and separate management report, as well as the consolidated financial statements and Group management report, prepared by the Managing Board for the 2018 fiscal year. The corresponding financial statements have been adopted as a consequence.

The Supervisory Board, together with the Managing Board, refrains from a dividend proposal for the 2018 fiscal year given the continued challenging market situation, the company's strategic further development and sector consolidation.

The Supervisory Board thanks all of the members of the Managing Board and all of the employees for their dedication and commitment during the past fiscal year. The Supervisory Board would like to wish the new Managing Board and the employees continuing success in meeting the challenges posed in the new fiscal year.

Hamm, on March 27, 2019

Univ.-Prof. Dr. Louis Velthuis

FOCUS ON TRANSPORTATION SOLUTIONS FOR OUR CUSTOMERS IN MINING AND TUNNEL CONSTRUCTION

As an integrated system supplier, SMT Scharf has been offering transport solutions for underground mining personnel, equipment and materials for more than 75 years. We are a German specialist engineering company at home in our core customers‘ domestic markets. Our products and services are world-class. We are the global market and technology leader in rail systems and chairlifts for underground mining. Our captivated railway systems as well as our other high-performance vehicles are deployed all over the world, primarily in hard coal mines as well as in mines for gold, platinum and other metals.

The technical performance data for our core product, the monorail, are unmatched worldwide. This rail system – which hangs from a single track and is deployed in both coal mines and hard rock mines – is easy to install and can transport loads of up to 48 tonnes on gradients of up to 35 degrees. Trained personnel can set up as such a track network quickly and inexpensively.

The SMT Scharf Group is active with subsidiaries in the world‘s leading mining nations, including China, Russia, Poland and South Africa. Since last year, we have also been expanding our activities in the South American market with a new sales office, and can now respond locally to our customers‘ needs.

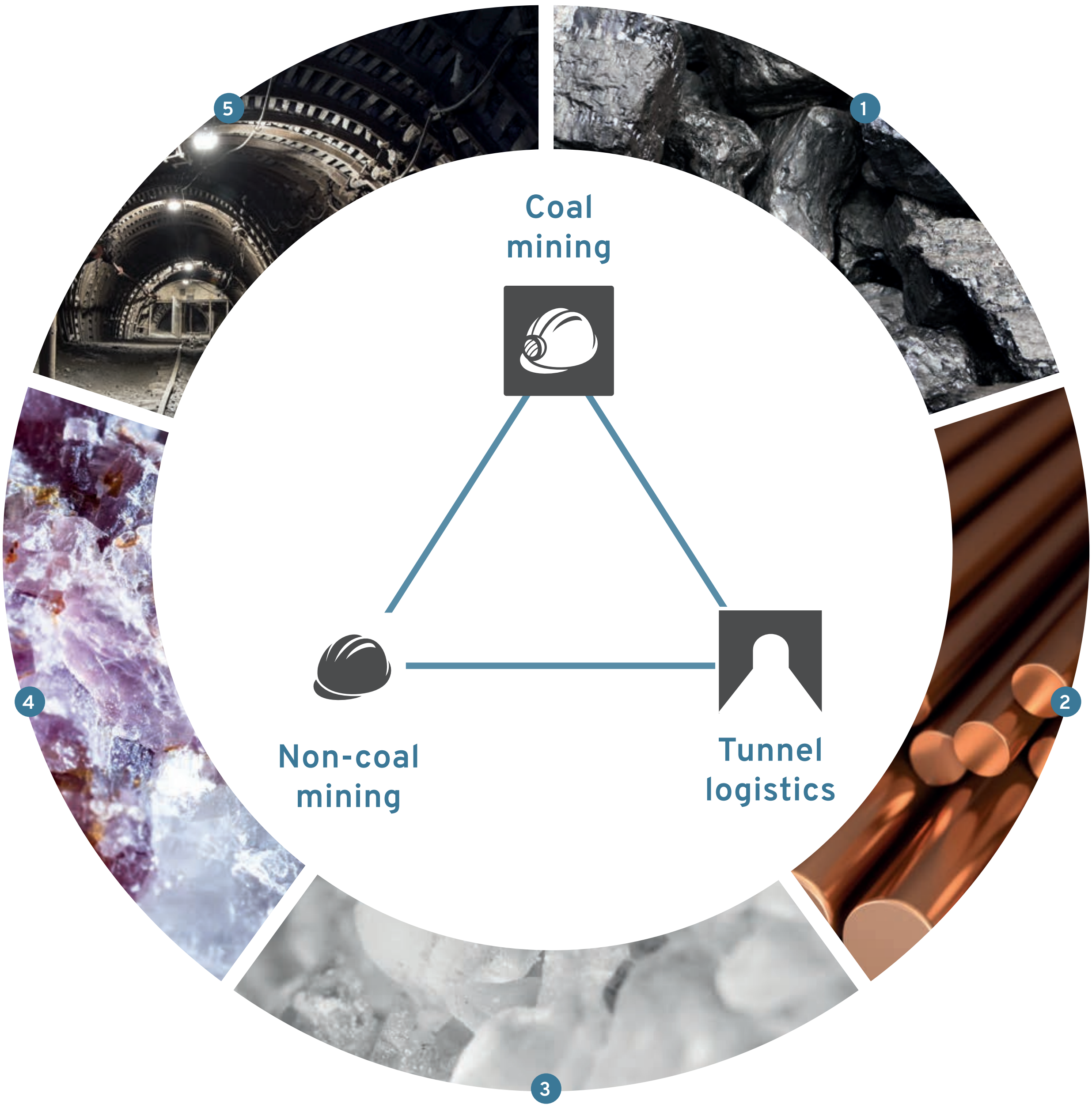
SMT Scharf shunting trolley
in use underground

SPECIALIST ENGINEERING COMPANY WITH A GLOBAL PRESENCE

SMT Scharf HQ
SMT Scharf subsidiaries
Joint ventures
Active sales territories
New sales region
RDH Scharf CoE rubber-tyred vehicles

STABLE FOUNDATION AND STRATEGIC FARSIGHTEDNESS

The three segments of SMT Scharf AG



1 coal 2 copper 3 salt 4 lithium 5 hard rock in a tunnel

New SMT Scharf diesel trolley
ready for delivery at the test site

AT HOME IN MANY MARKETS

Coal mining

SMT Scharf continues to sell most of its products to operators of underground hard coal mines worldwide. In longwall mining, materials are mined in horizontal walls of considerable length – SMT Scharf‘s rail transport systems are most frequently deployed here. SMT Scharf has significantly internationalised itself over the past years and focused on major producer countries worldwide. The energy demand of large emerging economies will still need to be covered by coal for the foreseeable future. Mine operators will continue to require our products over the coming decades as a consequence. Around 95 percent of our revenue today is generated from foreign markets.

The most important European market at present is Poland, which is regarded as particularly attractive given its above-average economic growth on a European comparison, combined with a high longwall share for SMT Scharf. Besides this, the most important markets for our rail systems and services are Russia, where the largest number of installed rail systems is located, and China, which offers the greatest future sales potential due to its enormous size. South Africa offers a bridgehead to sub-Saharan Africa. We are market leader for chairlifts in hard rock mining in South Africa, and anticipate growth in our business with rubber-tyred vehicles.

Coal will remain an important
energy source for the foreseeable future

AT HOME IN MANY MARKETS

Non-coal mining

The production of metals such as gold, platinum, copper, nickel and other raw materials such as salts is aggregated within our „Non-coal mining“ segment, where we also deliver exclusively to underground mine operators. As easily tapped deposits in the hard rock mining area are becoming increasingly exhausted, a growing market exists for SMT Scharf products that are deployed underground. In contrast to coal mines, however, no expensive explosion protection is required in the mining of metals, thereby enabling electric locomotives to more easily replace diesel locomotives. Hard rock mining is varied and distributed globally: the world‘s largest platinum deposits are situated in South Africa. Russia is regarded as a leading producer country of nickel. Many copper mines are situated in South America‘s Andean states and in Australia. We identify a number of opportunities to expand the business with mine operators beyond coal to form a second business pillar: we are partly tapping new geographic markets that are less relevant in coal mining, and reducing dependency on coal mine operators‘ investment cycles. We aim to grow organically in this area.

Raw materials such as lithium enjoy high demand from new trends such as electromobility

AT HOME IN MANY MARKETS

Tunnel logistics

SMT Scharf is working on expanding its business with tunnel logistics for large-scale construction sites to form a second business pillar and on offering demand-based solutions based on SMT Scharf technology in this market. Through combining our core competencies, together with our partner we can tap a further business area lying outside our core positioning in mining.

We also aim to further stabilise our sales growth over the coming years and reduce our exposure to business cycles by expanding the tunnel segment. While mine operators – as our customers in both our other segments – depend on the megacycles of raw materials prices, infrastructure demand involving subway tunnels, for example, is independent of such cycles. Here, demand is more strongly driven by global demographic trends and the increasing density of conurbations requiring appropriate solutions. At the same time, many industrialised nations have a great need to renew their infrastructure in order to optimise it.

Urbanisation and infrastructure development are driving tunnel construction worldwide

ATTRACTIVE GROWTH OPPORTUNITIES IN UNDERGROUND MINING

Energy revolution

The sustainability issue is becoming increasingly important and, with it, achieving the Paris climate targets. Demand for renewable energies is set to expand fivefold by 2040, according to calculations. This will necessarily entail rising demand for lithium, cobalt and rare earth metals, which will lend a further impetus to mining.

Urban planning trends

Increasing urbanisation requires an expansion of infrastructure networks. More than 30 megacities are currently under construction worldwide. Demand for transport and traffic routes entails not only expanding infrastructure within megacities but also their connections with each other. Tunnel projects are becoming increasingly important in this context. In China and India alone, 65 subway construction projects are currently being planned and implemented.

Global economic growth

The world‘s economy continues to grow, albeit at a somewhat slower pace recently. This also increases demand for energy worldwide. An expansion of around one third is expected by 2030. For this reason, coal will remain an important energy source for the foreseeable future. At the same time, economic growth boosts the production of raw materials. The market value of diesel and electric underground construction vehicles will amount to USD 33 billion by 2023, according to market estimates.

Electromobility

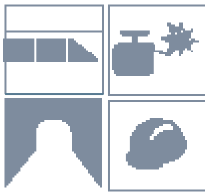
Rising demand for electric vehicles in road traffic is another driver for the mining of economically strategic raw materials such as lithium, cobalt and rare earth metals. Demand for electric vehicles is also increasing in underground mining. In addition to lower emissions, this leads to 15 % lower maintenance and repair costs on average compared with vehicles powered by internal combustion engines.

MODULAR PRODUCT RANGE FOR CUSTOMISED TRANSPORT SOLUTIONS

Customised transport solutions

As a specialist engineer, SMT Scharf develops transport solutions extending beyond its core product range, thereby meeting its customers' individual needs. In complex requirements and tasks – including special machines – we benefit from our many years of experience and high development expertise. Our international development teams listen constantly to what our customers have to say, and provide mining companies with on-site consulting. Our goal remains to meet customer requirements holistically through our range of products and services and to consistently leverage potentials by developing individual transport options for underground mining.

Customised transport solutions

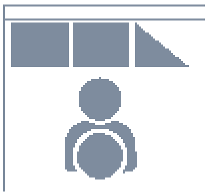


Core competencies

SMT Scharf develops individual transport solutions for its customers, meeting the special requirements of underground mining, such as the requisite explosion protection.

Customer requirements

SMT Scharf's customers require individual transport logistics for their mines. SMT Scharf is present in the most important mining regions and supplies customised solutions.



Product and service offering

With its comprehensive product and service offering, SMT Scharf supports its customers in machine maintenance.

Electric monorail

The EMTS (Electric Monorail Transportation System) was specially developed for the transportation of people and materials in ore mining not at risk of coal mine gas. The EMTS offers a load capacity of up to 30 tonnes and a climbing capacity of up to 30 degrees.

Diesel trolley

SMT Scharf has specially designed monorail hanging railways with diesel-hydraulic drives in order to transport people and materials in branched rail networks with varying gradients. The diesel trolley enables mining companies to tackle difficult transportation tasks underground.

Shunting trolley

The SCHARMAN RK-D-25-XX shunting trolley equipped with a diesel engine meets special underground safety standards. Equipped with friction wheels, it has a climbing capability of up to 25 degrees and features a simple control system.

Rubber-tyred electric vehicles

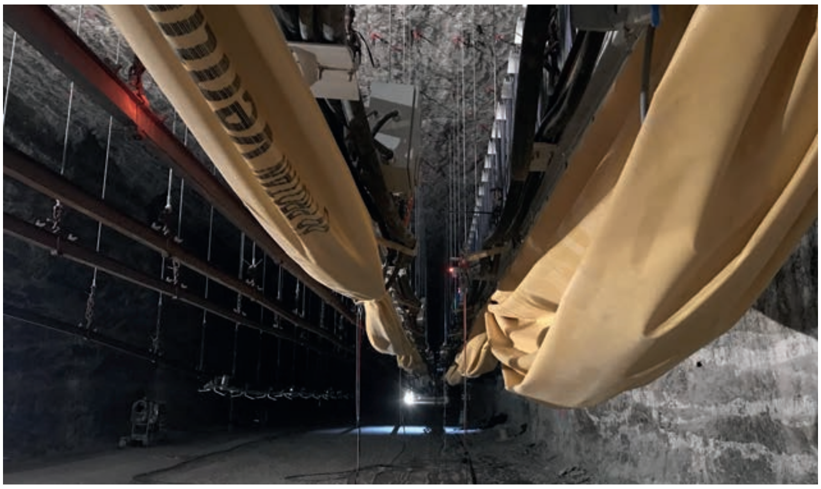
SMT Scharf's product range includes rubber-tyred vehicles with electric drives for drilling and anchoring or for loading and transporting heavy loads in underground mining. Battery-powered, emission-free vehicles are an increasing trend in mining.

Rubber-tyred vehicles

The Group's diverse product range includes RDH's rubber-tyred vehicles for underground mining. These include jumbo drilling rigs, load-haul-dump machines (LHDs), scissor lifts, low loaders and underground trucks.

Light electric mining vehicles

SMT Scharf offers light electric vehicles for underground mining. These are characterised by high energy efficiency, emission-free operation and significantly reduced heat radiation. This helps the mine operator to reduce underground ventilation costs.



Cable management system

SMT Scharf‘s cable and hose handling system is suspended from a sliding rail and permits fast longwall advancing and retreating. The system can be adapted to different cable and hose diameters as well as lengths to suit the individual application requirements.

Chairlift

For the African market, SMT Scharf has developed chairlift systems for safe passenger transport over long distances with horizontal and vertical curves. Depending on transport speed and chair distance, up to 900 individuals can be transported per hour.

Tunnelling vehicles

SMT Scharf monorails are ideally suited for the inspection and maintenance of infrastructures in deep tunnels. Each battery-powered vehicle can carry three people and an additional 300 kilograms of payload. Installed video cameras also make it possible to guide the train unmanned to the deployment site.

WELL EQUIPPED FOR THE FUTURE

Raw materials prices remained stable at an elevated level in 2018. In addition to the future market drivers already referred to, prevailing market conditions lead us to identify signals that suggest that the sector is entering a positive phase in its cycle. The market remains challenging, however. Our leading market position, strategic positioning and our innovative strength enable us to gain market shares as part of our growth strategy. Even with weaker demand for new plants, we see ourselves as well positioned to be profitable with our business. We are helped by our strong service and maintenance business in this context.

Through internal strategic measures as well as through takeovers and partnerships, we are moving ourselves into a position to benefit from growth opportunities in mining to an above-average extent. In the past fiscal year, the Managing Board made crucial preparations to promote the positive development of business:

In February 2018, SMT Scharf acquired Canadian mining specialist RDH Mining. The acquisition has strengthened our market position as an integrated systems provider in the underground logistics area and expanded our range of competencies. With its portfolio of rubber-tyred diesel and electric vehicles for non-coal and salt mining as well as tunnel construction sites, RDH possesses outstanding product expertise in this niche. RDH is one of the world‘s leading suppliers of battery-powered vehicles with lithium-ion technology for underground mining.

The integration of the mining specialist into the SMT Scharf Group is progressing according to plan. The financial integration was completed with the company's inclusion in the consolidation scope in the second quarter of 2018. The sale of RDH products has started successfully and enables us to respond even more individually to our customers' needs. We have also started the technical integration of RDH as a further area of activity. The first measures to this end were already initiated in October 2018 and will be continued during the current fiscal year.

VISION:

Expanded product range in underground logistics

Organic growth

We will further expand our second business pillar in the non-coal-mining area, tap new geographic markets and increasingly extend our product range. In the coming years, tunnel logistics will also be established as a third business area.

External growth

In the future too, we will remain actively on the lookout for opportunities to gain access to competences in adjacent business areas – also beyond our core positioning. Basically, both acquisitions and further strategic partnerships are possible in this context.

Operational excellence

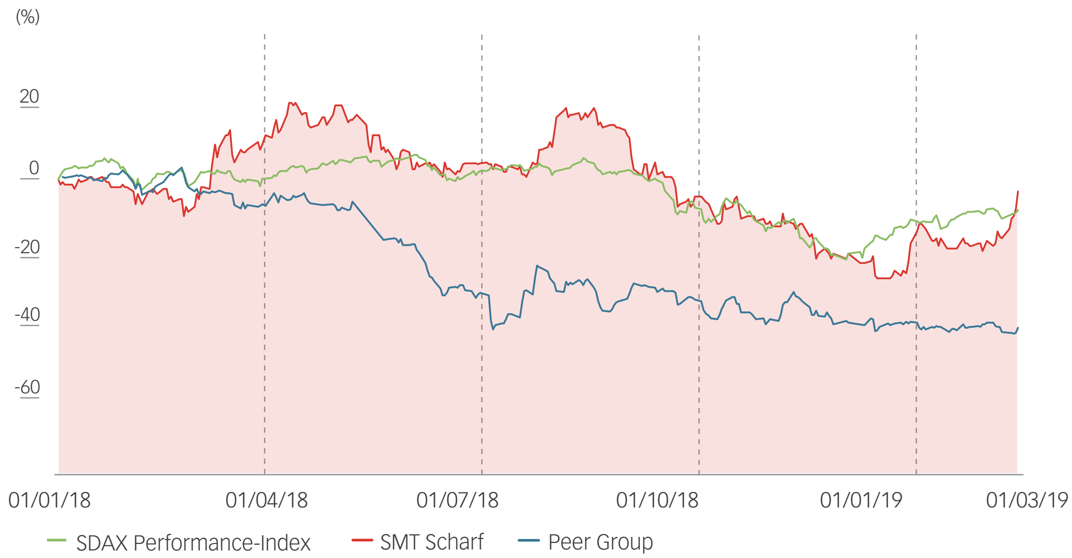
We aim to become even better in operational terms. We identify potential in the interaction of our international locations, in managing the value chain across all functions such as purchasing, development and assembly, as well as through the targeted analysis of specific markets and customer requirements.

Core competences

- Stable core business with sound margins and growth opportunities
- Evolved expertise in machine engineering with maximal customer focus
- Management expertise in the mining industry

INFORMATION ON THE SHARE

Share price performance 2018



Share price performance

The SMT share price reported an uptrend overall during the course of the first half of 2018 through to early summer, before recording sustained losses through to the end of the year against a backdrop of equity markets coming under pressure during the second half of the year. After starting 2018 at a level of EUR 14.80 on January 2, 2018, the share reached its high for the year of EUR 17.90 on April 17, 2018, following an initial uptrend. Until the final closing price of EUR 11.80 on December 28, 2018, the net loss for the year was 20.3 %. The SDAX second-line index closed at the same level. The peer group (an equally weighted portfolio consisting of Famur, Primetech and Komatsu) significantly underperformed over the same period, registering a price drop of 39.1 % by the end of the year.

Share price data for 2018 (XETRA)	
Closing price 2017	EUR 14.87
Highest price (April 17, 2018)	EUR 17.90
Lowest price (December 13, 2018)	EUR 11.60
Closing price 2018	EUR 11.80

Since the start of 2019, SMT Scharf's share price has risen again slightly by around 2 % to reach a level of EUR 12.00 (as of February 11, 2018).
In 2018, an average of 3,906 shares were traded daily on the Xetra trading platform of the Frankfurt Stock Exchange, compared with 3,442 shares in 2017.

Key data	
German Securities Identification Code (WKN)	575198
ISIN	DE0005751986
Ticker symbol	S4A
Trading segment	Prime Standard (Regulated Market)
Number of shares	4,620,000 no par bearer shares
Paying agent	Deutsche Bank AG, Taunusanlage 12, 60325 Frankfurt am Main
First listing	April 11, 2007

Shareholder structure

A total of 59.02 % of the shares of SMT Scharf AG comprise its free float, according to the Deutsche Börse definition. This includes all shares below 5 % except treasury shares. Based on voting rights notifications submitted to the company pursuant to the German Securities Trading Act (WpHG), the following shareholder structure was ascertained as of December 31, 2018:

Shareholder pool: Shareholder Value Beteiligungen AG/Share Value Stiftung/Christiane Weispfennig	21.07 %	973,616 shares
Investmentgesellschaft mit variablem Kapital (SICAV)	5.62 %	259,526 shares
Axxion S.A.	5.06 %	233,896 shares
Overseas Asset Management (Cayman), Ltd.	4.88 %	225,301 shares
Hauck & Aufhäuser Fund Services S.A.	3.28 %	151,594 shares

The holding of treasury shares amounts to 1.07 % (49,477 shares). Managing Board Chairman (CEO) Hans Joachim Theiss held a total of 10,000 shares as of December 31, 2018, while COO Wolfgang Embert held 1,000 shares.

Investor relations activities

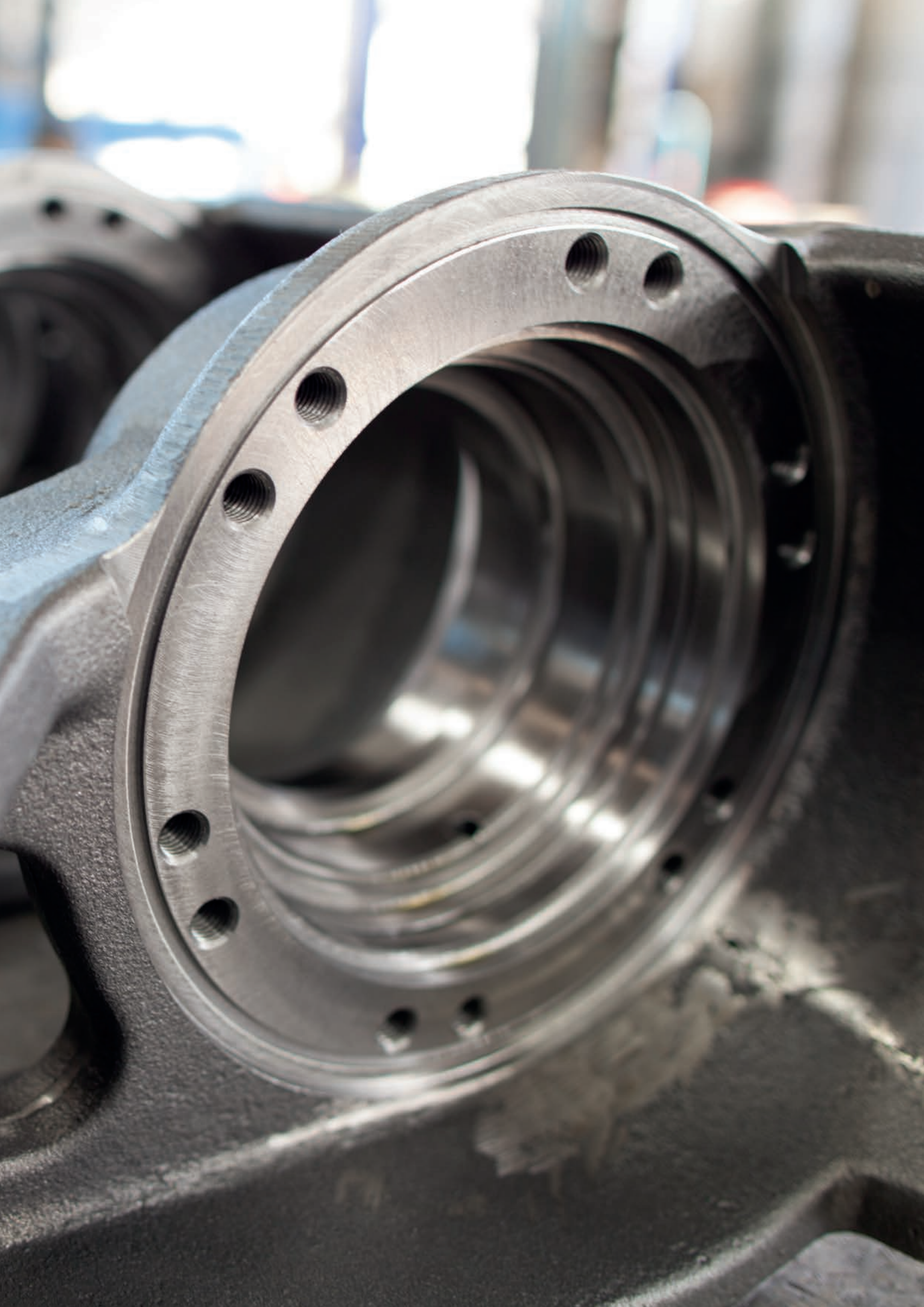
When the company went public in 2007, SMT Scharf AG opted for the Prime Standard, the most stringently regulated segment of the Deutsche Börse. The company attaches great importance to transparency, openness and reliability in its interaction with all capital market participants. Investors are regularly informed about current business trends through detailed financial information in German and English in the form of quarterly, half-yearly and annual reports as well as through the timely publication of press releases and ad hoc announcements.

As in previous years, the CEO of SMT Scharf participated in the German Equity Forum in Frankfurt in November 2018, where questions from institutional investors and analysts were answered in detail during numerous one-on-one meetings and as part of a presentation. Over the course of the year, the Managing Board takes the opportunity to report continuously on the company's development in discussions with investors, analysts and financial journalists.

Detailed information about the company and its share is available in the investor relations area of the company's website at www.smtscharf.com, including financial reports from previous years, corporate announcements and other publications.

Annual General Meeting

The Ordinary Annual General Meeting of SMT Scharf AG for the 2017 fiscal year was held in Hamm on May 23, 2018. A total of 43 % of the voting share capital was represented. The AGM approved all six agenda items with a large majority, including the discharge of the members of the Managing and Supervisory boards for the 2017 fiscal year and the appointment of the auditor for the 2018 fiscal year. Furthermore, a resolution was passed to cancel Authorised Capital 2016 and to create Authorised Capital 2018 with exclusion of subscription rights and to amend the articles of incorporation accordingly. Moreover, a resolution was passed on the authorisation to purchase and utilise treasury shares under exclusion of subscription rights and shareholders' tender rights, as well as a resolution on the authorisation to issue stock options and on the creation of Conditional Capital 2018. In addition, the new version of section 13 of the articles of incorporation concerning Supervisory Board compensation was approved. The detailed voting results are available in the investor relations area on the SMT Scharf AG website.



GROUP MANAGEMENT REPORT

GROUP MANAGEMENT REPORT

Basis of the Group

Business model and Group structure

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

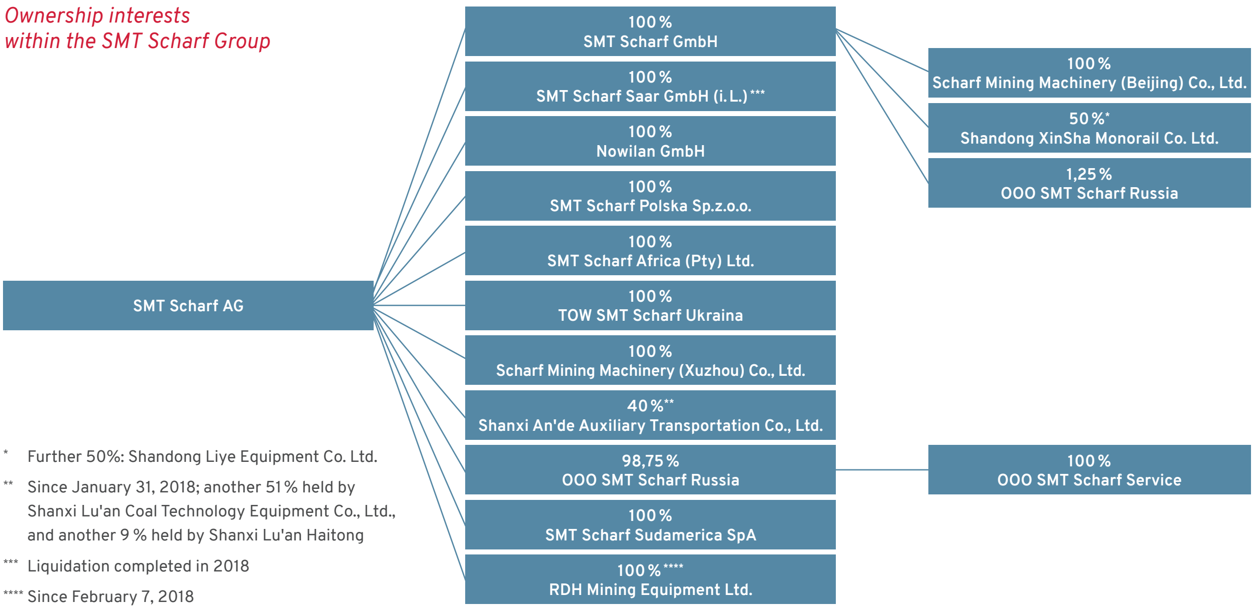
Business areas: The core product of the SMT Scharf Group continues to be captivated railway systems that are deployed in underground mining. These systems are technically capable of transporting personnel and materials up to 45 tonnes on gradients of up to 35 degrees. As an ancillary product, SMT Scharf offers chairlifts for the mining industry. The product range also includes the development and installation of open air rail and cable management systems, including for energy supplies to machines, for example. With the acquisition of the Canadian mining specialist RDH Mining Equipment, SMT Scharf has expanded its portfolio to include rubber-wheeled vehicles, thereby advancing the implementation of its strategy to position itself in the market as an integrated system provider in the underground logistics area. The establishment of the Tunnel Logistics business segment also forms part of this process. This additional pillar promises additional sales potential in the coming years.

Type of business: The production and installation of new equipment forms the core of the operating activities. SMT Scharf also concentrates on downstream services. The offerings include the provision of spare parts, maintenance, repairs or maintenance work. SMT Scharf occasionally acts as a railway operator in response to customer demand.

Customer groups: SMT Scharf products are deployed mainly in hard coal mining (the Coal Mining segment), as well as increasingly in producing gold, platinum, copper, nickel (hard rock) and salts (aggregated within the Non-Coal Mining segment). With the establishment of the Tunnel Logistics business segment, tunnel construction companies are being added as a potential customer group.

Regions: SMT Scharf sells its own products in its main markets through subsidiaries located in the world's most important mining nations. These especially include foreign markets in Russia, Poland, China, South Africa and, with the opening of its own sales subsidiary in Chile, increasingly also South America. With the addition of RDH Mining Equipment, SMT Scharf is also concentrating on the North American market. The German domestic mining market plays only a minor role nowadays. In smaller markets, SMT Scharf works together with dealers or agents.

Ownership interests within the SMT Scharf Group



* Further 50%: Shandong Liye Equipment Co. Ltd.

** Since January 31, 2018; another 51 % held by Shanxi Lu'an Coal Technology Equipment Co., Ltd., and another 9 % held by Shanxi Lu'an Haitong

*** Liquidation completed in 2018

**** Since February 7, 2018

Corporate objectives and strategy

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

- Organic growth: Development and launch of new products in the area of underground logistics in coal mining and, with increasing importance, in hard rock, development of new geographical markets, and development and establishment of tunnel logistics as a third business area.

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

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

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

Given the favourable market environment in the mining sector and a sales campaign, SMT Scharf has considerably exceeded the revenue expansion target it had set itself (35.8 % year-on-year growth) and clearly achieved a considerable earnings improvement. At the end of 2018, a decision was taken to introduce a uniform Group-wide Enterprise Resource Planning (ERP) system. The implementation is to occur during the course of the year and contribute to better coordination of process steps, to enhancing the quality of planning, and to further increasing efficiency in relation to international cooperation within the Group. At the same time, the new ERP system will open up the possibility of identifying and realising optimisation potentials at an early stage in the future.

Management and control system

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

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

Financial performance indicators:

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

Non-financial performance indicators:

Key indicator	Calculation method	Target (medium-term, 3–5 years)
Employee numbers		
Employee turnover	$\frac{\text{Employee-related leavings (FTEs)}}{\text{annual average number of employees (FTEs)}}$	<10 %
Sickness rate	$\frac{\text{Number of work days lost due to sickness}}{\text{Planned working days}}$	5 %

In the year under review, the targets that had been set were improved year-on-year in many key indicators. Nonetheless, potential for improvement continues to exist in many performance indicators. From the company's perspective, the key financial performance indicators are consolidated revenue growth and the EBIT margin.

Employees

SMT Scharf AG calculates the number of its employees in the form of full-time equivalents (FTEs). As of December 31, 2018, the SMT Scharf Group employed 397 staff (full-time employees), including eight trainees at the Hamm location. The Group had a workforce of 317 FTEs in the previous year (including six trainees). In order to manage production capacity flexibly, SMT Scharf draws on temporary staff in accordance with the three-layer model. In the event of sustainable growth, these temporary workers are then taken on accordingly in the respectively higher layer.

The changed international demand structure for SMT products has led to production capacity being expanded on a targeted basis, along with the workforce in the international companies. The acquisition of the Canadian mining company with 47 FTEs on the reporting date significantly increased the number of employees. Furthermore, additional qualified staff members were hired in key target markets in the reporting period to enable the expansion of our local technical expertise in terms of service and development, as well as production. In Germany, SMT Scharf further expanded its personnel capacities in production so that the number of employees as of December 31, 2018 was 15 FTEs higher (previous year: 87 FTEs). Moreover, in order to cover higher demand in production, temporary workers were increasingly hired, particularly in Germany.

SMT Scharf Group employees

	2018	2017
Total employees	397	317
Employees in Germany	102	87
Employees abroad	295	230
Female employees	68	48
Male employees	329	269

The number of employees at the foreign locations increased by 65 FTEs to 295 FTEs in the 2018 fiscal year, largely due to the acquisition of the mining company RDH. The proportion of staff employed abroad grew to 74 % as a consequence (previous year: 73 %). Abroad, the greatest increase in personnel numbers was reported in the target market of Poland (from 45 FTEs to 52 FTEs). Employee turnover amounted to 1.5 % in the year under review, in line with the medium-term target of <10 %. The workforce sickness rate stood at 3.55 % in 2018, below the 5 %.

Research and development

In 2018, SMT Scharf continued to work successfully on establishing local expertise centres with increasing range of vertical manufacture, especially in Poland and China. In Russia, too, endeavours are under way to establish expertise within the country. The creation of synergies through further networking of the locations is a future-related topic for SMT Scharf and is to be additionally advanced by the approved introduction of a uniform ERP system and uniform development systems worldwide.

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

For innovative applications beyond underground coal mining, new applications can be developed based on the SMT Scharf Group's core expertise in tunnelling and the exploitation of further mineral resources. At the same time, SMT Scharf is working intensively on solutions for emission-free drive systems for underground operation, which, according to current estimates, will not replace the combustion drive in the short and medium term, but which will also play a not insignificant role in our sector due to changing legal conditions.

Expenses for research and development amounted to EUR 2.66 million in the 2018 fiscal year (2017: EUR 3.3 million). The share of development costs in overall research and development costs (capitalisation ratio) stood at EUR 632 thousand (2017: EUR 1.6 million), while the write-downs on capitalised development costs amounted to EUR 192 thousand (2017: EUR 27 thousand) in the reporting period.

Economic and business report

Macroeconomic environment

The global economy grew by 3.7 % in 2018, thereby a little more slowly than in the previous year (3.8 %), according to preliminary data from the International Monetary Fund (IMF). The reasons given by the IMF for the decline are increasingly negative impulses in connection with global trade conflicts, particularly the trade dispute between the two largest economies in the world, the USA and China. Uncertainties also persist, for example in connection with Brexit. As a consequence of the deteriorating overall conditions and more stringent regulation of the financial sector, the Chinese economy's growth dynamic has slowed considerably. In Russia, by contrast, the economic recovery proceeded at a moderate level, based particularly on the temporary rise in oil prices in the first half of 2018. However, both the IMF and the World Bank have cut their growth forecasts for the country, partly due to the significantly lower oil prices for 2019 in the second half of the year. South Africa's long economic boom slipped into recession last year for the first time in many years. This reflects declining economic performance in the agricultural sector and a lower level of business investment. By contrast, Poland continues to rank among Europe's most dynamic markets. In the wake of the global economic slowdown, however, growth in the Polish economy also declined noticeably last year, but remains at a comparatively high level. The four aforementioned countries represent SMT Scharf's most important sales markets. Together, the customers that are situated there regularly account for more than 75 % of Group sales.

*GDP growth in the most important sales markets for SMT Scharf AG**

in %	2018	2017
World	3.7	3.7
China	6.6	6.8
Poland**	4.4	3.8
Russia	1.7	1.8
South Africa	0.8	0.9

Sources: * IMF World Economic Outlook, January 2019
**IMF World Economic Outlook, October 2018

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

*Exchange rate changes in the most important sales markets for SMT Scharf AG**

in %	2018	2017
Yuan Renminbi (China) / Euro	+0.5	+7
Zloty (Poland) / Euro	+3	–5
Rouble (Russia) / Euro	+15	+8
Rand (South Africa) / Euro	+18	+3

*Source: European Central Bank, change during the year

In the past year, the weakness of the Rouble and the South African Rand against the Euro continued. As a consequence, the European currency regained purchasing power against these countries in 2018. For this reason, SMT Scharf products have become somewhat more expensive in these countries when converted into the respective domestic currency. The same applies to the Polish Zloty, which depreciated sharply. Here, the Euro appreciated by 3 % last year. This reverses the previous year's currency trend, when the Polish currency appreciated against the European single currency thanks to high economic growth.

Sector trends

Many energy commodity and metal prices reported a roller-coaster ride during the reporting period. After a moderate rise in the meantime, the S&P GSCI Energy and Metal Index fell by around 31 % between October 2018 and the end of the year. As on international equity markets, this downtrend has reflected downward revisions of global economic growth expectations. Meanwhile, the coal price remained at a high level and, contrary to the general price trend for energy raw materials, continued its uptrend last year. At the end of the year, the price fluctuated around the USD 75 mark (based on one tonne of hard coal).

Even if the momentum of the global economic cycle weakens in the coming months, economists continue to expect the world economy to report a positive trend. Given the prevailing conditions, strong indications consequently exist that commodity prices will remain at current levels and could even increase in the medium term. SMT Scharf intends to continue to benefit in the current fiscal year from demand for equipment from coal mine operators as well as projects investing in new conveyor systems, including the replacement of existing systems with modern conveyor and transport systems.

According to estimates by the Specialist Mining Association of the German Engineering Federation (VDMA), German mining machinery manufacturers will increase their annual sales in 2018 for the first time since the end of the global economic and financial crisis. This conclusion can be drawn from the figures available for the first nine months. VDMA Mining consequently expects last year to report an increase of 12 % to around EUR 3.1 billion. It is therefore likely that the sector has bottomed out from 2013 to 2017 and successfully handled the structural change required by the cessation of domestic coal production.

In this context, the VDMA notes that, according to the OECD, global demand for raw materials will almost double by 2060, which should exert a lasting positive effect on its member companies' businesses. The VDMA expects increased demand especially from companies focusing on the extraction of raw materials utilised in alternative forms of energy generation. Recycling alone will not be sufficient to meet growing demand. In particular, many economies exhibit a considerable need to catch up in this context.

According to SMT Scharf's assessment, positive growth prospects also exist in the Tunnel segment: for example, the International Tunnelling and Underground Space Association (ITA) is retaining its positive forecast for the coming years. Accordingly, the worldwide tunnel construction market amounts to around EUR 86 billion per year (as of 2016), which corresponds to an increase of 23 % compared to 2013. Since 2013, an average of 5,200 km of tunnels have been built per year worldwide. Due to increasing urbanisation, the Asian market is reporting the fastest growth. The ITA predicts that China, for instance, with annual economic output worth EUR 37 billion, will represent around 50 % of the tunnel construction market in the next decade. Other growth regions include Southeast Asia and the Middle East. The study indicates that the European market is developing steadily at rates of between EUR 10 million and EUR 12 million per year. The strong demand is also fuelled by the ongoing development in many cities and the linking of urban centres.

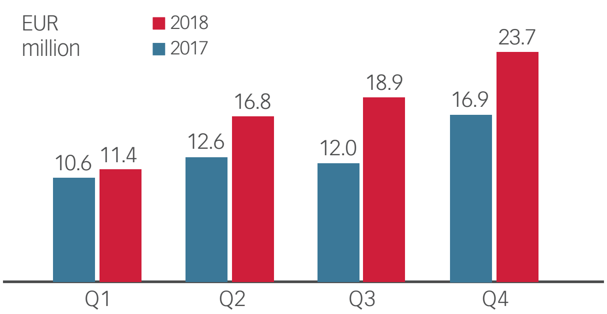
SMT Scharf supports a business model based on several pillars through its diversification by product, region, customer group and regional market. This approach serves to mitigate the impact of the coal mining business cycle on SMT Scharf's business development.

Development of business

SMT Scharf AG reported a significant increase of 35.9 % in its consolidated revenue in the 2018 fiscal year to reach EUR 70.8 million (2017: EUR 52.1 million). This growth is attributable to the successful implementation of the strategic measures as well as an overall pickup in demand in important core markets of SMT Scharf, especially in China, as well as in Poland and Africa. The Canadian subsidiary, which was added in the year under review, contributed EUR 7.1 million to consolidated revenue. The effects of the new IFRS 15 standard had an effect of EUR –940 thousand on consolidated revenue. The world's leading mining companies are increasingly investing in new plant and equipment as raw material prices continue to stabilise. This is stimulating demand for modern conveyor systems and equipment in underground mining. At EUR 5.3 million, the operating result (EBIT) was 16.5 % higher than in the previous year (2017: EUR 4.5 million). EBIT, however, grew at a slower rate than revenue, which was partly due to a significantly higher cost of materials in line with revenue growth. Furthermore, earnings were affected by the acquisition of strategic projects, in order to gain further market shares as well as projects for the high-margin after-sales business.

With the exception of Russia, order volumes increased in all of SMT Scharf's important core markets. This applies above all to coal mining, where SMT Scharf benefits from its coal logistics facilities, which have been successfully established on the market. In addition, the restructuring measures that SMT Scharf launched in the past and which are now largely complete are increasingly generating positive momentum. At the same time, profitability improved considerably in the reporting period thanks to further efficiency improvements. Following clearly positive revenue growth in the second and third quarters, the trend continued in the final quarter, so that SMT Scharf reported further year-on-year consolidated revenue growth in the fourth quarter. Revenue reached EUR 23.7 million, 40.2 % higher than in the prior-year quarter (Q4 / 2017: EUR 16.9 million).

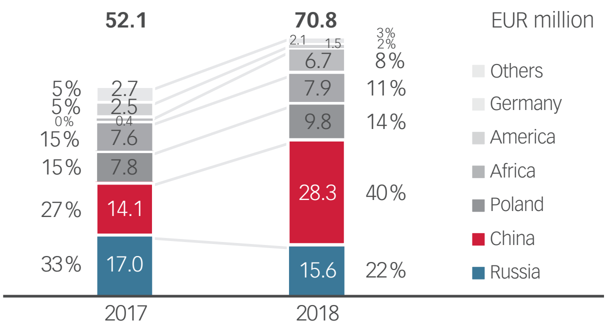
Quarter-by-quarter Group revenue



SMT Scharf generated almost 98 % of its revenue abroad in the reporting year (2017: 95 %). China became most important market with a share of 40.0 %, equivalent to EUR 28.3 million (2017: 27.1 % or EUR 14.1 million). The local mining and energy sector in China is characterised by a surge in demand, although overall growth in the Chinese economy has slowed slightly.

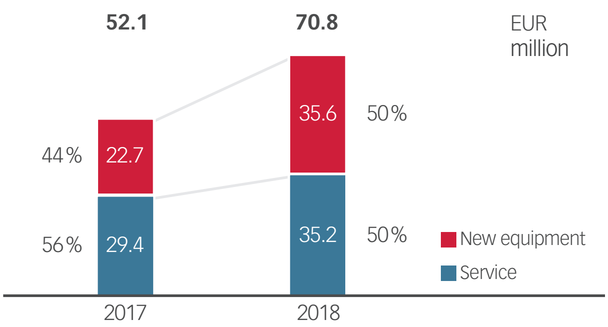
Russia (and CIS) follows as the second most important market with a share of 22.0 %, equivalent to EUR 15.6 million (2017: 32.6 % or EUR 17.0 million). Poland remains an important market for SMT Scharf thanks to its above-average domestic growth compared to other European countries. With a revenue share of 13.8 % and revenue of EUR 9.8 million (2017: 15.0 % and EUR 7.8 million, respectively), the business volume grew noticeably in absolute terms compared to the previous year. South Africa ranks fourth with 11.2 % or EUR 7.9 million (2017: 14.6 % or EUR 7.6 million). Revenue of EUR 5.6 million (2017: EUR 0.4 million) was generated on the American market, where the newly acquired subsidiary RDH is predominantly active. SMT Scharf is primarily present in the hard rock market here, which continues to have a positive impact. The revenue remaining in Germany fell further to EUR 1.5 million or 2.1 % (2017: 4.8 % or EUR 2.5 million).

Revenue by region

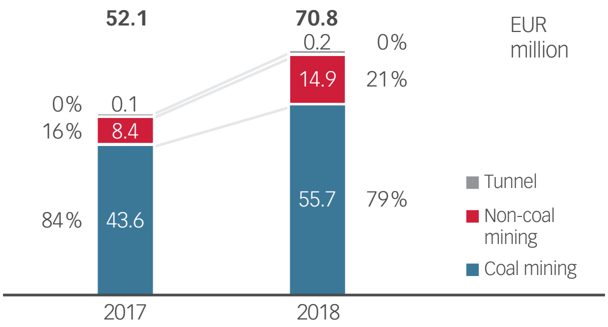


In 2018, revenue from the new systems business reported a further substantial increase. Given the good position within the sector business cycle and SMT Scharf's strategic market expansion, the revenue share exceeded the 50 % level at 50.3 % (2017: 43.6 %). Thanks to strong demand for new systems, the share of spare parts and service business in relation to total operating revenue reduced accordingly to 49.7 % (2017: 56.4 %).

Revenue by type

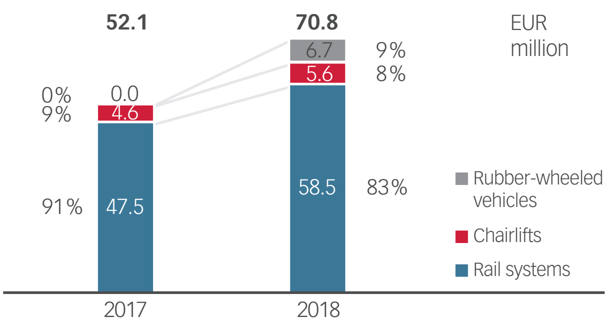


Revenue by segment



At 82.6%, most of total revenue was attributable to the Railways product, as in the previous year (2017: 91.1%), while Chairlifts accounted for 7.9% of SMT Scharf's revenue (2017: 8.9%). The share of the rubber-wheeled vehicles business, which was newly created with the acquisition of RDH Mining Equipment in February 2018 and included for the first time, reached 9.5% in the year under review.

Revenue by product



The Coal segment continues to account for most of consolidated revenue at EUR 55.7 million. This corresponds to a 78.7% share of revenue (2017: 83.6% or EUR 43.6 million). The share of revenue generated by the Non-Coal Mining segment rose to 21.0% and EUR 14.9 million, respectively, both in relative and absolute terms (16.2% and EUR 8.4 million, respectively, in 2017). As expected, the Tunnel segment, which is still being established, only made a minor contribution to total revenue in the reporting period with revenue of EUR 0.2 million (2017: EUR 0.1 million).

New order intake amounted to EUR 75.3 million in the year under review (2017: EUR 51.5 million). The order book position of the SMT Scharf Group stood at EUR 19.7 million as of December 31, 2018 (December 31, 2017: EUR 15.2 million).

Financial position and performance

Results of operations

In the 2018 fiscal year, the SMT Scharf Group generated consolidated revenue of EUR 70.8 million (2017: EUR 52.1 million). Total operating revenue (consolidated revenue plus changes in inventories) also improved to EUR 71.0 million (2017: EUR 53.1 million). Other operating income amounted to EUR 3.8 million (2017: EUR 5.8 million), particularly due to lower other operating income and the absence of gains from the release of provisions. Miscellaneous other operating income mainly comprised the reversals of previously formed specific valuation allowances and rental income.

The cost of materials rose by 36.3% to EUR 41.6 million (2017: EUR 30.5 million), which resulted in a year-on-year increase in the cost of materials ratio (in relation to total operating revenue) to 58.6% (2017: 57.5%). This development is attributable to the increased order volume that SMT Scharf acquired and processed in the 2018 fiscal year as part of the strong revival in business with new systems. Personnel expenses rose by 19.7% to EUR 15.2 million, due to the higher number of employees (2017: EUR 12.7 million). This leads to a personnel expense ratio (in relation to operating performance) of 21.4%, which is below the previous year's figure (2017: 23.9%) despite the higher number of employees compared with the previous fiscal year.

Accumulated depreciation and amortisation reached EUR 1.7 million (2017: EUR 1.3 million). Their increase in the reporting period is primarily due to depreciation and amortisation, which is significantly higher than in 2017. The 12.2 % rise in other operating expenses to EUR 11.0 million (2017: EUR 9.8 million) reflects a tangible slowdown. This was mainly due to lower exchange rate losses (EUR 1.6 million compared with EUR 2.3 million in the previous year). External services (2.4 %) continue to comprise the largest items (EUR 2.4 million compared to EUR 1.9 million in the previous year) and higher travel expenses (EUR 1.5 million compared to EUR 1.1 million in the previous year). Overall in the fiscal year under review, exchange rate gains and exchange rate losses led to a lower net loss of EUR –0.2 million (2017: EUR –0.8 million).

Results of operations

EUR million	2018	2017	Change
Revenue	70.8	52.1	35.9 %
Total operating revenue	71.0	53.1	33.7 %
EBIT	5.3	4.5	17.8 %
EBIT margin (in %)	7.5	8.6	
Consolidated net profit	4.6	4.0	15.0 %
Earnings per share (in EUR)	1.01	0.94	7.45 %

The SMT Scharf Group generated a significantly higher operating profit (EBIT) of EUR 5.3 million in the year under review (2017: EUR 4.5 million). The EBIT margin (in relation to total operating revenue) stood at 7.5 % (2017: 8.6 %). This relative decline reflects promising investments in market share, new markets and product areas, which lay the foundation for further future revenue and earnings growth. The financial result amounted to EUR 0.9 million compared with EUR 0.6 million in the previous year, mainly due to a doubling of income from investments (Chinese joint venture) to EUR 1.2 million (EUR 0.6 million in 2017) and significantly higher interest expenses compared with the previous year (EUR 0.6 million, EUR 0.2 million in 2017).

On balance, the Group generated a profit before tax of EUR 6.2 million (2017: EUR 5.1 million). The tax expense of EUR 1.6 million in the reporting year was above the previous year's level (2017: EUR 1.2 million). The increase primarily reflects the generally improved profitability of the Group companies. Of this amount, EUR 1.2 million comprised current tax expenses (2017: EUR 0.6 million), and EUR 0.4 million deferred tax (2017: EUR 0.5 million). The Group tax rate was 32.1 % (2017: 32.1 %). All in all, SMT Scharf AG achieved a consolidated net profit of EUR 4.6 million (2017: EUR 4.0 million), which represents another increase of EUR 0.6 million in a year-on-year comparison. This corresponds to earnings per share of EUR 1.01 (2017: EUR 0.94).

Net assets

The total assets of the SMT Scharf Group rose to EUR 83.1 million as of December 31, 2018 (December 31, 2017: EUR 72.3 million). On the assets side of the balance sheet, non-current assets increased to EUR 21.1 million (December 31, 2017: EUR 16.3 million). Property, plant and equipment increased primarily due to the addition of the Canadian subsidiary RDH Mining Equipment to the scope of consolidation. This contributed land and buildings (EUR 1.1 million), technical equipment and machinery (EUR 73 thousand) and operating and office equipment (EUR 118 thousand) to the SMT Group. Technical equipment and machinery rose to EUR 6.9 million in the year under review (December 31, 2017: EUR 5.4 million), while intangible assets increased by EUR 1.7 million to EUR 4.8 million (December 31, 2017: EUR 3.1 million), in particular due to intangible assets acquired from third parties by RDH Mining Equipment (EUR 1.4 million). Compared with the previous year's balance sheet date, deferred tax assets declined to EUR 2.5 million (December 31, 2017: EUR 3.1 million).

At EUR 62.0 million, current assets continued to account for most of the Group's assets. At EUR 25.8 million (December 31, 2017: EUR 15.1 million), inventories were clearly above the previous year's level, due to the increased order intake and order book position. At EUR 25.9 million (December 31, 2017: EUR 24.7 million), trade receivables were up on the previous year. In relation to consolidated revenue of EUR 70.8 million in the 2018 fiscal year (2017: EUR 52.1 million), average trade receivables outstanding of EUR 21.9 million (2017: EUR 22.5 million) and a 365-day year (2017: 365 days), days of sales outstanding reduced to 112 days (2017: 157 days). The receivables portfolio, which mainly consists of receivables from Chinese customers, has been reduced as planned in relation to (higher) Group sales. The payment plans already concluded with major customers in 2016 were adhered to as agreed in the past fiscal year. Cash and cash equivalents amounted to EUR 5.4 million as of December 31, 2018 (December 31, 2017: EUR 12.9 million) and have thereby reduced considerably. The funds from the capital increase that was implemented in November 2017 were deployed in the 2018 fiscal year to finance investments in property, plant and equipment and the investment in RDH Mining Equipment.

Due to the sharp rise in total assets, the SMT Scharf Group's equity ratio fell to 62.0 % (December 31, 2017: 67.4 %). Non-current provisions and liabilities amounted to EUR 12.7 million as of the balance sheet date (2017: EUR 6.0 million). In the reporting period, non-current financial liabilities increased to EUR 7.7 million due to drawdowns on investment loans (December 31, 2017: EUR 1.5 million). By contrast, pension provisions reported a slight reduction to EUR 3.2 million (December 31, 2017: EUR 3.3 million).

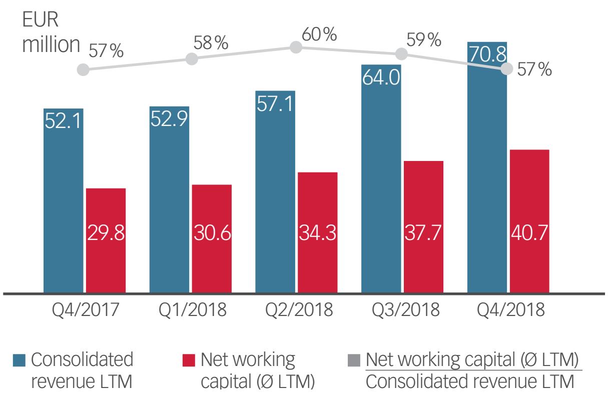
Current provisions and liabilities totalled EUR 18.9 million as of the reporting date (December 31, 2017: EUR 17.6 million), reflecting an increase of EUR 1.3 million compared with the previous year's balance sheet date. Trade payables of EUR 6.4 million were above the previous year's level (December 31, 2017: EUR 5.4 million). Current financial liabilities decreased to EUR 4.4 million (December 31, 2017: EUR 5.0 million) reflecting the repayment of credit lines that has been drawn down and leasing liabilities. This was offset by an increase in current provisions to EUR 5.4 million (December 31, 2017: EUR 4.2 million).

Net assets

EUR million	31/12/2018	31/12/2017
Total assets	83.1	72.3
Equity	51.5	48.7
Equity ratio (in %)	62.0	67.4
Non-current and current provisions and liabilities	31.6	23.6
Non-current assets	21.1	16.3
Current assets	62.0	55.9
Days of sales outstanding	112	157
Net working* capital on the balance sheet date	42.0	30.3
Net working* capital – year-average	40.7	29.8
Net working* capital intensity	57.5	57.2

*Calculation of net working capital: Year-average current assets – Year-average liquid assets – Year-average current liabilities (excluding current financial liabilities)

Net working capital



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

Equity and particular legal relationships

The subscribed capital of SMT Scharf AG increased from EUR 3.0 million to EUR 4.2 million against cash capital contributions as part of the IPO in April 2007. As part of the share capital increase completed in November 2017 with partial utilisation of Authorised Capital 2016, the share capital of SMT Scharf AG rose further by EUR 420,000.00, from EUR 4,200,000.00 to EUR 4,620,000.00, against cash capital contributions and under exclusion of shareholders' subscription rights. Since that date, it comprises 4,620,000 no-par value bearer shares, each with a notional interest of EUR 1 in the subscribed capital. After the capital increase, Authorised Capital 2018 still exists to issue a total of up to 2,310,000 further ordinary shares. With Supervisory Board approval, the Managing Board can utilise this authorised capital to raise the subscribed capital of SMT Scharf AG until May 22, 2023. Shareholders' subscription rights can be excluded in this context. In addition, Conditional Capital 2018 exists to issue additional ordinary shares up to a total of 462,000.

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

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

Managing Board is not aware of any restrictions relating to the transfer of the company's shares, including any restrictions resulting from agreements between shareholders.

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

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

Pursuant to section 8 of the articles of incorporation, the company's Managing Board comprises one or several members, including in the event that the share capital exceeds EUR 3.0 million, whereby the Supervisory Board determines the number of members of the Managing Board, and can appoint a Chair (CEO) as well as a Deputy Chair (Deputy CEO) of the Managing Board, and also deputy Managing Board members. In all other respects, the statutory regulations apply to the appointment and discharge of Managing Board members. The company has not concluded any key agreements that are subject to the condition of a change in control as a result of an acquisition offer.

Financial position

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

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

The SMT Scharf Group's financial position comprises all of the cash and cash equivalents carried on the balance sheet, in other words, cash on hand and bank balances, to the extent that these are available within three months (from the date of acquisition) without any notable fluctuations in value, as well as marketable securities less current financial liabilities and less the hardship and social funds. Committed credit lines of EUR 8.2 million exist, but have not been utilised. Given the net profit of EUR 4.6 million generated in 2018, the SMT Scharf Group reported cash flows from operating activities of EUR –3.1 million in the year under review (2017: EUR 1.0 million). The negative cash flow from operating activities mainly results from changes in inventories, trade receivables and other assets not attributable to investing or financing activities. Cash flow from investing activities amounted to EUR –8.0 million (2017: EUR –3.0 million) and is mainly attributable to cash outflows for additions to the group of consolidated companies. Cash flow from financing activities for the 2018 reporting period amounted to EUR 7.0 million (2017: EUR 5.4 million) reflecting borrowings. In total, the cash and cash equivalents position reduced from EUR 7.8 million on December 31, 2017 to EUR 3.2 million on December 31, 2018.

Comparison of the actual financial position and performance with the forecast

In the outlook published in the 2017 annual report, SMT Scharf anticipated Group revenue in 2018 within a range between EUR 58 million and EUR 62 million and EBIT between EUR 4.5 million and EUR 5.5 million. Thanks to the successful implementation of the strategic measures against the backdrop of an improved sector economy, increasing signs of significant revenue growth in excess of original expectations emerged over the course of the year.

The actual figures at the end of the fiscal year exceeded or were in line with expectations:

- With actual consolidated revenue of EUR 70.8 million, SMT Scharf significantly outperformed the revised revenue forecast of at least EUR 58 million to EUR 62 million thanks to a final quarter that also proved to be strong. The new company RDH contributed EUR 7.1 million to consolidated revenue.
- At EUR 5.3 million, EBIT was in line with original expectations. SMT Scharf thereby significantly increased its operating result compared with the previous year's figure of EUR 4.5 million.
- The cost of materials ratio (in relation to operating performance) rose only slightly to 58.6 % (2017: 57.5 %) despite the strong sales growth. As expected, it thereby lies above the medium-term target of 50 % and above the previous year's figure.
- Contrary to expectations, working capital of EUR 42.0 million reflects a year-on-year increase. Net working capital intensity rose slightly by 0.3 percentage points to 57.5 % in the reporting period thanks to the significant growth in Group revenue.
- The equity ratio reduced from 67.4 % in the previous year to 62.0 % due to the higher level of total assets; the company had aimed for in equity ratio at approximately the previous year's level.

Overall statement on the company's business position

The SMT Scharf Group reported significant revenue and earnings growth in the 2018 fiscal year. The continuous implementation of the corporate strategy thereby continues to bear fruit in a continuously improved industry environment. At EUR 4.6 million, Group net income improved accordingly. With an EBIT margin of 7.5 % (2017: 8.6 %), the SMT Scharf Group has moved away from its medium-term target of 10.0 %. This is attributable to investments in market shares, new markets and product areas in the reporting period, which from the company's point of view represents an outstanding success as the foundation stone was laid for further future revenue and earnings growth. Thanks to the improved earnings situation, the company's asset and financing situation has strengthened further. The equity ratio stands at 62.0 %, while financial debt has risen, but is still at a comparatively low level in relation to revenue volume and total assets. The SMT Scharf Group thereby has sufficient financial resources to continue the strategy it has adopted. SMT Scharf believes that it is well positioned overall to benefit disproportionately from growth opportunities in the mining industry.

Events after the balance sheet date

SMT Scharf AG examines investment in electronics specialist ser elektronik

SMT Scharf AG is at an advanced stage of negotiations regarding an investment in ser elektronik GmbH based in Möhnesee. With this investment, SMT Scharf is consistently pursuing its corporate strategy and expanding its portfolio to include valuable expertise in the electronics and controls area. SMT Scharf has been working with the electronics specialist for many years. ser elektronik develops customer-specific electronic controls and components. The systems, which are integrated into SMT Scharf's transport solutions for coal and non-coal mining, are manufactured in-house. Automation and data management are becoming increasingly important in underground mining. The acquisition of ser elektronik would help to strengthen SMT Scharf's in-house expertise in this area and align its transport systems to the growing requirements of underground mining.

Risk and opportunities report and outlook

Risk report

Risk management

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

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

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

A Compliance Management System (CMS) has been successfully installed in the company. This is intended to detect and prevent potential rule violations in good time. The CMS is instrumental in uniformly defining appropriate responses to compliance issues for all group companies and of communicating these issues. SMT Scharf has appointed an external compliance officer to monitor compliance management within the Group.

Corporate risks

SMT Scharf is subject to a number of risks arising from the Group companies' business activities. To make the risk report clearer and provide better overview, it allocates the risks to different categories, where they are presented in summarised form. SMT Scharf differentiates between sector and associated risks, operating risks, financial risks, and other risks. The section entitled "Other disclosures" in the notes to the IFRS consolidated financial statements for the 2018 fiscal year includes detailed disclosures about financial risk management.

Sector and associated risks

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

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

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

Operating risks

Production risks

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

Purchasing risks

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

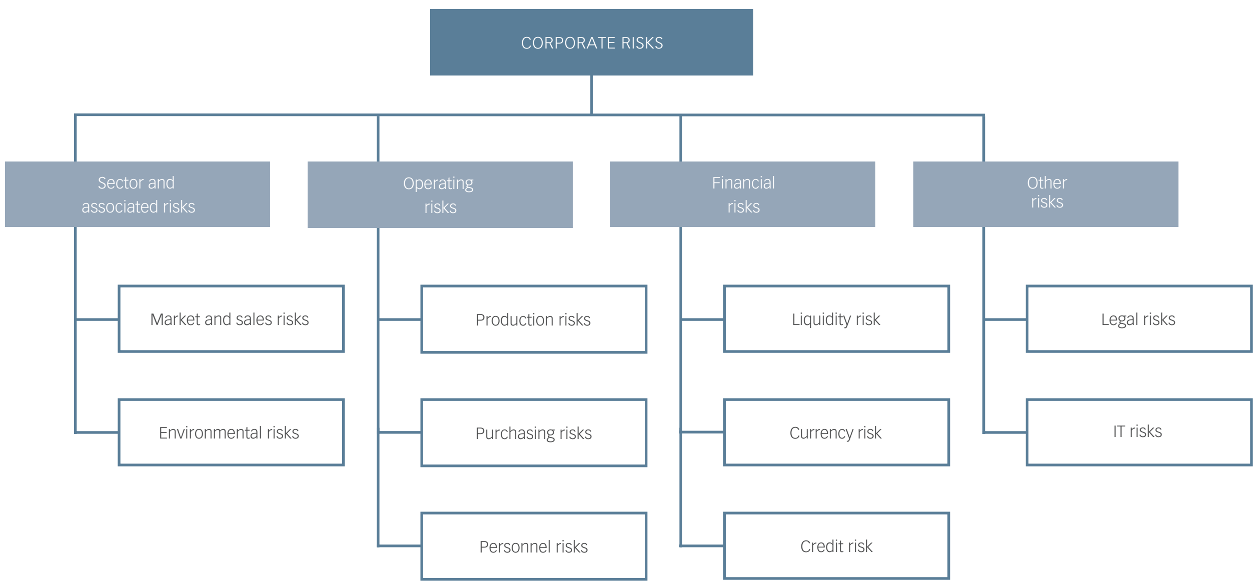
Personnel risks

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

Financial risks

Liquidity risks

SMT Scharf manages internal liquidity through central liquidity management. This system ensures that the funds required to finance its ongoing operating business and current and future investments in all of the Group companies are available on time, and in local currency. Given positive operating cash flow, no liquidity risks exist, as sufficient existing bank deposits as well as lending and guarantee lines are available. SMT Scharf invests free liquid funds so they are available short-term and generate relatively secure returns. Working together with several banks aims to limit default risks.



Currency risks
SMT Scharf is exposed to currency and default risks through its business activities. The Group counters such risks by deploying appropriate hedging instruments. This includes deploying forward currency transactions and options for the purpose of hedging open positions denominated in foreign currencies. The risk of higher product prices on foreign markets due to a strong Euro is weakened by a rising foreign proportion of purchased components. A total of 74 % of the workforce of SMT Scharf was employed outside the Eurozone as of the December 31, 2018 reporting date, thereby reducing the risk of higher personnel costs due to exchange rate effects (natural hedging).

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

Other risks

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

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

Report on opportunities

Positive effects of strategic measures

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

Global economic growth

In the medium term, the manufacturing industry in emerging economies and industrialised nations will have a stronger demand for raw materials and energy driving continued economic growth forward. Following the end of the last supercycle and in the wake of recovery, a stabilisation of commodity prices is now identifiable, which should make production profitable again for mining operators. The positive course of business in the period under review, which is accompanied by a revival in the sector economy, confirms the assessment of the Managing Board of SMT Scharf AG that postponed or cancelled investments in mining infrastructure will increasingly be made up for in the upswing phase that it is now increasingly stabilising. This is evident in the continued upturn in demand for mining equipment, which is expected to lead to further revenue growth for SMT Scharf.

Higher demand on local markets

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

Reducing the investment backlog in mines

Mining groups neglected their mines' productivity in recent years due to the difficult market environment. According to SMT Scharf's assessment, the investment backlog that has meanwhile arisen is increasingly being unwound. In the short term, the global economy will continue to grow, albeit at a slower pace. This is stimulating demand for coal and other raw materials, so that mine operators have incentives to continue to invest more in new equipment.

Trend towards Mining 2.0

Against the background of dynamically advancing digitisation, operators of mines and production sites worldwide are becoming increasingly interested in innovations in all areas of mining equipment and technology, as well as in optimising the efficiency of their processes and organisational structures. Automation and data management form the focus of the mining companies. One trend in underground mining is the integration of machines into mine operators' networks. Mining companies desire information about drivers, oil levels and underground temperatures. Such direct data transfer will help to improve maintenance and work processes in underground mining in the future. SMT Scharf identifies attractive growth prospects in Mining 2.0 thanks to its expertise in electrical engineering, control, measurement technology, electrification and data management.

More complex geological locations of raw materials deposits

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

Diversification advanced

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

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

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

Summary of the opportunities and risk position

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

Outlook

According to the International Monetary Fund (IMF), the global economy will continue to lose momentum in 2019. Economists point to global trade conflicts, such as the trade dispute between the US and China, and the weaker performance of some economies, particularly in Europe and Asia, which is leading to a slowdown in the overall global economy. At the start of 2019, the IMF forecasts the following GDP growth rates in SMT Scharf's target markets.

*GDP growth in the most important sales markets for SMT Scharf AG**

in %	2019e	2018
World	3.5	3.7
China	6.2	6.6
Poland **	3.5	4.4
Russia	1.6	1.7
South Africa	1.4	0.8

Sources: * IMF World Economic Outlook, January 2019
** IMF World Economic Outlook, October 2018

SMT Scharf will continue to concentrate on the core markets of China, Russia, Poland and South Africa. In addition, the acquired company RDH Mining Equipment will focus on the North American market. For 2019, the IMF expects that economic growth in China, Russia and Poland will slow slightly. With forecast GDP growth of 1.4 %, however, the economy in South Africa is expected to gain considerable momentum compared with the previous year.

Given the signals that can be observed in the market, the Managing Board assumes for 2019 that the sector environment and improved conditions in the mining equipment market will continue to open up the growth opportunities for the SMT Scharf Group in the current fiscal year. For the 2019 fiscal year, the Managing Board of SMT Scharf anticipates consolidated revenue in a range between EUR 72 million and EUR 75 million. Following the acquisition of Canadian mining specialist RDH Mining Equipment, the goal is to advance the technical integration of RDH in 2019. The financial and sales integration was successfully completed in 2018. With the complete takeover of RDH, the leading supplier of battery-powered vehicles with lithium-ion technology for underground mining, the foundation is to be laid to leverage far-reaching synergies in the international hard rock and tunnel market in the coming years. Furthermore, the Managing Board forecasts 2019 EBIT in a range between EUR 5.5 million and EUR 6.0 million.

The Tunnel segment is still in the phase of being established, so that the company continues to expect that it will not yet deliver any significant revenues in 2019. For this reason, the Managing Board does not anticipate major revenue growth in this segment until the medium term.

In terms of the cost of materials ratio (based on total operating revenue), a figure at the previous year's level is anticipated, although it will continue to lie above the medium-term target of 50.0 %. Net working capital for 2019 is expected below the previous year's level, assuming a further slight improvement in net working capital intensity in relation to revenue. Days of sales outstanding in 2019 are to lie slightly above the medium-term target of 150 days. An equity ratio at the previous year's level is also anticipated for 2019. The medium-term target range for the equity ratio between 35 % and 40 % is subject to the background assumption of exploiting further opportunities in the area of external growth over the coming years, and of potentially financing such transactions with debt.

Medium- to long-term, the management expects further improvements in the worldwide market for mining equipment. The trough in mining has been traversed for the time being. Due to consolidation in China, this especially relates to Chinese mine operators that need to optimise infrastructure and invest in innovative transportation logistics. Over the coming years, the management expects rising demand for electric vehicles for deployment in underground mining. In this context, SMT Scharf regards itself as well positioned to exploit future growth opportunities thanks to the newly acquired battery and electrical expertise at RDH. SMT Scharf's expertise as an integrated system supplier also enables the Group to retrofit electric vehicles for coal mining purposes.

Commodity production will increase thanks to the long-term sustainable expansion of the global economy. Against the backdrop of increasing trade policy conflicts and a turnaround in international capital flows, economic expansion in emerging markets has slowed. In the long term, prosperity in these countries will continue to rise. This is accompanied by sustainable growth in demand for energy. International Energy Agency (IEA) experts forecast a significant increase by 2040 in the share that renewable energies will contribute to achieve the international climate targets agreed in Paris. At the same time, this will boost demand for economically strategic raw materials such as lithium, cobalt and rare earths, which will boost mining.

In addition, demand for coal in China remains the greatest by far in terms of absolute figures, although it is also declining further. Coal is expected to account for around 45 % share of China's energy mix by 2040. In order to diversify more and further reduce dependency on coal mine operators, SMT Scharf will endeavour to ensure that its business with hard rock mine operators as well as tunnel logistics develops into second and third business pillars in the medium to long term. As part of its corporate strategy, the company will continue to focus in the future on operative excellence, as well as on both external growth and organic growth, in order to further strengthen SMT Scharf's market position.

Potential direct effects from Brexit are not expected.

Indirect effects on the global economy from Brexit, American-Chinese trade disputes with possible punitive tariffs or other exogenous areas of influence are currently not envisaged based on low probabilities.

Corporate governance declaration

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

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

Working approach of the Managing and Supervisory Boards:

The boards of SMT Scharf AG see their central task as managing the company in a responsible and value-oriented manner. The following principles apply in this regard:

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

The composition of the Supervisory Board is very diverse. In addition to its members' professional qualifications and industry background, the Supervisory Board members have various other important areas of expertise. This promotes the diversity of points of view in the internal discussion.

Adequate staffing with female members is also desired and taken into account. The Supervisory Board has set a 0 % target for the proportion at the first management level (Managing Board) and at 19 % for the management level below that (general managers of the subsidiaries and authorised signatories). For the Supervisory Board, the target for the proportion of women has been set at 33.3 %. Since the first management level and the Supervisory Board comply with the current quotas, these targets were already achieved when they were set.

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

In the year under review, the Managing Board of SMT Scharf AG consisted of three members and had one chair. After Mr. Oberhaus leaves in March 2018, the Managing Board will consist of just to members. The board has not formed any committees. The Managing Board's members are jointly responsible for managing the company's business, based on rules of business procedure as issued by the Supervisory Board. The Managing Board determines business targets, the company's policy and the Group's organisation. The Managing Board informs the Supervisory Board regularly, promptly and comprehensively about all questions of relevance for the company relating to planning, business development and risk management. Transactions requiring Supervisory Board approval are submitted in good time to the Supervisory Board. The Managing Board members are obligated to disclose conflicts of interest to the Supervisory Board without delay, and to only assume additional activities, especially supervisory board mandates at companies outside the Group, with Supervisory Board approval. No conflicts of interest existed in relation to the members of the Managing Board of SMT Scharf AG during the past fiscal year.

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

Remuneration systems for the Managing and Supervisory boards

The Supervisory Board's remuneration scheme was last supplemented by way of a resolution by the Annual General Meeting on May 23, 2018, based on the articles of incorporation of SMT Scharf AG. The Supervisory Board members receive fixed and variable remuneration for each fiscal year plus reimbursement of their out-of-pocket expenses, as well as meeting fees of EUR 1 thousand per Supervisory Board meeting. The variable remuneration is based on the level of consolidated net profit for the year, and is capped.

Decisions about the Managing Board's remuneration fall within the Supervisory Board's scope of responsibility. Managing Board members receive remuneration comprising a fixed basic annual salary and an annual bonus. The fixed basic remuneration is paid monthly. The members also receive non-cash benefits from the private use of company cars, life insurance cover and reimbursement of out-of-pocket expenses. The main proportion of the bonuses is measured on the basis of the level of consolidated net profit and The Managing Board members' contracts also include variable remuneration based on the share price performance and sales revenue trends. Accordingly, a share price increase of one Euro in each case is compensated with a contractually predetermined agreed amount. The sales revenue trend (taking 2014 as the basis year) is calculated based on accumulated consolidated sales revenue, with every EUR 1 million being compensated with a certain contractually agreed amount. Both the individual bonus components and total remuneration are capped. The Supervisory Board reviews the remuneration at regular intervals to ensure that it is suitable and in line with market remuneration levels. Pension obligations exist only for members of the Managing Board arising from the conversion of salary components. The company regulations for the conversion of salaries up to and including the 2007 fiscal year provide for a fixed upper age limit of 65 years, and 6.0 % interest on converted salary components. The age limit has been adjusted to annual changes in Germany's statutory pensionable age from 2008 on, with interest now set at 4.5 %. No agreements exist for remuneration in the event of a takeover bid. The above regulations for the remuneration of members of the Managing Board have been agreed in the corresponding employment contracts.

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

Details on the remuneration and shareholdings of individual members of the Supervisory and Managing boards can be found in the notes to the consolidated financial statements.

Hamm, March 27, 2019

The Managing Board

Hans Joachim Theiss   Wolfgang Embert

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31, 2018

EUR	Note	31/12/2018	31/12/2017
Assets			
Intangible assets	(9)	4,777,407.59	3,050,914.20
Property, plant and equipment	(9)	6,863,754.24	5,397,054.68
Equity accounted investments	(10)	5,823,789.08	4,127,117.36
Deferred tax assets	(8)	2,512,077.08	3,092,237.93
Non-current lease receivables	(22)	1,136,266.75	579,409.07
Other non-current non-financial assets	(13)	9,267.14	85,811.89
Non-current assets		**21,122,561.88**	**16,332,545.13**
Inventories	(11)	25,825,979.97	15,100,425.15
Trade receivables	(12)	25,250,122.74	24,653,750.91
Contract asset	(12)	623,319.48	0.00
Current lease receivables	(22)	1,075,741.03	1,011,201.08
Other current non-financial assets	(13)	3,518,759.64	1,905,323.83
Other current non-financial assets in connection with employees' pension entitlements	(14)	293,503.08	377,361.60
Cash and cash equivalents	(15)	5,409,915.33	12,886,329.45
Current assets		**61,997,341.27**	**55,934,392.02**
Total assets		**83,119,906.15**	**72,266,937.15**

EUR	Note	31/12/2018	31/12/2017
Equity and liabilities			
Subscribed share capital		4,570,523.00	4,570,523.00
Capital reserve		16,597,437.33	16,597,437.33
Revenue reserves		35,293,141.43	30,552,296.68
Other reserves		–4,927,868.50	–3,011,516.84
Equity	**(16)**	**51,533,233.26**	**48,708,740.17**
Provisions for pensions	(17)	3,151,198.17	3,284,844.00
Other non-current provisions	(18)	249,689.86	318,365.32
Deferred tax liabilities	(8)	696,561.95	451,918.83
Contract liabilities (previous year: advance payments received)	(19)	0.00	247,849.97
Leasing liabilities	(22)	172,899.57	197,896.29
Non-current financial liabilities	(23)	7,716,259.49	1,488,972.00
Other non-current financial liabilities	(19)	680,618.09	0.00
Non-current provisions and liabilities		**12,667,227.13**	**5,989,846.41**
Current income tax	(8)	187,344.91	1,104,111.98
Other current provisions	(18)	5,360,878.26	4,221,224.59
Contract liabilities (previous year: advance payments received)	(19)	996,069.51	406,513.77
Trade payables	(19)	6,389,671.80	5,410,425.40
Leasing liabilities	(22)	96,075.99	71,622.61
Current financial liabilities	(23)	4,363,044.80	5,044,996.52
Other current non-financial liabilities	(19)	1,526,357.49	1,309,455.70
Current provisions and liabilities		**18,919,442.76**	**17,568,350.57**
Total assets		**83,119,903.15**	**72,266,937.15**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FROM JANUARY 1 TO DECEMBER 31, 2018

EUR	Note	2018	2017
Revenue	(1)	70,794,634.71	52,130,981.51
Changes in inventories		232,977.06	983,155.24
Total operating revenue (100%)		71,027,611.77	53,114,136.75
Other operating income	(2)	3,774,194.42	5,808,471.83
Cost of materials	(3)	41,630,450.37	30,548,547.65
Personnel expenses	(4)	15,181,761.22	12,728,859.87
Depreciation, amortisation and impairment losses	(5)	1,674,440.69	1,298,130.13
Other operating expenses	(6)	11,011,631.75	9,792,775.14
Profit / loss from operating activities (EBIT)		**5,303,522.16**	**4,554,295.79**
Result from equity accounted investments	(7)	1,234,865.03	585,224.22
Interest income	(23)	266,016.38	216,954.56
Interest expenses	(23)	590,526.32	212,072.89
Financial result		**910,355.09**	**590,105.89**
Profit / loss before tax		**6,213,877.25**	**5,144,401.68**
Income taxes	(8)	1,580,617.36	1,162,541.49
Consolidated net profit		**4,633,259.89**	**3,981,860.19**
Other comprehensive income items recycled later to profit or loss:			
Currency differences from translation of foreign financial statements		-1,869,482.55	102,236.63
Share of other comprehensive income attributable to equity accounted investments		-46,869.11	-246,041.25
Other comprehensive income items not recycled later to profit or loss:			
Actuarial gains / losses	(17)	112,920.00	225,623.00
Deferred taxes	(8)	-36,252.97	-72,424.98
Other comprehensive income		**-1,839,684.63**	**9,393.40**
Total comprehensive income		**2,793,575.26**	**3,991,253.59**
Earnings per share*			
Undiluted (basic)		1.01	0.94
Diluted		1.00	0.94

* Consolidated net income divided by an average number of 4,570,523 issued shares (previous year: 4,219,103)

CONSOLIDATED CASH FLOW STATEMENT FROM JANUARY 1 TO DECEMBER 31, 2018

EUR	2018	2017
Consolidated net profit	4,633,259.89	3,981,860.19
+ / – Losses / Income from equity accounted investments	–1,234,865.03	–585,224.22
– / + Depreciation and amortisation of non-current assets	1,674,440.72	1,298,130.13
– / + Gain / loss from disposal of fixed assets	22,910.05	8,836.36
+ / – Increase / decrease in provisions	1,074,781.85	–906,655.58
– / + Increase / decrease in inventories, trade receivables and other assets not allocable to investing or financing activities	–8,748,216.54	–5,141,747.53
+ / – Increase / decrease in trade payables and other liabilities not allocable to investing or financing activities	–55,605.72	2,451,446.74
+ / – Other non-cash expenses / income	–161,840.80	–219,426.97
+ / – Income tax	1,580,617.36	1,162,541.49
+ / – Financial expenses	324,509.94	–4,881.67
– / + Income tax paid / received	–2,198,799.57	–1,081,889.55
Cash flow from operating activities	**–3,088,807.85**	**962,989.41**
+ Cash inflows from disposal of property, plant and equipment	28,005.70	101,163.64
– Capital expenditure on property, plant and equipment	–1,747,915.45	–1,810,000.00
– Capital expenditure on intangible assets	–836,314.27	–1,539,000.00
– Cash outflows from investments in financial assets	–508,625.80	0.00
– Cash outflows from acquiring consolidated companies	–5,167,666.99	0.00
+ Interest received	259,082.00	206,954.56
Cash flow from investing activities	–7,973,434.81	–3,040,881.80
+ Proceeds from capital increase	0.00	5,375,164.43
– Cash outflow for finance lease liabilities	–40,951.17	–43,851.87
+ Cash inflow from borrowing	9,182,900.92	259,218.06
– Cash outflow for the redemption of loans	–1,481,188.29	0.00
– Interest paid	–658,107.00	–186,072.89
Cash flow from financing activities	**7,002,654.46**	5,404,457.73
Net change in cash and cash equivalents	**–4,059,588.20**	**3,326,565.34**
Changes in cash and cash equivalents due to effects from exchange rates and consolidated Group	–563.409.28	60,353.01
Cash and cash equivalents at start of period	7,841,332.93	4,454,414.59
Cash and cash equivalents at end of period	**3,218,335.45**	**7,841,332.93**

For details see (20) notes to the cash flow statement.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FROM JANUARY 1 TO DECEMBER 31, 2018

			Revenue Reserves	
EUR	Subscribed share capital	Share premium	Actuarial gains and losses	Other revenue reserves
Balance on 01/01/2018	**4,570,523.00**	**16,597,437.33**	**-141,385.45**	**30,693,682.13**
Transfer due to change in accounting regulations*	0.00	0.00	0.00	30,917.83
Consolidated net profit	0.00	0.00	0.00	4,633,259.89
Currency difference from translating results from foreign annual financial statements	0.00	0.00	0.00	0.00
Share of other comprehensive income attributable to equity accounted investments	0.00	0.00	0.00	0.00
Recognition of actuarial gains / losses	0.00	0.00	112,920.00	0.00
Deferred taxes on recognised actuarial gains / losses		0.00	-36,252.97	0.00
Comprehensive income	0.00	0.00	76,667.03	4,664,177.72
Balance on 31/12/2018	**4,570,523.00**	**16,597,437.33**	**-64,718.42**	**35,357,859.85**

*The new accounting standards IFRS 15 and IFRS 9 have been applied since 1 January 2018. The previous year's figures were not restated. For further information, please refer to the section "Information about the consolidated financial statements".

Balance on 01/01/2017	**4,150,523.00**	**11,642,272.90**	**-294,583.47**	**26,711,821.94**
Capital increase	420,000.00	4,955,164.43	0.00	0.00
Consolidated net profit	0.00	0.00	0.00	3,981,860.19
Currency difference from translating results from foreign annual financial statements	0.00	0.00	0.00	0.00
Share of other comprehensive income attributable to equity accounted investments	0.00	0.00	0.00	0.00
Recognition of actuarial gains / losses	0.00	0.00	225,623.00	0.00
Deferred taxes on recognised actuarial gains / losses	0.00	0.00	-72,424.98	0.00
Comprehensive income	0.00	0.00	153,198.02	3,981,860.19
Balance on 31/12/2017	**4,570,523.00**	**16,597,437.33**	**-141,385.45**	**30,693,682.13**

	Other reserves	
	Currency translation difference	Total equity
	−3,011,516.84	**48,708,740.17**
	0.00	30,917.83
	0.00	4,633,259.89
	−1,869,482.55	−1,869,482.55
	−46,869.11	−46,869.11
	0.00	112,920.00
	0.00	−36,252.97
	−1,916,351.66	2,824,493.09
	−4,927,868.50	**51,533,233.26**
	−2,867,712.22	**39,342,322.15**
	0.00	5,375,164.43
	0.00	3,981,860.19
	102,236.63	102,236.63
	−246,041.25	−246,041.25
	0.00	225,623.00
	0.00	−72,424.98
	−143,804.62	3,991,253.59
	−3,011,516.84	**48,708,740.17**

NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS FOR THE 2018 FISCAL YEAR

Information about SMT Scharf AG and the SMT Scharf Group

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

Information about the consolidated financial statements

As SMT Scharf AG is admitted to the regulated market, it prepares its consolidated financial statements according to IFRS. The consolidated financial statements, comprising balance sheet, statement of comprehensive income, cash flow statement, statement of changes in equity, and supplementary disclosures in the notes to the financial statements of the SMT Scharf Group as of December 31, 2018, have been prepared in accordance with the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB) valid as of the reporting date and as applied in the EU. The term IFRS also includes the International Accounting Standards (IAS) and the interpretations of the Standing Interpretations Committee (SIC) and the International Financial Reporting Interpretations Committee (IFRIC) that are still valid. In addition, the requirements of Section 315a of the German Commercial Code (HGB) have been complied with.

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

The IFRS consolidated financial statements were audited by the Supervisory Board of SMT Scharf AG and will prospectively be approved by the Supervisory Board on March 28, 2019 and subsequently released for publication.

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

As of January 1, 2018, the Group applied the following new and revised standards and interpretations:

IFRS 9 "Financial Instruments"
IFRS 9 "Financial Instruments" relates to the classification and measurement of financial instruments as well as the recognition of derivatives and hedges, and replaces IAS 39 "Financial Instruments. Recognition and Measurement".

Since January 1, 2018, financial assets have been classified and measured applying the business model on which the portfolio is based and the cash flows typified by the financial instrument. In accordance with the new regulations, the SMT Scharf Group classifies its financial instruments into three categories: "measured at amortised cost", "measured at fair value through profit or loss" and "measured at fair value through comprehensive income". The rules concerning financial liabilities largely correspond to those of IAS 39.

Moreover, IFRS 9 sets out new rules on impairment of financial instruments and on the recognition of hedging arrangements. The new rules on impairment are based on expected credit losses and are consequently not restricted, as they were before, to impairment on losses incurred but not yet known. Under the new model, impairment losses for expected credit losses are recognised for financial assets classified as at amortized cost or at fair value through equity in other comprehensive income. The expected credit losses are updated at each balance sheet date based on available information.

The SMT Scharf Group has applied the standard for the first time in fiscal 2018. Changes in accounting policies were implemented applying the retrospective method. The exemption not to restate comparative information for previous periods was used. Due to the initial application of IFRS 9, differences between the carrying amounts of financial assets and financial liabilities are subsequently reported in revenue reserves and other reserves as of January 1, 2018. At the SMT Scharf Group, the classification of financial instruments did not result in any material changes in measurement. The effects of the first-time application of the new standard by the SMT Scharf Group were limited to disclosure issues and disclosures in the notes to the consolidated financial statements, in particular in relation to credit risk and expected loan defaults. With the exception of securities which continue to be are measured at fair value, as before, financial instruments continue to be measured at amortised cost, applying the effective interest method, if appropriate.

Models suitable for implementing the new impairment rules, in particular for calculating the default rates of trade payables (expected loss model), were developed. For receivables deriving from operating leases and for trade receivables, the SMT Scharf Group applies the simplified approach in accordance with IFRS 9, whereby the amount of the allowance for doubtful accounts is measured from the initial recognition of the receivable on the basis of the expected credit losses over the term of the receivable. The valuation allowances on receivables are mainly determined on the basis of historical experience on loan defaults and current data on overdue receivables. Due to the historically low level of bad debt losses, the changeover to the new valuation model did not result in any valuation differences and consequently also no effects on consolidated equity.

Hedging relationships that meet the requirements of IFRS 9 did not exist either on the balance sheet date or on the previous year's balance sheet date.

The following table shows the reconciliation of the categories and carrying amounts of financial instruments as part of the first-time application of IFRS 9.

SMT Scharf Group reclassification of financial instruments as of January 1, 2018

Balance sheet items in EUR thousand	IAS 39 category	IAS 9 category	Carrying amount IAS 39	Carrying amount IFRS 9
Securities	FVTPL	FVTPL	377	377
Cash and cash equivalents	LaR	AC	12,886	12,886
Trade receivables	LaR	AC	24,654	24,654
Non-current financial liabilities	FLAC	AC	1,489	1,489
Trade payables	FLAC	AC	5,410	5,410
Current financial liabilities	FLAC	AC	5,045	5,045

Note: LaR = Loans & Receivables, FLAC = Financial Liabilities at Amortised Cost, FVTPL = Fair Value through Profit or Loss (AC = Amortised Cost)

IFRS 15 "Revenue from Contracts with Customers"

The new standard, which has been mandatory since January 1, 2018, regulates the timing and amount of revenue recognition. The aim of the new standard on recognising revenue is to bring together the many rules formerly included in various standards and interpretations. SMT Scharf has applied the standard since January 1, 2018 for the first time applying the modified retrospective method. According to this transition method, the cumulative effect of the first-time application of IFRS 15 must be recognised directly in equity at the date of first-time application. In accordance with IFRS 15.C7, SMT has elected to account for only those contracts in accordance with IFRS 15 that have not yet been fully fulfilled at the time of first-time application (January 1, 2018).

IFRS 15 requires revenue to be recognised when control of the goods or services has passed to the customer. This means that the principle of the transfer of control replaces the principle of the transfer of opportunities and risks. Since January 1, 2018, the questions relating to what level and at what time or over which period revenue is to be recognised is to be answered in five steps. IFRS 15 replaces IAS 11 Construction Contracts and IAS 18 Revenue, as well as the relevant interpretations.

The SMT Scharf Group has launched a Group-wide project for the introduction of IFRS 15, which included an analysis and implementation phase. The analysis phase consisted of the analysis of the main types of contract in reference to IFRS 15 requirements. The subsequent implementation phase encompassed the implementation of the adjustments identified in the accounting processes, including raising the awareness of and providing guidance for the Group companies in relation to IFRS 15 requirements.

The following table summarises the effects of the first-time application of IFR 15 on the opening balance sheet as of January 1, 2018:

EUR thousand	01/01/2018	Effects of the transition to IFRS 15	31/12/2017 without the application of IFRS 15
Assets			
Non-current assets	**16,333**	**0**	**16,333**
Inventories	13,561	–1,539	15,100
Trade receivables	24,654	0	24,654
Contract assets	1,580	1,580	0
Current assets	**55,975**	**41**	**55,934**
Total assets	**72,308**	**41**	**72,267**
Equity and liabilities			
Revenue reserves	**30,583**	**31**	**30,552**
Equity	48,740	31	48,709
Advance payments received	0	–248	248
Contract liabilities	248	248	0
Deferred tax liabilities	462	10	452
Non-current provisions and liabilities	**6,000**	**10**	**5,990**
Contract liabilities	407	407	0
Advance payments received	0	–407	407
Current provisions and liabilities	**17,568**	**0**	**17,568**
Total assets	**72,308**	**41**	**72,267**

The transition to IFRS 15 led to no material adjustments. For the majority of the orders, the realisation date in accordance with IFRS 15 is the same as the previous date. Differences arose only in relation to projects that are customer-specific and for which revenue is consequently recognised in accordance with IFRS 15 on a period basis based on the stage of completion and not – as previously – only after completion of the overall project. These projects resulted in contract assets as of January 1, 2018 and a correspondingly lower inventory value.

Owing to the requirements of IFRS 15, a different presentation will be made in the financial statements. If a SMT Scharf company has unilaterally fulfilled its contractual obligations, it reports a trade receivable (unconditional payment claim) or a contractual asset (due, but outstanding prepayment claim, or receivable not yet invoiced). If SMT Scharf has received a prepayment from the customer, this will result in a contractual liability. Contract assets and contract liabilities are shown separately as such in the balance sheet. Accordingly, on January 1, 2018, claims on customers from services not yet invoiced but rendered were allocated to contract assets. Advance payments received were reclassified contract liabilities.

The following table shows the effects of IFRS 15 on the consolidated income statement of SMT Scharf AG in the 2018 fiscal year:

EUR thousand, Earnings per share in EUR	2018	Effects of IFRS 15	2018 without the application of IFRS 15
Revenue	70,794	–940	71,734
Changes in inventories	233	1,128	–895
Cost of materials	41,630	0	41,630
Profit / loss from operating activities (EBIT)	**5,304**	**188**	**5,116**
Profit before tax	**6,214**	**188**	**6,026**
Income taxes	1,581	39	1,542
Consolidated net profit	**4,633**	**150**	**4,483**
Earnings per share *			
Basic	1.01		
Diluted	1.00		

* Consolidated net income divided by an average number of 4,570,523 issued shares (previous year: 4,219,103)

The changeover effect will lead to lower revenues in the 2018 fiscal year. However, this is also offset by lower changes in inventories, so that after taxes only a slight effect on earnings remains.

Further information on revenue recognition is provided below in the section Revenue.

The following table summarises the effects of the first-time application of IFRS 15 on the consolidated balance sheet of SMT Scharf AG as of December 31, 2018.

EUR thousand	IFRS 15 31/12/2018	31/12/2018 without the application of IFRS 15	Effects of the transition to IFRS 15
Assets			
Non-current assets	21,123	21,123	0
Inventories	25,826	26,233	–407.00
Trade receivables	25,250	25,250	0
Contract assets	623	0	623
Current assets	**61,997**	**61,780**	**217**
Total assets	**83,120**	**82,903**	**217**
Equity and liabilities			
Revenue reserves	35,293	35,123	170
Equity	**51,533**	**51,363**	**170**
Advance payments received	0	0	0
Contract liabilities	0	0	0
Deferred tax liabilities	697	651	46
Non-current provisions and liabilities	**12,667**	**12,621**	**46**
Contract liabilities	996	0	996
Advance payments received	0	996	–996
Current provisions and liabilities	**18,919**	**19,915**	**–996**
Total assets	**83,120**	**83,899**	**–779**

IAS 40 "Transfers of Investment Property"
The amendments address transfers of investment property. The EU endorsed IAS 40 on March 14, 2018. This amendment is to be applied to fiscal years starting from January 1, 2018. These amendments have no effects on the Group.

Annual Improvements to IFRS (2014–2016 Cycle)
The IASB has published the annual improvements to IFRSs for the 2014–2016 cycle. This clarifies the following standards and topics:

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

The amendment is to be applied to fiscal years starting from January 1, 2017 or January 1, 2018. EU endorsement was issued on February 7, 2018. These amendments have no significant effect on the Group.

IFRS 2 "Share-based Payment": clarification
The amendments to IFRS include clarifications relating to the recognition of certain share-based cash-settled payment transactions. Inter alia, cash-settled grants must in future be accounted for in accordance with the measurement regulations for equity-settled grants. The amendments to IFRS 2 are applicable to fiscal years starting on or after January 1, 2018. EU endorsement was issued on February 26, 2018. These amendments have no significant effect on the Group.

IFRIC 22 "Foreign Currency Transactions and Advance Consideration"
IFRIC 22 clarifies the reporting of transactions involving the receipt of payment of consideration in a foreign currency. The clarifications are to be applied to fiscal years starting from January 1, 2018. EU endorsement was issued on March 28, 2018. These clarifications have no significant effect on the Group.

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

The International Accounting Standards Board (IASB) and the IFRS Interpretations Committee (IFRS IC) have approved further standards and interpretations that do not yet require mandatory application for the 2018 fiscal year or that the EU has yet to recognise.

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

In terms of the lessee, the new standard provides for a uniform accounting model. This model will require the lessee to recognise all assets and liabilities under leasing agreements in the balance sheet unless the term is 12 months or less or the asset in question is of minor value (option in these cases). For the purposes of accounting, the lessor continues to differentiate between finance and operating leases. The IFRS 16 accounting model does not differ significantly from IAS 17 "Leases" in this case. The SMT Scharf Group concludes leases in the capacity of both lessor and lessee.

As a lessor, the SMT Scharf Group has concluded both finance leases and rental leases. No material effects are expected from IFRS 16 in this domain.

Lease agreements in which the SMT Scharf Group is the lessee predominate over finance leases. The application of IFRS 16 in this area will consequently lead to an increase in assets and in financial liabilities at the SMT Scharf Group. In addition, the nature of the expenses associated with these leases will change as IFRS 16 replaces linear expenses for operating leases through depreciation expenses for right-of-use assets and interest expenses for liabilities arising from the lease. No significant effects are anticipated in respect of finance leases.

The SMT Scharf Group will use the option relating to short-term and low value leases. As regards the transitional provisions, the SMT Scharf Group will apply modified retroactive recognition. In so doing, it will make use of the following facilitation provisions:

- For leases previously classified as rental leases in accordance with IAS 17, the lease liability is recognised at the present value of the outstanding lease payments, discounted at the marginal borrowing rate as of January 1, 2019. The associated right-of-use is generally recognised at the amount of the lease liability.
- An impairment test is not performed. In the absence of such provisions, it was not necessary to compensate for this by reducing the right-of-use by provisions for onerous leases existing as of December 31, 2018.
- Leases expiring on or after December 31, 2019 are classified as current leases irrespective of the original lease term, so that no adjustment is recognised in the income statement.
- The initial direct costs are not included in the valuation of the right-of-use as of January 1, 2019.
- The term of contracts with renewal or termination options is determined on the basis of current knowledge.

The Group-wide implementation preparation for the first-time application of IFRS 16 showed that as of January 1, 2019 additional rights of use are expected to be reported in the amount of EUR 1,213 thousand. A further EUR 1,238 thousand is expected to be added to the leasing liabilities already existing from finance leases. Effects on revenue reserves are unlikely. The amortisation of rights-of-use in 2019 is expected to amount to EUR 573 thousand. The expected interest expense amounts to EUR 49 thousand. In contrast, actual lease payments of EUR 578 thousand are expected.

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

Amendments to IAS 28: Investments in Associates and Joint Ventures:
The amendments serve to clarify that a company applies IFRS 9 to investments in associates or a joint venture which are part of the net investment in this associate or joint venture but are not, however, recognised in application of the equity method. This amendment is to be applied to fiscal years starting from January 1, 2019. EU endorsement was issued on February 8, 2019. These amendments have no effects on the Group.

Annual Improvements to IFRS (2015–2017 Cycle)
The IASB has published the annual improvements to IFRSs for the 2015–2017 cycle. This clarifies the following standards and topics:

- IFRS 3 and IFRS 11: The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint venture, it remeasures its previously held interests in the business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, it does not remeasure its previously held interests in that business.
- IAS 12: The amendments clarify that the requirements in previous note 52B (recognition of income tax effects of dividends, where the transactions and events giving rise to the distributed profits are also recognised) apply to all income tax effects of dividends in light of preceding note 52A, which relates only to situations where there are different interest rates for distributed and undistributed profits.
- IAS 23: The amendments clarify that when an asset is ready for its intended use or sale, an entity treats any remaining borrowings that have been specifically incurred to obtain that asset as part of the borrowing generally incurred in calculating the capitalisation rate of the general borrowing.

This amendment is to be applied to fiscal years starting from January 1, 2019. EU endorsement is still outstanding. These amendments have no significant effect on the Group.

Amendments to IFRS 9 "Financial Instruments – Prepayment Features with Negative Compensation"
The IASB has published a narrow amendment to IFRS 9 that permits entities to measure certain prepayable financial assets with early repayment options and negative settlements at amortised cost. Otherwise, the assets concerned would have to be measured at fair value through profit or loss. The clarifications are to be applied to fiscal years starting from January 1, 2019. EU endorsement was issued on March 22, 2019. These clarifications have no effect on the Group.

Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement"
One of the mandatory requirements for the future is that, in the event of a change, reduction or settlement of a defined benefit plan, the current service cost and the net interest for the remainder of the fiscal year must be recalculated applying the current actuarial assumptions utilised for the required revaluation of the net liability (asset). The amendments are to be applied to fiscal years starting from January 1, 2019. EU endorsement is still outstanding. These clarifications have no significant effect on the Group.

Amendments to References to the Conceptual Framework in IFRS Standards
This is an editorial adaptation of the previous references to the framework in various IFRSs. The amendments are to be applied to fiscal years starting from January 1, 2020. EU endorsement is still outstanding. These clarifications have no effect on the Group.

Amendments to IFRS 3 "Business Combinations"
The IASB provides for a change in the definition of a business operation. The amendments aim to resolve the problems that arise when an entity determines whether it has acquired a business or a group of assets. The amendments apply to business combinations for which the acquisition date is on or after January 1, 2020. The amendments have no effects on transactions that have already been completed. EU endorsement is still outstanding.

Amendments to IAS 1 and IAS 8: Definition of Material
The IASB has issued a definition of "material" to specify and standardise the definition within the framework and standards. Information is material when it is reasonably expected that its omission, misstatement or concealment will affect the decisions of primary users of multi-purpose financial statements, which they make on the basis of such financial statements. The amendments are to be applied to fiscal years starting from January 1, 2020. EU endorsement is still outstanding. These clarifications have no significant effect on the Group.

IFRIC 23 "Uncertainty over Income Tax Treatments"
IFRIC 23 clarifies the accounting treatment of uncertainty over income tax. The clarifications are to be applied to fiscal years starting from January 1, 2019. EU endorsement was issued on October 23, 2018. These clarifications have no significant effect on the Group.

Information about subsidiaries

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

EUR thousand	Interest	Equity (IFRS) 31/12/2018	Profit / loss (IFRS) 2018
SMT Scharf GmbH, Hamm, Germany	100 %****	23,735	3,870
SMT Scharf Saar GmbH i.L, Neunkirchen, Germany (liquidation completed)	100 %	0	–36
Nowilan GmbH, Dinslaken, Germany	100 %****	147	1
SMT Scharf Polska Sp. z o. o., Tychy, Poland	100 %	6,388	1,562
SMT Scharf Africa (Pty.) Ltd., Germiston, South Africa	100 %	4,037	819
TOW SMT Scharf Ukrainia, Kiev, Ukraine	100 %	0	112
SMT Scharf Sudamerica SpA, Santiago, Chile	100 %	–137	–167
RDH Scharf (since February 6, 2018), Alban, Ontario, Canada	100 %	4,711	–603
OOO SMT Scharf, Novokuznetsk, Russian Federation	100 %*	6,810	2,224
OOO SMT Scharf Service, Novokuznetsk, Russian Federation	100 %***	148	114
Scharf Mining Machinery (Beijing) Co., Ltd., Beijing, China	100 %**	2,355	–355
Scharf Mining Machinery (Xuzhou) Ltd, Xuzhou, China	100 %	3,392	–99

* of which 1.25 % indirectly through SMT Scharf GmbH
** indirectly through SMT Scharf GmbH
*** indirectly through OOO SMT Scharf
**** Exemption in accordance with Section 264 (3) of the German Commercial Code (HGB)

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

With effect as of February 6, 2018, SMT Scharf AG acquired 100 % of the shares in RDH Mining Equipment, based in Alban, Canada. With the acquisition, SMT Scharf AG is strengthening its market position as an integrated system provider in the underground logistics area and is supplementing its product portfolio to include rubber-wheeled vehicles.

RDH Mining Equipment has specialised in high-quality underground equipment for mining and tunnel construction for more than 30 years, and has been especially active in the North American market to date with a revenue share averaging above 50 %. The product range extends from jumbo drilling rigs to loaders, scissor lifts and low-loaders. The company has a high level of technical expertise, an established brand name and a network in the areas of underground special machine construction and tunnel logistics of interest to SMT Scharf.

The purchase price amounts to around CAD 8.0 million (corresponding to approximately EUR 5.17 million). It was paid in cash in the amount of CAD 7.0 million (EUR 4.580 million). The remaining amount will be paid in SMT Scharf AG treasury shares three years after the transfer date. The relevant price per share (in CAD) has already been determined. Warranty claims arising from the purchase agreement up to the due date of this purchase price component would reduce the value of the purchase price obligation and thereby also the number of capital shares to be issued. According to the current state of knowledge, a maximum of 46,446 shares would have to be issued. With the acquisition, a negative cash and cash equivalents position (overdraft facility) of CAD 0.9 million (equivalent to EUR 0.6 million) was assumed.

In connection with the business combination with RDH, negative goodwill of CAD 247 thousand was recognised (EUR 162 thousand). It was reported under other operating income. The badwill results from a bargain purchase as a result of successful contract negotiations. In the fiscal year under review, transaction costs in the amount of EUR 252 thousand were recognised in the income statement under other operating expenses.

The acquired company generated EUR 7,068 thousand of revenue in the reporting period, contributing a loss of EUR 603 thousand to the consolidated net result. If the company had already been acquired at the start of the reporting period, the company would have contributed EUR 7,609 thousand to revenue and a loss of EUR 609 thousand to the consolidated net result.

The carrying amounts and fair values of the assets and liabilities upon acquisition are presented in the following table.

EUR thousand	CAD thousand Carrying amounts	CAD thousand Fair values	EUR thousand Carrying amounts	EUR thousand Fair values
Assets				
Inventories	8,886	8,886	5,814	5,814
Receivables and other current assets	1,849	1,849	1,210	1,210
Non-current assets	1,587	4,150	1,038	2,715
Total	**12,322**	**14,885**	8,062	**9,739**
Equity and liabilities				
Non-current provisions and liabilities	108	787	71	515
Current provisions and liabilities	5,826	5,826	3,811	3,811
Equity	6,389	8,273	4,180	5,413
Total	**12,322**	**14,885**	8,062	**9,739**

A request was submitted for the Saarland-based company SMT Scharf Saar GmbH i.L., Neunkirchen, to be removed from the register at the end of the liquidation period. This was implemented on July 17, 2018. The company was deconsolidated and consequently no longer forms part of the Group.

Information about joint ventures

1. Shandong Xinsha Monorail Co. Ltd., Xintai/China

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

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

EUR thousand	31/12/2018	31/12/2017
Non-current assets	373	385
Current assets	23,481	15,843
Current liabilities	13,224	7,974

The assets and liabilities listed above include the following amounts:

EUR thousand	31/12/2018	31/12/2017
Cash and cash equivalents	638	1,404
Current financial liabilities	11,358	5,436

EUR thousand	31/12/2018	31/12/2017
Revenue	24,108	11,177
Profit from continuing operations	3,215	1,170
Other comprehensive income	–80	–492
Total comprehensive income	3,135	678

The profit listed above includes the following amounts:

EUR thousand	31/12/2018	31/12/2017
Depreciation and amortisation	30	35
Interest income	0	31
Interest expenses	50	0
Income taxes	873	402

Deliveries of merchandise worth EUR 522 thousand (previous year: EUR 1,606 thousand) were made to the joint venture in the reporting year. As of the reporting date, there were outstanding receivables on this amount of EUR 0 thousand (previous year: EUR 297 thousand).

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

EUR thousand	31/12/2018	31/12/2017
Net assets of the joint venture	10,630	8,254
Interest held	50 %	50 %
Carrying amount of the interest	5,315	4,127

2. Shanxi Ande Auxiliary Transportation Co. Ltd., Changzhi, Shanxi Province, China

With a purchase price payment rendered in April 2018, SMT Scharf AG has held a 40 % interest in Shanxi Ande Auxiliary Transportation Co. Ltd., Changzhi, Shanxi Province, China, since March 2018 . The main operating activity is the production, repair and marketing of machinery and equipment of any type, and trading in such assets. SMT Scharf AG also classifies this company as a joint venture in accordance with IFRS 11, since, together with its partner entity, it owns the rights to the net assets. Joint ventures are recognised on the date of addition at cost, and measured subsequently applying the equity method.

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

EUR thousand	31/12/2018
Non-current assets	0
Current assets	1,922
Current liabilities	651

The assets and liabilities listed above include the following amounts:

EUR thousand	31/12/2018
Cash and cash equivalents	730
Current financial liabilities	650

EUR thousand	31/12/2018
Revenue	563
Profit from continuing operations	1
Other comprehensive income	0
Total comprehensive income	1

The profit listed above includes the following amounts:

EUR thousand	31/12/2018
Depreciation and amortisation	0
Interest income	0
Interest expenses	3
Income taxes	1

No deliveries of goods were made to the joint venture in the year under review. No outstanding receivables existed as of the balance sheet date.

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

EUR thousand	31/12/2018
Net assets of the joint venture	1,271
Interest held	40 %
Carrying amount of the interest	509

Consolidation principles

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

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

Control can also arise in cases where SMT does not hold the majority of the voting rights, if the Group is able to unilaterally determine the significant activities of the investee. All facts and circumstances are taken into consideration when assessing whether control exists. These especially include the purpose and structure of the investee, identifying its significant activities and decisions relating to them, and the relationship of the company's own voting rights in comparison to the scope and distribution of other voting rights, potential voting rights and rights arising from other contractual arrangements. All facts and circumstances subject to the exercising of management discretion must be taken into account when assessing whether control exists. No such case arose in the 2018 fiscal year.

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

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

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

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

Currency translation

The separate statements for the fully consolidated subsidiaries are translated based on the functional currency concept according to IAS 21. The functional currency for the subsidiaries is based on the primary economic environment and consequently corresponds to the respective local currency. As a consequence, this corresponds to the respective national currency. Balance sheet items are translated at the rate of exchange on the balance sheet date; items in the income statement are translated at the average annual rate of exchange. In statements of changes in assets, provisions and equity, the company translates balances at the start and end of fiscal years as well as consolidation scope changes, at the exchange rate on the respective date. The remaining items are translated at the annual average exchange rate. Year-on-year differences in the currency translation of balance sheet items are recognised in equity through other comprehensive income within other reserves.

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

The exchange rates for the key currencies were:

	Closing rate		Average rate	
1 Euro =	**31/12/2018**	**31/12/2017**	**2018**	**2017**
Polish Zloty	4.3014	4.1770	4.2615	4.2570
South African Rand	16.4594	14.8054	15.6186	15.0490
Chinese Renminbi Yuan	7.8751	7.8044	7.8081	7.6290
Russian Ruble	79.7153	69.3920	74.0416	65.9383
Canadian Dollar	1.5605	1.5039	1.5294	1.4647

Accounting and valuation policies

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

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

Since January 1, 2018, revenue has been recognised applying the 5-step model of IFRS 15.

Revenue from the sale of new equipment and spare parts is generally recognised when the customer obtains control of the product. Depending on the contractual arrangement, this May be the case when the goods are transferred ex-works or also after acceptance or commissioning. If SMT provides other services of comparatively minor importance in a direct factual and temporal context that, from the customer's perspective, are inseparably linked to the main service, such as training for the customer's employees, these regular services do not constitute a separable service obligation but rather form part of the main service. The new systems and spare parts are usually standard products and catalogue goods, which are configured according to the customer's wishes.

To the extent that SMT, in addition to supplying new systems whose customer-specific configuration does not extend beyond the usual scope, also provides extensive installation services, which is the case particularly with the construction of chairlifts, revenue is recognised over the period in which the service is provided after contractually agreed milestones have been reached, in deviation from the above principle. If no milestones have been agreed, revenue is recognised according to the stage of completion, on the basis of an output-oriented method, and according to the already delivered and installed parts (units produced or delivered).

In the case of customer-specific orders for which SMT has no alternative use for the product manufactured, but for which a legal claim exists to payment for the services already rendered, revenue is also recognised on a period basis. Revenue is recognised according to the percentage of completion, which is the ratio of the factor input already rendered to the expected total factor input. Where milestones have been agreed for which individual sales prices have been set and the setting of which reflects the progress of the project, separate performance obligations alternatively exist for which the respective agreed revenues can be realised at specific points in time.

SMT also provides services such as maintenance and repairs. If these are ordered by the customer, they are invoiced on an hourly basis. Revenue is recognised on a period basis. The progress of performance is determined on an output basis according to the units produced or delivered, i.e. hours worked.

SMT also offers its customers so-called operator models in which the customer receives a logistics service. In addition to the system, SMT also provides the personnel for its operation and performs the logistics services commissioned by the customer. Invoicing occurs monthly on the basis of the hours actually worked. Revenue is recognised according to the period in which it is generated or delivered, based on output.

In some countries, the SMT Scharf Group offers an extended warranty for new systems, the remuneration for which is already received along with the proceeds from the main product. The attributable revenues are determined on an input basis (cost-to-cost method), initially deferred as a contract liability and only recognised in income over the extended warranty period. No such agreements existed as of January 1, 2018.

SMT does not adjust the amount of the promised consideration for the effects of a significant financing component if, at the inception of the contract, it is expected that the period between the transfer of a promised product or service to the customer and its payment by the customer will not exceed one year.

Revenues also include income from rental and leasing transactions. Revenues from rental and leasing transactions result from operating leasing transactions and are recognised on a straight-line basis over the term of the contracts. In addition, proceeds are sometimes generated at the end of the contract term.

In the previous year, revenue was recognised in accordance with IAS 17. Accordingly, revenue from the sale of equipment and spare parts was recognised when ownership and risk transfer to the customer, to the extent that a price had been agreed or can be determined, and it was probable that this would be paid. Revenue from services was recognised when the services had been provided, a price had been agreed or could be determined, and it was probable that the price would be paid. In the case of master agreements for services, the services provided were invoiced regularly, on a monthly basis, as a rule. Revenue was reported net of discounts, rebates and other price reductions.

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

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

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

The goodwill reported as of December 31, 2018 in the amount of EUR 1,332 thousand (previous year: EUR 1,439 thousand) is allocated to two cash generating units (CGUs): Sareco EUR 955 thousand (previous year: EUR 1,062 thousand) and Nowilan EUR 377 thousand (previous year: EUR 377 thousand). These are recognised at amortised cost. Goodwill is tested for impairment annually and also if indications otherwise exist of potential impairment, as a matter of principle. The recoverable amount of this CGU is measured through calculating values in use by applying the discounted cash flow method, as a matter of principle. This approach utilises the planned after tax cash flow deriving from the five-year planning for the CGU, prepared on a bottom-up basis and approved by the Managing Board of SMT Scharf AG. Cash flows beyond the five-year horizon are calculated on the basis of the average for the five-year period, as a matter of principle. No growth rate is applied to extrapolate the five-year average. An interest rate of 14.1 % (previous year: 10.5 %) was applied for Sareco and 8.9 % (previous year: 10.5 %) for Nowilan in order to determine the present value.

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

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

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

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

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

Depreciation is based on the following useful lives throughout the entire Group:

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

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

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

Government grants are recognised if sufficient certainty exists that such subsidies will be granted, and that the company fulfils the conditions with which they are linked. Such grants were not received in 2018.

The SMT Scharf Group has concluded leases as a lessee (mostly for cars, offices and office equipment). According to IAS 17, these are to be classified as operating leases as most of the opportunities and risks that are associated with the ownership remain with the lessor. Lease payments for these operating leases are carried as other operating expenses over the lease period. Furthermore, the SMT Scharf Group is the lessee of individual finance leases for office furniture and servers. In this case, the SMT Scharf Group is the economic owner of the leased assets and accounts for them in its fixed assets. At the time of addition, it recognises a debt item for its lease obligations in the same amount in accordance with the fair value of the leased asset and the present value of the minimum payments, whichever is lower. While the leased asset is written down over its useful life, the lease liability is reduced in instalments by the repayment component of the lease payments remitted.

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

The financial assets are classified on the basis of accounting and valuation according to IFRS 9. As of December 31, 2017, the SMT Scharf Group had assets in the categories of amortised cost as well as financial assets measured at fair value through profit and loss. Classification occurs upon initial recognition. Measurement at fair value serves the purpose of better control.

Assets in the amortised cost category are measured at amortised cost applying the effective interest method. For receivables deriving from operating leases, for contract assets and for trade receivables, the SMT Scharf Group applies the simplified procedure in accordance with IFRS 9, according to which the amount of the allowance for doubtful accounts is measured from the initial recognition of the receivable on the basis of the expected credit losses over the term of the receivable. The valuation allowances on receivables are mainly determined on the basis of historical experience on loan defaults and current data on overdue receivables. Receivables denominated in foreign currencies are translated applying the closing rate of exchange, and any resultant exchange rate differences are carried under other operating income or expense.

Financial assets at fair value through profit or loss are carried at the value deriving from the current market valuation on the balance sheet date. This pertains exclusively to securities.

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

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

Deferred and current taxes are measured in accordance with IAS 12. Deferred taxes are determined for temporary differences between the carrying amounts of assets and liabilities in the IFRS balance sheet and their tax base, and for realisable tax loss carryforwards. Calculations are based on the tax rates which apply in the respective country on the expected date of realisation, as passed by law on the balance sheet date. Deferred tax assets are recognised only to the extent that it is probable that the associated tax receivables will be used. Tax loss carryforwards are included in tax deferrals only if it is probable that these will be realised.

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

The other provisions are formed for all identifiable risks and uncertain liabilities, if it is probable that such risks will materialise and it is possible to reliably estimate their amount. To the extent that the Group expects at least a partial refund for a provision carried as a liability (as is the case, for example, in insurance policies), the refund is only then recognised as a separate asset if the refund is as good as certain to be paid. Expenses for the formation of provisions are reported in the consolidated statement of comprehensive income after deduction of the refund.

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

The amount of the provision for warranties is measured applying the warranty expense that was incurred in the past, the warranty period, and the revenues affected by warranties. Individual provisions are formed for known losses. Provisions for other business-related liabilities are measured based on the services that are still to be rendered, in the amount of the production costs that are yet to be incurred, as a rule.

Financial liabilities are carried at cost on initial recognition. This corresponds to the fair value of the compensation received. Transaction costs are also taken into account in this regard. All liabilities are measured in subsequent years at amortised cost applying the effective interest method. Liabilities in foreign currencies are translated by applying the closing rate of exchange, and any resultant exchange rate differences are carried under other operating income or expense.

Accounting estimates and the exercising of discretion

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

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

Goodwill

The SMT Group conducts a goodwill impairment test annually, and also whenever indications exist that goodwill might have become impaired. The recoverable amount of the cash-generating units is estimated for this purpose. This recoverable amount corresponds to the higher of fair value less costs of disposal, and value in use. Calculating value in use requires adjustments and estimates to be made in relation to the forecasting and discounting of future cash flows. Although the management assumes that the assumptions applied to calculate the recoverable amount are appropriate, any unforeseen changes to such assumptions could result in an impairment loss that could exert a sustainable negative effect on the company's financial position and performance. The carrying amount of goodwill amounts to EUR 1,332 thousand as of the balance sheet date.

Useful lives of other intangible assets, and of property, plant and equipment

At every fiscal year-end, the Group reviews the estimated useful lives of its other intangible assets, and of its property, plant and equipment. No modifications were required for such estimates in 2018 and 2017.

Impairment testing of other intangible assets, and of property, plant and equipment

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

Impairment of receivables (expected loss)

Models suitable for implementing the regulations of IFRS 9 relating to impairment, in particular for calculating the default rates of trade payables (expected loss model), were developed. For receivables deriving from operating leases, for trade receivables and for contract assets, the SMT Scharf Group applies the simplified procedure in accordance with IFRS 9, according to which the amount of the allowance for doubtful accounts is measured from the initial recognition of the receivable on the basis of the expected credit losses over the term of the receivable. The valuation allowances on receivables are mainly determined on the basis of historical experience on loan defaults and current data on overdue receivables.

Taxes on income

On each reporting date, the Group assesses whether the realisability of future tax benefits is sufficiently likely for the recognition of deferred tax assets. This requires management to assess, inter alia, tax benefits deriving from future available tax strategies and future taxable income, as well as to take further positive and negative factors into account. The reported deferred tax assets could diminish if the estimates of the planned tax income and tax benefits achievable through available tax strategies are reduced, or if changes to current tax legislation restrict the timeframe or scope of realisability of future tax benefits. A total of EUR 2,512 thousand of deferred taxes were capitalised as of December 31, 2018 (previous year: EUR 3,092 thousand), which were offset by deferred tax liabilities of EUR 697 thousand (previous year: EUR 452 thousand).

Employee benefits

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

Notes to the income statement

(1) Revenue

The revenues shown in the income statement include both revenues from contracts with customers and other revenues that are not within the scope of IFRS15 . Revenues from contracts with customers are analysed by product type, service type and geographic region and are presented in the tables below. The category type of products and services corresponds to the reportable segments. Other revenues mainly comprise revenues from rental and leasing transactions (IAS17).

Revenues from contracts with customers include revenues of EUR 407 thousand that were included in contract liabilities as of December 31, 2017 (after transition to IFRS 15).

As of December 31, 2018, it is expected that future revenues of EUR 19,731 thousand from performance obligations not (or not fully) fulfilled at the end of the reporting period will be realised within the next three years. These are mainly long-term production and service contracts.

Revenue is composed of the following items:

EUR thousand	2018	2017
Sale of new equipment	33,068	22,250
Spare parts sales and services	35,150	29,440
Other revenue	2,577	441
Total	70,795	52,131

The following table shows the breakdown by time of realisation for 2018:

EUR thousand	Relating to a period	Relating to a point in time
Sale of new equipment	151	32,917
Spare parts	0	28,998
Services	6,151	0
Other revenue	2,577	0
Total	8,880	61,915

Revenue by region was as follows:

EUR thousand	2018	2017
China	28,329	14,073
Russia and other CIS states	15,571	16,978
Poland	9,764	7,790
Germany	1,473	2,493
Africa	7,938	7,649
America	5,632	416
Other countries	2,088	2,732
Total	70,795	52,131

(2) Other operating income

Other operating income is composed of the following items:

EUR thousand	2018	2017
Capitalisation of development costs	824	1,523
Miscellaneous other operating income	1,164	929
Exchange rate gains	1,504	1,475
Release of provisions	282	1,881
Total	3,774	5,808

Miscellaneous other operating income includes the reversal of individual value adjustments, rental income from leasing contracts and the release of the badwill of RDH.

(3) Cost of materials

The cost of materials is composed of the following items:

EUR thousand	2018	2017
Raw materials, supplies and purchased merchandise	32,471	22,301
Purchased services	9,159	8,248
Total	41,630	30,549

The cost of materials ratio (in relation to operating performance) rose only slightly to 58.6 % (2017: 57.5 %) despite the strong revenue growth.

(4) Personnel expenses

Personnel expenses are composed of the following items:

EUR thousand	2018	2017
Wages and salaries	12,794	10,884
Social security and pension contributions	2,388	1,845
Total	15,182	12,729

Expenses for defined contribution pension plans, especially statutory pension insurance, of EUR 66 thousand (previous year: EUR 92 thousand) were recognised during the fiscal year under review.

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

	2018	2017
Employees	389	312
of which trainees	7	4
Total	389	312

(5) Depreciation, amortisation and impairment losses

EUR thousand	2018	2017
Amortisation and impairment losses applied to intangible assets	345	57
Depreciation and impairment losses applied to equity, plant and equipment	1,329	1,241
Total depreciation, amortisation and impairment losses	1,674	1,298

(6) Other operating expenses

Other operating expenses are composed of the following items:

EUR thousand	2018	2017
Valuation allowances applied to receivables	517	0
Exchange rate losses	1,642	2,319
Special direct cost of sales	832	748
Third-party services	2,482	1,942
Travel expenses	1,547	1,054
Rent and leases	756	814
Maintenance costs	619	529
Advertising	186	215
Contributions / fees	269	214
Energy costs	364	310
Miscellaneous other operating expenses	1,798	1,648
Total	11,012	9,793

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

EUR thousand	2018	2017
Audit	81	85
Tax consulting	15	17
Other services	0	0
Total	96	102

Tax advisory services relate exclusively to tax declaration services.

(7) Result from equity accounted investments

Income from investments results from the 2018 profit of the Chinese company Shandong Xinsha Monorail Co. Ltd., Xintai, China, in the amount of EUR 1,234 thousand (previous year: EUR 585 thousand) and the Chinese company Shanxi Province, Shanxi Ande Auxiliary Transportation Co. Ltd., Changzhi, China, which was newly acquired in the fiscal year under review in the amount of EUR 1 thousand.

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

(8) Income taxes

Income taxes are composed of the following items:

EUR thousand	2018	2017
Current tax expense	1,262	641
of which relating to the fiscal year under review	1,262	641
Deferred taxes	319	522
of which creation or reversal of temporary differences	99	118
of which decrease in loss carryforwards	220	404
Total	1,581	1,163

Deferred taxes are measured based on the tax rates that apply, or are expected to apply, according to the current legal situation on the balance sheet date, or on the date when they are realised. The Group's tax rate stood at 32.1 %, as in the previous year. If deferred tax assets or liabilities are carried for foreign companies, these are measured at the tax rates which apply in the corresponding countries.

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

EUR thousand	2018	2017
Deferred tax assets		
Pension provisions	434	321
Property, plant and equipment	126	101
Inventories	898	943
Trade receivables	153	0
Miscellaneous assets	143	584
Other provisions	429	0
Miscellaneous liabilities	43	483
Loss carryforwards	1,069	1,290
Offsetting with deferred tax liabilities	–783	–630
Total	2,512	3,092
Deferred tax liabilities		
Intangible assets	974	432
Property, plant and equipment	443	397
Miscellaneous assets	59	147
Miscellaneous liabilities	3	106
Offsetting with deferred tax assets	–783	–630
Total	696	452

Deferred tax assets and liabilities totalling EUR 783 thousand were netted as they relate to future charges or reductions for the same taxpayer to the same tax authority (previous year: EUR 630 thousand). Consolidation effects resulted in deferred tax assets of EUR 537 thousand (previous year: EUR 668 thousand) (included in "inventories"; in the previous year also "miscellaneous assets"). The deferred tax position relating to actuarial gains and losses recognised in other comprehensive income amounts to EUR 31 thousand (previous year: EUR 67 thousand) and has consequently declined by EUR 36 thousand. As of December 31, 2018, deferred tax assets were carried for tax loss carryforwards in an amount of EUR 1,069 thousand (previous year: EUR 1,290 thousand). According to the legal position currently prevailing in Germany, loss carryforwards are permanently eligible for carrying forward in terms of the amount and time (deferred taxes of EUR 1,069 thousand). Some of these loss carryforwards are regarded as realisable on the basis of the tax planning. No deferred taxes were recognised for loss carryforwards of EUR 1,332 thousand (previous year: EUR 3,203 thousand).

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

EUR thousand	2018	2017
Profit before income taxes	6,214	5,144
Imputed tax expense	1,995	1,651
International tax rate differences	–551	–652
Non-tax-effective income from associates	–396	–178
Non-tax-effective income from associates (badwill)	–52	0
Adjustment to deferred tax on loss carryforwards based on a tax audit	0	42
Additional loss carryforwards generated or utilised in the reporting period	–120	–616
Write-off of deferred tax relating to loss carryforwards	42	958
Other effects reducing deferred taxes on loss carryforwards	0	20
Non-capitalisation of deferred taxes on losses carried forward	69	0
Reduction of deferred tax on temporary differences	323	46
Tax effects on non-deductible expenses	26	0
Other income exempt from tax or tax reductions	0	–368
Other differences	245	260
Reported income tax expense	1,581	1,163

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 are presented in the statement of changes in non-current assets:

Statement of changes in non-current assets from January 1 to December 31, 2018

EUR thousand		Opening balance 01/01/2018	Currency translation	Addition	Disposal	Addition to scope of consolidation	Closing balance 31/12/2018
Goodwill	Gross	1,546	-107	0	0	0	1,439
	Value adjustments	107	0	0	0	0	107
	Net	1,439	-107	0	0	0	1,332
Purchased intangible assets	Gross	450	-33	13	0	1,373	1,799
	Value adjustments	406	-6	153	0	0	553
	Net	40	-27	-140	0	1,373	1,246
Own work capitalised (development costs)	Gross	4,954	-6	824	0	0	5,772
	Value adjustments	3,382	0	191	0	0	3,573
	Net	1,572	-6	633	0	0	2,199
Intangible assets	**Gross**	**6,946**	**-146**	**837**	**0**	**1,373**	**9,010**
	Value adjustments	**3,895**	**-6**	**345**	**0**	**0**	**4,233**
	Net	**3,051**	**-140**	**492**	**0**	**1,373**	**4,777**
Land and buildings	Gross	7,183	-74	105	7	1,620	8,827
	Value adjustments	5,406	-24	165	7	501	6,041
	Net	1,777	-50	-60	0	1,119	2,786
Technical equipment and machinery	Gross	3,976	-282	605	186	384	4,497
	Value adjustments	1,513	-102	601	160	311	2,163
	Net	2,463	-180	4	26	73	2,334
Office and operating equipment	Gross	6,596	-204	1,053	452	630	7,623
	Value adjustments	5,454	-183	563	442	512	5,904
	Net	1,142	-21	490	10	118	1,719
Advance payments rendered	Gross	15	0	25	15	0	25
	Value adjustments	0	0	0	0	0	0
	Net	15	0	25	15	0	25
Property, plant and equipment	**Gross**	**17,770**	**-560**	**1,788**	**660**	**2,634**	**20,972**
	Value adjustments	**12,373**	**-309**	**1,329**	**609**	**1,324**	**14,108**
	Net	**5,397**	**-251**	**459**	**51**	**1,310**	**6,864**

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

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

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

The production costs of intangible assets which must be capitalised pursuant to IAS 38 are initially expensed (especially personnel expenses) according to the nature of expense format, and then eliminated through other income in the relevant period. The amortisation of internally generated intangible assets is carried as amortisation expense. Amortisation of EUR 1,674 thousand does not include any impairment loss (previous year: EUR 1,298 thousand). In 2018, development costs for new product developments in the case of drive concepts as well as from the areas of diesel cats and emission-free electric cats which met the IAS 38 capitalisation criteria were expensed. A total of EUR 824 thousand (previous year: EUR 1,523 thousand) was capitalised. The sum total of research and development expenses stood at EUR 2,659 thousand in the reporting year (previous year: EUR 3,327 thousand).

The SMT Scharf Group leases internally developed machines and heavy load units as a lessor in the context of operating leases. On the balance sheet date, 16 leased items were carried as leased assets in the statement of changes in non-current assets. The carrying amount of the leased assets stood at EUR 436 (previous year: EUR 2,354) and is included in the technical equipment and machinery item. See section (21) for further details.

(10) Equity accounted investments

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

(11) Inventories

Inventories are comprised as follows:

EUR thousand	2018	2017
Raw materials, consumables and supplies	10,227	4,002
Work in progress	13,835	9,884
Finished goods and merchandise	1,764	1,214
Carrying amount	**25,826**	**15,100**

As of December 31, 2018, write-downs of inventories to their lower net realisable value totalled EUR 3,593 thousand (previous year: EUR 3,906 thousand).

EUR thousand	2018	2017
Inventories without impairment	17,861	9,009
Inventories with impairment	7,965	6,091
Carrying amount	**25,826**	**15,100**

(12) Receivables

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

EUR thousand	2018	2017
Carrying amount of trade receivables	25,873	24,654
of which specific valuation allowances	1,405	888

Reconciliation of specific valuation allowances:

EUR thousand	2018	2017
Balance January 1	888	2,056
Reversals	-	–1,168
Additions	517	-
Balance December 31	**1,405**	**888**

All specific valuation allowances presented here relate to impairment losses on receivables from contracts with customers.

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

The SMT Scharf Group has adopted the simplified model of expected credit losses for its trade receivables and contract assets, as required by IFRS 9, as well as the general model of expected credit losses for its debt instruments carried at amortised cost. All debt instruments of the SMT Scharf Group have a low default risk both at the beginning and at the end of the reporting period. The SMT Scharf Group has also determined that contract assets exhibit essentially the same risk characteristics in terms of payment profile, collateral etc. as trade receivables deriving from similar contracts. The SMT Scharf Group consequently concluded that the expected loss rates for trade receivables are an appropriate approximation of the loss rates for contract assets. However, this may not always be appropriate and each company must assess this based on its own facts and circumstances.

The due dates of trade receivables are as follows:

EUR thousand	2018	2017
Receivables not due	21,197	20,497
Value-adjusted due receivables	1,405	888
Due receivables not value-adjusted	3,271	4,157
of which due between 1 and 30 days	1,587	1,594
of which due from 31 days	1,684	2,563
Trade receivables, total	**25,873**	**24,654**

(13) Other non-financial assets

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

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

EUR thousand	2018	2017
Securities	293	377

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

Of the securities, EUR 269 thousand (previous year: EUR 350 thousand) are attributable to a hardship and social fund. This fund is managed in trust by a commission which includes both employer and employee representatives.

(15) Cash and cash equivalents

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

(16) Equity

The changes in the SMT Scharf Group's equity are shown in the statement of changes in equity. Accumulated comprehensive income in the statement of changes in equity amounts to EUR -4,993 thousand (previous year: EUR -3,153 thousand). It comprises actuarial gains and losses of EUR -65 thousand (previous year: EUR -141 thousand) and differences in currency translation of EUR -4,928 thousand (previous year: EUR -3,012). The changes in the individual components are shown in the statement of changes in equity.

In the 2018 reporting year, the average number of shares amounted to 4,570,523 (previous year: 4,219,103).

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

On December 31, 2018, 4,570,523 ordinary bearer shares of SMT Scharf AG were issued in the form of no par value shares with a notional value of EUR 1 per share (previous year: 4,570,523). All shares have been fully paid up and grant the holders the same rights. The changes in the fiscal year under review can be viewed in the statement of changes in equity.

By resolution of the Annual General Meeting on May 23, 2018, Authorised Capital 2016 (EUR 1,680 thousand) was cancelled and the creation of Authorised Capital 2018 was approved, which entails corresponding amendments to the articles of incorporation.

The Managing Board, with Supervisory Board assent, can increase the subscribed capital on one or several occasions until May 22, 2023, by up to EUR 2,310 thousand against cash or non-cash capital contributions (Authorised Capital). Shareholders' subscription rights can be excluded in this context. Authorised Capital was extended through to May 22, 2023, through a resolution passed by the Annual General Meeting of May 23, 2018. In addition, Conditional Capital 2018 exists up to EUR 462 thousand to issue a further up to 462,000 ordinary shares.

Furthermore, the previous authorisation to purchase and sell treasury shares was revoked and a new authorisation was granted by resolution of the Annual General Meeting on May 23, 2018. The authorisation makes provision whereby the acquisition of treasury shares is limited to 10 % of the share capital existing at the time of the resolution of the Annual General Meeting. The authorisation is valid until May 22, 2023.

The company held 49,477 treasury shares on December 31, 2018, equivalent to 1.07 % of the share capital. The treasury shares can be utilised for all of the purposes stated in the authorisa-tion resolution.

Revenue reserves include actuarial gains and losses including their tax effects and other revenue reserves from the cumulative consolidated net income for the year. As of January 1, 2018, amounts from the conversion to the new accounting standard IFRS 15 were also allocated to revenue reserves (EUR 30,917.83). No effects arose from the transition to IFRS 9. Details on the changes in revenue reserves are presented in the statement of changes in equity.

The annual financial statements of SMT Scharf AG, which are prepared in accordance with the principles of the German Commercial Code (HGB), disclose an unappropriated net profit of EUR 1,049 thousand. The Managing and Supervisory boards will propose to the Annual General Meeting to be held on May 21, 2019 that this accumulated loss be carried forward to a new account.

(17) Provisions for pensions

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

The amount of the pension commitment (defined benefit obligation) was calculated applying actuarial methods. In addition to the assumptions on life expectancies according to the Heubeck Richttafeln 2018 G mortality tables, the following assumptions were applied:

in % p. a.	31/12/2018	31/12/2017
Qualifying trend	2.0	2.0
Rate of pension increases	1.0	1.0
Discount rate (DBO)	1.85	1.95

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

EUR thousand	2018	2017
Defined Benefit Obligation on January 1	3,285	3,591
Current service cost	8	7
Past service cost	6	7
Interest cost	63	53
Pension payments and transfers	–97	–147
Actuarial gains / losses	–113	–226
of which financial effects	44	–209
of which experience adjustments	–189	–17
of which demographic assumptions	32	0
Defined benefit obligation on December 31	**3,152**	**3,285**

A –0.5 % change in the interest rate would result in an increase in the pension obligation of EUR 57 thousand. A 0.5 % increase in the interest rate would feed through to a EUR 17 thousand reduction in the pension obligation. Both sensitivity calculations were performed while keeping all other assumptions unchanged.

Sensitivities (IAS 19.145)	DBO 2018	Change 2018	DBO 2017	Change 2017
Actuarial interest rate + 0.5 %	2,944	- 209	3,075	–209
Actuarial interest rate – 0.5 %	3,386	233	3,519	234
Pension trend + 0.5 %	3,345	192	3,476	191
Pension trend – 0.5 %	2,976	- 176	3,109	–175
Life expectancy 1	3,326	174	3,485	200

EUR thousand	
Pension payments 2018	144,019
Expected pension payments 2019	121,434
Expected pension payments 2020	125,584
Expected pension payments 2021	126,916

(18) Other provisions

The other current provisions are all due within one year. They are attributable to personnel, sales and other areas. Provisions for personnel relate, in particular, to performance-related remuneration for employees and overtime pay. Provisions in the sales and marketing area relate, in particular, to warranty and follow-up costs. The costs in this regard were estimated on a project-by-project basis, applying prudent commercial judgement. Miscellaneous other provisions relate, in particular, to uncertain liabilities to suppliers. In addition, they also include provisions for litigation, including the associated costs of proceedings. The results of current and future litigation cannot be predicted reliably, with the consequence 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 business and its results. The Managing Board believes that no decisions are to be expected in the currently pending or threatened litigation that could have a material negative impact on SMT Scharf Group's financial position or results of operations.

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

The interest effect from the discounting of other non-current provisions amounts to EUR 2 thousand.

The changes to other provisions in 2018 can be seen in the following statement of changes in provisions.

Consolidated statement of changes in other provisions from January 1 to December 31, 2018

EUR thousand	Opening balance 01/01/2018	Currency translation	Transfers	Consumption	Additions	Reversals	Closing balance 31/12/2018
Personnel area	1,944	–79	0	–1,362	1,702	–57	2,148
Sales area	1,128	–8	0	–442	1,222	–78	1,822
Other areas	1,149	–50	0	–684	1,123	–147	1,391
Other current provisions	4,221	–137	0	–2,488	4,047	–282	5,361
Other non-current provisions	318	–1	–46	69	48	0	250

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

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

(19) Liabilities

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

The advance payments received represent the full amount of contractual liabilities.

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

(20) Notes to the cash flow statement

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

The cash flows from investing and financing activities are identified directly, in other words, these are related to payments. In contrast, the cash flow from operating activities is derived indirectly from the net profit The cash flow from operating activities includes the following receipts and payments:

EUR thousand	2018	2017
Interest received	259	207
Interest paid	658	186
Income taxes paid	2,199	1,082

The net financial position in the cash flow statement comprises all of the cash and cash equivalents carried on the balance sheet, in other words, cash on hand and bank balances, to the extent that these are available within three months (from the date of acquisition) without any notable fluctuations in value, as well as marketable securities less current financial liabilities from overdrafts, to the extent that they form an integral element of Group cash management.

EUR thousand	31/12/2018	31/12/2017
Cash and cash equivalents	5,410	12,886
./. Current financial liabilities (overdrafts)	2,192	5,045
Net financial position	3,218	7,841

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

			Non-cash changes				
EUR thousand	01/01/2018	Cash flows	Reclassification	Additions from business combinations	Currency translation differences	Fair value changes	31/12/2018
Non-current financial liabilities	1,489	8,146	–1,981	741	–34	36	8,397
Current financial liabilities	5,045	–3,892	1,981	1,210	19	0	4,363
Total liabilities from financing activities	6,534	4,254	0	1,951	–15	36	12,760

			Non-cash changes			
EUR thousand	01/01/2017	Cash flows	Additions from business combinations	Currency translation differences	Fair value changes	31/12/2017
Non-current financial liabilities	1,313	259	0	–83	0	1,489
Current financial liabilities	2,183	2,862	0	0	0	5,045
Total liabilities from financing activities	3,496	3,121	0	–83	0	6,534

Other disclosures

(21) Other financial liabilities and contingent liabilities

At the end of the fiscal year under review, contingent liabilities existed from advance payment and warranty guarantees with a total value of EUR 41 thousand (previous year: EUR 288 thousand), as well as a registered land charge on the German operating land. The investment loan of EUR 9 million received was secured by a guarantee from SMT Scharf GmbH, Hamm.

(22) Leases

The Group is a lessee under leases for cars, office premises and office equipment. Both operating and finance leases exist.

Finance leases relate exclusively to operating and office equipment and, for the first time, to technical equipment and machinery. They have terms of up to five years. They were classified as finance leases mainly on the basis of the present value criterion (IAS 17.10 (d)) or the fact that ownership of the asset is transferred to the lessee at the end of the term (IAS 17.10 (a)). Liabilities of EUR 266 thousand from the leases existed as of the reporting date (previous year: EUR 270 thousand). They are disclosed under other liabilities and measured at amortised cost. Their fair value stood at EUR 265 thousand as of the balance sheet date. The carrying value of the assets capitalised in the context of finance leases totalled EUR 275 thousand on the reporting date (previous year: EUR 274 thousand). As of December 31, 2018, the liabilities from finance leasing are composed as follows:

EUR thousand	Future payments from finance lease obligations	Interest portion	Present value of future leasing instalments
Due within one year	99	4	95
Due in one to five years	178	7	171
Due after more than five years	0		
Total	277	11	266

Finance lease liabilities relating to the comparable period as of December 31, 2017 were as follows:

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

The operating leases have terms of up to nine years and in some cases include extension options and price adjustment clauses. In 2018, the rental and lease agreements resulted in payments totalling EUR 756 thousand being recognised in other operating expenses (previous year: EUR 814 thousand). The total nominal amount of the future minimum lease payments under operating leases is composed as follows by term:

EUR thousand	31/12/2018	31/12/2017
Due within one year	517	618
Due in one to five years	484	519
Due after more than five years	0	0
Total	1,001	1,137

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

Receivables from finance leases of EUR 2,212 thousand (previous year: EUR 1,591 thousand) existed as of the reporting date. They are disclosed under lease receivables and measured at amortised cost. These led to interest income of EUR 71 thousand in the reporting year (previous year: EUR 79 thousand). There fair value on the balance sheet date amounted to EUR 2,140 thousand (previous year: EUR 1,611 thousand). The following information is provided on receivables from finance leases:

Sum total of future minimum leasing payments (gross investment) EUR thousand	31/12/2018	31/12/2017
Due within one year	1,091	1,067
Due in one to five years	1,187	602
Due after more than five years	0	0
Total	2,278	1,669

Present value of the outstanding minimum lease payments EUR thousand	31/12/2018	31/12/2017
Due within one year	1,004	1,011
Due in one to five years	1,136	580
Due after more than five years	0	0
Total	2,140	1,591
Financial income included in the outstanding minimum lease payments	138	78

The total nominal amount of the future minimum lease payments under operating leases where the Group is the lessor is composed as follows by term:

EUR thousand	31/12/2018	31/12/2017
Due within one year	256	288
Due in one to five years	26	240
Due after more than five years	0	0
Total	282	528

(23) Other disclosures about financial instruments

The valuation of financial assets and liabilities is discussed in the section on accounting and valuation methods. SMT Scharf Group did not hold any held-to-maturity or available-for-sale financial instruments in either 2018 or 2017. No regroupings were implemented.

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

The fair values are presented in the following table:

31/12/2018 Balance sheet items in EUR thousand	IAS 9 category	Carrying amount	Fair value
Securities	FVTPL	294	294
Cash and cash equivalents	AC	5,410	5,410
Trade receivables	AC	25,873	25,873
Lease receivables	n.a.	2,212	2,212
Non-current financial liabilities	AC	7,716	7,716
Trade payables	AC	6,390	6,390
Current financial liabilities	AC	4,363	4,363
Leasing liabilities	n.a.	269	269

The securities are securities that must be carried forward in the FVTPL category as they are held in a near-money market fund that neither pays fixed interest nor makes scheduled repayments. Income derives purely from the sale of fund units

The first-time application of IFRS 9 to financial instruments led to a reclassification of the categories. However, this did not lead to any valuation differences.

No reclassifications were implemented during the period under review.

31/12/2017 Balance sheet items in EUR thousand	IAS 39 category	Carrying amount	Fair value
Trade receivables	LaR	24,654	24,654
Leasing receivables	n.a.	1,591	1,611
Non-current financial liabilities	FLAC	1,489	1,489
Trade payables	FLAC	5,410	5,410
Current financial liabilities	FLAC	5,045	5,045
Leasing liabilities	n.a.	270	281

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

Net gains or losses by individual IFRS 9 and IAS 39 category

EUR thousand	2018	2017
Financial assets measured at fair value through profit or loss (FVTPL)	–4	–17
Financial liabilities measured at amortised cost (FLAC)	–36	0
Total	–40	–17

Net gains comprise value allowances and currency translation.

Interest expenses of EUR 591 thousand in the fiscal year under review (previous year: EUR 212 thousand) mainly reflect the overall interest expense calculated in application of the effective interest method for financial instruments measured at amortised cost, and only to a minor extent accrued interest on provisions.

Interest income of EUR 266 thousand in the year (previous year: EUR 217 thousand) is mainly attributable to total interest income calculated by applying the effective interest method for financial instruments measured at amortised cost.

The contractual cash flows for financial liabilities are as follows:

Balance sheet items as at December 31, 2018	Carrying amount in EUR thousand	Contractually agreed cash flows	Up to 1 year	1 – 5 years	More than 5 years
Loan	503	quarterly	164	339	0
Loan	250	quarterly	129	128	0
Loan	611	quarterly	313	308	0
Loan	1,002	quarterly	249	807	0
Loan	3,593	quarterly	628	2,512	785
Loan	1,852	quarterly	325	1,299	406
Loan	1,852	quarterly	325	1,299	406
Loan	42	quarterly	0	42	0
Loan	183	quarterly	183	0	0
Total	9,888		2,316	6,734	1,597

Balance sheet items as at December 31, 2017	Carrying amount in EUR thousand	Contractually agreed cash flows	Up to 1 year	1 – 5 years	More than 5 years
Loan	658	quarterly	164	516	0
Loan	375	quarterly	129	253	0
Loan	840	quarterly	239	622	0
Total	1,873		532	1,391	0

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

(24) Capital management

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

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

	31/12/2018		31/12/2017	
	EUR thousand	in %	EUR thousand	in %
Equity	51,533	62.0	48,709	67.4
Non-current liabilities	12,667	15.2	5,990	8.3
Current liabilities	18,920	22.8	17,568	24.3
Total assets	83,120	100.00	72,267	100.0

(25) Financial risk management

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

Liquidity risks: The Group manages its liquidity risks by maintaining sufficient reserves, monitoring and maintaining its credit agreements, as well as forecasting and coordinating its cash inflows and outflows. The Group has access to credit lines. The undrawn amount totalled EUR 8,159 thousand on the balance sheet date (previous year: EUR 2,339 thousand). The Group also has access to guarantee credit lines. Management anticipates that the Group will be able to fulfil its other financial liabilities from its cash flow from operating activities, and from the proceeds from maturing financial assets. In addition, the Group has further funds available from the capital increase for promoting the internal and external growth of the SMT Scharf Group.

Credit risks: The maximum risk of default is represented by the carrying amount of the financial assets, less impairment losses, as recognised in the consolidated financial statements. This amounts to EUR 28,085 thousand (previous year: EUR 27,550 thousand).

Risk management in this area is based on the principle that business relationships are entered into only with creditworthy counterparties, if necessary by obtaining collateral to mitigate default risk. The Group obtains information from independent rating agencies, other available financial information, and its own trade notes to assess creditworthiness, in particular for key accounts. Credit risks are controlled using limits for each party. These limits are reviewed and approved at least once per year. Open items are also monitored. From this, conclusions are drawn for the amount of expected loss, which is decisive for the measurement of receivables. The SMT Scharf Group does not believe that it is subject to any major risks of default from a party, or group of parties, to a contract with similar characteristics. Trade receivables exist which are due from a large number of customers distributed over various regions. Due to historically low or non-existent loan defaults, the expected loss included in the receivables amounted to EUR 0 on the reporting date.

No uniform payment conditions exist within the Group, as agreements for equipment orders are concluded individually. The value of the receivables is examined on a case-by-case basis, taking account of special customer attributes. Doubtful receivables were written down in the amount of EUR 1,405 thousand (previous year: EUR 888 thousand). No valuation allowances were made for trade receivables of EUR 3,591 thousand (previous year: EUR 4,157 thousand) which were overdue on the balance sheet date, as no material change in the contractual party's creditworthiness was ascertained, and it is expected that the outstanding amounts will be paid. The Group holds no collateral for these unpaid items.

Market risks: Market risks can result from changes to exchange rates (exchange rate risk) or interest rates (interest rate risk). SMT Scharf counters such risks by deploying suitable hedging and management instruments. Management and control is realised by constantly monitoring cash flow, and monthly reporting to Group management. Exchange rate risks are limited insofar as the Group mostly issues its invoices in Euros or in local currency. Otherwise, exchange rate hedges are agreed for significant transactions taking cost benefit aspects into account. As in the previous year, no hedging of this nature existed as of December 31, 2018. The Group is not exposed to any major interest-rate risks at present as it borrows at fixed interest rates.

(26) Segment reporting

In line with IFRS 8, the identification of reportable operating segments is based on the "management approach". According to this, the external segment reporting is performed based on the Group's internal organisation and management structure as well as the internal financial reporting to the highest management body ("chief operating decision maker"). In the SMT Scharf Group, the Managing Board of SMT Scharf AG is responsible for the assessment and control of the performance of the segments, and is the chief operating decision maker within the meaning of IFRS 8.

The Group reports on two operating segments, which are managed independently by segment boards by types of products and services, brands, sales channels and customer profiles.

The operating segments each combine their respective activities in the areas of Coal Mining, Non-Coal Mining as well as Tunnel.

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

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

In the Tunnel segment, SMT Scharf focuses on the tunnel logistics business for large-scale construction sites. The company offers a wide range of vehicles equipped with rubber wheels which can be deployed in the realisation of infrastructure projects in tunnel construction.

Intersegment revenues and inputs are of minor significance, and are not reported separately.

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

Segment assets and liabilities comprise all assets and liabilities that can be allocated to the operating segments, and whose positive and negative results determine the operating result. Segment assets especially include intangible assets, property, plant and equipment, inventories, trade receivables and other liabilities, as well as significant provisions. Segment capital expenditure comprises additions to intangible assets and to property, plant and equipment.

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

The degree of dependence on key customers is low as SMT Scharf products can be modified for other customers with a minimum amount of effort.

Unallocated assets and liabilities relate to deferred taxes.

	Coal mining		Non-Coal mining		Tunnel		Not allocated		SMT Scharf Group	
EUR thousand	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Revenue	55,659	43,555	14,889	8,424	247	152	-	-	70,795	52,131
of which new equipment	27,412	18,115	8,234	4,576	-	-	-	-	35,646	22,691
of which spare parts	22,500	20,925	6,251	3,497	247	152	-	-	28,998	24,574
of which others	5,747	4,515	404	351	-	-	-	-	6,151	4,866
Operating result (EBIT)	5,212	3,944	257	919	(166)	(308)	-	-	5,304	4,554
Earnings from equity accounted companies	1,235	585	-	-	-	-	-	-	1,235	585
Segment assets	66,755	64,150	13,640	4,902	213	123	2,512	3,092	83,120	72,267
Segment liabilities	27,698	22,024	3,126	1,048	67	35	697	452	31,587	23,559
Segment investments	3,032	1,854	19	13	-	1	-	-	3,051	1,868
Interests in equity accounted companies	5,824	4,127	-	-	-	-	-	-	5,824	4,127
Depreciation, amortisation and impairment losses	1,373	1,233	292	61	9	4	-	-	1,674	1,298
FTEs	314	283	80	31	3	3	-	-	397	317

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

EUR thousand	2018	2017
Result before net interest and other net financial result	6,539	5,149
Net interest result	–325	-5
Profit before tax	6,214	5,144
Income taxes	1,581	1,162
Earnings after tax	4,633	3,982

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

Non-current assets comprise intangible assets and property, plant and equipment. A total of EUR 4,979 thousand (previous year: EUR 4,402 thousand) is attributable to Germany and EUR 5,369 thousand (previous year: EUR 4,046 thousand) to other countries.

(27) Supervisory Board

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

Period from January 1 to December 31, 2018:

Prof. Dr. Louis Velthuis, Mainz (Chairman)	Professor of Controling at the Johannes Gutenberg University of Mainz, Germany	Intershop Communications AG, member of the Supervisory Board
Dr. Dipl.-Ing. Dirk Vorsteher, Werne (Deputy Chairman)	Management consultant	(no positions held at other companies)
Dipl. Volkswirtin Dorothea Gattineau, Herdecke	Business executive	(no positions held at other companies)

The Supervisory Board members receive fixed and variable remuneration for each fiscal year plus reimbursement of their out-of-pocket expenses, as well as meeting fees of EUR 1 thousand per Supervisory Board meeting, with the Supervisory Board Chair receiving twice the meeting fee per meeting. The fixed remuneration totals EUR 18 thousand, and the Chair receives twice this amount. In addition, each member of the Supervisory Board receives variable compensation in the form of a share in the consolidated net profit, calculated as follows: the annual perfor-mance-related compensation corresponds to an amount calculated by multiplying a bonus factor of 0.4 % (or 0.8 % for the Supervisory Board Chair) by the residual profit. The consolidated net profit of the SMT Scharf Group less interest on equity is regarded as the residual profit, whereby the interest rate corresponds to the applicable base interest rate plus 2 percentage points. The consolidated result is determined on the basis of the IFRS consolidated financial statements for the financial year in question, which have been audited by the auditor and approved by the Supervisory Board. If a member of the Supervisory Board can prove on the day before the Annual General Meeting that approves the appropriation of profits that he or she holds shares in the company cumulatively in the amount of one third (the purchase price being the decisive factor to this extent) of the respective fixed remuneration per year of his or her membership in the Supervisory Board, the bonus factor for the (basic) member of the Supervisory Board providing proof of investment increases to 0.8 % and for the Supervisory Board Chair to 1.6 %. The variable remuneration amounts to a maximum of EUR 9 thousand (without personal investment) or EUR 12 thousand (with personal investment) per ordinary member of the Supervisory Board and EUR 18 thousand (without personal investment) or EUR 24 thousand (with personal investment) for the Supervisory Board Chair. Remuneration is paid pro rata if members leave the Supervisory Board during the course of the fiscal year. The following remuneration was recognised as expenses for the 2018 fiscal year:

EUR thousand	Velthuis	Vorsteher	Gattineau
Fixed remuneration	36	18	18
Variable remuneration	24	12	12
Meeting fees	10	5	5
Total	70	35	35

No remuneration exists for former members of the Supervisory Board or their surviving dependents. No advances, loans, or contingent liabilities exist in favour of members of the Supervisory Board. Prof. Dr. Louis Velthuis, Chairman of the Supervisory Board, held a total of 1,750 shares (previous year: 0 shares) in the company as of December 31, 2018. Dr. Vorsteher 900 shares (previous year 0 shares) and Ms. Gattineau 410 shares (previous year 0 shares).

(28) Managing Board

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

Managing Board members receive remuneration comprising a fixed basic annual salary and an annual performance-related bonus, plus reimbursement of their out-of-pocket expenses. Pension commitments of EUR 213 thousand exist for former Managing Board members. Pension commitments of EUR 34 thousand exist for current Managing Board members. The bonus for a fiscal year is set and becomes due in the following fiscal year in each case; a related provision is formed at the end of the fiscal year.

The following remuneration was recognised in the reporting year:

	Theiss			Embert			Oberhaus		
EUR thousand	2018	Min 2018	Max 2018	2018	Min 2018	Max 2018	2018	Min 2018	Max 2018
a) Non-performance-related remuneration	268	268	268	201	201	201	173	173	173
b) Performance-related remuneration 2018	172	0	252	119	0	189	119	0	189
Total remuneration (a+b)	440	268	520	320	201	390	292	173	362
Payment from performance-related remuneration 2017	165			104			104		

Share-based compensation exists for all members of the Managing Board of SMT Scharf AG. This scheme entails paying a contractually agreed bonus amount for each annual EUR 1 increase in the share price. As of the fiscal year-end, this is included in the provision, but has not yet been paid out to the Managing Board members. The figures in the table for basic salary, additional benefits and part of the bonus that is based on EBIT and sales revenue target attainment tally in terms of the provisioning and accrual amounts. As of December 31, 2018, Hans Joachim Theiss, Management Board Chairman (CEO), held a total of 10,000 shares, and Wolfgang Embert 1,000 shares.

The remuneration of former members of the Managing Board or their surviving dependants in the year under review includes pensions and the remuneration of Mr. Oberhaus from March 2018. No advances, loans or contingent liabilities exist in favour of members of the Managing Board.

(29) Related party disclosures

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

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

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

Consultancy services for a kaizen project with the volume of EUR 7 thousand (previous year: EUR 9 thousand) were purchased from a key management personnel member in 2018. No open liabilities exist as of the balance sheet date (previous year: 0). No services were provided to related parties.

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

(30) Events after the balance sheet date

SMT Scharf AG examines investment in electronics specialist ser elektronik

SMT Scharf AG is at an advanced stage of negotiations regarding an investment in ser elektronik GmbH based in Möhnesee. With this investment, SMT Scharf is consistently pursuing its corporate strategy and expanding its portfolio to include valuable expertise in the electronics and controls area. SMT Scharf has been working with the electronics specialist for many years. ser elektronik develops customer-specific electronic controls and components. The systems, which are integrated into SMT Scharf's transport solutions for coal and non-coal mining, are manufactured in-house. Automation and data management are becoming increasingly important in underground mining. The acquisition of ser elektronik would help to strengthen SMT Scharf's in-house expertise in this area and align its transport systems to the growing requirements of underground mining.specialist for many years. ser elektronik develops customer-specific electronic controls and components. The systems – which are integrated into SMT Scharf's transport solutions for coal and non-coal mining – are manufactured in-house. Automation, data management and networking are becoming increasingly important in underground mining. The acquisition of ser elektronik contributes to strengthening SMT Scharf's in-house expertise in this area and to aligning the transport systems faster and better to customer requirements in underground mining.

Hamm, March 27, 2019

The Managing Board

Hans Joachim Theiss Wolfgang Embert

RESPONSIBILITY STATEMENT

We assure that, to the best of our knowledge, and in accordance with the applicable reporting principles, the IFRS consolidated financial statements of SMT Scharf AG as of December 31, 2018, give a true and fair view of the Group's financial position and performance, and the Group management report for the 2018 fiscal year presents the Group's business including its results and the Group's position such as to give a true and fair view, and describes the major opportunities and risks pertaining to Group's anticipated growth and development.

Hamm, March 27, 2019

The Managing Board

Hans Joachim Theiss Wolfgang Embert

CERTIFICATE OF THE INDEPENDENT AUDITOR

to SMT Scharf AG, Hamm

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

Short-form audit opinions

We have audited the consolidated financial statements of SMT Scharf AG, Hamm, and its subsidiaries (the Group) - consisting of the consolidated balance sheet as of December 31, 2018, the consolidated statement of income, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the financial year from January 1 to December 31, 2018, as well as the notes to the consolidated financial statements, including a summary of significant accounting policies. We have also audited the Group management report of SMT Scharf AG, Hamm, for the fiscal year from January 1 to December 31, 2018. In accordance with German statutory regulations, we have not audited the content of the parts of the Group management report mentioned in the annex.

In our assessment, and based on the knowledge gained from the audit

- the accompanying consolidated financial statements comply in all material respects with IFRSs as adopted by the EU, the additional requirements of German law pursuant to Section 315e (1) of the German Commercial Code (HGB) and give a true and fair view of the net assets and financial position of the Group as of December 31, 2018, and of its results of operations for the fiscal year from January 1 to December 31, 2018, in accordance with these requirements, and

- the attached Group management report provides a suitable understanding of the Group's position. In all material respects, this Group management report is consistent with the consolidated financial statements, complies with German legal requirements and suitably presents the opportunities and risks of future development. Our audit opinion on the Group management report does not extend to the contents of the components of the Group management report listed in the appendix.

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

Basis for the audit opinions

We conducted our audit of the consolidated financial statements and the Group management report in accordance with Section 317 HGB and the EU Audit Regulation No. 537/2014 and German generally accepted standards for the audit of financial statements as promulgated by the Institute of Public Auditors in Germany (Institut der Wirtschaftsprüfer [IDW]). Our responsibility under these rules and principles is further described in the section "Auditor's responsibility for the audit of the consolidated financial statements and the Group management report" of our audit opinion. We are independent of the Group companies in accordance with European law and German commercial and professional regulations and have fulfilled our other German professional obligations in accordance with these requirements. In addition, we declare pursuant to Article 10 (2) (f) EU Audit Regulation No. 537/2014 that we have not provided any prohibited non-audit services pursuant to Article 5 (1) EU Audit Regulation No. 537/2014. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and the Group management report.

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

Those matters of particular importance in our audit are those matters which, in our dutiful judgement, were most significant in our audit of the consolidated financial statements for the fiscal year from January 1 to December 31, 2018. These matters have been considered in connection with our audit of the consolidated financial statements as a whole and in the determination of our audit opinion in relation to them; we do not express a separate opinion on these matters.

1. The value retention of trade accounts receivable

For the accounting and valuation policies applied, please refer to the notes to the consolidated financial statements in the section "Accounting and valuation policies". Information on the age structure is presented in note 11 to the consolidated financial statements.

The risk for the financial statements

Trade receivables represent a material item in the consolidated financial statements and amount to EUR 25.2 million as of December 31, 2018 (December 31, 2017: EUR 24.7 million). This corresponds to 30 % of total assets (previous year: 34 %).

Due to the Group's business activities, receivables are mainly due from customers abroad. In previous financial years, Chinese customers, in particular, repeatedly failed to meet payment targets. By agreeing payment plans with these customers, the receivables portfolio is being successively reduced.

In addition to the age structure of trade receivables, the assessment of the need for impairment is based primarily on estimates and assessments of the creditworthiness of the respective customer, country-specific risks and current economic developments as well as an analysis of historical bad debt losses. The value adjustments on trade receivables are determined on a case-by-case basis based on an analysis of the ratios of actual collectibility. The special customer characteristics are taken into account of operators of mines that are predominantly operated by companies in which the state holds an interest or which are under state control. This applies, in particular, to customers in China, Poland and Russia.

In particular, the assessment of recoverability in relation to trade receivables from the operating companies of mines (Coal segment), is subject to particular judgment and depends on the estimates and assumptions of the legal representatives. Accordingly, a risk exists that value adjustments on trade receivables may not have been made in sufficient amounts.

Our approach to the audit

As part of our audit of the financial statements, we examined the procedures and underlying controls for the subsequent measurement of trade receivables. Our audit procedures included, in particular, an examination of the completeness and correctness of the trade accounts receivable and an assessment of their valuation as of the balance sheet date. We examined the receivables portfolio for their existence by means of balance confirmation requests and also performed audit procedures to verify the accounting-related internal control system in the areas of sales and receivables management.

We have assessed the appropriateness of significant assumptions and judgements applied in the determination of impairment. The SMT Scharf Group's assessment of the creditworthiness of the respective customers and current economic trends was assessed at the level of the operating companies. We also analysed the age structure of trade receivables. For overdue trade receivables for which long-term payment schedules have been agreed, we have examined compliance with these schedules on a case-by-case basis. In addition, we have examined overdue trade receivables on a sample basis based on risk considerations.

We have compared the procedure with the accounting and valuation policies applied by the company and have performed random arithmetic checks. We continued to assess the value adjustments determined against the background of past experience by means of analytical comparisons with the write-downs applied in previous years to individual accounts receivable and to the total trade accounts receivable position.

Our conclusions

The Group applies an appropriate method for assessing the recoverability of trade receivables. The underlying assumptions and judgements are generally balanced. The value adjustments to trade receivables were applied to an appropriate extent.

2. Implementation of the introduction of IFRS 15 "Revenue from Contracts with Customers"

For information on the accounting and valuation policies applied, including information on the first-time application of recently published pronouncements, please refer to the notes to the consolidated financial statements in the section "Changes in accounting and valuation policies". For information on revenue, contract assets and contract liabilities, please refer to the notes to the consolidated financial statements, to the sections "Segment reporting", as well as "Notes to the income statement" and "Notes to the balance sheet".

The risk for the financial statements

Revenue represents a significant item in the consolidated financial statements and is applied as a key performance indicator (KPI) for corporate management purposes.

In terms of type of revenue business, the Group differentiates between new systems and service business. In the 2018 reporting year, 50 % (previous year 44 %) of sales revenues were attributable to the new systems business and the corresponding 50 % (previous year 56 %) to sales revenues from spare parts and service contracts. The regional distribution of the revenue shares varies greatly.

Various performance obligations (goods and/or services) exist, especially for new system projects. Revenue is recognised when the power to dispose of a good is transferred to SMT Scharf Group customers or when the service is rendered. Performance obligations not yet fulfilled at the balance sheet date are analysed and deferred by the company on a case-by-case basis. A minor part of the Group's business activities is conducted via customer-specific products. Revenue from customer-specific products is generally recognised on the basis of the period-specific revenue recognition model.

In our opinion, accounting in accordance with IFRS 15, Revenue from Contracts with Customers, is an area entailing a significant risk of material misstatement (including the potential risk of managers circumventing controls) and consequently a particularly important audit issue. In addition, the first-time application of IFRS 15 in the 2018 fiscal year represents a particular complexity due to the necessary Group-wide assessment of contractual bases in relation to the new accounting criteria.

Our approach to the audit

As part of our audit of the financial statements, we examined the methods, procedures and control mechanisms for revenue recognition established within the company. We have also assessed the design and effectiveness of internal controls relevant to financial reporting by examining specific transactions from their inception to their inclusion in the consolidated financial statements, as well as by testing controls. Our audit included, among other elements, a review of contractual bases and terms and conditions. In relation to the first-time application of IFRS 15, we concerned ourselves with the measures implemented by SMT Scharf to implement the new standard. As part of the assessment of the contract analysis performed by the legal representatives, we assessed, especially on the basis of our understanding of the business model and contract structures, whether the requirements for revenue recognition were met accordingly.

Our conclusions

Our audit did not give rise to any objections regarding revenue recognition from contracts with customers in connection with the introduction of IFRS 15.

3. Accounting presentation of the acquisition of RDH Mining Equipment Ltd., Alban/Canada

For the accounting and valuation policies applied, please refer to the notes to the consolidated financial statements in the section "Accounting and valuation policies". Information on composition and valuation can be found in the notes to the consolidated financial statements in the section "Information about subsidiaries".

The risk for the financial statements

The acquisition of RDH Mining Equipment Ltd., Alban/Canada, is to be classified as a material corporate transaction for the SMT Scharf Group and amounts to an acquisition price of EUR 5.2 million (CAD 8 million). In accordance with IFRS 3, the fair values of acquired assets and liabilities are applied as the measurement standard for business combinations and acquisitions. The estimation of the fair values of the acquired assets and liabilities is subject to particular judgement and depends on the estimates and assumptions made by the legal representatives. A risk exists that the valuation decisions will trigger a need for value adjustments, given that such value adjustments have been insufficiently formed.

Our approach to the audit

The legal representatives have demonstrated the allocation of the acquisition price by means of an appropriate valuation procedure based on an expert opinion. Our audit procedures included, in particular, an examination of the completeness, arithmetical correctness and plausibility of the underlying planning assumptions as well as an assessment of the further assessments made by the legal representatives. We have compared the procedure with the accounting and valuation policies applied by the company.

Our conclusions

Our audit did not give rise to any objections in relation to SMT Scharf AG's approach to determining and accounting for the fair values of the acquisition of RDH Mining Equipment Ltd.

Other information

The legal representatives are responsible for the other information. Other information includes

- the corporate governance declaration pursuant to Section 289f (4) of the German Commercial Code (HGB) (information on the ratio of women),
- the remaining parts of the annual report, with the exception of the audited consolidated financial statements, the Group management report and our audit opinion,
- the Corporate Governance Report in accordance with No. 3.10 of the German Corporate Governance Code and
- the assurance pursuant to Section 264 (2) Clause 3 HGB relating to the separate and consolidated financial statements and the assurance pursuant to Section 315 (1) Clause 6 HGB relating to the Group management report.

Our audit opinions on the consolidated financial statements and the Group management report do not extend to the other information and, accordingly, we do not express an opinion or any other form of audit conclusion in relation to them.

In connection with our audit, we have the responsibility to read the other information and to assess whether the other information is free of material misstatement

- exhibit material discrepancies with the consolidated financial statements, with the Group management report or with the knowledge obtained during the audit, or
- appear to be presented incorrectly in some other way.

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

The legal representatives are responsible for the preparation of the consolidated financial statements in accordance with IFRS as adopted by the EU, and the additional requirements of German law pursuant to Section 315e (1) HGB, and for the presentation of the Group's financial position and performance in accordance with these requirements. In addition, the legal representatives are responsible for internal controls relevant to the preparation of financial statements that are free of material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the legal representatives are responsible for assessing the Group's ability to continue as a going concern. They are also responsible for disclosing matters relating to the continuing operation of the entity, if relevant. Furthermore, they are responsible for financial accounting under the going concern assumption unless an intention exists to liquidate the Group or to discontinue operations, or no realistic alternative exists.

Moreover, the legal representatives are responsible for the preparation of the Group management report, which as a whole provides a suitable view of the Group's position and is consistent with the consolidated financial statements in all material respects, complies with German legal requirements and suitably presents the opportunities and risks pertaining to future development. In addition, the legal representatives are responsible for the precautions and measures (systems) they have deemed necessary to permit the preparation of a Group management report in accordance with the applicable German legal provisions and to provide sufficient and suitable evidence for the statements in the Group management report.

The Supervisory Board is responsible for monitoring the Group's financial accounting process for preparing the consolidated financial statements and the Group management report.

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

Our objective is to obtain reasonable assurance as to whether the consolidated financial statements as a whole are free from material misstatement, whether intentional or unintentional, and whether the Group management report as a whole provides a suitable view of the Group's position and is consistent, in all material respects, with the consolidated financial statements and the findings of our audit, complies with German legal requirements and suitably presents the opportunities and risks of future development, and to express an opinion that includes our audit opinion on the consolidated financial statements and the Group management report.

Sufficient assurance is a high level of assurance, but not a guarantee, that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation No. 537/2014 as well as German generally accepted standards for the audit of financial statements as promulgated by the Institut der Wirtschaftsprüfer (IDW), and additionally in compliance with International Standards on Auditing (ISA), will always reveal a material misstatement. Misstatements can arise from violations or inaccuracies and are regarded as material if it could reasonably be expected that they will individually or collectively influence the economic decisions of users made on the basis of these consolidated financial statements and the Group management report.

During the audit, we exercise our professional judgement and maintain a critical attitude. In addition

- we identify and evaluate the risks of material misstatement, whether intentional or unintentional, in the consolidated financial statements and the Group management report, plan and perform the audit procedures in response to those risks, and obtain sufficient and appropriate audit evidence to form the basis of our audit opinions. The risk that material misstatements will not be detected is greater for violations than for inaccuracies, as violations may involve fraudulent collusion, falsification, intentional incompleteness, misrepresentation, or the overriding of internal controls.

- we gain an understanding of the internal control system relevant to the audit of the consolidated financial statements and the precautions and measures relevant to the audit of the Group management report in order to plan audit procedures that are appropriate in the circumstances, but not with the aim of expressing an opinion on the effectiveness of such systems.

- we assess the appropriateness of accounting and valuation policies applied by the management and the reasonableness of accounting estimates made by management, and related disclosures.

- we draw conclusions about the appropriateness of the going-concern accounting policy applied by the legal representatives and, on the basis of the audit evidence obtained, whether any material uncertainty exists in connection with events or circumstances that could cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to express an opinion on the related consolidated financial statements and on the Group management report or, if the information is inappropriate, to modify our respective audit opinion. We draw our conclusions on the basis of the audit evidence obtained up to the date of our audit opinion. Future events or circumstances can, however, result in the Group no longer being able to continue its business activities.beurteilen wir die Gesamtdarstellung, den Aufbau und den Inhalt des Konzernabschlusses einschließlich der Angaben sowie ob der Konzernabschluss die zugrunde liegenden Geschäftsvorfälle und Ereignisse so darstellt, dass der Konzernabschluss unter Beachtung der IFRS, wie sie in der EU anzuwenden sind, und der ergänzend nach § 315e Abs. 1 HGB anzuwendenden deutschen gesetzlichen Vorschriften ein den tatsächlichen Verhältnissen entsprechendes Bild der Vermögens-, Finanz- und Ertragslage des Konzerns vermittelt.

- we assess the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements give a true and fair view of the Group's financial position and performance in accordance with IFRS as adopted by the EU and the additional requirements of German law pursuant to Section 315e (1) HGB.

- we obtain sufficient suitable audit evidence for the financial accounting information of the companies or business activities within the Group to express an opinion on the consolidated financial statements and the Group management report. We are responsible for the direction, monitoring and performance of the audit of the consolidated financial statements. We bear sole responsibility for our audit opinions.

- we assess the Group management report's consistency with the consolidated financial statements, its legal conformity, and the view it conveys of the Group's position.

- we obtain sufficient suitable audit evidence for the financial accounting information of the companies or business activities within the Group to express an opinion on the consolidated financial statements and the Group management report. We are responsible for the direction, monitoring and performance of the audit of the consolidated financial statements. We bear sole responsibility for our audit opinions.

Among other matters, we discuss the planned scope and timing of the audit and significant findings of the audit with those individuals responsible for monitoring, including any deficiencies in the internal control system that we identify during our audit.

We make a declaration to those individuals responsible for monitoring that we have complied with the relevant independence requirements and discuss with them all relationships and other matters that are reasonably believed to affect our independence and the safeguards that have been put in place to that effect.

From among the matters discussed with those individuals responsible for monitoring, we identify those matters that were most significant in the audit of the consolidated financial statements for the current reporting period and are consequently the most important matters for the audit. We describe these matters in the auditor's report unless required to do so by law or other regulations.

OTHER STATUTORY AND OTHER LEGAL REQUIREMENTS

Other information pursuant to Article 10 EU Audit Regulation No. 537/2014

We were appointed as auditors of the consolidated financial statements by the Annual General Meeting on May 23, 2018. We were engaged by the Supervisory Board on October 18, 2018. We have been the auditors of the consolidated financial statements of SMT Scharf AG, Hamm, on an uninterrupted basis since the 2016 fiscal year.

We declare that the audit opinions contained in this opinion are consistent with the additional report to the Supervisory Board pursuant to Article 11 EU Audit Regulation No. 537/2014 (Auditor's Report).

CERTIFIED PUBLIC AUDITOR

The certified public auditor responsible for the audit is Stefan Schumacher.

Bielefeld, March 28, 2019

Rödl & Partner GmbH

Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

[signed] Stramiters	[signed] Schumacher
Certified Public Auditor	Certified Public Auditor

APPENDIX TO THE AUDITOR'S REPORT: COMPONENTS OF THE GROUP MANAGEMENT REPORT NOT AUDITED FOR CONTENT

We have not audited the content of the following components of the Group management report:

- the corporate governance declaration contained in the Group management report

DECLARATION BY THE MANAGING AND SUPERVISORY BOARDS OF SMT SCHARF AG IN ACCORDANCE WITH SECTION 161 OF THE GERMAN STOCK CORPORATION ACT (AKTG) ON THE RECOMMENDATIONS OF THE "GOVERNMENT COMMISSION ON THE GERMAN CORPORATE GOVERNANCE CODE" IN THE VERSION DATED FEBRUARY 7, 2017

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

- The Supervisory Board has not established any committees because it consists of only three members. In view of the size of the company, this number appears appropriate.
- Diversity was not a separate criterion in the composition of the Managing Board. This May also be the case in the future as the Managing Board has only three members.
- At present, no age limits have been set for the members of the Managing Board or the Supervisory Board. This satisfies the requirements of the German Equal Treatment Act (AGG).
- The employment contracts for the members of the Managing Board do not limit payments upon early termination to two years' remuneration. To date, such a limit appears unnecessary as the service contracts run for three years only.
- No intention exists to agree any excess in D&O insurance for the Supervisory Board.
- The incentive scheme for Supervisory Board remuneration was reviewed in relation to the amendment to the Code dated February 7, 2017. The new Code is not complied with in full. As a consequence, the incentive scheme will be revised so that it complies with the Code.
- Efforts will be made to review the performance-based remuneration of the Supervisory Board – which is oriented to long-term company growth – so that it complies the Code.

Hamm, December 3, 2018

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

FINANCIAL CALENDAR

May 15, 2019	Publication of the financial report for the 1st quarter 2019
May 21, 2019	Annual general meeting
August 14, 2019	Publication of the 6-month report 2019
November 13, 2019	Publication of the financial report for the 3rd quarter 2019
December 31, 2019	End of the fiscal year

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LEGAL NOTICE

This annual report contains forward-looking 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 the SMT Scharf Group are published in Geman and English. In case of discrepancies the German version prevails. The graphics in the section “Group management report” do not form part of the Group management report audited by SMT Scharf AG’s auditors.

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