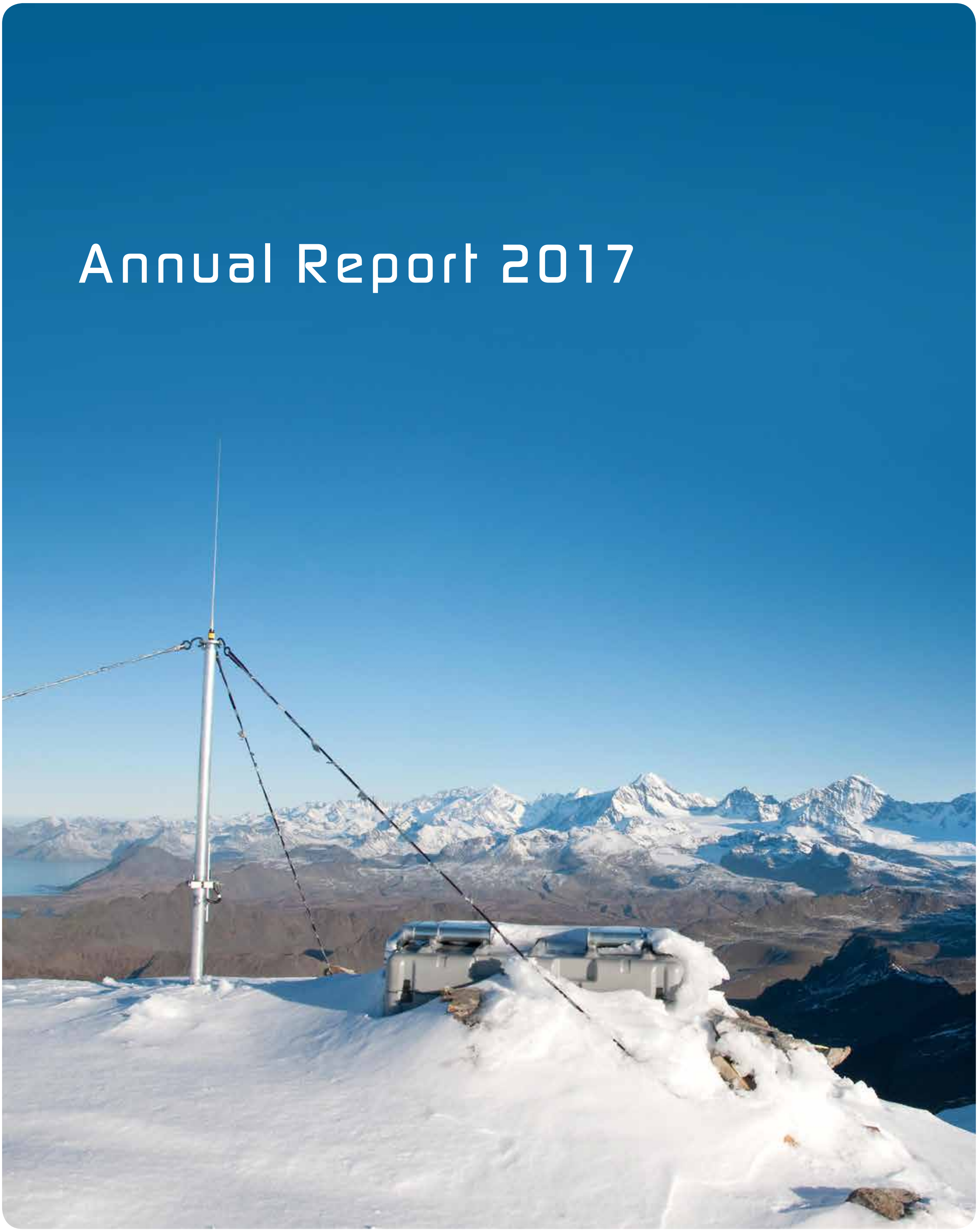
Annual Report 2017



SFC ENERGY

SFC ENERGY AG CONSOLIDATED KEY FIGURES

in k€

	01/01 – 12/31/2017	01/01 – 12/31/2016	Change in %
Sales	54,292	44,041	10,251
Gross profit	17,726	13,247	4,479
Gross margin	32.6 %	30.1 %	–
EBITDA	862	– 2,508	3,370
EBITDA margin	1.6 %	– 5.7 %	–
EBITDA underlying	1,454	– 2,658	4,112
EBITDA margin underlying	2.7 %	– 6.0 %	–
EBIT	– 885	– 4,898	4,013
EBIT margin	– 1.6 %	– 11.1 %	–
EBIT underlying	177	– 4,112	4,289
EBIT margin underlying	0.3 %	– 9.3 %	–
Consolidated net loss	– 2,072	– 4,993	2,921
Net loss per share, undiluted	– 0.23	– 0.58	0.35
Net loss per share, diluted	– 0.23	– 0.58	0.35

	12/31/2017	12/31/2016	Change in %
Order backlog	18,628	16,852	1,776

	12/31/2017	12/31/2016	Change in %
Equity	13,895	13,339	556
Equity ratio	40.2 %	39.5 %	–
Balance sheet total	34,534	33,793	741
Cash (freely available)	4,408	1,756	2,652

	12/31/2017	12/31/2016	Change in %
Permanent employees	258	228	30

CONTENT

LETTER TO SHAREHOLDERS

DEAR SHAREHOLDERS,

If we had to describe the past year in a nutshell, it would be "promised and delivered". For the year 2017 as a whole, we set ourselves the target of consolidated sales between € 50 million and € 55 million with a significant improvement in earnings figures based on EBITDA and EBIT – and this is exactly what we achieved. We generated considerable growth on all our core markets over the whole of 2017, while at the same time surging to profitability. In the fourth quarter of 2017, we achieved clearly positive earnings of € 1.5 million based on underlying EBITDA. We are therefore the world's first listed fuel cell company to operate profitably. It shows that the product mix that has changed as it has grown, a streamlined cost structure and our tireless campaigning for fuel cells as a reliable, efficient and "green" source of energy are all having the desired effect. And it is happening inside and outside the borders of our domestic German market. This is a milestone in the development of the entire Group. Naturally, we do not intend to rest on our laurels, and instead, this will serve as a source of inspiration and a solid basis for the sustainable growth and profitability ahead.

SFC Energy AG generated the highest sales in the company's history in the year under review – € 54.3 million after € 44.0 million in the previous year. This marks an increase well in excess of market growth of more than 23 %. Underlying EBITDA improved from a negative figure of € 2.7 million in 2016 to a positive figure of € 1.5 million in 2017. The positive overall performance in the past fiscal year was largely thanks to the robust growth on all our core markets. Not only did the Oil & Gas and Industry segments perform strongly in the course of 2017, but also the Defense and Security market, which is important to us, had a significantly positive impact on the improved results for the year. The strong development in the international defense business was particularly gratifying. Our tenacious, trustworthy and persuasive work in the constant dialog with decision-makers at defense organizations and in politics is reflected in newly acquired programs both nationally and internationally.

With the boom in growth in 2017, we must also keep on refining our corporate structures and better adapting them to our markets. We have therefore reorganized our segments from January 1, 2018, and increased their number from three to four. Accordingly, the business activities of SFC Energy AG will be divided into the four segments of Clean Energy & Mobility, Defense & Security, Oil & Gas and Industry moving ahead. In implementing this reorganization, the Management is also recognizing the successful business development of recent years in the markets of industrial fuel cell business, industrial power electronics and defense and security. Those businesses have been reported in the Security and Industry segment so far. Power electronics as well as defense and security businesses will in future be reported as separate segments Industry and Defense & Security. The fuel cell business for industrial users and end-consumers will be combined in the segment Clean Energy & Mobility.

To ensure comparability with the previous year below, we will describe the development of the segments in their familiar form before providing an outlook for 2018. The reporting for the first quarter of 2018 includes the new segment reporting.

Oil & Gas

SFC Energy benefited from rising investment activity in the oil and gas industry thanks to the recovery of the price of oil in the past fiscal year. Upwards of a price of USD 45 per barrel, we have observed not just a noticeable increase in maintenance investment, but also strong stimulus in new project business in order to work through the investment backlog of 2015 and 2016. Revenue in the Oil & Gas segment increased by 26.8 % year-on-year from € 19.3 million to € 24.5 million – as we had discontinued a low-margin product line at the beginning of 2017, the comparable product revenue grew by approx. 58 %. As a long-standing and reliable partner, we help our customers in the oil and gas industry to improve their cost structures and processes with efficient and highly innovative solutions. Demand in this segment has been continuing to gain momentum since the start of 2018. Particularly in off-grid regions, as is often the case for exploration projects, SFC Energy products such as EFOY Pro fuel cells provide a reliable source of energy not dependent on the climate or weather. With the relative stability of oil prices and a strong global economy, demand from the oil and gas industry remains at a high level.

Security & Industry (in future divided into the three segments: Industry, Defense & Security and Clean Energy & Mobility)

What was previously SFC Energy's largest segment, Security & Industry, achieved significant growth of 25.1 % to € 26.4 million in the reporting year after € 21.1 million in 2016.

In this context, we are witnessing growing demand among government and private users for reliable and off-grid power supply for innovative applications, e. g. security and surveillance systems. This is currently highest for applications that are particularly suitable for mobile use. The challenge is therefore to design solutions that combine guaranteed reliability and performance with a compact size and low weight.

After a long period of testing and successful technical qualification, we have now succeeded in establishing the "fuel cell" as a sustainable and independent energy supply for defense organizations both nationally and internationally. Pleasing examples of this are orders from India, Great Britain and, of course, Germany. As of the end of the year, SFC Energy was awarded the contract from the German Bundeswehr for a major order worth € 3.6 million, which will initially cover the first part of the customer's defined demand. The contract will be reflected in sales and earnings in 2018, highlighting the high level of trust in SFC Energy's solutions on the one hand while also strengthening the Group's leading position as a provider of reliable, off-grid power solutions in the defense sector on the other.

The consistently robust growth of our power electronics business is based on the increased demand from our established customers as well as on successes with the new modular product platform with first-time customers.

Consumer (in future part of Clean Energy & Mobility)

As anticipated, revenue in the Consumer segment was down slightly year-on-year at € 3.5 million in 2017 (€ 3.6 million).

Changing user habits in our former core segment of caravanning reduce the general demand for off-grid energy supply in a submarket. However, the demand for clean auxiliary power supply in vehicles is increasing on a broad front. For this reason, we are convinced of the future viability of this business segment. The megatrend of e-mobility is raising awareness in the automotive and consumer industry for high-performance and onboard energy solutions. SFC Energy has a long history of success in this area and works closely with its customers to provide clean and lightweight "APUs" (Auxiliary Power Units) for vehicles.

Statement of financial position

We achieved an important milestone in August 2017 with extensive financing and refinancing with the Harbert European Growth Capital Fund II. Financing and redemption of a higher-interest loan enabled us to reduce our financing costs and improve our liquidity at the same time. In December 2017 and January 2018, the conversion rights on bonds were exercised by HPE PRO Institutional Fund B.V. and two German family offices for a nominal amount of € 3,300,000. As a result of the convertible bond being exercised, the share capital of SFC Energy AG was increased by € 540,936 from € 9,208,676 to € 9,749,612 after the end of the reporting period. This has allowed SFC Energy to reduce its liabilities and the associated financing, while the higher equity has improved its overall accounting ratios. Moreover, the conversion by HPE – our biggest shareholder – and two family offices emphasizes their faith in SFC Energy's prospects. The equity ratio was 40.2 % as of the end of the 2017 reporting period.

Shares

The development of the SFC shares reflects the successful business performance and a steady flow of good news. This gave the SFC share a clear tailwind, which saw a significant gain of 206 % in 2017. We are experiencing a noticeable increase in interest, especially from institutional and strategic investors. The crisis in the oil and gas industry had also weighed heavily on SFC's share in 2015 and 2016. One one hand, the fuel cell is now perceived by the capital market as a technology which can contribute substantially to the future clean energy supply in stationary and mobile applications. On the other hand, we have built up a solid business model in the past years, and are the first company worldwide to show profitability in this segment. Thanks to these improvements in the general conditions and our operational successes, we have once again become more attractive to investors. We have been aided here by a widespread rethink on mobility and security issues. Despite the price recovery in 2017, analysts' assessment on the potential of the SFC shares are consistently positive.

Outlook

We are feeling very positive about the current year. In particular, our growth forecast for 2018 is based on higher investment by our customers in defense and security, in both the private and public sectors, on continuing robust demand in industrial business as well as on an increasingly positive performance in the oil and gas sector. Furthermore, clean energy is becoming significantly important for mobility applications. We are optimistic to benefit greatly from this resurgent growth momentum. Based on a strong order book of € 18.6 million as of the end of 2017 and a successful start to the current fiscal year, we are forecasting a consolidated sales target of between € 60 million and € 64 million for 2018, in addition to a significantly improved underlying EBITDA and a clearly improved underlying EBIT. In 2017, we became the world's first fuel cell company to operate profitably. We intend to continue on this path and further expand our position.

We would like to take this opportunity to thank our employees, suppliers, business partners and customers. And naturally, we would also like to thank you, our shareholders, for your trust. The fantastic success achieved in the past fiscal year was literally a team effort. We have seen that patience, tireless dedication and the power of an idea whose time has come can pay off.

Sincerely,
The Management Board of SFC Energy AG

Dr. Peter Podesser
Chairman of the Board (CEO)

Hans Pol
Board Member (Industry)

Marcus Binder
Board Member (Defense & Security)

CLEAN ENERGY EVERYWHERE

MOBILE AND OFF-GRID POWER SUPPLY

SFC Energy's Integrated Energy Solutions for Industry, Government Agencies and Consumers

Since January 1, 2018, the business of SFC Energy AG has been divided into four main markets: Clean Energy & Mobility, Defense & Security, Oil & Gas and Industry. With this realigment, management is responding to the company's successful development in recent years of professional, fully integrated and often customer-specific application solutions.

The figures in the segment reporting of SFC Energy AG are thus presented as follows: The **Oil & Gas** segment includes the earnings figures of the Group company Simark Controls Ltd. and the **Industry** segment includes the earnings figures of the Group company PBF Group B.V. The earnings figures of the Group company SFC Energy AG for Defense comprise the **Defense & Security** segment, while the industry and consumer areas are shown in the **Clean Energy & Mobility** segment.

Environmentally friendly, reliable, quiet and weather-independent alternative power suppliers are becoming increasingly important worldwide. More and more systems are being operated remotely from the network and must operate around the clock without failure. Each application has specific requirements. In order to serve them in the best way possible, SFC Energy draws on its many years of industry experience and solid expertise in integration.
And this has paid off: Nearly 40,000 SFC Energy fuel cells are already in use worldwide in a wide variety of application scenarios in industry, defense organizations, government agencies, and consumers.

THE 4 CORE MARKETS SEGMENTS

CLEAN ENERGY & MOBILITY

- Wind
- Telecommunication
- Environmental
- Surveillance/CCTV
- E-mobility
- Caravan (RV)
- Marine
- Traffic Management

DEFENSE & SECURITY

- Armed forces (man portable and vehicle based)
- Homeland security
- Law enforcement

OIL & GAS

- Oil & Gas

INDUSTRY

- Analytical sytems
- Industry automation
- Power Supply

CLEAN ENERGY & MOBILITY

Clean off-grid power for mobile people and applications

THE MARKET

Clean energy, mobility, reliability, self-sufficiency and comfort – electric and electronic devices are being used in an increasing number of applications far away from the grid. The spectrum of applications ranges from sensors, measuring devices and cameras in the field, on construction sites or in environmental applications, to electric vehicles, mobile offices and government vehicles, as well as motor homes and yachts. The market continues to grow steadily and demands increasingly flexible power solutions.

For this reason, SFC Energy has combined these applications in its new Clean Energy & Mobility segment. In all these areas of application, the company's environmentally friendly, quiet fuel cell solutions ensure an uninterruptible, fully automatic power supply on board vehicles, whether stationary or mobile.

THE SOLUTIONS

Onboard power supply with EFOY Pro fuel cells

More and more data collection and office tasks are becoming mobile: security and surveillance companies, mobile offices, the police and government officials operate a large number of devices on board their vehicles and vehicle fleets. These devices must work reliably around the clock, must be quiet and environmentally friendly, and often must even be concealed. These include, for example, cameras, measuring devices, sensors, data recording systems or remote-control systems. EFOY Pro fuel cells are permanently installed in the vehicle and provide fully automatic, virtually silent and emission-free power for days without any user intervention and without having to start the vehicle's engine.

Electric vehicles with EFOY Pro fuel cells

In the field of e-mobility, fuel cells are becoming increasingly important because they are environmentally friendly, maintenance-free and high-capacity. As a leading manufacturer of mobile fuel cell systems with many years of application experience, SFC Energy invests in research and development in the field of electromobility to help shape and drive the future of clean power generation.

Reliable power in the field far away from the grid with EFOY Pro – stationary and mobile

Thousands of EFOY Pro fuel cells already supply off-grid systems worldwide – sometimes under the most extreme conditions in locations far from civilization. They can be found on all kinds of measuring stations in environmental sensors, where they operate earthquake and volcano sensors, weather stations or tsunami warning systems, for example, and on mobile or temporary construction sites, e.g. on the highway, to supply traffic control systems, traffic monitoring, and wildlife observation and in public spaces, where they supply power to surveillance cameras, for example. EFOY Pro fuel cells work just as reliably in the coldest climate in the Antarctic or northern Canada as they do in hot desert or humid tropical conditions. They are used wherever long hours of self-sufficient electricity and 100% reliability are essential. Customers around the world particularly appreciate the EFOY Pro fuel cells' high reliability and ability to work autonomously for hours, as they no longer have to travel so often to the locations of their systems to change batteries, maintain generators or replace failed equipment. In this way, equipment operators benefit from significant savings in logistics and material costs. It goes without saying that the EFOY Pro is also available in the Clean Energy & Mobility segment in a wide range of fully integrated plug & play solutions and can be hybridized with other alternative power suppliers, such as solar modules, at any time.

EFOY COMFORT fuel cells – freedom and comfort for motorhomes, vans, boats and yachts

Once you've had one, you'll never want to do without it again: the EFOY COMFORT fuel cell from SFC Energy is completely self-sufficient and maintenance-free for years to come, without any user intervention. All you'll need every now and then is a simple cartridge change. Motorhome and sailboat owners have been using EFOY COMFORT for years to provide reliable power far away from the hustle and bustle of campsites and harbors. More and more speedboats are relying on the lightweight, quiet power supply from SFC Energy for safety and success.

In the consumer market, the EFOY COMFORT fuel cell has stablished itself as a permanent fixture. It is regularly ranked among the top three positions in the "Best Brand" reader survey conducted by promobil, Europe's largest motorhome magazine. In the consumer segment, SFC Energy anticipates a development at the level of previous years.

EFOY GO! mobile power outlet for all outdoor enthusiasts

If you want to make sure that equipment such as cameras, mobile phones, laptops, GPS systems, lamps, coolers and other convenience equipment can be operated without restriction while you're on your sailboat, in your vacation cabin, in a camping bus, or on a fishing, hunting or hiking vacation, then the EFOY GO! from SFC Energy is the perfect mobile power outlet for you: You just plug in the power cord, switch it on, and you're ready to go. Electricity on the road couldn't be simpler. The highly efficient energy package can be recharged flexibly on your home network, via the cigarette lighter in your car, with a solar module, and of course via the EFOY COMFORT fuel cell.

https://www.sfc.com/en/markets/clean-energy-mobility

DEFENSE & SECURITY

Mobile, vehicle-based and portable power supply for security and defense

THE MARKET

After several years of hesitant investment and long product-launch and testing phases, the defense and security markets picked up momentum in the last few months of 2017. With terrorist threats still perceived as threatening, public authorities and public security service providers are increasingly investing in new technologies to monitor vulnerable areas and public spaces. More and more high-tech video, audio and sensor systems are being used – many of them mobile or concealed. In the defense sector, too, a steadily growing number of special devices in use requires more and more power. Remote from the grid, the reliable power supply of these systems for days or even months is often a major challenge for operators. Conventional batteries alone will not withstand day-long operational scenarios. Replacement batteries mean additional weight and volume load in logistics. Generators are maintenance-intensive and generate detectable signatures. Solar energy alone is weather-dependent, and the solar modules are highly visible and therefore not suitable for covert investigations. SFC fuel cells are a lightweight, quiet, and hardly detectable alternative.

In the past financial year, SFC Energy was awarded several major contracts from international and national defense and security organizations. Before the orders were placed, the fuel cells were subjected to the toughest tests both in the laboratories and in real-life scenarios. The contracts awarded demonstrate the high performance and numerous advantages that fuel cells offer in these applications. It can be assumed that this segment will continue to grow in the coming years.

To present this increasingly important market separately and transparently, SFC Energy AG has therefore combined its defense and government security business into a separate segment from 2018 onwards. In this way, management is also reflecting the increasing importance of these markets for the SFC Group in its reporting. The Defense & Security segment only covers orders from defense organizations and authorities. The civilian business is allocated to the Clean Energy & Mobility division.

THE SOLUTIONS

On-board power supply for military and surveillance vehicles with EMILY fuel cells

SFC Energy has developed the EMILY fuel cell for the on-board power supply of military vehicles. It is a hardened special fuel cell for demanding defense and security applications and is based on SFC Energy's many years of experience with vehicle-based fuel cell solutions for industrial, fleet and leisure vehicles. The low-noise and environmentally friendly operation of the EMILY on board is virtually undetectable from the outside. This provides increased security, especially in the case of covert investigations. Since the fuel cell supplies the devices with electricity fully automatically and completely autonomously over long periods of time, it is no longer necessary to start the engine to recharge the on-board batteries. EMILY fuel cells are approved for use by the Bundeswehr and have a NATO Stock Number. If necessary, EMILY fuel cells can also be used as a stationary, self-sufficient power supply for devices in the field.

Portable power supply with JENNY fuel cells and energy network

The JENNY fuel cell is a compact, highly efficient portable power generator for soldiers in the field. JENNY continuously recharges batteries on the road. Because soldiers no longer have to carry spare batteries, they save up to 80 % of the weight to be transported. The generator is also quiet, emission-free and virtually undetectable. All these advantages increase the duration of the mission, operational capability and safety of the soldiers.

The innovative SFC energy network integrates the JENNY fuel cell with the SFC Power Manager, a special hybrid battery, a solar panel and comprehensive accessories to form a powerful, flexible complete system. This makes it possible to supply a wide variety of consumers – such as radios, navigation devices, night vision devices, laser rangefinders, portable computers and PDAs – both stationary and portable. Using the SFC Power Manager, an intelligent voltage converter, the soldiers can flexibly supply almost any device with power from available sources, such as fuel cells, solar panels or batteries. In addition, the network allows soldiers to charge different types of batteries while on duty.

https://www.sfc.com/en/markets/defense-security

OIL & GAS

Off-grid Power & Automation: SFC Energy solutions for the Oil & Gas Industry

THE MARKET

SFC Energy was very successful in the oil & gas business in 2017, a year in which the market gradually recovered from the cost-cutting measures and the investment backlog caused by weak oil prices. In view of rising oil prices, however, business is expected to pick up again in 2018: In addition to the maintenance investments, which are now also increasing noticeably again, strong momentum also coming from the new project business. But even in 2017, SFC Energy was able to gain important new major customers in this market. The reason for this growth lies in the decisive advantages that SFC products bring to customers in oil and gas production.

Simark Controls Ltd., the SFC Energy Group company in Canada, has established an excellent reputation as a service-oriented, value-added partner, with high-quality instrumentation, automation and energy solutions for the oil and gas industry.

THE SOLUTIONS

SFC Energy Supply Solutions for Oil & Gas

Oil and gas installations must function reliably around the clock, far away from the power grid. At drill sites or pipelines, months of highly automated self-sufficient system operation in all weather conditions, without any user intervention, pose enormous challenges for the operators. The tasks are demanding: strict legal and environmental regulations must be complied with, operational safety must be guaranteed, production and transport must be controlled and monitored in real time, while still cutting costs: SFC Energy's powerful, intelligent EFOY Pro power supply solutions help operators of off-grid oil and gas systems to effectively and sustainably meet a wide range of requirements.

EFOY Pro Fuel Cell

EFOY Pro fuel cells deliver electric energy in an environmentally friendly manner, with long periods of self-sufficiency, and without refueling or maintenance. They are available in a variety of performance classes in compact solutions, such as weatherproof boxes, trailers and switch cabinets.

EFOY ProCube

The mobile, maintenance-free complete solution for off-grid power supply is ready for immediate use at any time and in any location. The mobile system is easy to transport and can be set up quickly. It operates either as a stand-alone power source or in hybrid operation with other power generators such as solar cells.

EFOY ProEnergyBox

The fully integrated box was specially developed for the harshest weather conditions between −40 °C and +50 °C and allows long-term, independent operation of the connected devices even in remote locations. At sub-zero temperatures, the waste heat from the fuel cells is used to keep batteries and electronics warm in the box. At high temperatures, an effective thermal conduction system protects all components from heat.

EFOY ProCabinet

The popular switch cabinet unit is a weatherproof outdoor energy solution for remote power supply based on fuel cells. The EFOY ProCabinet can be configured according to the customer's needs and hybridized with other alternative power suppliers, either in stand-alone mode or as a backup power supplier.

EFOY ProTrailer

The trailer solution is ideal for mobile applications. The trailer can be taken to any location quickly and easily and put into operation there within the shortest possible time. As with all EFOY Pro system solutions from SFC Energy, performance and length of self-sufficient operation can be flexibly configured according to customer requirements.

SCADA & Automation Solutions from SFC Energy for Oil & Gas

In view of the enormous cost-cutting pressure in the oil and gas industry, automation is becoming increasingly important and is in high demand. In addition to and increasingly also in conjunction with SFC fuel cells, Simark Controls supplies customer-specific, developed and manufactured intelligent automation, control and measurement solutions for this purpose. Especially the combination of automation and power supply gives SFC Energy a real competitive edge.

SCADA Computer Systems

SCADA systems are used in the oil and gas industry to monitor and control production facilities and pipelines. They collect, visualize and analyze real-time data that can be used to control and optimize a wide variety of process parameters, such as speed, pressure and flow rate. SCADA systems also provide evidence of compliance with operational and environmental requirements.

Variable Frequency Drives (VFD)

Variable Frequency Drives (VFD) control the speed and torque of drilling rigs, pumps, fans, compressors and other special rotating equipment. They ensure trouble-free operation of the systems by adapting the performance of the drive systems fully automatically to the respective ambient conditions and protecting the systems from overload.

https://www.sfc.com/en/markets/oil-gas

INDUSTRY

Tailor-made network power solutions

THE MARKET

Not all electricity is the same. More and more high-performance systems, such as electron microscopes, high-tech video and audio systems or laser systems, require special power, even on the network. In the course of digitization and Industry 4.0, the demands on the quality of the electricity used are also increasing. In particular, major customers who sell or use devices of this kind worldwide want to be able to ensure the availability of precise, smoothed power in countries where power quality is not uniform in order to protect their high-quality systems from damage. Winning such orders is a protracted process, since the systems must first be developed and manufactured exactly according to the requirements. Afterwards, the prototypes have to be tested for longer periods of time. Moreover, industry has been reluctant to invest in new technologies in recent years. Here too, however, the experts see increasing demand in a more dynamic market.

PBF Group B.V., a member of the SFC Energy Group in the Netherlands and Romania, is excellently positioned for this with its tailor-made power supply solutions and special coils. PBF Group has an excellent reputation for its technological expertise and the ultimate reliability and performance of SFC Energy solutions.

In the new Industry segment, SFC Energy combines customer-specific power supply and special coil solutions for network-based applications.

THE SOLUTIONS

Tailor-made power supply solutions for industrial applications

SFC Energy Group's customized power supply and power management systems ensure that highly sensitive devices are reliably supplied with accurate power at all times. Numerous renowned original equipment manufacturers and system suppliers worldwide use SFC Energy's technological know-how from planning to production. While the small series are developed and manufactured in Europe, mass production takes place in China. Thus, the SFC Energy Group offers fast development cycles and attractive prices at the same time, with the greatest possible proximity to service and competent support throughout the entire service life of its power supplies.

The innovative power supply platform LAPS has been developed by PBF Group specifically for the dynamic requirements of the power supply of powerful laser systems. This compact, cost-effective platform is increasingly becoming the industry standard. It can also be retrospectively integrated into existing systems and adapted to specific systems. In this area, SFC Energy expects demand to continue to grow in the coming years. The high order backlog at the end of 2017 already reflects this dynamic trend.

Custom coils and transformers

SFC Energy's special coils, coil assemblies and transformers meet the highest quality standards. Special coils and transformers are developed and produced precisely according to the customer's requirements. The products are used, for example, to supply power to electron microscope lenses or deflection coils.

https://www.sfc.com/en/markets/industrial

MILESTONES IN 2017

MARKET AND PRODUCT NEWS

JANUARY 2017

+++ EFOY COMFORT fuel cell wins 2nd place in promobil reader survey +++

The readers of Europe's biggest motor home magazine again ranked the environmentally friendly, silent power generator among their top three favorite brands. This year EFOY achieved a prestigious 2nd place in the power generator category. This proves how EFOY COMFORT is firmly established in the leisure and caravanning markets in Europe and North America.

+++ SFC's exclusive long-term partner Oneberry wins multi-year tender and places largest Asian single order for EFOY Pro fuel cell systems +++

Altogether 250 EFOY Pro 2400 fuel cells provide reliable off-grid power for integrated security and surveillance solutions deployed for public security in Singapore, such as border protection and public events security. The contract award builds on the success of six years of extensive business development and cooperation of Oneberry Technologies and SFC Energy in Singapore.

+++ Indian Ministry of Home Affairs buys SFC fuel cells +++

The Indian paramilitary forces are using SFC Energy's EMILY 3000 and JENNY 600S fuel cells for reliably powering border protection equipment. More than 80 SFC Energy products, accessories and over 3,000 methanol fuel cartridges have been fielded.

+++ SFC Energy delivers Next Generation Fuel Cell systems (NGFC) to international defense force +++

The NGFC systems are based on SFC Energy's successful EMILY fuel cell platform and have been modified for underground use. They reliably deliver autonomous power to electrical systems for a total of five years. The delivery has a sales volume of EUR approx. 0.6 million.

FEBRUARY 2017

+++ SFC Energy wins Gemeco Marine Accessories as a U. S. Marine Distributor of EFOY COMFORT Fuel Cells +++

Gemeco Marine Accessories sells the fuel cells to marine electronics dealers, boat builders, and other marine industry professionals in the Eastern and Midwest regions of the United States. The cooperation is another building block in the distribution of EFOY COMFORT fuel cells into one of the world's largest recreational boating markets and brings SFC Energy's products to the U.S. customers with even more speed, service and convenience.

+++ Canadian subsidiary Simark Controls receives CAD 2 mio order from Oil Producer +++

The order is for Simark Controls' fully integrated Variable Frequency Drive Systems (VFDs). The VFD Systems are designed and manufactured by Simark Controls to operate electric submersible pumps (ESPs) used to artificially lift heavy oil from the client's Northern Alberta well-pad locations. The systems' unique installation and operations benefits significantly reduce cost.

MARCH 2017

+++ Schneider Electric and Simark Controls Ltd close a sales and service partnership agreement in Canada +++

Simark Controls exclusively offers the Schneider Electric Guardian Compressor Controls Solutions & TerminalBOSS Automation and Measurement Solutions to end users, system integrators and OEMs across Canada. With this Simark Controls expands the existing offering of Schneider Electric Telemetry and Remote SCADA Solutions and Foxboro by Schneider Electric Field Devices.

APRIL 2017

+++ SFC's Dutch company PBF Group delivers Power Electronics prototype for aviation applications +++

PBF Group's high quality power supplies ensure safe and reliable operation of galley systems used on board of commercial airplanes. The delivery builds on a prior development order and has a total value of EUR 0.5 million. Over the following months, the customer will qualify the prototype power supplies in the application. Commercialization of the new power supply is expected for 2018.

+++ EMILY fuel cells supply reliable off-grid power to Future Command Vehicle in FFG vehicle kit +++

Flensburger Fahrzeugbau Gesellschaft mbH's (FFG) innovative "Future Mission Equipment for Special Force Vehicles" concept introduces a modular approach for the use of state of-the-art systems in specialized and protected command vehicles. The modular approach enables ultra fast and flexible integration of the equipment in existing and new vehicle categories. The EMILY on-board fuel cell ensures uninterrupted device operation without idling the engine or returning the vehicle to the depot for a battery recharge.

MAY 2017

+++ New UK partner ZeroAlpha Solutions successfully trials SFC Energy's fuel cells with UK Ministry of Defence +++

In partnership with ZeroAlpha Solutions, SFC Energy's range of defense products were selected to undergo extensive field trials by the UK MoD. ZeroAlpha Solutions will distribute the full defense and security power portfolio of SFC Energy to UK and European defense customers.

+++ SFC Energy receives German Federal Army order for the extension of their portable MKEV energy supply +++

The German Federal Army (Bundeswehr) orders an extension of the MKEV 100 system with additional features. The new prototype significantly increases energy flexibility and autonomy with an external tank and improved communication functions. The total order amount is EUR 160,000. MKEV 100 features four times the power of MKEV 25, a fuel cell system already introduced at Bundeswehr.

+++ SFC's Canadian company Simark Controls receives CAD 1.4 million follow up order from Oil Producer +++

This follow up order builds on the success of Simark Controls' fully integrated Variable Frequency Drive Systems (VFDs). It is new order by the same oil producer who had already placed a CAD 2.0 million order for the same systems earlier in the year. Simark's VFD systems help the oil producer to significantly reduce costs with their unique installation and operations benefits.

JUNE 2017

+++ PBF Group receives prototype order for fully integrated power supply system for high tech laser systems +++

The customized prototype integrates PBF's laser power supply technology in a scalable, configurable plug & play solution. The solution builds on PBF's successful High Power Platform for fast and cost-attractive customization. The order amounts to approx. EUR 0.25 million. Upon successful production qualification an annual revenue potential of up to EUR 1 million is expected.

+++ Simark Controls partners with KNS Communications for powering high performance wireless networks +++

KNS Communications uses the EFOY Pro fuel cells as an off-grid power source for engineered, high performance, outdoor wireless networks in the most demanding oil and gas, mining, agriculture, public safety, utilities, higher education and government communication environments. The fuel cells are hybridized with solar to ensure ultimate reliability.

JULY 2017

+++ Simark Control's partner 3D-P sells autonomous off-grid communication trailer solutions with EFOY to large end user in Alberta Oilsands +++

3D-P's communication trailer hybridizes EFOY Pro fuel cells and solar modules for increased autonomy and reduced maintenance, minimizing the customer's service efforts. The trailers are used for powering critical communication and network equipment at remote mining and oil & gas locations. 28 EFOY ProTrailers and 3 EFOY ProCabinets were deployed.

AUGUST 2017

+++ Partner Oneberry launches first autonomous Fuel Cell powered Security Robot +++

The EFOY Pro fuel cell ensures fully autonomous, maintenance free operation of the robot for a full month. The Security Robot can be deployed anywhere anytime to conduct surveillance and monitor remote areas.

SEPTEMBER 2017

+++ PBF Group receives new order for integrated power supply system for high tech industrial networks +++

The new industry customer will integrate PBF's customized power supplies in mission critical networks for urban rail systems. The development of the new power supply builds on PBF's successful High Power Platform for fast and cost-attractive customization. The expected annual order amount from 2018 on is between EUR 0.5 and 1 million.

+++ Simark Controls receives CAD 1.25 million order for their proprietary VFD systems +++

This order placed by a new customer builds on the growing renown of Simark's custom integrated oil & gas solutions. VFD systems operate electric submersible pumps (ESPs) used to artificially lift heavy oil from the well-pads. The VFD's unique installation and operations benefits significantly reduce installation and operating costs. Additional benefits are improved pump running times, optimized pump operation and augmented oil production.

+++ EFOY Pro fuel cell reliably powers Vikomobil communication trailer +++

Vites GmbH's integrated Vikomobil provides reliable broadband communication in disaster control and public safety applications. The EFOY Pro fuel cell onboard features power autonomy for many days, with no user intervention.

+++ SFC Energy and AITC sign U.S. partnership agreement for EFOY Pro fuel cells in off-grid Department of Defense training facilities +++

Advanced IT Concepts Inc. (AITC) sells the EFOY Pro fuel cell as power source in defense off-grid application of their governmental and private sector customers in the U.S. AITC is trained and certified by SFC Energy to install and service the fuel cells in their applications.

OCTOBER 2017

+++ SFC Energy receives fuel cell order from Russian partner Stabcom Energy for powering off-grid emergency cabins +++

In hybrid operation with solar, SFC Energy's EFOY Pro fuel cells deliver power to telecommunication and emergency cabins along the 311 kilometers Kolyma federal highway from Magadan to Yakutsk in the Far East of Russia. The project is implemented with support of the regional government. The EFOY Pro fuel cells provide reliable all season power autarky without requiring any user intervention. 10 pilot cabins have already been put into operation along the road in the Far East of Russia.

+++ Over 50 % of this year's Minitransat boats sail with EFOY COMFORT fuel cell +++

45 of the 84 registered boats on this year's single handed East-West Transatlantic regatta rely on the fuel cell as off-grid power supply for their communication and navigation equipment. Fuel in convenient fuel cartridges is available at a retailer on site.

NOVEMBER 2017

+++ Polaris Defense presents modified high mobility tactical vehicle with EMILY fuel cell +++

SFC Energy's EMILY 3000 fuel cell delivers up to 21 days of power autonomy to the vehicle for extended mobility and enhanced mission endurance. SFC Energy's fuel cell was selected for its performance, reliability, tactical benefits and environmental friendliness.

+++ Simark Controls receives EFOY Pro fuel cell order from new Oil & Gas customer +++

The EFOY Pro fuel cells deliver reliable, weather independent off grid power to the customer's control and monitoring equipment all across Canada. The fuel cells ensure autonomous 24/7 operation of the systems while significantly reducing logistics and service cost. The fuel cell's environmental friendliness was a strong additional decision criterion.

DECEMBER 2017

+++ SFC Energy receives another Deutsche Bundeswehr defense order, for vehicle-based and stationary power supplies +++

The Bundeswehr procures EMILY 2200 fuel cell systems worth approx. EUR 0.86 million. The order represents repeat business for SFC Energy following the successful deployment of the fuel cell by the Bundeswehr in December 2011. The highly efficient, silent and environmentally friendly power generator provides reliable power to electric and electronic defense devices in the field – anywhere and anytime, vehicle-based, stationary, or as a battery charger.

+++ Major Order of Deutsche Bundeswehr worth EUR 3,6 million +++

After first deployment of SFC fuel cells with the Bundeswehr in 2010, the BAAINBw, responsible for the procurement of all Bundeswehr material, is equipping additional Bundeswehr units with SFC Energy's proven portable Energy Network. The order is worth EUR 3.6 million and ranges among the biggest single orders in corporate history.

SUPERVISORY BOARD REPORT

SUPERVISION OF COMPANY MANAGEMENT

The dominant factors in the 2017 financial year were the Company's capital market strategy, the Company's financing options and the commercial challenges resulting from general market developments. The Supervisory Board actively participated in these efforts by advising and holding discussions with the Management Board. In the year under review, the Supervisory Board performed the duties incumbent on it by law, and under the Company's Articles of Association and its Rules of Procedure. It closely supervised the efforts of the Management Board and regularly advised and carefully monitored the latter's management of the Company. The Supervisory Board also satisfied itself that the Company was properly managed in compliance with applicable laws and regulations. The Supervisory Board was involved early and directly in all decisions of fundamental importance for the Company, as described in more detail below. The Supervisory Board reviewed transactions requiring its consent and discussed each of these with the Management Board.

SUPERVISORY BOARD MEMBERSHIP

Pursuant to Article 10 para. 1 of the Company's Articles of Association, the Supervisory Board of SFC Energy AG was made up of three members in the 2017 financial year. These members of the Supervisory Board were (i) Tim van Delden, (ii) David Morgan, and (iii) Hubertus Krossa. In the 2017 financial year, Tim van Delden served as Chairman and David Morgan as Deputy Chairman of the Supervisory Board of the Company.

SUPERVISORY BOARD MEETINGS

In performance of its duties, the Supervisory Board met nine times during the 2017 financial year: on January 16, March 6, March 28 (to review the financial statements for the 2016 financial year), May 16, June 30, July 28, October 19, December 13, and December 18, 2017. Five of these meetings, on March 28, May 16, July 28, October 19, and December 13, 2017, which all Supervisory Board members attended, were held in person. The other four meetings on January 16, March 6, June 30, and December 18, 2017, were held via conference call. In addition, the members of the Supervisory Board consulted one another between the meetings by telephone, in person or by email if required.

During the Supervisory Board's meetings, the Management Board provided the Supervisory Board with comprehensive and timely information regarding the Company's revenue, profit and, in particular, cash flow performance, budget planning, the Company's and the Group's current position, including the risk position, risk management and corporate compliance, strategic goals and any changes in the Company's organization and personnel. The Supervisory Board discussed the organization of the Company and the Group with the Management Board, ensured that the Company's organization and risk management were effective, and discussed material Company strategy and policy issues with the Management Board. At various Supervisory Board meetings, the Management Board reported to the Supervisory Board on the status of individual business units, the Company's and the Group's economic, financial, technological and strategic position, the Company's domestic and international growth strategy and material developments and events, for instance regarding (imminent) litigation. Regular topics at the Supervisory Board meetings also included finance and controlling, sales and marketing, operations, quality management, human resources, and research & development. In addition, the Management Board reported on the strategic situation of the international subsidiaries of SFC Energy AG and on key developments related to those subsidiaries.

Moreover, in compliance with the rules of procedure laid down for the Management Board by the Supervisory Board, the Management Board routinely provided the Supervisory Board Chairman (and at regular meetings, the entire Supervisory Board) with detailed reports on significant business affairs affecting the Company, as well as financial data (always in comparison with the budget and the prior year). The Supervisory Board Chairman maintained continuous and close contact with the Management Board, and in particular the CEO, who kept him thoroughly informed of current business affairs.

Another important topic at the Supervisory Board meetings during the 2017 financial year was, once again, the Company's capital market strategy and liquidity. The Supervisory Board was informed in detail by the Management Board, using external consultants, about possible measures to gain access to new investors at home and abroad, to finance further growth and to improve the Company's Equity Story, discussed these measures both internally and with the Management Board, and weighed up their pros and cons. The Supervisory Board was also kept regularly informed about the status of implementation and it accompanied and monitored this process.

At its meeting held via conference call on January 16, 2017, which was attended by all members of the Management Board, the Supervisory Board dealt with the start of business in the first quarter of the 2017 financial year and the cash flow plan for the current year and discussed, in particular, options for strengthening the equity position. Furthermore, current tests conducted by the German Bundeswehr and their impacts on future orders were discussed. Finally, the structure of the system of compensation of the Management Board was discussed in more detail. A relevant matter of these deliberations were the definition and amount of performance-related compensation components.

The subject of the Supervisory Board meeting held via conference call on March 6, 2017, was the setting of target quota for the proportion of women on the Management Board and on the Supervisory Board. In both cases, the Supervisory Board set a target quota of 0% for the period up to the close of December 31, 2021.

At its meeting on March 28, 2017, the Supervisory Board discussed the independence of its members. Furthermore, the Supervisory Board primarily discussed and approved the annual financial statements prepared in accordance with the German Commercial Code and the management report and the consolidated financial statements prepared in accordance with IFRS and the group management report. Representatives of the auditor attended the meeting, reported on the key outcomes of their audit and gave an opportunity for questions or queries to be raised by the Supervisory Board. The Supervisory Board also dealt with the agenda for the annual general meeting 2017 and the proposal for the appointment of the auditor for the 2017 financial year. Furthermore, the Supervisory Board also had an in-depth discussion on the latest developments, and on opportunities and risks, of the current business development of the individual business units and subsidiaries. Against this backdrop, the Company's current liquidity and financial position including possible financing options were discussed again with the Management Board. In addition, the Supervisory Board approved the early resignation of Mr. Steffen Schneider with effect as from the end of the general meeting held on May 17, 2017, and the conclusion of a termination agreement. At the same time, the Supervisory Board approved the appointment of Mr. Gerhard Inninger with effect as from May 1, 2017, who will assume the duties of Mr. Schneider and previously managed the department of finances of the Company from 2011 to 2014 (at that time as member of the Management Board).

At its meeting of May 16, 2017, which was attended by the Management Board, the Supervisory Board dealt with the current business situation in the individual business units and subsidiaries and the sales figures in the first and second quarters of the financial year. Another matter of discussion was, again, the current liquidity situation and options to bring potential investors on board.

At its meeting of June 30, 2017, which was held via conference call, the Supervisory Board again discussed the current business figures with the Management Board. In addition, possible financing measures were discussed.

At its meeting of July 28, 2017, the Supervisory Board discussed, with the participation of the Management Board, the current and expected sales figures in the individual business units and subsidiaries in the second and third quarters. In addition, the discussion dealt in more detail with the current financial figures and liquidity situation of the Company. Furthermore, the negotiations on the placement of a secured fixed-rate bearer bond and of an option bond with Harbert European Growth Capital Fund were discussed with the Management Board. The Supervisory Board approved the placement on August 4, 2017.

At the Supervisory Board meeting of October 19, 2017, the Management Board presented a short update on the business figures in the third quarter and an outlook on the development in the fourth quarter. In particular, the current figures of the "Defense" business unit taking into account potential future orders were discussed in detail. Against this backdrop, the Supervisory Board, with the participation of the Management Board, again dealt in detail with the current financial figures and the liquidity situation of the Company and of its subsidiaries. Another matter of discussion was the search for new strategic partnerships.

At its meeting of December 13, 2017, which was attended by the Management Board, the Supervisory Board dealt, first, with the general business figures in the third quarter and the forecast for the fourth quarter, addressing, in particular, the expected impacts of the large order received from the German Bundeswehr. Furthermore, the current situation in the individual business units and subsidiaries was discussed in detail. In addition, the budget planning for 2018 and the medium-term budget planning for 2018 – 2020 in all business units were discussed. Moreover, the options for strategic partnerships were deliberated and discussed with an external adviser appointed for such purpose. Finally, the representatives of Deloitte GmbH Wirtschaftsprüfungsgesellschaft who attended the meeting commented on the forthcoming audit of the annual financial statements.

The Supervisory Board meeting of December 18, 2017, which was held via conference call, dealt again with the budget 2018 and the medium-term planning 2019 – 2020. This planning was discussed with the Management Board and adopted and approved by resolution of the Supervisory Board. The Supervisory Board also adopted the management incentive program 2018 for the benefit of the Management Board, which has the same structure as in 2017. Furthermore, the Supervisory Board discussed in detail the current risk management situation and the new division of the Company's business into the four segments oil & gas, industry, defense & security, and clean mobility.

COMMITTEES

The Supervisory Board did not set up any committees in the 2017 financial year as it is of the opinion – which is consistent with the legal literature on this subject – that the efficiency of the advisory and controlling activities of a three-member board cannot be meaningfully increased by doing so.

CORPORATE GOVERNANCE

Information on Supervisory Board-related aspects of the Company's corporate governance can be found in the corporate governance report which is reproduced in the annual report (page 35 et seqq.) as part of the statement pursuant to Section 289f of the German Commercial Code (Handelsgesetzbuch).

Compensation of Supervisory Board members is shown individually and broken down by component in the compensation report, which is reproduced in the annual report (page 74 et seqq.).

In the 2017 financial year, as in previous years, the Supervisory Board thoroughly examined potential conflicts of interest affecting its members and discussed and agreed upon its procedure for handling such conflicts, should they arise. In the year under review, the Supervisory Board did not identify any conflict of interest regarding the members of the Supervisory Board. In addition, the Supervisory Board determined at its meeting on March 28, 2017, that it included an adequate number of independent members in accordance with Section 5.4.2 of the German Corporate Governance Code. None of the members of the Supervisory Board has any business or personal relations with the Company, its executive bodies, a controlling shareholder or an enterprise associated with the latter which may cause a substantial and not merely temporary conflict of interests.

The Company is committed to complying with the recommendations of the German Corporate Governance Code. The Declaration of Conformity to be made by the Management Board and Supervisory Board on a yearly basis, and most recently of March 22, 2018, is available on the Company's website at https://www.sfc.com/en/investors/corporate-governance/. It is also reproduced in the annual report (on page 35).

ACCOUNTING

Deloitte GmbH Wirtschaftsprüfungsgesellschaft, Munich, was elected by the annual general meeting to audit the Company's financial statements for the 2017 financial year and was engaged for the audit by the Supervisory Board. The Supervisory Board negotiated the audit engagement, indicated the focal points of the audit and engaged the auditors. The agreed focal points for the audit were:

IFRS consolidated financial statements

i goodwill impairment test
ii completeness and valuation of other accruals
iii realization of the section testing of Simark and PBF
iv compliance with financial covenants

German Commercial Code-based annual financial statements

i impairment of the shares in affiliated companies
ii valuation of inventories
iii completeness and valuation of other accruals
iv revenue recognition
v accounting-related controls in the process areas sales and fixed assets

The auditor audited SFC Energy AG's annual financial statements as of December 31, 2017, as prepared by the Management Board in accordance with the German Commercial Code, along with the management report, including the bookkeeping, and issued an unqualified audit opinion. Under Section 315e of the German Commercial Code, the Group's consolidated financial statements were prepared on the basis of International Financial Reporting Standards (IFRS) as applicable in the European Union. The auditor also issued an unqualified audit opinion on the consolidated financial statements and the group management report.

The Supervisory Board met to review the financial statements for the 2017 financial year on March 22, 2018. The members received documentation on the annual and consolidated financial statements, the audit reports, and all other documents and reports in advance of the meeting, reviewed them carefully, and discussed them thoroughly during the meeting. Since the annual financial statements for the financial year ended December 31, 2017, prepared in accordance with the German Commercial Code show an annual net profit, the Management Board proposed to carry forward the net profit. The auditor participated in the meeting, reported on the course of the audit and the audit reports and was available to answer questions, provide additional information and discuss the documents.

The Supervisory Board reviewed the annual and consolidated financial statements and the corresponding management reports in light of the auditor's reports as well as its discussion with the auditor, and agreed with the result of the audit. Based on its own review of the annual and consolidated financial statements and the corresponding management reports, the Supervisory Board determined that it had no objections to make. At its meeting on March 22, 2018, it approved the annual and consolidated financial statements for the 2017 financial year and the corresponding management reports. The annual financial statements for 2017 were thus approved in accordance with Section 172 para. 1 of the German Stock Corporation Act (Aktiengesetz).

The Supervisory Board would like to thank the members of the Management Board and all of the Company's employees for their deep commitment to, and hard work for, the Company as well as for their achievements in the 2017 financial year.

Brunnthal, March 22, 2018

The Supervisory Board

Tim van Delden
(Chairperson)

THE SFC ENERGY SHARE

PERFORMANCE OF INDEXES

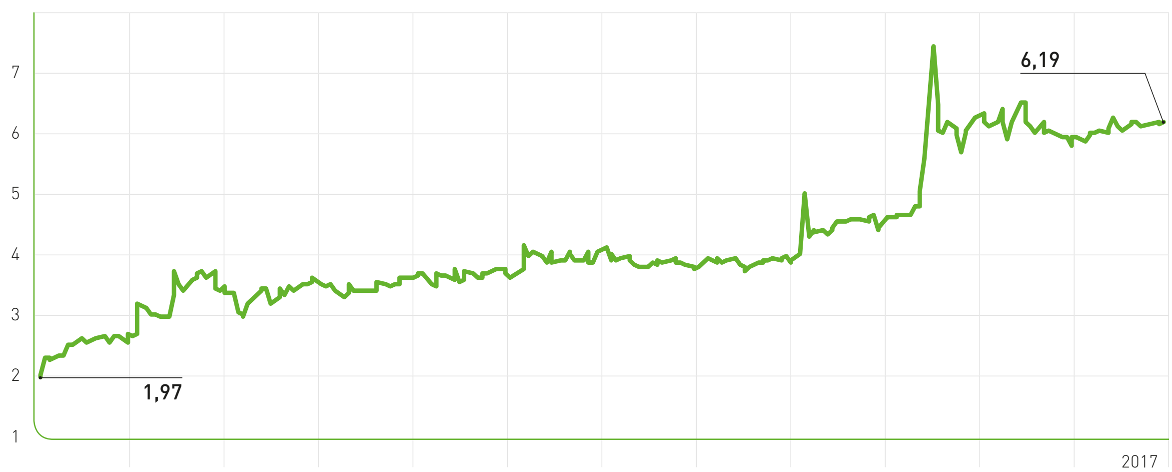
The international equities markets developed very positively in the year under review. Investors acted unfazed by risks like European elections, Brexit insecurities, terrorist attacks, political developments in Turkey, or the U.S. President's isolationist and North Korean policies [1], with emerging country equity exchanges leading the rankings. The industrial nations, too, featured strong increases, even though German and U.S. markets lost impetus at the end of a strong trading year [2 3]. In the U.S., the U.S. Dow Jones lead index still featured the biggest gain since 2013 [4]. European equity markets headed towards their sixth consecutive annual growth year, their longest growth rate to date [5]. This was also reflected by the longest growth phase of the DAX to date. Germany's lead index will celebrate its 30th anniversary in 2018 [6].

DAX started the year on January 2, 2017, at 10,426 points, fast heading towards 13,000 points [7 8]. Despite an intermediary all-time-high of 12,951 the DAX, however, remained weaker than expected. Due to concerns about faster tightening of monetary policies, the German lead index fell back to its end of April level. Over the further course of 2017, rebounding economic dynamics had a positive effect on equity market performance. Still, prices again went down for a while in the third quarter of 2017, due to the strong Euro. In the fourth quarter of 2017, the DAX rose to a new record of over 13,000 points. At the beginning of December, it finally came back to under 13,000 points. When it ended the year at 12,918 points, the German lead index featured a 12.5 % value increase compared to the end of 2016. TecDAX was up 39.6 %.

1 Handelsblatt (2017): DAX-AUSBLICK – Neues Spiel, neues Glück
2 M.M. Warburg (2017): Kapitalmarktperspektiven Dezember 2017
3 Handelsblatt (2017): DAX-AUSBLICK – Neues Spiel, neues Glück
4 Handelsblatt (2017): DOW JONES, S&P 500, NASDAQ – Dow Jones mit größtem Jahresgewinn seit 2013
5 Handelsblatt (2017): DAX-AKTUELL – Leitindex beendet das Jahr unter 13.000 Punkten
6 Handelsblatt (2017): DAX-AUSBLICK – Neues Spiel, neues Glück
7 Metzler (2017): Aktienmärkte – Rückenwind von der weltweit guten Konjunktur
8 M.M. Warburg (2017): Kapitalmarktperspektiven Juni 2017

PERFORMANCE OF THE SFC SHARE

SFC SHARE PRICE FROM BEGINNING OF JANUARY 2017 TO END OF DECEMBER 2017 **in €**



The SFC Energy share more than tripled its price in 2017. SFC Energy AG shares outperformed the increases of German standard and technology indexes. The continuous rise up to a 2017 closing price of € 6.19, based on the promising corporate development, resulted in a 206.4 % plus for the share compared to the 2016 closing price of € 2.02.

SFC shares opened the 2017 trading year on January 2 at price of € 1.97, reaching their lowest 12 months price of € 1.96 on the very same day. In the further course of the year, SFC shares featured sustainable price increases and recorded their high for the year at € 8.68 on October 16. SFC Energy AG shares closed the 2017 year at € 6.19 on December 29, 2017. The average daily trading volume in the past financial year increased significantly to 14,343 (previous year: 4,574) shares, due to a positive news flow. At the balance sheet date of December 31, 2017, the market capitalization of SFC Energy AG was € 59.8 million, on the basis of 9.66 million shares and a closing price of € 6.19. At the end of 2016 the market value had been € 18.3 million, with 9.05 million shares and a closing price of € 2.02. (all figures based on Xetra prices).

INVESTOR RELATIONS

The SFC Energy AG share is listed in the strictly regulated Prime Standard market segment of the Frankfurt Stock Exchange. The Company informs its shareholders immediately about events of significance for its business or its share price by means of ad-hoc announcements and press releases. In addition, the Management Board of SFC Energy AG maintains close contact with investors, analysts, and the financial press, as part of an ongoing, transparent capital market communication. In the past financial year, the Management Board held numerous individual discussions with these target groups. Furthermore, the Management Board presented SFC Energy AG at numerous road shows and participated in the German Equity Forum in Frankfurt am Main in November 2017. Investors find a current business overview in the Investor Relations section of the SFC Energy AG website at https://www.sfc.com.

Hauck & Aufhäuser Privatbankiers AG functioned as Designated Sponsor in the past financial year and ensured that the SFC share was traded on a regular basis by issuing binding bid and ask prices.

ANALYST RESEARCH

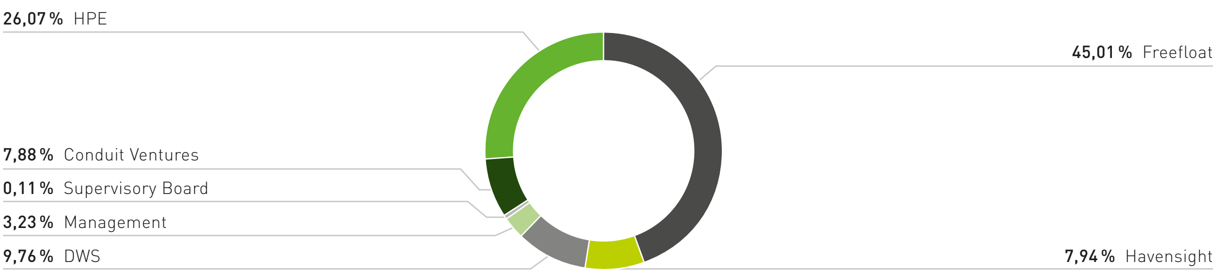
The SFC share was regularly analyzed and evaluated by two renowned research firms: Warburg Research GmbH and First Berlin Equity Research GmbH. In their evaluations, the analysts focused on the major Bundeswehr project. In the study published on February 12, 2018, analyst Dr. Karsten von Blumenthal of First Berlin recommended buying the SFC Energy share with a target price of 8.70. Analyst Malte Schaumann of Warburg upgraded the rating of the SFC share from "Sell" to "Buy" with a target price of € 7.50. Detailed information is available to interested investors at https://www.sfc.com in the Investor Relations/Share sections.

SHAREHOLDER STRUCTURE

In July of the past financial year the shareholder structure of SFC Energy AG changed due to the exercise of the convertible bond placed in October 2016. The total number of SFC Energy AG shares issued increased to 9,208,676 shares from 9,047,249. At the 2017 balance sheet date, institutional investors, who accompany and support the Company in its growth, held approximately 50.3 % of the Company's shares. The extended management including the Supervisory Board held approximately 3.5 % of voting rights. At December 31, 2017, 46.2 % of the voting shares were in free float. After the 2017 balance sheet date, in January 2018, the total number of shares again increased to 9,749,612 shares, due to the exercise of the convertible bonds issued in the period from December 2015 to March 2016.

As of December 31, 2017, the total amount of voting shares issued amounted to 9,659,456 shares.

SHAREHOLDER STRUCTURE 12/31/2017 in %



BONDS AND LOAN

In August 2017, SFC Energy AG, by means of a private placement, issued a secured fixed rate bond with a nominal amount of € 4,997,500.00, the provision of collateral and the issuance of an option bond. The secured fixed rate bond shall amortize on a straight-line basis with a final maturity date of December 31, 2018. The option bond has a nominal amount of € 2,500.00, a term until 2022, and shall bear interest on their principal amount at the rate of 4.0 % per annum. The issue price was set at 100 % of the nominal value. The option bond has attached to it option rights granting the right to acquire 204,700 no-par-value bearer shares of the Company, each with a notional amount of € 1.00 in the share capital at an option price of € 3.6639. The Company received gross proceeds in the amount of € 5.0 million to be used for the repayment of loans, to further strengthen the liquidity base and the international roll-out of the business.

In December 2015, SFC Energy had already issued a convertible bond with a total face value of then € 1,650,000.00, with a later increase to € 3,300,000.00, maturing in 2018, divided into convertible bonds with a face value of € 50,000.00 each. The convertible bonds were placed in a private placement with existing investors of the Company. Management Board can increase the total amount up to a total of € 5,000,000.00.

The convertible bonds have a coupon of 4.0 % p. a., payable semi-annually. The issue price was set at 90.0 % of the nominal amount. The convertible bonds are convertible into no-par-value bearer shares of the Company with a proportional amount of the Company's capital stock of € 1.00 per share at a conversion price of € 6.10. The bond (ISIN DE000A169KX4) is traded on the Open Market of the Frankfurt Stock Exchange.

In December 2017 and January 2018 HPE PRO Institutional Fund B. V. and two German family offices exercised their conversion rights for a nominal amount of € 3,300,000.00. As a result of the exercise of the convertible bond, the share capital of SFC Energy AG increased by € 540,936.00 from € 9,208,676.00 to € 9,749,612.00. The total number of shares issued by the company rose accordingly to 9,749,612.

DIRECTORS' SHAREHOLDINGS

	12/31/2017
Management Board	
Dr. Peter Podesser	106,800
Hans Pol	116,462
Marcus Binder	0
Supervisory Board	
Tim van Delden	0
David Morgan	4,000
Hubertus Krossa	6,250

CORPORATE GOVERNANCE REPORT AND STATEMENT PURSUANT TO SECTION 289F OF THE GERMAN COMMERCIAL CODE

The Management and Supervisory Boards of the Company issue the following report on corporate governance of SFC Energy AG pursuant to Section 3.10 of the German Corporate Governance Code. The report below also contains the Company's corporate governance statement pursuant to Section 289f of the German Commercial Code ("Handelsgesetzbuch" – "HGB") and Section 315d in conjunction with Section 289f HGB and its compensation report. It is part of the management report ("Lagebericht").

The term 'corporate governance' implies the development of a management system which leads to responsible, transparent and sustainable creation of value and refers to a company's entire management and controlling system, including its organization, principles of business policy and guidelines for internal and external steering and monitoring mechanisms. Corporate governance promotes trust among domestic and international investors, business partners, the financial markets, employees and the general public in the management and controlling of SFC Energy AG. Instruments of effective corporate governance are efficient cooperation between the Management Board and the Supervisory Board in a relationship of mutual trust, respect for shareholders' interests, and open and up-to-the-minute corporate communication. The Management and Supervisory Boards of SFC Energy AG are committed to upholding the principles of good corporate governance, and they believe that these principles are an essential building block of the Company's success.

SFC Energy AG regularly reviews and continually seeks to improve its system of corporate governance. SFC Energy AG follows all but a few of the recommendations of the German Corporate Governance Code. These exceptions are explained in the following compliance statement made in accordance with Section 161 of the German Stock Corporation Act ("Aktiengesetz" – "AktG").

DECLARATION OF CONFORMITY PURSUANT TO SECTION 161 OF THE GERMAN STOCK CORPORATION ACT

According to Section 161 of the German Stock Corporation Act (Aktiengesetz), the management board and the supervisory board of exchange-listed companies are required to declare annually that the company has complied, and will comply, with the recommendations of the Government Commission on the German Corporate Governance Code (the "Code") published by the German Federal Ministry of Justice in the official Section of the Federal Gazette (Bundesanzeiger) and/or which recommendations the company has not applied and/or will not apply. This declaration has to be made accessible to the public on a permanent basis on the company's website. Thus, companies may deviate from the recommendations of the Code but, if they do, they are required to disclose such deviations on an annual basis. This allows companies to take account of sector-specific or company-specific needs. Thus, the Code helps to make corporate governance of German companies more flexible and promotes their self-regulation.

On March 22, 2018, the Management Board and the Supervisory Board of SFC Energy AG made the following declaration of conformity pursuant to Section 161 AktG:

"After due examination, the Management Board and the Supervisory Board of SFC Energy AG declare that, since March 28, 2017 (the date as of which the last declaration of conformity was made), the Company has complied and will comply with the recommendations of the German Corporate Governance Code ("Code" or "GCGC") as amended on May 5, 2015 and as amended on February 7, 2017 (as from the date of its publication in the Federal Gazette on April 24, 2017) with the following exceptions:

- According to Section 3.8 para. 3 of the Code, a company taking out a D&O (directors' and officers' liability insurance) policy for the Supervisory Board must agree upon a deductible of at least 10 % of the loss up to at least the amount of one and a half times the fixed annual compensation of the individual Supervisory Board member. With resolution of May 7, 2015 the general meeting of SFC Energy AG granted the Supervisory Board pre-emptive safeguards against liability risks, in order to ease the recruitment of professional qualified and independent supervisory board members. The recruitment of professional qualified and independent supervisory board members is a key objective of SFC Energy AG, whose fulfillment entails special challenges given the Company's geographically dispersed business operations, its orientation towards capital markets and its limited financial resources. According to this resolution, Section 16 para. 2 of the Articles of Association of the Company entitles the Supervisory Board Members to receive insurance coverage from the Company under a deductible-free D&O (directors' and officers' liability insurance) policy. As a result, the Company deviates from the recommendations set forth in the Code.

- According to Section 4.2.3 para. 2 sentence 6 of the Code, the amount of compensation of the Management Board shall be capped, both overall and for the variable compensation components. With the beginning of the 2014 financial year, the Supervisory Board of the Company has implemented a virtual stock option program that applies to any new Management Board member's employment contract to become effective from January 1, 2014 on and that provides for the distribution of virtual stock options to the members of the Management Board. After the end of a waiting period, the virtual stock options confer the right to cash pay out depending on the price of the share of SFC Energy AG at the date the right is exercised. Whereas the total number of stock options to be distributed is limited from the beginning, there is no limit to the amount in regards of a potentially increased share price during the exercise period. The Supervisory Board holds the opinion that a limitation of the increase potential of a share price-dependent compensation contradicts the principle behind this form of remuneration and would undermine its major incentive which is to work for and contribute to an increased company value. Since there is no complete limitation to the amount of any variable compensation component, no cap to the overall amount of compensation of the Management Board members exists. As a result, the Company deviates from the recommendations set forth in Sections 4.2.3 para. 2 sentence 6 of the Code.

- Pursuant to Section 5.1.2 para. 2 sentence 3 of the Code, an age limit for the members of the Management Board shall be specified. SFC Energy AG takes the view that the reaching of an age limit does not allow to draw conclusions as to the skills and expertise of a member of the Management Board. Therefore, no age limit for the members of the Management Board has been specified. As a result, the Company deviates from the recommendations set forth in Section 5.1.2. para 2 sentence 3 of the Code.

- According to Section 5.3.1 of the Code, the Supervisory Board shall, depending on the specifics of the enterprise and the number of its members, form committees with sufficient expertise. In particular, Section 5.3.2 of the Code recommends that an Audit Committee be set up. The Supervisory Board of SFC Energy AG comprises only three members. The Supervisory Board holds the view – which is consistent with the legal literature on this subject – that the efficiency of the advisory and controlling activities of a Supervisory Board made up of only three members cannot be increased meaningfully by setting up any committees. As a result, the Company deviates from the recommendations set forth in Sections 5.3.1 and 5.3.2 of the Code.

- According to Section 5.3.3 of the Code, the Supervisory Board shall form a Nominating Committee composed exclusively of shareholder representatives which will propose suitable candidates to the Supervisory Board for recommendation to the General Meeting. The Company's Supervisory Board has not set up a Nominating Committee. Consistent with the legal literature on this subject, the Supervisory Board supports the position that forming a Nominating Committee is irrelevant if no employees are represented on the Supervisory Board. As a result, the Company deviates from the recommendation set forth in Section 5.3.3 of the Code.

- According to Section 5.4.1 paras. 2 and 4 of the Code, the Supervisory Board shall specify concrete objectives regarding its composition and prepare a profile of skills and expertise for the entire Board. Within the company-specific situation the composition of the Supervisory Board shall reflect appropriately the international activities of the company, potential conflicts of interest, the number of independent Supervisory Board members within the meaning of number 5.4.2, an age limit and a regular limit to Supervisory Board members' term of office, both to be specified, as well as diversity. Proposals by the Supervisory Board to the General Meeting shall take these targets into account, while simultaneously aiming at fulfilling the overall profile of required skills and expertise of the Supervisory Board. The implementation status shall be published in the Corporate Governance Report. This report shall also provide information about what the Supervisory Board regards as the appropriate number of independent Supervisory Board members representing shareholders, and the names of these members. The Company deviates from the recommendation to lay down, take account of and publish such concrete objectives, to prepare a profile of skills and expertise for the entire Board, and to provide information about what the Supervisory Board regards as the appropriate number of independent Supervisory Board members representing shareholders, and the names of these members. The composition of the Supervisory Board shall ensure that the Management Board is effectively advised and controlled, based on the Company's best interests. To ensure compliance with these statutory requirements the Supervisory Board will continue to base its proposals of candidates primarily on the knowledge, skills and experience of eligible candidates. In this respect, the Supervisory Board will also appropriately take account of the international activities of the Company, potential conflicts of interest, the number of independent members of the Supervisory Board, an age limit laid down in the Supervisory Board's Rules of Internal Procedure and diversity. Setting specific targets or quotas in advance that exceed the legally required target quota of women for the Supervisory Board under Section 111 para. 5 AktG, however, is something which the Supervisory Board considers to be neither necessary nor reasonable due to the fact that to do so would be to impose a sweeping restriction on the selection of suitable candidates particularly for SFC Energy AG, as a small, stock-listed German stock corporation (Aktiengesellschaft) with a supervisory board that is composed of only three members. Accordingly, the Corporate Governance Report does not mention any such objectives. As a result, the Company deviates from the recommendation set forth in Section 5.4.1 paras. 2 and 4 of the Code.

Brunnthal, March 22, 2018

SFC Energy AG

The Management Board
The Supervisory Board"

The declaration of conformity can be accessed at any time via the company's website at https://www.sfc.com/en/investors/corporate-governance/.

STRUCTURE AND WORK OF THE MANAGEMENT AND SUPERVISORY BODIES

SFC Energy AG believes that a corporate governance system and controlling structure rooted in responsible behavior and transparency are the foundation for creating value and instilling confidence in the Company. The structure of the Company's management and supervisory bodies is as follows:

Shareholders and General Meeting

The shareholders of SFC Energy AG exercise their co-determination and supervisory rights at the Annual General Meeting, which occurs at least once a year. SFC Energy AG regularly informs its shareholders, as well as analysts, shareholders' associations, media representatives and the interested public, through its financial calendar which is published in the Company's annual report, quarterly communications and on its website. As part of its investor relations activities, the Company further regularly meets with analysts and institutional investors. The Company also holds an analysts' conference each year. The last such conference took place on November 27, 2017.

The Annual General Meeting of SFC Energy AG is held during the first eight months of each financial year. At this meeting, shareholders resolve on all matters reserved for their decision by law, including, inter alia, appropriation of profits, election and approval of the actions of the members of the Supervisory Board, approval of the actions of the Management Board, election of the auditors and amendments to the Company's Articles of Association.

In advance of the Annual General Meeting, shareholders receive in-depth information about the financial year under review and the pending agenda items through the annual report and the invitation notice, both of which make it easier for them to exercise their rights and prepare for the meeting. All of the documents and information pertaining to the Annual General Meeting, including the annual report, are also published on the Company's website. To facilitate the exercise of shareholders' rights, SFC Energy AG offers any shareholder who is unable or chooses not to exercise his or her voting rights at the Annual General Meeting in person the opportunity to have them exercised at the Annual General Meeting through a proxy in accordance with instructions given to such proxy.

The Management Board

The Management Board of SFC Energy AG manages the Company with the goal of creating sustainable value on its own responsibility and in the best interests of the Company, i. e., with the interests of the shareholders, employees and other stakeholders in mind. The Management Board acts without being subject to instructions from any third parties and in keeping with the law, the Company's Articles of Association and the rules of internal procedure laid down by the Supervisory Board for the Management Board and taking account of the resolutions by the Annual General Meeting. When filling management positions within the Company, the Management Board of SFC Energy AG also takes into consideration the principle of diversity and seeks to ensure appropriate representation of women (see in this regard also the section "Information required by Sec. 289f para. 2, nos. 4 and 5 HGB (German Commercial Code)", p. 42).

Notwithstanding the principle of overall responsibility according to which all members of the Management Board are jointly responsible for managing the Company, each member of the Management Board has sole responsibility for the area assigned to him or her. The Chief Executive Officer has primary responsibility for the overall management and business policy of the Company. He ensures coordination and consistency of business management within the Management Board and represents the Company in public. During the past financial year, the Management Board of SFC Energy AG comprised of the following members, Dr. Peter Podesser, who serves as Chief Executive Officer (CEO), Steffen Schneider (until May 17, 2017), who served as Chief Financial Officer (CFO), Markus Binder (from February 1st, 2017), who serves as Chief Sales Officer Defense & Security (CSO), and Hans Pol as Chief Sales Officer Power (CSO).

The Management and Supervisory Boards of SFC Energy AG work closely together for the good of the Company. The Management Board regularly reports to the Supervisory Board providing a timely and comprehensive picture of all relevant issues of planning, the course of business, strategy, risk position and risk management, and all other important events that are of material importance for the management of the Company. The strategic orientation of SFC Energy AG is also regularly coordinated with the Supervisory Board. In accordance with the rules of internal procedure laid down by the Supervisory Board for the Management Board, material decisions by the Management Board are subject to the Supervisory Board's consent.

Potential conflicts of interest for members of the Management Board must be disclosed to the Supervisory Board immediately. The other members of the Management Board are to be informed thereof. Members of the Management Board may only take on outside activities, especially Supervisory Board seats in companies outside of the Group, with the consent of the Supervisory Board. The consent of the Supervisory Board is also required for significant transactions between the Group companies on the one hand and the members of the Management Board as well as related persons or enterprises on the other. These transactions must conform with standard market conditions. No such agreements existed in the reporting period. Equally, no conflicts of interest have arisen in the year under review. During the past financial year, there were no conflicts of interest involving the members of the Management Board of SFC Energy AG that would have required immediate disclosure to the Supervisory Board. In the past financial year, no member of the Management Board was a member of the supervisory board of any non-group business partnership.

The Supervisory Board

The Supervisory Board appoints the Management Board and supervises the latter's management of SFC Energy AG. The Supervisory Board is directly involved in all decisions that are of fundamental importance for the Company. Pursuant to applicable law, the Company's Articles of Association and the Management Board's rules of internal procedure or resolutions adopted by the Supervisory Board, certain matters relating to the management of the Company require the Supervisory Board's consent. The Supervisory Board actively guides the Management Board through advice and discussions, performs the duties incumbent on it by law and under the Company's Articles of Association, and continuously supervises the conduct of the Company's business on the basis of Management Board reports and joint meetings (see the Supervisory Board report on pages 25 et seqq.).

The Chairman of the Supervisory Board coordinates the Supervisory Board's work, chairs its meetings and represents its interests externally. He maintains regular contact with the Management Board and in particular discusses with the latter the Company's strategy, its performance and risk management. The Supervisory Board has established for itself rules of internal procedure which, within the limits set by law and the Company's Articles of Association, include among other things provisions regarding meetings of the Supervisory Board and the passing of resolutions, the duty of confidentiality and the handling of conflicts of interest.

Supervisory Board Membership

Pursuant to Article 10 para. 1 of the Company's Articles of Association, in the 2017 financial year the Supervisory Board of the Company was made up of three members, who were elected by the shareholders. In the 2017 financial year, the members of the Supervisory Board were (i) Tim van Delden, (ii) David Morgan, and (iii) Hubertus Krossa. In accordance with the recommendations of the German Corporate Governance Code, Tim van Delden, David Morgan and Hubert Krossa were elected individually in the last elections to the Supervisory Board at the Annual General Meeting on May 17, 2017.

Of the Supervisory Board members currently in office, David Morgan especially qualifies as an independent financial expert within the meaning of Section 100 para. 5 AktG. He served many years as a UK auditor and, for several years, he has held various prominent positions in the field of corporate finance. Until its dissolution in the 2011 financial year, David Morgan also served as Chairman of the Company's Audit Committee.

The Supervisory Board has not specified any concrete objectives regarding its composition, with the exception of the legally required determination of a target quota for the proportion of women on the Supervisory Board (see in this regard also the section "Information required by Section 289f para. 2 no. 4 HGB (German Commercial Code)"). To ensure compliance with the legal requirements, the Supervisory Board will continue to base its proposals for candidates to the shareholders primarily on the knowledge, skills and experience of eligible male and female candidates. In this respect, the Supervisory Board will also appropriately take account of the international activities of the Company, potential conflicts of interest, the number of independent members of the Supervisory Board, an age limit laid down in the Supervisory Board's Rules of Internal Procedure and diversity. Setting specific targets or gender-specific quotas in advance that exceed the legally required target quota of women for the Supervisory Board under Section 111 para. 5 AktG, however, is something which the Supervisory Board considers to be neither necessary nor reasonable due to the fact that to do so would be to impose a sweeping restriction on the selection of suitable candidates particularly for SFC Energy AG, as a small, stock-listed German stock corporation (Aktiengesellschaft) with a supervisory board that is composed of only three members.

No former members of the Management Board of SFC Energy AG sit on the Company's Supervisory Board. The Company's Management and Supervisory Boards believe that the Supervisory Board consists of an adequate number of independent members.

Potential conflicts of interest of Supervisory Board members

Provisions for avoiding and dealing with potential conflicts of interest are laid out in the Supervisory Board's internal rules of procedure. Every member of the Supervisory Board is supposed to disclose conflicts of interest to the Supervisory Board. The Supervisory Board shall provide information on conflicts of interest that arise and how they have been dealt with in its report to the General Meeting. In the 2017 financial year, as in previous years, the Supervisory Board thoroughly examined potential conflicts of interest affecting its members and discussed and agreed upon its procedure for handling such conflicts, should they arise. In the year under review, the Supervisory Board did not identify any conflict of interest regarding the members of the Supervisory Board. The Supervisory Board's term of office generally amounts to five years. Since all members of the Supervisory Board who are currently in office were newly elected at the Annual General Meeting 2017, the current term of office of all members of the Supervisory Board ends at the close of the Annual General Meeting 2022.

Supervisory Board Committees

In the 2017 financial year, the Supervisory Board did (as in previous years) not form any committees since it is – consistent with the legal literature on this subject – of the opinion that the setting up of committees within a supervisory board made up of only three members does not seem adequate and will not lead to any efficiency improvements in terms of the exercise of the advisory and controlling functions. The setting-up of a nominating committee is – according to the view of the Supervisory Board – further irrelevant since there are no employee representatives on the Company's Supervisory Board.

Disclosure of relevant corporate governance practices

There are no relevant corporate governance practices at SFC Energy AG over and above the legal obligations.

Risk management and compliance

One of the tasks of any system of good corporate governance is to deal with risks responsibly. The Management Board of SFC Energy AG ensures that an appropriate risk management and risk controlling are in place in the Company (Compliance Management System). Doing so guarantees that risks are identified in time and potential risks are minimized. More detailed information about the Company's risk management can be found in the Report on Risks and Opportunities of the Group Management Report, on page 86 et seqq.

SFC Energy AG believes that compliance with the provisions of law and internal policies relevant for the Company's activities (hereinafter also referred to as "Compliance") is an essential part of corporate governance. Therefore, the management responsibility in all group entities includes the duty to ensure compliance with the applicable rules in each area of tasks and responsibilities. Work processes and procedures shall be designed in accordance with such rules. In order to ensure this, internal business und finance reviews are conducted at SFC Energy AG at regular intervals. In addition, the Company gives employees the opportunity to report, in a protected manner, suspected breaches of the law ("whistleblowing").

Transparency

SFC Energy AG aims to secure the highest possible degree of transparency and to provide all target groups with the same information at the same time. All target groups can keep abreast of the latest developments at the Company via the internet. SFC Energy AG publishes ad hoc announcements as well as press releases and other corporate news on its website. The declaration of conformity with the German Corporate Governance Code and all previous declarations of conformity are also accessible via the Company's website.

Pursuant to Art. 19 of the Market Abuse Regulation (Regulation (EU) No 596/2014, MAR), the members of SFC Energy AG's Management and Supervisory Boards and certain senior executives, as well as individuals and entities closely related to and affiliated with them, are required to report purchases and sales of shares in the Company and of any related financial instruments. In the last financial year, none of the members of the Management Board and Supervisory Board or other employees in managerial positions conducted transactions that they were required to report.

All directors' dealings pursuant to Art. 19 MAR are published on the Company's website at https://www.sfc.com. The total number of shares in SFC Energy AG held by Management Board members as of December 31, 2017 was 2.31 %, of which 1.21 % were held by Management Board Member Hans Pol and 1.10 % by the chairman

Dr. Peter Podesser. As of this date, the members of the Supervisory Board held 0.11 % of the shares issued by the Company.

Accounting and Auditing

The consolidated financial statements of SFC Energy AG as well as the Company's interim reports are prepared in accordance with the International Financial Reporting Standards (IFRS) pursuant to the guidelines of the International Accounting Standards Board. Deloitte GmbH Wirtschaftsprüfungsgesellschaft, Munich, was appointed by the Ordinary Annual General Meeting to audit the Company's financial statements for the 2017 financial year and engaged for the audit by the Supervisory Board. The auditors participated in the Supervisory Board's discussions concerning the consolidated financial statements and reported on the material results of their audit. Shareholders and other interested parties can access the consolidated financial statements and interim reports on the Company's website.

INFORMATION REQUIRED BY SEC. 289F PARA. 2, NOS. 4 AND 5 HGB (GERMAN COMMERCIAL CODE)

The Supervisory Board is obliged to determine a target quota for the proportion of women on the Supervisory Board, as well as a deadline for reaching this target. In addition, the Supervisory Board is obliged to determine a target quota for the proportion of women on the Management Board and a deadline for reaching this target quota. The Management Board is obliged to determine target quotas for the proportion of women on the two executive levels below the Management Board, and deadlines for reaching such target quotas.

So as to achieve synchronization with the financial year of the Company, which follows the calendar year, the Supervisory Board set the end of December 31, 2021 as the deadline for attaining the target quota on the Supervisory Board, and the Management Board did the same for attaining the target quota for the two executive levels below the Management Board.

Female target quota for the Supervisory Board

At its meeting on March 6, 2017, the Supervisory Board of the Company decided to again set a target of 0 % for the proportion of women on the Supervisory Board for the period up to the close of December 31, 2021 following the initial setting of such target for the period up to December 31, 2016. In doing so, the main consideration was that, whilst staffing the Supervisory Board should consider gender-specific diversity, it was recognised to be in the Company's interests to be guided primarily by the knowledge, capabilities and experience of the candidates, both male and female. Setting a higher target quota would place a wholesale limit on the choice of suitable candidates from the outset. When setting this quota, the Supervisory Board considered that the term of office of all the male members of the Supervisory Board who were in office at that time and are currently in office was ending at the end of the 2017 Annual General Meeting and therefore that new members would need to be elected. Furthermore, it considered that no member of the Supervisory Board had advised that they would resign from office prior to the end of their term, and that there was no plan to enlarge the three-person body, which was working efficiently.

By the close of December 31, 2017, no changes were made in the composition of the Supervisory Board, meaning that the target of 0 % that had been set was then also achieved.

Female target quota for the Management Board

At its meeting on March 6, 2017, the Supervisory Board of the Company decided to again set a target of 0% for the proportion of women on the Management Board for the period up to the close of December 31, 2021 following the initial setting of such target for the period up to December 31, 2016. In doing so, the main consideration here, too, was that, whilst staffing the Management Board should consider gender-specific diversity, it was recognised to be in the Company's interests to be guided primarily by the knowledge, capabilities and experience of the candidates, both male and female. Setting a higher target quota would place a wholesale limit on the choice of suitable candidates from the outset. When setting the female quota target, the Supervisory Board took account of, on the one hand, its decision of September 16, 2016 to increase the size of the Management Board by adding one additional member and the appointment of Mr. Marcus Binder, with effect as of March 1, 2017 up to February 28, 2020, and on the other, of its decision of December 14, 2016 to extend the term of office of the Chairperson of the Management Board, Dr. Peter Podesser, originally due to run until March 31, 2017, along with his Management Board Service Agreement, for three further years and thus until March 2020. The Supervisory Board also took account of the fact that the other members of the Management Board, Mr. Hans Pol and Mr. Steffen Schneider were appointed until June 30, 2018 and August 31, 2017, respectively, and that a decision on their re-appointment had to be made in the course of this financial year. Currently, there are no plans to make any changes in personnel on the Management Board or to increase the size of the Management Board again.

By the close of December 31, 2017, no changes were made in the composition of the Management Board, meaning that the target of 0% that had been set was then also achieved.

Female target quotas for the two executive levels below the Management Board

With regards the targets for the proportion of women at the two executive levels below the Management Board, the Management Board started by again reviewing the definition of the two executive levels used to date and considered it to be appropriate for the criteria set in the resolution of September 10, 2015 on the initial determination of the target quotas to continue to be defined as follows: The Management Board determines the Company's executive levels based on the direct reporting lines to the Management Board and discipline sovereignty. All executives are members of the management team and have authority over other employees qua direction and guidance rights. Only persons employed by the company have been taken into consideration. On the basis of these criteria, the Company continues to only have one executive level below the Management Board; it comprises six persons, of whom two are female and four male.whom two are female and four male. The proportion of women at the first executive level below the Management Board therefore amounts to 33.33% currently. The proportion of women at the second executive level cannot be determined (because it is non-existent).

The diversity of the executive personnel is an integral component of the Company's corporate culture, and for the Management Board an important, however, non-binding aspect regarding the appointment of executive personnel. In order to grant the Company the greatest possible discretion regarding the appointment of executive personnel, the Management Board determined a target figure for the proportion of women for the executive level below the Management Board for the period up to the end of December 31, 2021 at 30% at its meeting on March 6, 2017.

By the close of December 31, 2017, the proportion of women at the first executive level was 33.33%, meaning that the target of 30% that had been set was achieved.

COMPENSATION REPORT

The compensation report summarizes the principles used to determine the compensation of the Management Board of SFC Energy AG, and explains the amounts and the structure of the compensation. The compensation report also describes the underlying principles and the amounts of compensation paid to the Supervisory Board.

System of Compensation for the Management Board

Pursuant to the German Stock Corporation Act, as amended by the Act on the Appropriateness of Management Board Compensation, the determination of the Management Board's compensation is a matter reserved for the full Supervisory Board. The compensation of the members of the Management Board consists of the following elements:

The members of the Management Board receive fixed annual compensation which is paid in twelve equal monthly installments.

In addition, the members of the Management Board receive variable compensation if pre-defined performance targets are met (performance-based bonus). In the 2017 financial year, the targets were for the Company to reach the amounts budgeted for Group sales (based on the budgeted exchange rate of the Canadian dollar to the euro), adjusted gross margin and adjusted EBITDA, and each target was tied to 1/4 of the bonus. Apart from that, the decision whether such compensation is paid is made at the discretion of the Supervisory Board.

Under a long-term incentive program (LTIP) of the Group, the members of the Management Board could – until the 2015 financial year – additionally receive bonus payments for the period of the term of their service agreements, under certain circumstances and if certain performance targets are met. Dr. Peter Podesser has been participating in the LTIP since 2009. The LTIP is based on a so-called phantom stock model and is divided into different performance periods of three years each: financial years 2009 to 2011, 2010 to 2012, 2011 to 2013, 2012 to 2014 and 2013 to 2015. The cash compensation awarded at the end of each of the three-year periods predominantly depends on the Company's share price and the attainment of a defined EVA (Economic Value Added) target for the respective period.

With the beginning of the 2014 financial year, the Supervisory Board of the Company has implemented a virtual stock option program (SAR-Program 2014 – 2016) that applies to any new Management Board member's employment contract to become effective from January 1, 2014 on and that provides for the issuance of virtual stock options to the members of the Management Board. Hans Pol received a tranche of the second SAR Program (SARP 2015 – 2018 or TR2) with the renewal of his service contract. Marcus Binder, who was appointed as a member of the Management Board by virtue of a resolution dated September 14, 2016 with effect of March 1, 2017 to February 28, 2020, received a tranche of the third SAR Program (SARP 2017 – 2020) as part of his service contract. This also applies to the contractual extension of the Chairman of the Management Board, Dr. Peter Podesser, whose service contract was extended ahead of time for an additional three years, up to March 2020. More detailed information about the SAR Program can be found under the heading "Share Option Programs" on page 77 of the Annual Report.

In addition, the members of the Management Board receive certain fringe benefits. For example, the Company provides the members of its Management Board with a company car. It pays the premiums for their accident, pension and life insurance up to a maximum of € 10,000.00 per year and has taken out directors' and officers' liability insurance on the Management Board members, which provides for a retention of 10 % of the damage or one and a half times the fixed annual compensation.

Management Board's Compensation in 2017

Compensation of the members of the Management Board totaled € 1,595,915.00 in the 2017 financial year. Compensation in the 2017 financial year included the fixed compensation, non-cash perquisites, variable profit and performance-based compensation, expenditure for the SAR Program and premiums for accident, pension, and life insurance. The above total includes all amounts that were laid out in 2017 or set aside as provisions in the consolidated financial statements for 2017, less the amounts that had been set aside as of December 31, 2016.

The individual disclosure of the compensation of each member of the Management Board is published according to sample tables provided in the German Corporate Governance Code. Chart 1 illustrates the benefits granted in the financial year 2017. Chart 2 shows the amount disbursed. Since no cap on the amount paid as variable compensation has been established (with regard to the LTIPs and the SARP), no maximum achievable compensation is disclosed. This is a deviation from the German Corporate Governance Code.

TABLE 1 – BENEFITS GRANTED TO MEMBERS OF THE MANAGEMENT BOARD 2017* in €

	Dr. Peter Podesser			Hans Pol			Steffen Schneider			Marcus Binder		
	CEO/Chairman			(Industry)			CFO			(Defense & Security)		
	since 11/01/2006			since 01/01/2014			09/01/2014 – 05/25/2017			since 03/01/2017		
Benefits	**2016**	**2017**	**2017** (Min)	**2016**	**2017**	**2017** (Min)	**2016**	**2017**	**2017** (Min)	**2016**	**2017**	**2017** (Min)
Fixed Income	350,000	350,000	350,000	180,000	180,000	180,000	180,000	87,862	87,862	0	150,000	150,000
Fringe Benefits	23,312	24,145	24,145	17,846	17,866	17,866	33,051	14,754	14,754	0	19,520	19,520
Total	**373,312**	**374,145**	**374,145**	**197,846**	**197,866**	**197,866**	**213,051**	**102,616**	**102,616**	**0**	**169,520**	**169,520**
One-year variable compensation	0	264,000	150,000	0	42,000	0	0	18,750	18,750	0	54,542	0
Multi-year variable compensation	0	259,263	0	0	0	0	0	0	0	0	113,213	0
SARP 2014 – 2016	0	0	0	0	0	0	0	0	0	0	0	0
SARP 2015 – 2018	0	0	0	0	0	0	0	0	0	0	0	0
SARP 2017 – 2020	0	259,263	0	0	0	0	0	0	0	0	113,213	0
Total	**373,312**	**897,408**	**524,145**	**197,846**	**239,866**	**197,866**	**213,051**	**121,366**	**121,366**	**0**	**337,275**	**169,520**
Service costs	0	0	0	0	0	0	0	0	0	0	0	0
Total	**373,312**	**897,408**	**524,145**	**197,846**	**239,866**	**197,866**	**213,051**	**121,366**	**121,366**	**0**	**337,275**	**169,520**

* Due to the absence of a cap for the variable compensation, no maximum compensation will be published.

TABLE 2 – ALLOCATION OF MANAGEMENT BOARD COMPENSATION 2017 (AMOUNTS DISBURSED) in €

	Dr. Peter Podesser		Hans Pol		Steffen Schneider		Marcus Binder	
	CEO/Chairman		(Industry)		CFO		(Defense & Security)	
	since 11/01/2006		since 01/01/2014		09/01/2014 – 05/25/2017		since 03/01/2017	
Allocation	2016	2017	2016	2017	2016	2017	2016	2017
Fixed Income	350,000	350,000	180,000	180,000	180,000	87,862	0	150,000
Fringe Benefits	23,312	24,145	17,846	17,866	33,051	14,754	0	19,520
Total	**373,312**	**374,145**	**197,846**	**197,866**	**213,051**	**102,616**	**0**	**169,520**
One-year variable compensation	0	150,000	0	0	0	31,250	0	0
Multi-year variable compensation	0	0	0	0	0	0	0	0
SARP 2014 – 2016	0	0	0	0	0	0	0	0
SARP 2015 – 2018	0	0	0	0	0	0	0	0
SARP 2017 – 2020	0	0	0	0	0	0	0	0
Total	**373,312**	**524,145**	**197,846**	**197,866**	**213,051**	**133,866**	**0**	**169,520**
Service costs	0	0	0	0	0	0	0	0
Total	**373,312**	**524,145**	**197,846**	**197,866**	**213,051**	**133,866**	**0**	**169,520**

A termination agreement was concluded with Steffen Schneider in connection with his resignation from the Management Board on the best of terms. On this basis, the payment of his fixed compensation was continued until the date of termination, June 30, 2017; in addition, he received a one-off amount of € 31,250.00 gross in settlement of all claims for variable compensation.

Share Option Programs

With the beginning of the 2014 financial year, the Supervisory Board of the Company has implemented a virtual stock option program (SAR Program 2014 – 2016) to align the interests of the shareholders with those of the members of the Management Board. The SAR-Program 2014 – 2016, which provides for the issuance of virtual stock options to the members of the Management Board, applies to any new Management Board member's employment contract to become effective from January 1, 2014, onwards and replaces the existing LTIP. Hans Pol received a tranche of the second SAR Program (SARP 2015 – 2018 or TR2) with the renewal of his service contract.

Marcus Binder, who was appointed as a member of the Management Board by virtue of a resolution dated September 14, 2016 with effect of March 1, 2017 to February 28, 2020, received a tranche ot the third SAR Program (SARP 2017 – 2020) as part of his service contract. This also applies to the contractual extension of the Chairman of the Management Board, Dr. Peter Podesser, whose service contract was extended ahead of time for an additional three years, up to March 2020.

After the end of a fixed waiting period, the virtual stock options confer the right to cash pay out depending on the stock exchange price of the shares of SFC Energy AG at the date the right is exercised. The total number of the virtual stock options to be issued to members of the Management Board is limited and will be reduced retrospectively if the stock exchange price of the shares of the Company at previous agreed cut-off dates falls below certain thresholds. The virtual stock option program has a term of seven years. However, only after a waiting period of four years has expired, a part of the virtual stock options may be exercised subject to the achievement of certain pre-agreed performance targets. The exercise price payable is € 1.00 per virtual stock option.

The terms of the SAR Program 2014 – 2016, 2015 – 2018 and 2017 – 2020 are as follows:

MAIN TERMS OF THE SAR PROGRAM 2014 – 2016, 2015 – 2018 AND 2017 – 2020	
Date of Issuance	January 1, 2014 (Hans Pol TR 1); April 1, 2014 (Dr. Peter Podesser TR 1); July 1, 2015 (Hans Pol TR 2); March 1, 2017 (Marcus Binder TR 1); April 1, 2017 (Dr. Peter Podesser TR 2)
Term	7 years
Waiting period	4 years (Hans Pol TR 1); 4 to 6 years (Dr. Peter Podesser TR 1 and TR 2); 4 to 6 years (Hans Pol TR 2); 4 to 6 years (Marcus Binder TR 1)
Cut-off dates	January 1, 2015 (Hans Pol TR 1); April 1, 2015, April 1, 2016 and April 1, 2017 (Dr. Peter Podesser TR 1); September 1, 2015, July 1, 2016, July 1, 2017 and July 1, 2018 (Hans Pol TR 2); April 1, 2018, April 1, 2019 and April 1, 2020 (Dr. Peter Podesser TR 2); March 1, 2018, March 1, 2019 and March 1, 2020 (Marcus Binder TR 1)
Exercise price	€ 1.00
Performance targets (stock market price targets) until 2016	Stock exchange price increase in respect of stock exchange price at day of issuance and better development than benchmark (ÖkoDAX)
Performance targets (stock market price targets) starting 2017	Stock exchange price increase in respect of stock exchange price at day of issuance

Compensation of the Supervisory Board

The members of the Supervisory Board receive fixed-only annual compensation to the amount of € 25,000.00 per member, with the Chairman of the Supervisory Board and his deputy respectively receiving twice and one and a half times this amount.

Moreover, the members of the Supervisory Board are entitled to reimbursement of the out-of-pocket expenses they incur in exercising their duties as Supervisory Board members, including any value-added tax attributable to those expenses, and inclusion in the directors' and officers' liability insurance policy the Company has taken out for its governing bodies.

The compensation (including non-cash perquisites) of the individual members of the Supervisory Board in the 2017 financial year breaks down as follows:

FINANCIAL YEAR 2017	in €
Tim van Delden, Chairman	50,000
David Morgan, Vice Chairman	37,500
Hubertus Krossa, Supervisory Board Member	25,000
Total	**112,500**

GROUP MANAGEMENT REPORT

The following Group Management Report has been prepared in the German language. It has been translated for this annual report into English. In the event of questions of interpretation, the German version shall be authoritative.

GROUP MANAGEMENT REPORT FOR FINANCIAL YEAR 2017

BASIS OF THE GROUP

The Group's Business Model

Organizational structure of the Group and locations

The Group consists of SFC Energy AG (SFC AG), Brunnthal; PBF Group B.V., Almelo, Netherlands and its subsidiary (PBF); and Simark Controls Ltd., Calgary, Canada, (Simark). SFC Energy Inc., Winter Park, USA (SFC Inc.) has been in liquidation since December 16, 2016.

The Management Board of SFC is responsible for running the Group. The Supervisory Board appoints, supervises and advises the Management Board and is directly involved in decisions that are of fundamental importance for SFC. Information on the compensation structures of the Management Board and Supervisory Board is contained in the Compensation Report.

The legal basis for management and supervision of the Company is the German Stock Corporation Act (Aktiengesetz) and capital market law, as well as the German Corporate Governance Code.

The Company's German location is in Brunnthal. PBF is headquartered in Almelo, Netherlands, and Cluj, Romania. Simark is headquartered in Calgary, Canada, and has additional offices in Edmonton, Vancouver and Laval.

Segments, sales markets, products and services

In financial year 2017, the Management Board managed the Group based on the Oil & Gas, Security & Industry and Consumer segments. These segments represent the Group's most important sales markets. As of financial year 2018, the Management Board plans to adjust segment reporting and align it to the markets Clean Energy & Mobility, Defense & Security, Oil & Gas, and Industry. Until this project is completed, the group's management reporting will continue to be based on the previous segmentation.

The corporate purpose of SFC AG is the development, production and distribution of power generation systems and their components for off-grid and on-grid applications based on fuel cells and other technologies, as well as investment in the equipment and facilities required for these activities and transaction of all other related business. The product portfolio also includes accessories and spare parts, particularly fuel cartridges; solutions for combining fuel cell products with other power sources, power storage units and electrical devices; and mechanical, electronic and electrical instruments to monitor and control production and logistics processes. SFC is the first company in the world with mass-produced commercial products in the area of direct methanol fuel cells (DMFC) for multiple target markets.

In the Security & Industry segment, SFC AG generates sales in the Industry and Defense & Security markets. It could include any area of industry where professional users run electrical equipment away from the grid and use SFC AG's EFOY Pro fuel cell. The Defense & Security market includes defense and security applications for military organizations and government authorities. The product portfolio for this market also includes the portable JENNY, the vehicle-based EMILY, the SFC Power Manager and network solutions. In addition to these products, a further portion of sales and other service revenues are generated by joint development agreements (JDAs) with military customers from Europe, Asia and the United States. In the Consumer segment, SFC sells compact fuel cell generators under the EFOY COMFORT brand to generate electricity for mobilehomes, sailboats and cabins through established commercial channels (wholesalers, retailers and OEMs).

PBF develops and manufactures reliable high-tech power supply systems. This technology-oriented company works closely with its customers, based on a standardized platform, to develop product solutions such as switched mode network components, external transformer units, system power cabinets and special coils. Its product designs range from relatively simple open frames to extremely complex, efficient power cabinets produced in small to medium-sized series volumes of just a few to tens of thousands of units per year. PBF's products are used in the fields of analytical systems, research and science, lasers, defense and security, industry and semiconductors. Most of its products are sold through distribution partners, but some are sold directly to customers. PBF generated its sales exclusively in the Security & Industry segment.

Simark specializes in distribution, service and product integration for high-tech power supply, instrumentation and automation products used in the Canadian oil and gas industry. It has a highly qualified, experienced, diverse distribution and service organization. Simark's product portfolio includes instrumentation and metering systems, power supply components for different applications in the oil & gas industry, as well as to a lesser extent the mining, forestry and municipal utilities markets. Simark distributes its products directly. Simark's revenues are exclusively attributable to the Oil & Gas segment.

Objectives and strategies

Over the last few years, SFC has systematically expanded its business model to include a comprehensive range of off-grid energy solutions. It will increasingly focus on providing comprehensive product solutions. Fuel cells will remain the core technology and the core components of complete solutions.

Steering system

For internal steering purposes, the Management Board uses consolidated sales, gross margin, the underlying operating result before depreciation and amortization (EBITDA), the underlying operating result (EBIT), and cash on hand.

Within the framework of the existing comprehensive risk management system, numerous non-financial performance indicators such as quality parameters are used in addition to detailed financial reporting and controlling.

As in financial year 2016, the Group again focused its portfolio primarily on integrated complete solutions. The Group continued its efforts to systematically build up international markets and expand its market penetration.

Research and development

The Group continues to make considerable investments in research and development. A total of € 5,282k was spent on R&D in financial year 2017 (prior year: € 5,726k), including costs related to joint development projects.

		in k €
	2017	2016
Expenses according P&L before Depreciation of purchase price allocation for PBF	**3,704**	**3,943**
Expenses for Joint Development Agreements	377	407
Capitalized Development Costs	767	435
Assistance from Government Funding	247	736
Amortization of intangible assets recognized in purchase price allocation for PBF	188	205
Expenses from R&D	**5,282**	**5,726**

We capitalized € 767k in development work in 2017, versus € 435k the year before. The reason for the increase over the prior year was the capitalized development costs for the laser platform at PBF and EFOY 3.0 at SFC. Amortization of capitalized development costs is reported as production costs of work performed to generate sales. Impairment charges on capitalized development costs at PBF in the amount of € 6k (prior year: SFC AG € 121k) were included in the financial year. The amortization of intangible assets recognized in the purchase price allocation for PBF came to € 188k (prior year: € 205k). The share of capitalized development costs in total research and development costs (capitalization rate), not including the write-downs on the purchase price allocation for PBF was therefore 15.1 % (prior year: 7.9 %).

Fifty-three employees (17 at SFC, 34 at PBF and 2 at Simark), around one-fifth of the people employed by the Group, primarily worked on developing direct methanol fuel cell technology or converters and power supplies and incorporating them into the Group's products as of the reporting date. The SFC Group pursues an active patent strategy to expand the barriers to entry in its markets and to safeguard its own competitive edge and marketing options. SFC AG currently holds a portfolio of 19 granted patents (prior year: 19).

The focus of SFC AG's research and development activities was as follows in financial year 2017:

- Development of product generation EFOY 3.0.
- Development and programming of a service tool for fuel cell systems.
- The Company continued to make quality improvements to its series products.
- Ongoing improvement, further development and portfolio expansion of energy solutions for industrial use.
- Further research to increase the performance and reduce the cost of coming EFOY generations was carried out.

The areas of emphasis of PBF's research and development activities were as follows:

- The first prototypes of the 3.5 kW laser power supply (LAPS3500), a part of the laser platform, were tested at a new customer's location. Tests increasing performance to 3.8 kW were also continued.

- The development of an energy supply for the aviation industry began in February 2016. After the prototypes were designed, built and tested, they were then improved. Customer tests were conducted in Q2 2017. The new prototype went into production in Q3 2017; deliveries were also made in Q3 2017.

- Development project with the goal of expanding the power output of existing products. Initial prototypes were delivered to customers in late Q3 2016 for testing in Q4. The project was continued in 2017 with a second prototype. Mass production of the project began in 2017.

- The development of a 2.5 kW power supply for the laser market began in late Q3 2016. Initial prototypes were delivered in Q1 2017, and the second prototype was tested in the second half of 2017. Mass production is planned for 2018.

- An order to manufacture a prototype for a complete laser system (LASY) was received in late Q3 2016. Laser diodes can be operated directly with this system. This system is based on LAPS3500. Additional demands on the specification were implemented with the new design by the end of Q2 2017. The initial systems were partially delivered in 2017.

We plan to keep R&D expenditures high in order to build on the Group's strong position in technology and marketing. Our R&D activities received significant assistance from government funding during the reporting period and are likely to continue to receive such funding in the future, for example through the National Organization for Hydrogen and Fuel Cell Technology (NOW). Subsidies received in financial year 2017, including subsidies from the government, amounted to € 259k (prior year: € 933k).

ECONOMIC REPORT

Macroeconomic and sector-based background conditions

Global economy continues to expand

According to the ifo Institute's assessment in its economic forecast for 2017 – 2019 [1], the upturn in the global economy observed since 2010 continued in 2017 after the weak phase in 2015 and 2016. In the summer half of 2017 in particular, the pace of expansion increased markedly, with real world gross domestic product rising by 0.9 % in the second and third quarters of 2017 compared with the previous quarter. The increase has meanwhile spread to most economies. According to the ifo experts, industrial production is the main driver, both in the advanced and emerging economies. In parallel with the recovery in industrial production and world trade, global investment activity also picked up. The experts also see further reasons for this economic momentum in the weakening of risks during the course of the year. For example, the feared slump in growth in China and the implementation of the far-reaching economic policy measures announced by the USA via social media have so far largely failed to materialize, while domestic demand remained robust. Similarly, the Brexit vote has slowed economic growth, but has not yet had any impact on important British trading partners. In addition, the Eurocritical parties won fewer votes than feared in the European parliamentary elections. The Institute's experts therefore expect the global economy to expand at an above-average rate in the winter months of 2017/18, although momentum is likely to slow down somewhat. With the exception of the United Kingdom, experts from all advanced economies continue to assess their respective positions in the ifo world economic climate as fundamentally positive. All in all, the world's gross domestic product is expected to have grown by 3.3 % in 2017, significantly faster than in 2016. ifo Institute expects similarly high growth rates of 3.3 % in 2018 and 2.0 % in 2019 over the next two years, making the current upswing the longest in the post-war period.

Strong upswing in the German economy

According to the Federal Ministry of Economics and Energy (BMWi) [2], the German economy is experiencing a strong upturn. In 2017, the German gross domestic product (GDP) grew by 2.2 % after adjustment for inflation, despite a lower number of working days than in the previous year. Once again, the driving force behind the economy was consumption, which rose by 2.0 %, as well as foreign trade impulses. Strong exports stimulated investment in equipment, while construction investments also remained buoyant in a favorable financing environment. Production and incoming orders in industry continued to rise. Experts see this, together with the excellent sentiment in industry, as a sign that industrial production is likely to continue to grow more strongly.

For 2017, the ifo Institute anticipates a 2.2 % increase in gross domestic product (calendar-adjusted 2.5 %) and expects the upswing in Germany to continue, driven by domestic demand and exports. The Institute has raised its forecast for 2018 and now expects real gross domestic product to rise by 2.6 %. GDP is expected to expand at a slightly slower rate of 2.1 % in 2019.

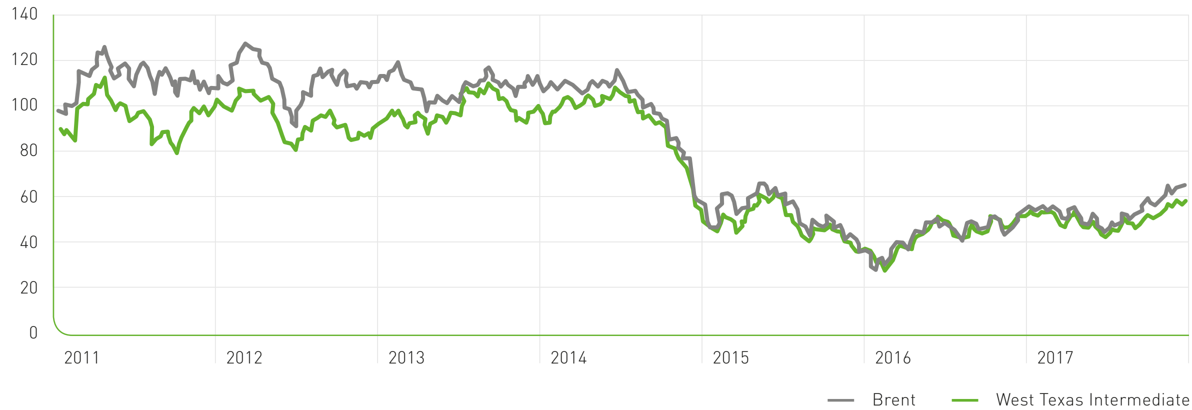
1 ifo Konjunkturprognose 2017 – 2019, "Deutsche Wirtschaft auf dem Weg in die Hochkonjunktur", December 14, 2017
2 BMWi Bundesministerium für Wirtschaft und Energie, press release, "Die wirtschaftliche Lage in Deutschland im Januar 2018", January 12, 2018

Oil & Gas market

To evaluate the economic trends in the markets (instrumentation and metering systems, power supply components and drives, and security and surveillance technology), we draw on data on the international oil and gas markets.

Canada is one of the ten largest gas and crude oil producers in the world and is the United States' largest supplier of oil and natural gas. Canadian energy production has almost doubled since 1980. According to the Canadian Association of Petroleum Producers CAPP[3] Canada has the world's third-largest crude oil reserves and is the fifth-largest natural gas producer in the world. Also according to the CAPP, the country is the technology leader in the field of oil sands production. The Canadian oil and gas industry is the largest private sector investor in the country, with total investments of CAD 44 billion in 2017[4].

WEEKLY BRENT AND WEST TEXAS INTERMEDIATE CRUDE OIL SPOT PRICES 2011 – 2017 **Dollars/barrel**



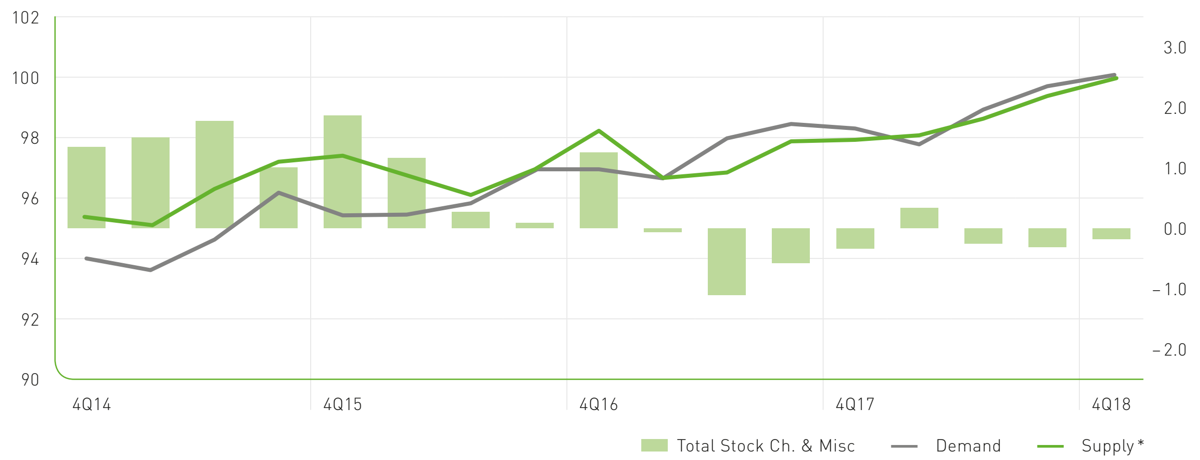
Source: eia[5] – Brent and WTI Prices from 2011 to 2017

Crude oil prices ended 2017 at USD 60/barrel (b), the highest end-of-year price since 2015. West Texas Intermediate (WTI) crude oil prices averaged USD 51/b in 2017, up USD 7/b from the 2016 average. Brent prices had moved up to USD 65/b at the end of 2017, and were thus USD 10/b higher than at the end of 2016, widening the Brent-WTI spread to USD 5/b, the largest difference since 2013. Lower domestic crude oil prices made U.S. crude oil more competitive in international markets and supported record U.S. crude oil exports. Domestic demand was also higher, reaching the highest level since 2007.

3 Canadian Association of Petroleum Producers CAPP, Publikation: "Canada's Oil and Natural Gas Industry Energy tomorrow", November 2017
4 Canadian Association of Petroleum Producers CAPP, Context Magazine, July 5, 2017
5 eia – Today in Energy: "Crude oil prices increased in 2017, and Brent-WTI spread widened", January 3, 2018

At the beginning of January 2018, as a result of falling share prices, supply bottlenecks in the North Sea and Libya, and geopolitical tensions, prices of the reference oil grades Brent and WTI (West Texas Intermediate) rose to a new three-year high. In January 2018, the International Energy Agency[6] IEA expected demand to remain virtually unchanged at 97.8 million barrels per day (b/d) for 2017 and 99.1 million b/d for 2018. Growth is expected to be 1.6 million b/d in 2017 and 1.3 million b/d in 2018. The decline in 2018 is mainly due to the impact of higher oil prices, changing consumer behavior in China, the recent weakness of OECD demand and the switch to natural gas in several non-OECD countries.

DEMAND/SUPPLY BALANCE UNTIL 4Q18 **Mb/d**



Source: IEA[7] – Supply/Demand Forecast

* For scenario purposes, OPEC/non-OPEC cuts remain constant

At the time this report was prepared, experts foresaw a significant shortage in the market, which they believe should have an impact on rising crude oil prices as the year progresses.

In its November publication on the Canadian oil and gas industry, the Canadian Association of Petroleum Producers (CAPP) predicts that energy consumption will continue to increase worldwide. By 2040, demand is expected to rise by approximately 11 million b/d, 10 million b/d of which represents demand in China and India alone. For Canadian production, in its most recent economic outlook published in June 2017, the Association[8] predicted an increase in total Canadian oil production to 5.1 million barrels per day (b/d) by 2030, mainly driven by the increase in oil sands production from 2.4 million b/d in 2015 to up to 3.7 million b/d by 2030, after 3.9 million b/d in 2016. Conventional oil production is expected to remain flat, producing 0.9 million b/d on average throughout the outlook.

6 International Energy Agency, "Oil Market Report June", January 19, 2018
7 See 6
8 Canadian Association of Petroleum Producers CAPP, "Crude Oil Forecast, Markets and Transportation", June 13, 2017

Security and industry market

a) Fuel Cells

According to the strategic consulting firm E4tech in its "The Fuel Cell Industry Review 2017" [9], the international fuel cell industry continues to grow. According to the experts' calculations, 30 % more fuel cells were sold in 2017 than in the previous year. This corresponds to an overall increase of almost 10,000 fuel cells. The increase is most pronounced in the automotive industry, as numerous car manufacturers are investing more heavily in electromobility. Stationary fuel cells remained at the previous year's level, mainly due to economic problems at numerous manufacturers. According to the experts, this remains the greatest challenge for the industry.

Overall, the share of fuel cells in the energy mix worldwide rose by 30 % to 670 MW in 2017. The strongest impetus came from Asia, which is responsible for almost 80 % of this increase. In North America, large stationary power supply systems grew in particular. Several fuel cell bus projects were launched in Europe. For the first time in their report, the experts comment on the diverse applications of fuel cells in defense applications. In their view, this market will become more important in the future. The experts see good growth opportunities for small fuel cell systems such as the ones distributed by SFC Energy for portable and mobile personal and security applications. For 2018, the strategy consulting firm sees good strategic and financial conditions for the further development of the market, provided that the funding conditions remain good.

b) Power electronics and switched mode network components

The submarket "Electronic Components & Systems", which is one of the markets recognized by the German Electrical and Electronic Manufacturers' Association (ZVEI), is used to evaluate the performance of the markets in which PBF does business (power electronics and switched mode network components).

In its updated outlook the Association [10] reported a volume of € 4.128 billion for the global electronics market in 2016 and expects that market to grow by 4 % in each of 2017 and 2018. For the "electronic components" submarket, the Association it expects 6 % growth in 2017 and 4 % growth in 2018.

According to the Association [11] real production (with price effects eliminated) in the electronics industry in Germany increased from January to November 2017 by 4.6 % over the previous year, with revenues increasing by 7.4 % to € 174.1 billion in the same period. In the period from January to November 2017 orders from inside and outside of German increased significantly, by 10.1 % over the previous year. Despite positive economic expectations, the Association stands by its current forecast of an increase of 1.5 % in real production growth and an increase in nominal income to € 182 billion (after € 178.5 billion in 2016). The reason for their reservation is a number of risks, including primarily economic policy in the United States, Brexit, the tensions with Turkey and the fragile situation in Italy.

In the "electronic components" submarket (in-house manufacturers and electronic manufacturing services providers) the ZVEI reported in September 2017 [12] that sales rose by € 0.5 billion or 1.3 % in 2016. The submarket "electromechanical components" grew by as much as 3.4 % to € 61.5 billion in the same period. In Germany, the experts recorded a decline of 3.4 % for "electronic components", which fell to € 18.6 billion in 2016, while the submarket "electromechanical components" rose by 2.6 % to € 3.4 billion. According to the Association, the industry, which is mainly dominated by small and medium-sized enterprises, is increasingly successful in an increasingly globalized market.

9 E4tech, "The Fuel Cell Industry Review 2017", December 2017
10 ZVEI-Welt-Elektromarkt – Ausblick bis 2018, June 29, 2017
11 ZVEI, ZVEI-Konjunkturbarometer, January 9, 2018
12 ZVEI, Bericht Mitgliederversammlung 2017, September 2017

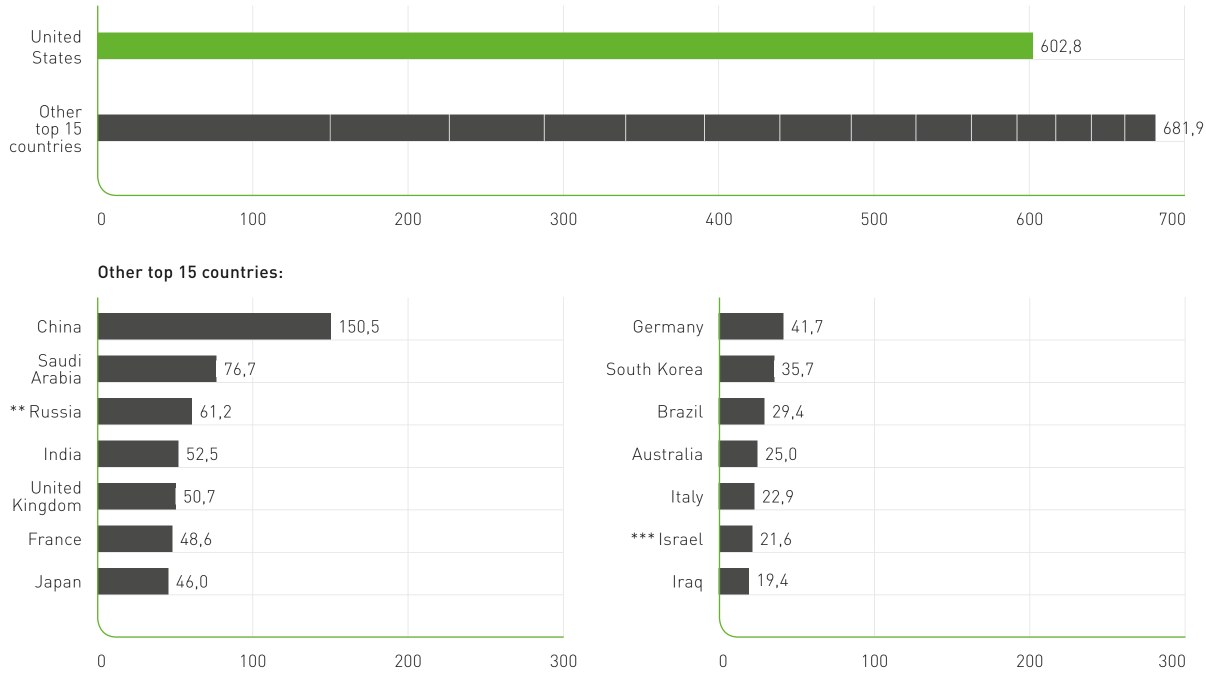
c) Defense & Security

In their latest study, "The Military Balance 2018" [13], the experts at the International Institute for Strategic Studies (IISS) continue to view the global defense situation as characterized by increased uncertainty in relations between countries and the increasing spread of increasingly advanced military capabilities. In 2017, the threat posed by transnational terrorist acts remained high. Persistent conflicts and insecurity in parts of Africa meant that the continent still demanded the deployment of significant combat forces by African and external powers. In the Middle East, the war against ISIS, the civil war in Syria, the destructive conflict in Yemen and Iran's destabilizing activities dominated the regional security environment. In Europe, low-level conflict persisted in eastern Ukraine, with Russia reinforcing its military posture across the border and its military capabilities preoccupying European NATO states. In Asia, North Korea tested its first intercontinental ballistic missile. There was also an increasingly concern over China's military programs and activities: in 2017 Beijing introduced yet more advanced military systems, and deployed elements of its armed forces further afield.

According to the Institute, global defense spending in 2017 was stagnant at the prior year level – although with strong regional differences. Defense spending remained the highest in the United States, at USD 602.9 billion. NATO defense spending increased by 3.6 % in 2017, with the defense budget in Europe growing even stronger, as spending increased by 4.8 % in Europe as a whole. The growth in defense spending in Asia slowed in 2017, to a rate of 2.2 %, although China again increased its defense budget by an additional 6 % in 2017 and is now in second place after the United States on the list of the countries that spend the most on defense. Defense spending declined in Russia and Saudi Arabia.

13 IISS: "The Military Balance 2018", February 14, 2018

TOP 15 DEFENCE BUDGETS 2017 * in US$bn



* At current prices and exchange rates   ** Under NATO defence spending definition   *** Includes US Foreign Military Assistance

NOTE: US dollar totals are calculated using average market exchange rates for 2017, derived using IMF data. The relative position of countries will vary not only as a result of actual adjustments in defence-spending levels, but also due to exchange-rate fluctuations between domestic currencies and the US dollar. The use of average exchange rates reduces these fluctuations, but the effects of such movements can be significant in a number of cases.

Source: : IISS [14] – Top 15 Defense Budgets 2017 worldwide

In its report the organization gives an urgent warning that Western countries are losing technology leadership. Countries such as China and Russia are developing increasingly fast, precise and technologically sophisticated defense systems. Moreover, important technologies are increasingly accessible to other countries at relatively low cost. According to the experts, artificial intelligence, modern sensor systems and machine learning are only a few of the cybertools that will be critical for military, economic and political powers to make quick, sound decisions in the future. The Institute sees the primary challenge for Western countries as the creation of effective responses to subliminal threats. In this context, the focus is on anticipating and identifying possible attacks. This is not only limited to greater physical protection and better weapons, but also includes new approaches to cooperative cooperation. Overall, technology will play an increasingly important role in the defense industry in the coming years.

14 See 13

Consumer

a) Caravaning

According to the association Caravaning Industrie Verband e. V. (CIVD)[15], 2017 was another record year for the German caravaning industry. In 2017, the European market for motorhomes and caravans posted the largest increase in registrations in its history, with an extraordinarily strong performance. New registrations of recreational vehicles rose by a strong 12.1 % to 190,565 newly registered motorhomes and caravans.

According to the association, Germany was once again the growth engine for Europe. With a record result of 63,264 newly registered motorhomes and caravans, registrations were up 15.3 % in Germany. The two markets in second and third place also recorded strong growth: The United Kingdom grew by 9.1 % to 38,958 and France by 7.6 % to 29,528 new vehicles registered.

New motorhome registrations rose by 14.9 % to 110,817 new vehicles in 2017, surpassing the 100,000 mark for the first time. Of this total, 40,568 new motorhomes were registered in Germany, an increase of 15.5 %.

b) Marine market

During the "boat 2018" trade fair, the German Marine Industry Association (BVWW)[16] reported that 2017 had been a successful year. All in all, the industry achieved record sales of more than € 2 billion in maritime goods and services. Internationally, the association notes a clear upward trend. Confidence in positive economic growth is also boosting the maritime industry. According to the Association, the strongest growth was recorded in the Service & Maintenance sector in 2017. The Equipment and Accessories submarket, which is relevant for SFC Energy's fuel cell products, was able to just about maintain its favorable prior-year result, with the exception of the water sports apparel sector, which declined significantly. According to industry experts, the "Equipment & Accessories" sector in particular benefits from the comparatively high average age of boat owners at 61. They spend more time on their yachts and want a high standard of comfort and safety on board. High-quality accessories such as heating, cooling, cooking technology and multimedia equipment are at the top of the wish list. In addition, existing yachts are being used for increasingly longer periods of time, which requires regular investments to maintain their value.

15 CIVD, press information, "Ausgezeichnetes Jahr für die europäische Caravaning-Industrie", January 15, 2018
16 Bundesverband Wassersportwirtschaft (BVWW), press release, "Umsatzsteigerung in fast allen Marktsegmenten", January 11, 2018

EARNINGS AND FINANCIAL POSITION

Earnings position

The SFC Group (the "Group") posted sales of € 54,292k in financial year 2017, for an increase of 23.3 % from the prior-year period's € 44,041k.

SFC AG had sales of € 14,603k, and was thus 22.2 % above the prior year's level (€ 11,947k). This was particularly attributable to a significant increase in sales in the civilian industry market due to a strong demand for a secure power supply, as well as an increase in the defense submarket. Both sectors grew by more than 30 % in comparison to the prior year, while the Consumer segment fell by 5.4 %.

PBF had sales of € 15,230k, thus posting a clear 19.0 % increase over last year's level (€ 12,798k). The primary reason for this increase was the healthy order book at customers of PBF and the introduction of new products at the platform level.

At € 24,458k, Simark's sales were up by 26.8 % over 2016 (€ 19,296k), making Simark the subsidiary with the strongest revenue growth. The key reasons for this were increased spending in the Oil & Gas industry due to the recovery of crude oil prices.

In a comparison of the two financial years, EBIT for the Group improved from minus € 4,898k to minus € 885k.

The following non-recurring effects are not reflected in the underlying earnings in 2017:

- Subsequent measurement of the Simark acquisition: amortization resulting from the purchase price allocation of € 470k (prior year: € 936k).
- Other expense and income in 2017: expense in the amount of € 492k from the recognition of provisions due to the SAR Plan (prior year: income of € 217k) and € 100k in severance pay expenses (prior year: € 66k).

The reconciliation to underlying EBIT and the distribution of the non-recurring effects among items on the income statement were as follows:

		in k€
	2017	2016
EBIT (earnings before interest and taxes)	**– 885**	**– 4,898**
Reported as production costs of work performed to generate sales		
Expenses from contract terminations PBF	0	12
Expenses from contract terminations Simark	0	12
Reported as sales costs		
Impairment of intangible assets identified in acquisitions Simark	470	936
Expenses for acquisition-related personel costs Simark	0	0
Expenses from contract terminations Simark	0	8
Expenses for personel, bonus Simark	0	34
Expenses for the management board SAR Plan	319	– 114
Impairment of goodwill PBF	0	0
Expenses from contract terminations Simark	0	0
Reported as general administrations costs		
Expenses for acquisition-related personel costs Simark	0	0
Expenses for the management board SAR Plan	173	– 103
Expenses from contract terminations Simark	100	0
Underlying operating result (EBIT)	**177**	**– 4,112**
EBITDA	**862**	**– 2,508**
Reported as production costs of work performed to generate sales		
Expenses from contract terminations PBF	0	12
Expenses from contract terminations Simark	0	12
Reported as sales costs		
Impairment of intangible assets identified in acquisitions Simark	0	0
Expenses for acquisition-related personel costs Simark	0	0
Expenses from contract terminations Simark	0	8
Expenses for personel, bonus Simark	0	34
Expenses for the management board SAR Plan	318	– 114
Impairment of goodwill PBF	0	0
Expenses from contract terminations Simark	0	0
Reported as general administrations costs		
Expenses for acquisition-related personel costs Simark	0	0
Expenses for the management board SAR Plan	173	– 103
Expenses from contract terminations Simark	100	0
Underlying EBITDA	**1,454**	**– 2,658**

Underlying EBITDA improved by around € 4.1 million. An underlying EBITDA of plus € 1,454k was achieved in financial year 2017. In the same period in 2016, underlying EBITDA amounted to minus € 2,658k.

The Group's sales and earnings figures were thus clearly within expectations and the forecast, which had assumed sales of € 50 million to € 55 million and significantly improved underlying EBITDA and an again significantly improved underlying EBIT.

Sales by segment

The following table shows a comparison of segment sales for the 2017 financial year:

SALES BY SEGMENT			in k€	in %
Segment	**2017**	**2016**	**Change**	**Change**
Oil & Gas	24,458	19,296	5,163	26.8 %
Security & Industry	26,383	21,096	5,287	25.1 %
Consumer	3,451	3,649	– 199	– 5.4 %
Total	**54,292**	**44,041**	**10,251**	**23.3 %**

Sales increased in the Oil & Gas segment from € 19,296k to € 24,458k due to the increased spending in the Oil & Gas industry due to the recovery of oil prices. This segment contains exclusively the sales of Simark. Sales were generated with the distribution and integration of power supply, instrumentation and automation products for the Oil & Gas market in North America.

Sales in the market for Security & Industry increased from € 21,096k to € 26,383k. PBF's sales were exclusively in this segment and are included in this sales figure with € 15,230k (prior year: € 12,798k). SFC AG's sales increased from € 8,298k by 34.4 % to € 11,153k, with the number of EFOY fuel cells sold in this segment in 2017 increasing in the Industry sector from 871 to 1,181.

This trend at SFC AG was attributable both to the civilian industry market, which was up by € 1,517k over the prior year, and to the Defense & Security market, in which SFC AG's sales increased by 38.4 %, from € 3,489k in 2016 to € 4,826k in 2017. This was particularly attributable to large projects with a national defense organization and large projects in India.

Sales in the Consumer segment at € 3,451k in 2017 were slightly under the prior year's level (€ 3,649k), with the number of fuel cells sold falling slightly from 1,191 to 1,062.

Sales by region

Sales by region evolved as follows:

SALES BY REGION			in k€	in %
Region	2017	2016	Change	Change
North America	24,755	19,679	5,076	25.8 %
Europe (excluding Germany)	17,262	13,305	3,957	29.7 %
Germany	6,539	6,142	397	6.5 %
Asia	5,303	3,099	2,204	71.1 %
Rest of the world	434	1,816	– 1,382	– 76.1 %
Total	**54,292**	**44,041**	**10,251**	**23.3 %**

The increase in sales in North America, the company's highest-revenue market, resulted from increased spending in the oil & gas business in Canada in financial year 2017.

In the European market (not including Germany) PBF generated sales of € 11,744k (prior year: € 8,333k), while SFC AG posted sales of € 5,517k (prior year: € 4,972k).

In Germany, SFC AG's sales increased from € 3,147k to € 4,232k in financial year 2017. PBF contributed sales of € 2,307k in Germany (prior year: € 2,995k).

Germany's share of sales declined from 14.0 % to 12.0 % during financial year 2017 due to the continued international expansion of the company's business.

PBF's sales in Asia amounted to € 1,024k (prior year: € 1,295k). SFC AG experienced solid growth in Asia, with sales rising to € 4,279k (prior year: € 1,804k).

Sales in the rest of the world amounted to € 434k (prior year: € 1,816k). In the prior year there were orders from foreign military forces.

Gross profit

Gross profit in financial year 2017 was € 17,726k, or 32.6 % of sales. This is an improvement over the prior year of 2.5 percentage points. In the prior year, gross profit amounted to € 13,247k or 30.1 % of sales. Gross margin improved in all segments, and this was primarily attributable to the improvement in the high-margin segments Security and Industry with the Defense & Security market. Gross margin improved by 4.0 percentage points, from 36.9 % to 40.9 %.

The margin in the Oil & Gas segment is 23.8 % (prior year: 22.8 %) because of the different business model at Simark, while SFC AG generated a margin of 39.1 % (prior year: 29.1 %) in the Consumer segment.

The year-on-year change in the individual segments' gross margin was as follows:

GROSS PROFIT			in k€	in %
Segment	2017	2016	Change	Change
Oil & Gas	5,829	4,406	1,423	32.3 %
Security & Industry	10,797	7,779	3,018	38.8 %
Consumer	1,100	1,062	38	3.6 %
Total	**17,726**	**13,247**	**4,479**	**33.8 %**

The margin contribution in the Oil & Gas segment improved by € 1,423k, due to higher sales.

The Security & Industry segment's gross profit was € 10,797k because of strong sales growth, and was thus above the prior year's € 7,779k.

Gross profit grew in the Consumer segment by 3.6 % over the prior year.

Sales costs

Sales costs increased by 7.2 %, from € 9,126k to € 9,786k. However, the increase was far behind the 23.3 % increase in sales. Groupwide, the cost of sales as a percentage of sales dropped from 20.7 % to 18.0 %.

Cost of sales increased at the subsidiary SFC AG to € 4,647k as a result of the expense for the Stock Appreciation Rights (SAR) plan, compared with last year's € 3,548k.

Sales costs at Simark amounted to € 3,959k, including the effects from the purchase price allocation (prior year: € 4,275k). The effects of the purchase price allocation will no longer apply after 2017.

Sales costs at PBF increased slightly to € 1,180k (prior year: € 1,001k).

Research and development costs

Research and development costs decreased by € 256k in financial year 2017 from € 4,148k to € 3,892k.

SFC AG incurred higher research and development costs of € 1,312k (prior year: € 1,058k) because of lower subsidies in 2017.

Research and development costs at PBF amounted to € 2,371k and were thus less than in the prior year (€ 2,902k). This was due to capitalizable expenses for the development of the laser platform.

Simark had research and development costs of € 209k (prior year: € 188k).

General administration costs

General administration costs increased by 2.7 % in 2017, from € 4,883k to € 5,016k. They were therefore 9.2 % of sales in 2017, versus 11.1 % the year before. The reasons for the percentage decrease in general administration costs were the lower consulting expenses at SFC AG and the income from the reversal of provisions.

Other operating income

The figure for other operating income of € 277k (prior year: € 96k) contains insurance proceeds (€ 140k), government subsidies (€ 60k) and foreign exchange transaction gains (€ 77k). In the prior year the figure only included € 58k in foreign exchange gains.

Other operating expenses

Other operating expenses amounted to € 194k in 2017, resulting from expenses from exchange rate differences (prior year: € 38k).

Earnings before interest, taxes, depreciation and amortization (EBITDA)

EBITDA improved significantly from the prior year, from minus € 2,508k to plus € 862k. EBITDA in relation to sales increased from minus 5.7 % to plus 1.6 %. Adjusted to eliminate the one-off effects mentioned above, EBITDA amounted to plus € 1,454k (prior year: minus € 2,658k) or plus 2.7 % (prior year: minus 6.0 %) in relation to sales.

Operating result (EBIT)

EBIT for the Group improved from minus € 4,898k to minus € 885k in 2017. EBIT in relation to sales improved from minus 11.1 % to minus 1.6 %. Adjusted to eliminate the one-off effects mentioned above, EBIT was positive, amounting to € 177k (prior year: minus € 4,112k) or 0.3 % (prior year: minus 9.3 %) in relation to sales.

Interest and similar income

Interest and similar income amounted to € 0k, as in the prior year, due to the low interest rates.

Interest and similar expenses

Interest and similar expenses in the amount of € 1,175k (prior year: € 687k) include interest paid to lending institutions and investors, and expenses from the interest cost added back on discounted provisions and liabilities.

INTEREST AND SIMILAR EXPENSES		in k €
	2017	2016
Convertible Bond	332	293
Financing costs Harbert	284	0
Banks	241	276
Financing Private Investor (secured loan)	278	58
Interest costs on provisions and others	40	60
Total	**1,175**	**687**

Net investment income

The net investment income in the amount of € 25k (prior year: € 211k) results from the liquidation and deconsolidation of SFC Energy Inc.

Result for the year

The consolidated result for financial year 2017 improved to minus € 2,072k, from minus € 4,993k in the prior year. This includes the one-off effects described above in the total amount of € 1,061k (prior year: € 786k).

Earnings per share

Undiluted and (diluted) earnings per share pursuant to IFRS improved from minus € 0.58 (minus € 0.58) to minus € 0.23 (minus € 0.23) because of the improved result for the year.

New orders and order backlog

While new orders in the amount of € 49,147k were received in financial year 2016, new orders of € 56,068k were received in 2017.

Accordingly, the order backlog in the Group improved to € 18,628k (prior year: € 16,852k) at December 31, 2017. Of this amount € 4,425k (prior year: € 2,359k) was attributable to SFC AG, € 9,966k (prior year: € 11,355k) to PBF, and € 4,237k (prior year: € 3,138k) to Simark.

Financial position

SFC's financial management includes the areas of liquidity management, management of foreign exchange and commodities risks, and credit and default risks.

Capital structure

SFC's strategic orientation, and especially its chosen strategy, will require further investments that will have to be financed to ensure future business success – particularly in product development, the tapping of further market segments and new regions, and expanding the business in existing market segments. The funds that flowed to the company in connection with the public offering in May 2007, the cash capital increase in November 2014, the convertible bonds in 2015 and 2016, the capital increases in 2016 and 2017, the issue of a secured loan and the warrant-linked bond in 2016, and the bearer bond with warrant issue were acquired for these investments. Until used, excess liquidity is invested with various banks in low-risk securities (e. g., call and time deposits).

SFC's articles of association do not define any capital requirements.

The Group's capital management focuses on cash and cash equivalents, equity, and liabilities to banks and investors.

Corporate Action and Private Investor Financing

On June 28,2017, the private investor exercised his option right on 161,427 ordinary bearer shares of SFC AG without par value (non-par value shares) with a pro rata amount of SFC AG's share capital of € 1.00 per share at an option price of € 2.4779 each. On July 14,2017, the Company's share capital was increased from € 9,047,249 to € 9,208,676 by issuing 161,427 new bearer shares.

The funds provided at the Company level thus amounted to € 400k.

Corporate Action and Harbert Financing

On August 3, 2017, the Management Board of SFC AG, with the approval of the Supervisory Board on the same day, entered into an overall financing plan consisting of the issue of a secured, fixed-interest bond with a nominal value of € 4,997,500, the entry into the related collateral agreements and the issue of a warrant-linked bond with Harbert European Growth Capital Fund (Harbert) on August 3, 2017.

The secured fixed-interest bearer bond has a nominal amount of € 4,997,500 and is to be redeemed in stages until December 31, 2018. The warranty-linked bond was issued on the basis of the authorization granted by the Company's Annual General Meeting on June 14, 2016, disapplying the subscription rights of the Company's shareholders, by way of a private placement to Harbert.

The warrant-linked bond with a nominal value of € 2,500 and a maturity until 2022 bears interest of 4.0 % p. a. It bears interest. The issue price of the warrant-linked bond was set at 100 % of the nominal amount. In addition, the warrant-linked bond offers option rights to 204,700 bearer ordinary shares of the Company without par value (non-par value shares) with a pro rata amount of the Company's share capital of € 1.00 per share at an option price of € 3.6639 per share.

The company received gross proceeds of € 5 million from these capital increases.

Corporate Action and Convertible Bond Financing

In December 2015 SFC issued a tranche (€ 1,650k) of a convertible bond with a total face value of € 5,000k and a 10 % discount. In addition, in January 2016, an additional tranche of the convertible bond in the amount of € 550k was placed in a private placement. With a 10 % discount this provided an intake of cash in the amount of € 495k. Another tranche of € 1,100k was placed in March 2016. With a 10 % discount this provided an intake of cash in the amount of € 990k. Altogether, convertible bonds with a total face value of € 3,300k were issued.

On December 20, 2017 the creditors exercised their conversion rights for a total face value of € 2,750k. All told, 450,780 no-par-value bearer shares of the Company's common stock were issued in late December. The capital was increased to € 9,659,456 by the conversion.

Available cash and cash equivalents amounted to € 4,408k at December 31, 2017 (prior year: € 1,756k).

The total short-term liabilities to bank amounted to € 4,010k at December 31, 2017 (prior year: € 4,317k). There were no long-term liabilities to banks at the reporting date.

Simark

In connection with financing for the subsidiary Simark, comprehensive financial covenants were entered into with the lending banks depending on various threshold values at Simark, as were repayment clauses that apply in the event of a default. The following covenants and threshold values were agreed to for Simark at December 31, 2017:

- **Working Capital Ratio (WCR) (both banks):** Current assets/current liabilities: > 1.20
- **Debt Service Coverage Ratio (DSCR):** EBITDA/debt service: > 1.20
- **Funded Debt to EBITDA Ratio (FDER):** interest-bearing liabilities/EBITDA: < 2.50

The threshold values were met at December 31, 2017.

The subordination agreement given by SFC AG to the banks in the amount of CAD 2,637k plus interest for an already existing shareholder loan is still in effect.

PBF

No financial covenants were agreed to with the financing bank in connection with the refinancing of the subsidiary PBF Holland via a factoring agreement. The subordination agreement given by SFC AG to the bank in the amount of € 2,350k for an already existing shareholder loan is still in effect.

The table below shows the Group's equity and total equity and liabilities as of the respective reporting dates:

COMPANY'S EQUITY RATIO — in k €

	12/31/2017	12/31/2016
Equity	**13,894,781**	**13,338,672**
As a percentage of total capital	40.2 %	39.5 %
Long-term liabilities	2,075,623	7,118,901
Short-term liabilities	18,563,477	13,335,382
Liabilities	**20,639,100**	**20,454,283**
As a percentage of total capital	59.8 %	60.5 %
Total equity and liabilities	**34,533,882**	**33,792,955**

The Group's capital structure improved in 2017 due to the capital measures and the conversion of the bond. The Group still shows an equity ratio of 40.2 % (prior year: 39.5 %).

Property, plant and equipment (not including deferred taxes) is still financed with equity, and current assets cover current liabilities.

Capital expenditures

Capital expenditures per segment were as follows:

in k €	2017
Security & Industry	1,079,826
Consumer	241,121
Oil & Gas	14,951
Total	**1,335,898**

In financial year 2017, € 767k (prior year: € 435k) was capitalized for the further development of products. Capital expenditures were also made in software, machinery and equipment.

Total capital expenditures in 2017 came to € 1,336k (prior year: € 920k). Capital expenditures were financed with the Company's own funds or under existing loan agreements.

Finance leases were entered into by Simark to a small extent.

Cash and cash equivalents

There was a net cash outflow of € 2,654k in financial year 2017, whereas in 2016 the net cash outflow was € 1,522k. A significant reason for the outflow of cash in the prior year was the negative cash flow from operating activities. Cash in the amount of € 1,686k was provided by operating activities in 2017.

At the end of December 2017, the Company had available cash and cash equivalents of € 4,408k (end of December 2016: € 1,756k). In addition, cash in the amount of € 286k (prior year: € 285k) was blocked in favor of a landlord.

There were current liabilities to banks in the amount of € 4,010k as of the reporting date (prior year: € 4,317k). None of the covenants had been breached.

The following lines of credit had been drawn as follows as of the reporting date:

Simark:	line of credit CAD 3,500k,	of which drawn: CAD 2,048k
PBF in Cluj:	line of credit € 650k,	of which drawn: € 422k

Cash flow from ordinary operations

There was a net cash outflow of € 1,686k from ordinary operations in financial year 2017 versus a net cash outflow of € 5,231k in the prior year.

The primary cause of the inflow in 2017 was the improved results for the year and the resulting positive operating cash flow before changes in working capital in the amount of € 911k, versus negative cash flow of € 1,489k in the prior year. In addition, material changes in working capital in inventories and receivables in 2017 were the reason for the positive cash flow from ordinary operations.

Cash flow from investment activity

Net cash used for investment activity totaled € 1,289k in the period under review (prior year: € 565k). The increase is primarily attributable to the spending on capitalized assets from development projects from € 435k in the prior year to € 767k in 2017.

Cash flow from financial activity

There was a net cash inflow of € 2,258k from financial activity in 2017, in contrast to a net cash inflow of € 4,274k the prior year. The cash inflow in 2017 was primarily the result of two measures: cash in the amount of € 400k was provided by the issue proceeds on the capital increase, and net cash in the amount of € 4,900k was generated in August 2017 from a secured bearer bond.

Assets & liabilities

Total assets of the Group at December 31, 2017 increased by 2.2 % over the prior year, from € 33,793k to € 34,534k.

The equity ratio also increased due to the financing measures to 40.2 % (prior year: 39.5 %).

Inventories, trade accounts receivable and receivables from percentage-of-completion fell slightly by € 319k, or 1.9 % in comparison with the prior year.

The most significant intangible assets are the goodwill of Simark in the amount of € 6,941k (prior year: € 7,378k) and of PBF unchanged in the amount of € 1,179k (prior year: € 1,179k), other intangible assets relating to the acquisition of Simark in the amount of € 0k (prior year: € 487k) and PBF in the amount of € 337k (prior year: € 702k) and capitalized development costs in the amount of € 2,191k (prior year: € 1,737k). The decrease in other intangible assets relating to the Simark and PBF acquisitions reflects the amortization of the customer relationships and technology. With respect to the capitalized development costs, € 767k was capitalized (prior year: € 435k) and € 314k was amortized (prior year: € 455k) in financial year 2017.

Non-current assets decreased from € 13,737k to € 12,684k. The share of non-current assets in total assets fell from 40.7 % to 36.7 % as a result.

Liabilities rose slightly by 0.9 % from € 20,454k to € 20,639k. Altogether, liabilities made up 59.8 % of total equity (prior year: 60.5 %).

As a result of the corporate actions, equity increased from € 13,339k at December 31, 2016 to € 13,895k at December 31, 2017.

Financial and non-financial performance indicators

The sustainable development of the Group is a high priority for the Management Board. The financial performance indicators used to steer the Group and its development in financial year 2017 are described above.

In terms of non-financial metrics and performance indicators, the Management Board draws primarily on the following regularly collected employee-based variables and sustainability indicators in its management of the business:

- Quality indicators, assessments, and rejection rates
- Number of employees and increase or decrease in that number

Supplier quality was slightly worse than in the prior year, with 6.0% of deliveries having defects, but the number of defective parts slightly decreased. The mean time to failure of fuel cells of the industrial equipment almost doubled to over 2,500 hours in comparison with the prior year.

Sustainability is a key factor in the Group's long-term business success. The SFC Group strives to maximize its environmental efficiency in everything it does. This approach is at the heart of product development as well as production processes. The SFC Group also acknowledges its social responsibility towards employees.

To achieve production that is as environmentally sound as possible, the Group works continuously to optimize its use of resources. The measures it takes in this regard often reduce costs, as well.

Superior quality is the key to being a top green business. In addition to ensuring long product life, it guarantees the lowest possible rejection rates in the manufacturing process. SFC AG and PBF are ISO 9001 certified. SFC AG and PBF also have an environmental management system that is ISO 14001 certified. Simark's environmental management is COR certified.

The Management Board is kept constantly informed about supplier quality and product quality.

With respect to sustainable corporate governance, SFC offers its employees a motivating, socially equitable work environment. It is important to SFC to have satisfied employees who want to work for the Company for a long time. Professional development at SFC is tailored to employees' individual circumstances. In addition to providing field-specific training, SFC offers continuing education opportunities in areas that are relevant to any discipline, like project management, team building, software classes, and foreign language courses. SFC gives its employees an appropriate stake in the Company's success in the form of a variable compensation component.

Employees at year end

The number of permanent employees was as follows as of December 31, 2017:

EMPLOYEES

	12/31/2017	12/31/2016
Management Board	3	3
Research & development	53	45
Production, logistics, quality management	101	86
Sales & Marketing	73	68
Administration	28	26
Permanent employees	**258**	**228**

The Group employed 7 trainees, graduates, and student trainees as of December 31, 2017 (December 31, 2016: 11).

With 76 permanent employees at December 31, 2017, SFC had slightly more employees than in the prior year (71).

The number of employees at PBF increased from 98 to 114.

Simark had 68 employees as of the reporting date and thus employed more people than in the prior year (59).

There were thus 30 more employees at the end of 2017 than at the end of the prior year.

Business and background conditions

In summary, it can be concluded that at the reporting date the Group had a solid net asset and financial picture, particularly as a result of the corporate actions and financing measures and taking into account additional future capital increases, and also considering the improved results for the year. However, the overall picture could change if there are adverse changes in the earnings position, contrary to the forecasts for sales and earnings, with a resulting worsening of the Group's financial position.

COMPENSATION REPORT

The compensation report summarizes the principles used to determine the compensation of the Management Board of SFC AG and explains the amounts and structure of the compensation. The compensation report also describes the underlying principles and the amounts of compensation paid to the Supervisory Board.

Management Board Compensation

Pursuant to the German Stock Corporation Act, as amended by the Act on the Appropriateness of Management Board Compensation (Gesetz zur Angemessenheit der Vorstandsvergütung), the determination of the Management Board's compensation is a matter reserved for the full Supervisory Board. The compensation of the members of the Management Board consists of the following elements:

The members of the Management Board receive a fixed annual salary paid in twelve equal monthly installments.

Members of the Management Board also receive variable compensation (performance-based bonus) if specific targets are met. The targets to reach in financial year 2017 were the amounts budgeted for consolidated sales (based on the budgeted exchange rate for the Canadian dollar to the euro), underlying gross margin, and underlying EBITDA, and each target was tied to one-fourth of the bonus. In other respects the decision is at the discretion of the Supervisory Board.

In financial year 2014, the Company's Supervisory Board implemented an SAR plan (2014 – 2016 SAR Plan) that applies to any newly executed management board employment agreements that go into effect on or after January 1, 2014. The plan provides for the allocation of virtual stock options to members of the Management Board. Mr. Hans Pol received a tranche of the second SAR Plan in connection with the extension of his employment agreement (2015 – 2018 SAR Plan or TR 2). Mr. Marcus Binder, who was appointed to the Management Board by resolution of September 14, 2016 effective as of March 1, 2017 until February 28, 2020, will receive a tranche of the third SAR Plan (2017 – 2020 SAR Plan) under his employment agreement. This also applies to the extension of the employment agreement of Management Board chairman Dr. Peter Podesser, whose employment agreement was extended early for an additional three years, ending in March 2020. Further information about the SAR Plan can be found under "Share Option Programs" on page 46 of this Annual Report.

The members of the Management Board also receive certain fringe benefits. We provide a company car to the members of the Management Board. We also pay the premiums for accident, pension, and life insurance for the members of the Management Board every year up to a maximum of € 10,000 each. SFC has also obtained directors' and officers' liability insurance for them; these policies include a deductible equal to 10 % of the loss up to a maximum of one and a half times the annual base salary of the respective Management Board member.

Management Board Compensation in 2017

Members of the Management Board received € 1,595,915 in total compensation in financial year 2017. The compensation for financial year 2017 includes their base salaries, benefits, variable profit- and performance-based pay, the expenses for the SAR plan, and the premiums for accident, pension and life insurance. This figure includes all amounts that were paid out or set aside in the 2017 consolidated financial statements, less the amounts already set aside as of December 31, 2016.

The compensation of the Management Board members is shown individually pursuant to the recommended sample tables in the German Corporate Governance Code. Table 1 shows the benefits granted in financial year 2017, while Table 2 shows the amounts paid. Because the LTIP and the SARP do not provide for any maximum amounts of compensation, no maximum amounts are shown, notwithstanding the recommendation in the German Corporate Governance Code.

TABLE 1 – BENEFITS GRANTED TO MEMBERS OF THE MANAGEMENT BOARD 2017 * in €

	Dr. Peter Podesser			Hans Pol			Steffen Schneider			Marcus Binder		
	CEO/Chairman			(Industry)			CFO			(Defense & Security)		
	since 11/01/2006			since 01/01/2014			09/01/2014 – 05/25/2017			since 03/01/2017		
Benefits	2016	2017	2017 (Min)	2016	2017	2017 (Min)	2016	2017	2017 (Min)	2016	2017	2017 (Min)
Fixed Income	350,000	350,000	350,000	180,000	180,000	180,000	180,000	87,862	87,862	0	150,000	150,000
Fringe Benefits	23,312	24,145	24,145	17,846	17,866	17,866	33,051	14,754	14,754	0	19,520	19,520
Total	**373,312**	**374,145**	**374,145**	**197,846**	**197,866**	**197,866**	**213,051**	**102,616**	**102,616**	**0**	**169,520**	**169,520**
One-year variable compensation	0	264,000	150,000	0	42,000	0	0	18,750	18,750	0	54,542	0
Multi-year variable compensation	0	259,263	0	0	0	0	0	0	0	0	113,213	0
SARP 2014 – 2016	0	0	0	0	0	0	0	0	0	0	0	0
SARP 2015 – 2018	0	0	0	0	0	0	0	0	0	0	0	0
SARP 2017 – 2020	0	259,263	0	0	0	0	0	0	0	0	113,213	0
Total	**373,312**	**897,408**	**524,145**	**197,846**	**239,866**	**197,866**	**213,051**	**121,366**	**121,366**	**0**	**337,275**	**169,520**
Service costs	0	0	0	0	0	0	0	0	0	0	0	0
Total	**373,312**	**897,408**	**524,145**	**197,846**	**239,866**	**197,866**	**213,051**	**121,366**	**121,366**	**0**	**337,275**	**169,520**

* Due to the absence of a cap for the variable compensation, no maximum compensation will be published.

TABLE 2 – ALLOCATION OF MANAGEMENT BOARD COMPENSATION 2017 (AMOUNTS DISBURSED) in €

	Dr. Peter Podesser		Hans Pol		Steffen Schneider		Marcus Binder	
	CEO/Chairman		(Industry)		CFO		(Defense & Security)	
	since 11/01/2006		since 01/01/2014		09/01/2014 – 05/25/2017		since 03/01/2017	
Allocation	2016	2017	2016	2017	2016	2017	2016	2017
Fixed Income	350,000	350,000	180,000	180,000	180,000	87,862	0	150,000
Fringe Benefits	23,312	24,145	17,846	17,866	33,051	14,754	0	19,520
Total	**373,312**	**374,145**	**197,846**	**197,866**	**213,051**	**102,616**	**0**	**169,520**
One-year variable compensation	0	150,000	0	0	0	31,250	0	0
Multi-year variable compensation	0	0	0	0	0	0	0	0
SARP 2014 – 2016	0	0	0	0	0	0	0	0
SARP 2015 – 2018	0	0	0	0	0	0	0	0
SARP 2017 – 2020	0	0	0	0	0	0	0	0
Total	**373,312**	**524,145**	**197,846**	**197,866**	**213,051**	**133,866**	**0**	**169,520**
Service costs	0	0	0	0	0	0	0	0
Total	**373,312**	**524,145**	**197,846**	**197,866**	**213,051**	**133,866**	**0**	**169,520**

On the occasion of the amicable termination of Mr. Steffen Schneider's Management Board activities, a severance agreement was entered into with him. Pursuant to that agreement, he continued to receive his fixed salary until the termination date of June 30, 2017; he also received severance pay in the one-time gross amount of € 31,250.

Compensation of the Supervisory Board

The members of the Supervisory Board receive an annual fixed compensation in the amount of € 25,000 per year, with the Chairman of the Supervisory Board and his deputy receiving twice and one-and-a-half times this amount, respectively.

The members of the Supervisory Board are also entitled to reimbursement of the out-of-pocket expenses they incur in performing their duties as Supervisory Board members, including any value-added taxes on those expenses, and inclusion in the D&O liability insurance policy the Company has taken out for its governing bodies.

The compensation of the individual Supervisory Board members in financial year 2017 was as follows:

FINANCIAL YEAR 2017	in €
Tim van Delden, Chairman	50,000
David Morgan, Vice Chairman	37,500
Hubertus Krossa, Supervisory Board Member	25,000
Total	**112,500**

Share Option Programs

The Company's Supervisory Board has implemented an SAR plan (2014 – 2016 SAR Plan) with the goal of reconciling the interests of shareholders and management. The 2014 – 2016 SAR Plan, which provides for the grant of SARs to members of the Management Board, applies to any newly executed management board service agreements that go into effect on or after January 1, 2014. Mr. Hans Pol received a tranche of the second SAR Plan in connection with the extension of his employment agreement (2015 – 2018 SAR Plan or TR 2). Mr. Marcus Binder, who was appointed to the Management Board via a resolution of September 14, 2016 effective from March 1, 2017 to February 28, 2020, received a tranche of the SAR Plan (2017 – 2020 SAR Plan) in connection with his employment agreement. This also applies to the extension of the employment agreement of Management Board Chairman Dr. Peter Podesser, whose employment agreement was extended early for another three years until March 2020.

After a predetermined vesting period, the SARs entitle their holders to a cash payment upon exercise, the amount of which depends on the stock price of SFC AG at the time. An upper limit to the number of SARs to be allocated is set in advance and is reduced at predetermined dates if the Company's stock price falls below certain thresholds. The SAR will last seven years. The SARs are first eligible for exercise after a four-year vesting period, at which point a portion of the SARs issued can be exercised against payment of a strike price of € 1.00 per SAR, provided certain predefined profit targets have been met.

The main terms of 2014 – 2016 SAR Plan, the 2015 – 2018 SAR Plan and the 2017 – 2020 SAR Plan are as follows:

MAIN TERMS OF THE SAR PROGRAM 2014 – 2016, 2015 – 2018 AND 2017 – 2020

Date of Issuance	January 1, 2014 (Hans Pol TR 1); April 1, 2014 (Dr. Peter Podesser TR 1); July 1, 2015 (Hans Pol TR 2); March 1, 2017 (Marcus Binder TR 1); April 1, 2017 (Dr. Peter Podesser TR 2)
Term	7 years
Waiting period	4 years (Hans Pol TR 1); 4 to 6 years (Dr. Peter Podesser TR 1 and TR 2); 4 to 6 years (Hans Pol TR 2); 4 to 6 years (Marcus Binder TR 1)
Cut-off dates	January 1, 2015 (Hans Pol TR 1); April 1, 2015, April 1, 2016 and April 1, 2017 (Dr. Peter Podesser TR 1); September 1, 2015, July 1, 2016, July 1, 2017 and July 1, 2018 (Hans Pol TR 2); April 1, 2018, April 1, 2019 and April 1, 2020 (Dr. Peter Podesser TR 2); March 1, 2018, March 1, 2019 and March 1, 2020 (Marcus Binder TR 1)
Exercise price	€ 1.00
Performance targets (stock market price targets) until 2016	Stock exchange price increase in respect of stock exchange price at day of issuance and better development than benchmark (ÖkoDAX)
Performance targets (stock market price targets) starting 2017	Stock exchange price increase in respect of stock exchange price at day of issuance

Other related parties

Please see the section entitled "Related-party transactions" in the Notes to the Consolidated Financial Statements.

GROUP ACCOUNTING-RELATED INTERNAL CONTROL SYSTEM AND RISK MANAGEMENT SYSTEM

Accounting-related internal control system

SFC has an internal control and risk management system for the (Group) accounting process. This system defines appropriate structures and processes and implements them in the organization. It is designed to ensure timely, uniform and accurate bookkeeping for all business processes and transactions. It also ensures compliance with the laws and accounting rules.

Changes to the laws, accounting standards and other official bulletins are regularly analyzed with regard to relevance and effects on the consolidated financial statements, and the resulting changes are made to our internal systems and processes.

Our internal control system is based not only on defined control mechanisms, such as computerized and manual coordination processes, but also on separation of duties and compliance with work instructions.

Bookkeeping for the Dutch subsidiary PBF is performed by the bookkeeping department in the Netherlands, while the bookkeeping for the Romanian company is performed in Cluj, Romania. Uniform application of IFRS accounting standards throughout the Group is ensured by appropriately qualified personnel on site and at the parent company.

Bookkeeping for the Canadian subsidiary Simark is performed by the bookkeeping department in Canada. Uniform application of IFRS accounting standards throughout the Group is ensured by appropriately qualified personnel at the parent company.

Consolidation and certain coordination work are performed by the accounting department at the parent company on the basis of information received from the consolidated companies. Because of the size of the Group, there is no separate Group accounting department. Computerized controls are monitored by the employees in the accounting department and supplemented with manual tests. As a rule at least two people review everything at every level. Certain approval processes must be complied with throughout the entire accounting process.

The Management Board is responsible for implementing and monitoring the internal control system. This includes the (Group) accounting-related internal control system. Given the size of the Group, there is no internal audit function within the Group.

The Management Board of SFC AG has reviewed the accounting-based internal control system and believes that it was fully functional in financial year 2017. The effectiveness of the internal control system is monitored by the Supervisory Board of SFC Energy AG in accordance with the requirements of the Accounting Rule Modernization Act (Bilanzrechtsmodernisierungsgesetz), which went into force in May 2009. It is important to note that an internal control system does not provide absolute certainty that material misstatements in the financial statements will be avoided or discovered, regardless of how it is designed.

Risk Management System

As part of a systematic and organizational approach to risk, the Management Board has implemented a comprehensive risk management system that defines, systematically uses and continues to develop suitable instruments for identifying, analyzing and measuring risks and determining the appropriate course of action. The risks that are identified are assessed based on the extent of the risk and the estimated probability of occurrence. The risk management system exclusively reflects the risks of the Group. Opportunities are not included.

Operational management is directly responsible for early detection, analysis, control and communication of risks. Within the framework of discussions on targets between the Management Board and the responsible people in the business units and as a result of regular reporting, the business units provide information on changes in the risk situations of the individual business units.

SFC's risk management system also includes an early-warning system based on a system of key figures. The key figures allow an objective overview of the Group's financial situation, a comparison between the budget and actual costs, a detailed preview of anticipated new orders and sales for each segment (sales pipeline), unit-specific cost controlling, cost controlling for development and marketing projects, a uniform project management tool for the entire Group, and other process-related indicators. PBF and Simark are integrated into the risk management system.

The Management Board regularly uses these instruments to determine in real time whether estimates and background conditions have changed and whether any remedial measures must be taken.

RISK REPORTING WITH REGARD TO THE USE OF FINANCIAL INSTRUMENTS

The Supervisory Board receives a detailed financial report every month and is also informed in the short term about current developments when necessary. The Supervisory Board is thus also involved in risk management as a result of reports by the Management Board on transactions that could be of particular importance for profitability or liquidity.

As part of their operating activities, the Company and Group are exposed to various risks arising from financial instruments. This includes market risks, especially interest rate and foreign exchange risks, default and liquidity risks, and credit risks. The financial instruments encompass assets and liabilities as well as contractual claims and obligations relating to exchanges and transfers of assets.

Non-derivative financial instruments on the assets side of the balance sheet include cash and cash equivalents, trade accounts receivable, other financial assets. In addition, the termination components of the convertible bond and a warrant-linked bond were shown as derivative instruments on the balance sheet date. For reasons of materiality, the reader is referred to the explanations of this in the notes to the consolidated financial statements. If a default is likely, the credit risk associated with these instruments is addressed with impairments. The financial instruments carried on the liabilities side of the balance sheet are liabilities to banks, trade accounts payable, other liabilities, and liabilities under finance leases and the borrowing and equity components of the convertible bond.

The goal of the risk management system is to minimize the risks listed above. The following methods are employed in pursuit of this goal:

Credit risk

Credit risk results primarily from trade accounts receivable. The risk consists of the possibility of default by a contractual partner because the customer structure is characterized by different large customers. To prevent credit risk, creditworthiness is checked by reviewing the credit reports for selected customers, and regular status reports with an early warning function are obtained. Deliveries to new customers are generally subject to advance payment. In addition, all past-due receivables are discussed weekly as part of receivables management, and steps are taken with the responsible sales employees. In terms of credit risk, prevention practices at PBF and Simark, which have a transparent and practically unchanging clientele and can readily identify delinquencies, past-due accounts are first handled by employees in the accounting department and then turned over to the responsible sales employee for discussion with the customer.

The amounts shown on the balance sheet are net of the write-downs for receivables expected to be uncollectible, as estimated by management on the basis of past experience and the current economic environment. Individual allowances are made as soon as there is an indication that receivables are not collectible. The indications are based on close contact with the respective customers as part of receivables management.

The maximum amount of default is the net carrying amount of the receivable. No collateral from unpaid receivables was acquired or recognized during the reporting period or during the prior year. Receivables from the sale of products are secured for SFC AG through a reservation of ownership.

The outstanding receivables that are neither past due nor impaired are of high credit quality because of the current client base. There was no indication as of the balance sheet date that any defaults were to be expected on these receivables.

There are also credit risks with regard to cash. This cash substantially includes short-term time and call deposits and immediately available deposits at banks. SFC is exposed to credit risks associated with the investment of liquid funds to the extent the banks fail to meet their obligations. To minimize this risk, the banks in which the investments are made are carefully chosen, and the investments are divided among several banks. Moreover, only short-term time deposits have been made, which are covered by the deposit insurance of the banks. The maximum risk position corresponds to the book value of the cash as of the reporting date.

Liquidity risk

Liquidity risk describes the possibility that SFC may not be able to meet its payment obligations. This risk was counteracted by the capital increases in May 2007, November 2014, August 2016 and July 2017. To further secure liquidity, a convertible bond was issued in December 2015. In January and March 2016, additional tranches were placed. In addition, in October 2016, the company took out a loan and issued a warrant-linked bond. A bearer bond was issued in August 2017. Because of this financing, liquidity reserves increased significantly.

The ultimate responsibility for liquidity risk management rests with the Management Board, which has formulated an appropriate strategy for managing the short-, medium- and long-term funding and liquidity requirements. SFC manages liquidity risk by maintaining adequate reserves and by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Interest rate risk

Interest rate risk results primarily from the investment of cash. As part of the capital increase in 2007, shares were also placed in the United States. In that context, SFC had to assume the contractual obligation to comply with certain tax laws in the United States. Consequently, no investments may exceed a three-month term at present. In that respect, the net interest income or expense of SFC is materially influenced by short-term interest rates.

In addition, the Group is exposed to interest rate risk arising from short- and long-term floating-rate liabilities. There is also an interest rate risk due to a worse credit rating. The Group is not subject to any other material interest rate risk from variable-interest instruments.

If the covenants are breached there is the risk that a higher interest rate will have to be paid or that the loan will be accelerated.

SFC has not defined any risk management objectives or actions based on the restrictions mentioned above. Risk is measured during the year in the context of the rolling year-end forecast.

Exchange rate risk

In the future, due to Simark's volume of business, SFC will generate a substantial portion of its revenues in Canadian dollars, which will be offset by expenses and payments in Canadian dollars. In addition, SFC AG and Simark will generate sales in North America in U.S. dollars, which will be offset, in particular, by expenses and payments in U.S. dollars by SFC AG and Simark.

The objective of foreign currency management is to minimize exchange rate losses in comparison with budget assumptions. For that purpose, an open foreign currency position is calculated on the basis of actual and planned foreign currency positions and adjusted in the context of the rolling year-end forecast. For that purpose, an open foreign currency balance sheet is calculated on the basis of actual and planned foreign currency positions and adjusted in the context of the rolling year-end forecast. There were no open currency forwards as of the reporting date.

We did not use any derivative financial instruments during the year to hedge currency risks.

Credit risk

The loan agreements entered into by Simark to finance the acquisition of Simark and operations in Canada contain financial covenants related to Simark. If the covenants are breached there is the risk that a higher interest rate will have to be paid or that the loan will be accelerated. In addition to the earnings situation of Simark, an increased need for financing can lead to an increased covenant risk.

There is also the risk that the new bearer bond issued by SFC AG in 2017 will be terminated for breach of the defined covenants. The bond indenture provides that the Group's financial liabilities must not exceed € 14 million.

TAKEOVER-RELATED DISCLOSURES (PURSUANT TO § 315A HGB)

The capital stock of SFC AG totals € 9,659,456 and is divided into 9,659,456 ordinary bearer shares with no par value representing a notional amount of the capital stock of € 1.00 per share. The capital stock is completely paid-up. Each share confers one vote. For additional information, see the section entitled "Earnings per Share". The change in the number of shares by 612,207 shares in comparison with the prior year is as follows:

CHANGE IN THE NUMBER OF SHARES	
Ordinary Shares 12/31/16	**9,047,249**
Capital increase July 2017	161,427
As of 12/31/2017	9,208,676
Capital increase December 2017 I	90,156
Capital increase December 2017 II	360,624
Ordinary Shares 12/31/17	**9,659,456**

The Management Board is not aware of any restrictions (including restrictions agreed between shareholders) concerning the exercise of voting rights or the disposal of shares.

The parties that directly and indirectly own capital exceeding 10 % of the voting rights are listed in the table below*:

NAME	Stake in %
Holland Private Equity B. V. (via HPE PRO Institutional Fund B. V.)	28.58

* These are the holdings that had been reported to SFC AG pursuant to the German Securities Trading Act (WpHG) by the time this Management Report was prepared.

Shareholders have no special rights that confer control.

Members of the Management Board of SFC AG are appointed and removed in accordance with § 84 and § 85 of the German Stock Corporation Act (AktG) and § 7(2) of the Articles of Association.

Pursuant to § 179 of the German Stock Corporation Act in conjunction with § 20 of the Articles of Association, changes to the Articles of Association are subject to a resolution of the shareholders' meeting approved by a three-quarter majority.

Authorized capital

At their meeting on May 17, 2017 the shareholders resolved to revoke the Authorized Capital 2016/I, to create new Authorized Capital and to amend Section 5 (Authorized Capital) of the Articles of Association accordingly.

The Authorized Capital of June 14, 2016 (Authorized Capital 2016/I) was revoked. The Management Board was authorized via a shareholders' resolution of May 17, 2017 to increase the share capital, with the Supervisory Board's consent, on one or more occasions, in exchange for cash contributions or contributions in kind, by up to € 4,523,624.00 (Authorized Capital 2017/I).

Conditional capital

Pursuant to the resolution of the meeting of SFC AG shareholders on June 14, 2016, the Company's Management Board was authorized to issue by June 13, 2021, with the Supervisory Board's consent, bearer convertible bonds and/or options or a combination of these instruments (referred to collectively as the bonds) with a total face value of up to € 14,000,000, with or without a term limit, and to grant conversion rights or options to the bond (also with conversion obligations) to new bearer shares of Company common stock with a notional amount of the capital stock of up to € 3,485,930 (Conditional Capital 2016) as defined in greater detail in the convertible bond or warrant terms and conditions. There was also Conditional Capital in the amount of € 819,672 (Conditional Capital 2011).

Following the corporate actions described below, SFC AG has Conditional Capital 2016 in the amount of € 3,324,503 and Conditional Capital 2011 in the amount of € 368,892 to secure the issuance of no-par-value bearer shares to the holders or creditors of convertible bonds and/or warrant-linked bonds, participatory rights and/or participatory bonds (or combinations of these instruments).

Corporate Action and Private Investor Financing

On October 18, 2016, the Management Board of SFC AG partially exercised the authorization given to it by the shareholders' meeting and with the Supervisory Board's consent issued a secured loan in the amount of € 1,998k, as well as a warrant-linked bond pursuant to the authorization granted by the shareholders at their meeting on June 14, 2016. The warrant-linked bond was issued via a private placement to a private investor and lender from Singapore, and the shareholders' preemptive rights were disapplied. The bond with a face value of € 2,500, maturing in 2021, pays 4.0 % interest p. a. The issue price of the warrant-linked bond was set at 100 % of the face amount. In addition, the warrant-linked bond offers an option right to 161,427 no-par-value bearer shares of SFC AG at an option price of € 2.4779 per share, each with a pro-rata amount of € 1.00 of per share of SFC AG's capital. In the event of a change of control, the lender of the loan issued in 2016 in the amount of € 1,997,500 has an extraordinary termination right. The loan can be accelerated with 10 days' notice.

On June 28, 2017 the private investor exercised his option right. The Company's share capital was increased from € 9,047,249 to € 9,208,676 on July 14, 2017 by issuing 161,427 new bearer shares. The funds provided at the company level amounted to € 400k.

On August 9, 2017, the loan of € 1,998k was paid back in full.

Corporate Action and Harbert Financing

On August 3, 2017, the Management Board of SFC AG, with the approval of the Supervisory Board on the same day entered into an overall financing plan consisting of the issue of a secured, fixed-interest bond with a nominal value of € 4,997,500, the entry into the related collateral agreements and the issue of a warrant bond with Harbert European Growth Capital Fund (Harbert).

The secured, fixed-interest bearer bond has a nominal amount of € 4,997,500 and is to be redeemed in stages until December 31, 2018. The warrant-linked bond was issued to Harbert by means of a private placement on the basis of the authorization granted by the shareholders at their annual meeting on June 14, 2016, with the subscription rights of the Company's shareholders being disapplied.

The warrant-linked bond with a nominal value of € 2,500 maturing in 2022 bears interest at 4.0 % p. a. The issue price of the warrant-linked bond was set at 100 % of the nominal amount. In addition, the warrant-linked bond offers option rights to 204,700 bearer ordinary shares of the Company without par value (non-par value shares) with a pro rata amount of the Company's share capital of € 1.00 per share, at an option price of € 3.6639 per share.

The company received gross proceeds of € 5 million from these corporate actions.

Corporate Action and Convertible Bond Financing

In December 2015, SFC AG issued a tranche (€ 1,650k) of a convertible bond with a total nominal value of € 5,000k at a discount of 10 % yielding a cash inflow at the company level of € 1,485k. In addition, in January 2016, an additional tranche of the convertible bond in the amount of € 550k was placed in a private placement. At a discount of 10 %, this corresponds to a cash inflow of € 495k. Another tranche of € 1,100k was placed in March 2016. This represented a cash inflow amounting to € 990,000 with a 10 % discount. Altogether convertible bonds with a total nominal value of € 3,300,000 were issued.

On December 20, 2017, the conversion was declared by the creditors for a total of T€ 2,750. A total of 450,780 no-par value bearer ordinary shares were thus issued at the end of December 2017.

Agreements with Management Board Members

There are currently the agreements with Management Board members at SFC AG that are contingent on a change of control following a takeover offer:

Pursuant to his Management Board employment agreement dated April 1, 2014, Dr. Peter Podesser was granted 360,000 stock appreciation rights (SARs) under the 2014 – 2016 SAR Plan with a strike price of € 1.00 each. A specified portion of the SARs may expire on three predefined dates depending on SFC AG's stock price; the 360,000 SARs under the 2014 – 2016 SAR Plan have already expired. Following a four- to six-year vesting period, one-third of the non-expired SARs may be exercised at a defined reference price when certain performance targets have been reached. In the event another entity acquires control of SFC AG, the SARs that have not yet expired at the time the takeover offer is made must be disbursed according to specified ranges based on the reference price. The reference price corresponds to the offer price as defined in § 31(1) WpÜG (German Securities Acquisition and Takeover Act). Dr. Peter Podesser's Management Board employment agreement was extended from April 1, 2017 to March 31, 2020. In that connection Dr. Peter Podesser was granted an additional 360,000 SARs (2017 – 2020 SAR Plan) on December 14, 2016.

Hans Pol was appointed to the Management Board from January 1, 2014 to June 30, 2015. His Management Board employment agreement contains an agreement regarding the 2014 – 2016 SAR Plan with a term until December 31, 2018. Mr. Pol was granted 90,000 SARs on January 1, 2014, which have already expired. On March 24, 2015, Mr. Pol's Management Board employment agreement was extended until June 30, 2018. In connection with that agreement, Mr. Pol was granted an additional 180,000 SARs on July 1, 2015 under the 2015 – 2018 SAR Plan.

Marcus Binder was appointed to the Management Board from March 1, 2017 to February 28, 2020. His Management Board employment agreement includes participation in the 2017 – 2020 SAR Plan with a term until February 28, 2020. There is no agreement regarding change of control. Mr. Binder was granted 180,000 SARs on March 1, 2017.

RISK REPORT

The material risks listed below result from the Group's business activity. The risks apply to all segments if individual segments are not mentioned. The risks related to the affiliates Simark and PBF relate to the Oil & Gas segment and the Security & Industry segments respectively.

Market risks

Macroeconomic developments

In its economic forecast in December 2017, the ifo Institute [17] sees the global economy continuing to expand at an above-average rate in the winter half of 2017/18, although momentum is likely to slow down somewhat in the further course of the year. According to the Institute's assessment, the reasons for this are the increasing utilization of capacities in the advanced economies and the expected decline in the Chinese economy as a result of a more restrictive central bank policy and heavy debt in the corporate sector. The Institute believes that the risks to global economic development are largely balanced. It expects that the Brexit negotiations will not fail and that there will not end up being a "hard Brexit".

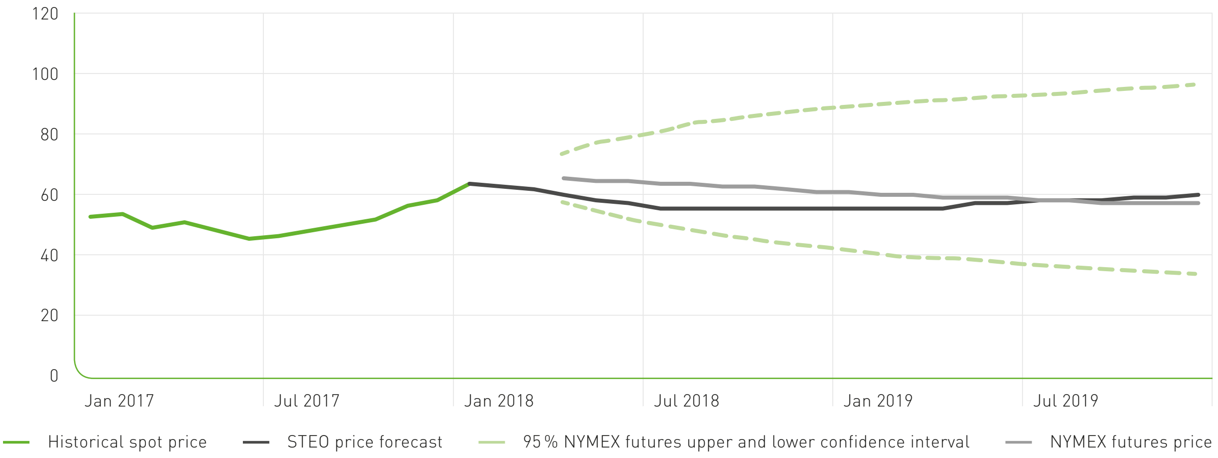
The upswing in the German economy since 2013 accelerated further in 2017. For the next two years, the institute sees the German economy heading for a boom with an over-utilization of overall economic capacities. Because a government has not yet been formed, the Institute cannot currently estimate the degree of alignment of financial policy for the near future. However, if the status quo remains intact, experts believe that the German economy is likely to remain on a record growth course in the next two years.

Oil & Gas market

In its January 2018 energy forecast, the U.S. Energy Information Administration [18] (EIA) expects that, following the first year of global inventory draws since 2013, global inventories will increase by 0.2 million b/d in 2018 and by 0.3 million b/d in 2019. These inventory draws had resulted in the price increases in 2017 and, in the opinion of the experts, should continue to contribute to an average price of USD 60 for Brent crude oil in 2018 and USD 61 in 2019. The price of WTI (West Texas Intermediate) crude oil is forecast to be USD 4/b lower than Brent in 2018. However, experts still believe that their forecast is subject to a high degree of uncertainty due to the extreme volatility of oil prices.

17 ifo Konjunkturprognose 2017 – 2019, "Deutsche Wirtschaft auf dem Weg in die Hochkonjunktur", December 14, 2017
18 eia, Short-Term Energy Outlook (STEO), January 9, 2018

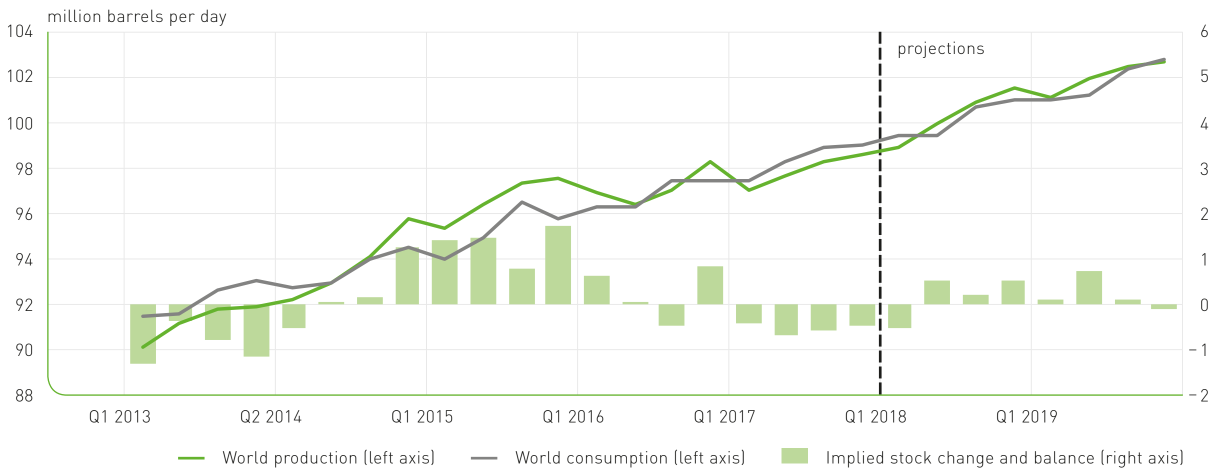
WEST TEXAS INTERMEDIATE (WTI) CRUDE OIL PRICE — Dollars/barrel



NOTE: Confidence interval derived from options market information for the 5 trading days ending Feb 1, 2018. Intervals not calculated for months with sparse trading in near-the-money options contracts.

Source: eia – Forecast WTI Price Trend [19]

WORLD LIQUID FUELS PRODUCTION AND CONSUMPTION BALANCE — million b/d



Source: eia – Short-Term Energy Outlook [20]

19 eia, Short-Term Energy Outlook (STEO), February 6, 2018
20 eia, Short-Term Energy Outlook (STEO), January 9, 2018

For Canada, the experts forecast production growth of 0.3 million b/d for 2018 and 0.2 million b/d for 2019, mainly driven by new oil sands projects[21].

As in the past, both the EIA and CAPP experts are careful to point out that the forecast numbers can only be reached with a considerable expansion of the American and Canadian pipeline networks. Instead of the current 4 million b/d, the pipelines will have to move 5.5 million b/d by 2030 to be able to serve additional and new markets around the world and remain competitive. This expansion offers opportunities for SFC products. SFC's integrated management and power supply systems can guarantee a secure, reliable and attractively-priced operation of off-grid equipment in any season of the year, even in remote locations.

Additional opportunities may present themselves for SFC as a result of industry's continued efforts towards increasing efficiency. In that connection, SFC products can make a considerable contribution to attractive operating cost reductions. In addition, the increasingly strict environmental legislation in the advanced economies such as Canada will promote the development and deployment of new environmentally-friendly system solutions. SFC's low-emission, efficient power power-generating devices can make decisive contributions in this regard.

Security & Industry market

Fuel cells: The experts continue to assume that the market for off-grid and mobile industrial systems will continue to grow due to its increasing strategic importance. However, there is still a risk that many market participants are heavily dependent on the overall economic situation and government economic stimulus programs. Accordingly, the experts also assume that the market will continue to sort itself out, and that primarily those companies that can demonstrate economic success will grow.

Power electronics and switched mode network components: Power electronic components and systems are needed anywhere power is used. The electronics industry usually develops in sync with the overall economy. The provision, storage and distribution of electricity plays a particularly important role in the emerging energy and future markets. Therefore, these components are needed everywhere constantly. On the procurement side, risks are to be seen in the long lead times and the still difficult to assess ordering behavior of major international customers.

Defense & Security: The experts believe that the defense industry is facing decisive changes internationally. As markets change, defense organizations will be forced to integrate and link traditional, modern and unconventional equipment, technologies, strategies and working methods. To this end, completely new approaches must be developed and implemented, both in personnel training and management and in the structural area, in order to increase military agility and innovation. New technologies in particular will play a decisive role, especially new ways of gathering and processing information with artificial intelligence and machine learning. Experts are calling on governments and defense organizations to take greater risks and invest more in developing these technologies. In this context, SFC AG's products have great potential because all of these new technologies need to be automated and require reliable and uninterrupted power, as more and more data collection and device applications are carried out off-grid.

21 Canadian Association of Petroleum Producers CAPP, Press Release: "Growth in the oil sands projects drives need for more pipelines to 2030", June 13, 2017

Consumer

Caravaning: The German caravaning association CIVD and the European Caravan Federation ECF are very optimistic about the future. After an extremely successful record year in 2017, German manufacturers of motorhomes and caravans expect the boom in Germany and Europe to continue.[22] The growing number of modern and lightweight high-performance batteries for caravanning applications poses a risk to SFC AG's fuel cell business. With the appropriate equipment, motorhomes can be self-sufficiently supplied with these batteries for a few days at a single location. This could mean that motorhome owners would rather opt for an increase in battery capacity than a fuel cell.

Marine: After a successful year in 2017, the boating and water sports industry is optimistic about 2018, and the German Federal Association of the Water Sports Industry (BVWW) sees no sign of a declining maritime economy at present. Consumers would rather invest available financial resources in a yacht whose value is stable and enjoy lasting pleasure than have to worry about missing interest payments. A risk can be seen in the age of the target group. But demographics work against the demand for equipment, accessories and services. The Association is therefore promoting additional and ongoing efforts in the industry to attract new groups of customers to the maritime market. In addition, it is important to note that SFC AG fuel cell products cannot provide the complete off-grid power supply, especially on larger boats, so that a fuel cell purchase can only be considered for smaller boats and racing yachts.

Technological risks

The products manufactured by SFC must meet high quality standards if they are to be successful on the market. In addition to further development of the Group's own technology for new applications, SFC pays great attention to quality assurance while simultaneously reducing production costs. SFC is working on this as part of intensive cooperative ventures with its major suppliers. At the same time, the Group is working to further reduce the production costs of its products through technological advancements. The resulting know-how represents a major competitive edge for SFC. Overall, as for all highly innovative companies, we are exposed to risks from new product and technology features.

Not all of the products manufactured in the Group have patent protection. Accordingly, there is a general risk that competitors could begin to compete using products that they have developed themselves. Such risks are mitigated by the speed of the development process and effective protection in the form of the know-how within the Group.

Patent-related risks

As the intellectual property situation becomes more complicated and products become more complex, there remains a certain risk of possible patent infringement by SFC. On the other hand, as a result of its unique position as a supplier of commercial direct methanol fuel cell systems, SFC has obtained patents or filed patent applications (currently 19 patent families or decisions to grant received), which puts us in a strong position relative to our competitors. However, is it entirely possible that we may incur legal expenses to defend these patents. Due to SFC's orientation as a provider of energy supply solutions, there is a risk that integration solutions are covered by patents that have already been granted. SFC works continuously with experienced patent attorneys to ensure that it is operating in full compliance with the law by staying abreast of patents that may be relevant to the Company, including those granted in other countries.

22 CIVD, press information, "Glänzende Aussichten – Caravaning-Branche blickt optimistisch auf 2018", January 15, 2018

In 2011, SFC AG entered into an agreement on the acquisition of a non-exclusive license for SFC AG to a comprehensive portfolio of American fuel cell patents belonging to the University of Southern California and California Institute of Technology. The agreement is intended to provide extensive certainty under patent laws for the sale of SFC's products to end consumers in the United States. This agreement is based on the sale of minimum numbers of fuel cell units. The agreement was amended in January 2014, with considerable reductions in minimum unit numbers and the associated payment risks.

Competition

SFC AG currently enjoys a unique position thanks to our leadership in direct methanol fuel cell (DMFC) systems technology and our marketing edge. Some of the ways we protect this advantage include intellectual property rights, swift action, and a resolute focus on one single technological concept. Some of our competitors – particularly those in the U.S. defense market – have at least comparable access to the market, which primarily results in the risk of losing our leadership position and not getting orders. For example, our ongoing observations of the competitive situation have revealed that competitors from the U.S. have made deliveries to the Defense & Security market. Furthermore, the first competing products are now appearing on the market in our consumer and industry markets. Consequently, there are risks from announcement effects and actual substitutes that could provoke uncertainty among market participants and lead to a loss of sales for SFC AG. We are countering those risks by focusing our product development on standard products and system solutions.

The Group faces the usual competitive risks with regard to PBF products. We are deliberately countering these risks with customer-specific "design-in" concepts, thereby creating barriers to competitors.

In Simark's area, the distribution of products faces the usual competitive risks of a mature consumer industry. Intensively fostering long-standing customer relationships, a clear emphasis on customer service, and a focus on product and system integration confer a competitive edge and minimize risk.

Product risks

We strive to counter potential product risks such as liability claims for defective products by offering high-quality products and services. But ultimately, we are unable to guarantee that our products will be free of errors or defects and thus meet the quality specifications. The defects can also be caused by suppliers and may cost us money, may negatively impact business, or may generate bad publicity. Hence, it is impossible to rule out claims for damages, price reductions, or reversals of transactions by our customers or business partners, especially since we also play a direct role in bringing our products to the market and distributing them. Additionally, there is a risk with large-scale projects in the Security & Industry segment that we will be unable to deliver with the required quality within the allotted amount of time, which could affect subsequent contracts.

Procurement and production-related risks

SFC AG purchases the components and equipment it needs to manufacture its fuel cell systems from various manufacturers and does not produce them itself. The supplier industry for SFC components is, however, only partially prepared for the specific requirements of the developing mass market for fuel cells. To avoid overdependence on certain suppliers, SFC AG is working to diversify its suppliers and is entering into intensive cooperative projects to that end Arrangements have been made with suitable second suppliers for some components. Supply chain risks are being reduced through professional quality management and supplier management. Nevertheless, insufficient availability of all components procured from suppliers poses a risk in the event that these components cannot be made available on time, at the planned cost, or in the required quality. There is also the risk of the loss of a supplier. This can cause our customers to incur consequential damages if SFC AG is unable to deliver on time. Another risk is having claims asserted against us if we are unable to make all deliveries under master agreements.

In anticipation of a large order in the defense industry, SFC began preliminary work and put a large part of the expected order volume in storage as of December 31, 2015. The order was placed in 2017. If this order had not come about, there would have been a risk that the inventories in the amount of around € 1.3 million, some of which has already been written down, could only be sold to other customers to a small extent.

The products of two suppliers accounted for around 57 % of Simark's sales in 2017 (prior year 59 %). Simark's result is therefore strongly dependent on the stability of those supplier relationships.

Commodity price risks

Platinum and, to a lesser extent, ruthenium are used as catalysts in an important component of fuel cells. To ensure reliable costing of our medium-term requirements for these precious metals, we purchase platinum and ruthenium from the supplier of the component at the spot price when certain minimum volumes are undershot and market estimates of price trends indicate this to be prudent. The precious metals purchased in this manner are administered in a separate account, and precious metals recovered from the component in recycled fuel cell systems are also credited to this account. The corresponding quantities of platinum and ruthenium from the account are used up as the component is delivered. Both precious metals are tradable at spot rates.

The precious metals are shown in the balance sheet as inventory assets until they are used in SFC AG products. A write-down of the precious metals would be in order only if the product manufactured from them could not be sold on the market at a price that covered its costs. The value of the platinum and ruthenium was € 137k on the balance sheet date.

In general, rising commodity and energy costs continue to pose a risk to our product margins. At 5 % volatility in the platinum price, the effect would be about € 22k annually.

Foreign exchange rate risks

In the future, due to Simark's volume of business, SFC will generate a substantial portion of its revenues in Canadian dollars, which will be offset by expenses and payments in Canadian dollars.

In addition, SFC AG and Simark will generate sales in North America in U.S. dollars, which will be offset, in particular, by expenses and payments in U.S. dollars to purchase products in the United States.

No currency forwards were entered into in financial year 2017. There were no open currency forwards as of the reporting date. In that respect, foreign exchange risk exists for the unhedged portion of sales.

Generally speaking, volatility of the U.S. dollar and the Canadian dollar could cause book losses if forward transactions were remeasured.

There would have been a negative effect of € – 763,395 (prior year: € – 867,594) on the Group's equity if, when translating the assets and liabilities of Simark Controls Ltd. as of December 31, 2017, the exchange rate had fluctuated by – 5% and a positive effect of € 763,395 (prior year: € 867,594) if the rate had fluctuated by + 5%.

A 5% change in the exchange rate of the Canadian dollar versus the euro compared with the assumptions used for corporate planning would have an effect of around 2% on consolidated revenue and around 3% on underlying EBITDA for the Group.

Financial and liquidity risks

SFC's strategic orientation requires continued capital expenditures, which must be financed to ensure future business success, particularly in the areas of product development and tapping additional market segments and new regions. The funds received by the Group from the public offering in May 2007 and the cash capital increases in November 2014 and August 2016 were raised for these capital expenditures. Other liquidity measures for current and future investments included the issuance of the convertible bond in December 2015, the second and third tranche in January and March 2016, and the issuance of a warrant-linked bond and the loan issued in October 2016; in addition, the cash capital increase was carried out in July 2017 and the bearer warrant-linked bond was issued in August 2017.

Cash is being deposited with various banks in low-risk investments (such as call and time deposits) until it is used within the framework of our growth strategy. The 2017 result and financings led to an increase in cash on hand.

Thanks to our customer structure (high percentage of industrial customers, security officials, and wholesalers, low percentage of private end customers), there were no significant payment defaults in 2017 not addressed through write-downs. As of the reporting date, specific write-downs totaling € 228k had been recognized at SFC AG for at-risk receivables. There were specific write-downs of € 50k at PBF and specific write-downs of € 166k at Simark.

Additional liquidity risks could result from the postponement of large projects. An example would be the postponement of large projects in the defense industry mentioned above, due to the expected revenue volume. If the expected liquidity is not obtained through future sales of inventory on hand, this could result in risks that threaten the Company's survival.

Interest rate risks

The interest rate risk results primarily from the outside financing at Simark, as described above, which is based on a variable, risk-based interest rate.

Interest rate risk otherwise results primarily from the investment of cash. As part of the capital increase in 2007, shares were also placed in the United States. In that context, SFC AG had to assume the contractual obligation to comply with certain tax laws in the United States. Consequently, no investments may exceed a three-month term at present. In that respect, the net interest income or expense of SFC AG is materially influenced by short-term interest rates.

Personnel risks

SFC remains heavily dependent on committed, highly qualified and, to a certain extent, specialized employees. Given our growth plans, there is a risk that an inability to recruit key personnel could become a bottleneck for the Group's planned growth. There is also the risk that key personnel will leave the Group.

SFC is attempting to stay competitive on the labor market by increasing its use of performance-related salary components, flat hierarchies, and early assignment of responsibilities. Nevertheless, there is still a risk with respect to recruiting qualified employees, especially in the technical field.

Specific knowledge of the industry is a major factor for success in the Oil & Gas industry. The contractual agreements and financial incentives are intended to ensure that employees with crucial know-how at Simark remain committed to the Group over the long term.

IT risks

We have continued to expand and improve important IT features like backup and archiving functions, restoring availability after outages, redundancy, and reliability. The monitoring of the highly-available server landscape was also adjusted to meet the growing needs. The SFC Group ensures the availability and sustainability of its IT infrastructure by updating antivirus and other software and the server operating system on the file servers.

Regulatory risks

The business in which SFC AG operates is still highly regulated. That is because it produces, distributes and markets complex technical products and cartridges filled with methanol, distributes them in markets with demanding safety requirements (such as automakers or military organizations), and is subject to highly complex, sometimes non-uniform regulatory background conditions in various markets and countries. SFC AG reacts to objections by stating its opinion. If changes are required, they are implemented by the deadline imposed. It cannot be excluded that the applicable requirements may become stricter (for example, due to stricter anti-terrorism legislation, new laws under REACH or GHS, or the increased visibility of SFC products as they become more popular) and that additional requirements could be imposed on distribution of the Group's products.
To avoid negative effects on the sale of products, SFC AG has started offering additional product and safety training to dealers in Germany to ensure proper qualification of their employees.

There is also a risk that countries will again isolate themselves and attempt to protect themselves from imports by imposing import duties. This could result in decreased competition in these countries.

Other risks

Changes in the budget situation in Germany could lead to restrictions in the award of subsidies.

Summary of the risk report

Based on the information known to us today, we believe that there are no risks that could threaten the continued existence of the Group or its material companies if business in financial year 2018 develops in accordance with the corporate planning that has been adopted. Due to the close relation between earnings and liquidity, a postponement of planned large projects in the defense market could lead to liquidity risks and thus threaten the Company's survival.

REPORT ON OPPORTUNITIES

Market opportunities

The key determinants of the Group's future growth lie in our ability to successfully increase sales. The primary examples of this are raising volumes and margins in current markets, particularly Security & Defense, Oil & Gas outside the markets we have already tapped; expanding our existing business into new regions; tapping new market potential by focusing on the delivery of system solutions; and establishing and expanding our series business in the defense market.

Oil & Gas Industry

Simark's strong distribution and service organization in Canada should continue to accelerate the sales of SFC products in the Canadian Oil & Gas industry thanks to Simark's direct access to the market and further use of SFC's existing partnership structure. The next logical step is the further regional expansion of Simark's business operations into Eastern Canada and the United States. The increase in the international distribution of products in the field of metering and instrumentation offers additional potential for growth. The recovery of relative stability in oil prices resulted in significantly higher demand in 2017. Maintenance spending that was put on hold during the crisis is picking up steam, and customers are negotiating and deciding on new projects again.

The expertise acquired in Canada with respect to application and product integration in this industry will subsequently be used to develop markets other countries, as well, where it will also result in market success and thereby create growth momentum.

Defense & Security

SFC AG has made more progressive planning for this market in financial year 2018 compared to 2017, as core parameters such as the general security situation and increased defense budgets in NATO member states ontinue to develop positively. This also includes a delay effect, as revenue planned to be recognized for 2017 was not recognized due to a delay in taking delivery. The very positive testing results of SFC products and the confirmation of the interest in and increasing demand for light, mobile and hard-to-detect power supply systems on the part of major user groups are important prerequisites for a continuation of the growth course embarked upon in this market. Demand in the core markets of Germany and Israel, combined with a regional expansion of activities, e. g., in other NATO countries such as France and the United Kingdom, but also in countries such as India and Singapore, are important steps towards this goal.

Due to the various crises around the world, it appears that a shift in thinking is taking place in the NATO countries, which may result in a significant increase in defense budgets. NATO's goal of spending 2% of GDP on defense is still met by only a few members. The pressure on other NATO members to increase their defense budget by members that are already spending more than 2% of GDP has increased significantly. This presents SFC with significant opportunities.

Broader customer base for PBF

The further increase in sales to new customers and an upturn in business with current key customers offer considerable potential for business growth in this area. In addition, the further introduction of a common product development platform, e.g., for the laser industry, will make new projects progress more quickly and reduce development costs. This will further increase attractiveness to customers.

Improved product mix

The continuing trend over the past few years toward products that use fuel cells with higher power classes, such as the EFOY Pro 12000, and integrated product solutions in the area of power management offer considerable potential for improving gross margins at the product level. Joint Development Agreements (JDA) with customers allow the company to tap new performance areas and/or application fields.

Other opportunities

Innovation and further development

By selling more system solutions in all product areas, we are covering larger portions of the value chain, which means proportionally higher product sales per order. An accelerated penetration of the market for fully-integrated systems will offer significant opportunities for growth in currently existing business sectors and on the basis of existing customer relationships.

New products such as the Next Generation Fuel Cell (NGFC) and further developments on the basis of the JENNY platform will facilitate applications in the field of border protection and terror defense by the police or other defense forces.

Integrated systems for security of data transmission, and metering, combined with off-grid power supplies based on fuel cells, represent a considerable growth market, particularly in the oil and gas industry.

Cutting costs on the basis of technical innovations would foster additional opportunities on the earnings side. SFC has the opportunity to build on the current lead it enjoys thanks to its mature technology and marketing power and to be a global trendsetter in off-grid energy supply in the low and medium-power range.

External factors

Additional opportunities may present themselves as a result of external factors. Earnings could benefit from falling commodity prices and favorable exchange rate developments.

By prioritizing research and development in Germany, we may be able to obtain additional subsidies. The resulting increased funding for SFC AG development projects would improve SFC AG's earnings.

A new version of the German Chemicals Prohibition Ordinance came into force on January 27, 2017, which will facilitate the sale of SFC fuel cartridges. Among other things, this new version includes an exception for the release of methanol or mixtures containing methanol for use in fuel cells. There is no obligation on the part of the retailer to obtain authorization or notify the authorities, to check the professional competence and the minimum age at the time of surrender or to establish the identity of the purchaser and produce documentation.

DECLARATION ON CORPORATE GOVERNANCE

The Management Board issued the corporate governance statement for 2017 and published it on the website of SFC AG (www.sfc.com/en/investors/corporate-governance). It will issue an updated corporate governance statement pursuant to § 289f of the German Commercial Code on March 22, 2018 and make it available on the Internet at https://www.sfc.com/en/investors/corporate-governance/.

FORECAST REPORT

For 2018, SFC expects its Defense business to grow and its international fuel cell and Industry business to expand. Most growth is expected in these markets and will be achieved through organic growth, in addition to strategic partnerships and a continued focus on complete solutions. In the Defense & Security market, our management assumes that the projects ordered in 2017 will be carried out in 2018. Accordingly, a significant increase in sales in the Defense & Security market is expected.

The future performance of oil and gas prices will be of decisive importance for the Oil & Gas segment. We still believe that there will be long-term growth in the Oil & Gas segment and expect clearly positive sales growth for SFC in 2018, compared to the prior year, because of the rising trend in oil and gas prices since reaching their low in 2016.

The Management Board expects that consolidated sales will range from € 60 million to € 64 million in 2018 and that underlying EBITDA and underlying EBIT will improve significantly.

We expect the volatility on the global currency markets to continue in 2018. When calculating sales revenue and Simark's earnings, the Management Board assumes an exchange rate of 1.50 between the Canadian dollar and the euro. Our planning is based on an oil price of USD 50. Falling oil and gas prices would have a negative impact on spending by oil and gas customers, particularly with respect to new projects. It is anticipated that capitalization of research and development costs will remain at the previous year's level. It is expected that the number of employees will remain the same or even increase. Quality indicators are also expected to improve.

On the reporting date, the Group had available cash and cash equivalents in the amount of € 4.4 million. With a trend for its operating result in financial year 2018 in line with forecasts for sales and earnings, the Group will have sufficient liquidity to meet its financial obligations.

The actual performance of the SFC Group and its segments may differ from our forecast, both positively and negatively, on account of the opportunities and risks described in the Risk and Opportunities Report.

SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

Regarding the events after the balance sheet date, please see the discussion in the Notes to the Consolidated Financial Statements for Financial Year 2017.

Brunnthal, March 22, 2018

The Management Board

Dr. Peter Podesser
Chairman of the Board (CEO)

Hans Pol
Board Member (Industry)

Marcus Binder
Board Member (Defense & Security)

CONSOLIDATED FINANCIAL STATEMENTS

The following Consolidated Financial Statements have been prepared in the German language. They have been translated for this annual report into English. In the event of questions of interpretation, the German version shall be authoritative.

CONSOLIDATED FINANCIAL STATEMENTS

SFC ENERGY AG, BRUNNTHAL
CONSOLIDATED INCOME STATEMENT
FOR THE FINANCIAL YEAR FROM JANUARY 1 TO DECEMBER 31, 2017

in €

	Notes	2017	2016
Sales	(1)	54,291,819	44,041,375
Production costs of work performed to generate sales	(2)	– 36,565,940	– 30,794,650
Gross profit		**17,725,879**	**13,246,725**
Sales costs	(3)	– 9,786,034	– 9,126,026
Research and development costs	(4)	– 3,892,013	– 4,148,298
General administration costs	(5)	– 5,015,879	– 4,882,662
Other operating income	(6)	277,166	95,877
Other operating expenses	(7)	– 193,838	– 83,491
Operating loss		**– 884,719**	**– 4,897,875**
Interest and similar income	(9)	7	73
Interest and similar expenses	(9)	– 1,174,822	– 686,771
Income from investments	(9)	24,534	211,534
Result from ordinary operations		**– 2,035,000**	**– 5,373,039**
Income taxes	(10)	– 37,222	380,308
Consolidated net loss		**– 2,072,222**	**– 4,992,731**
NET LOSS PER SHARE	(36)		
undiluted		– 0.23	– 0.58
diluted		– 0.23	– 0.58

SFC ENERGY AG, BRUNNTHAL
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR FROM JANUARY 1 TO DECEMBER 31, 2017

in €

	Notes	2017	2016
Consolidated net loss		**– 2,072,222**	**– 4,992,731**
OCI items that may be recycled to profit or loss in the future:			
Result from currency translations		– 327,018	372,898
OCI items that were recycled to profit or loss:			
Result from currency translations		0	– 150,347
Total other results	(30)	**– 327,018**	**222,551**
Total comprehensive income		**– 2,399,240**	**– 4,770,180**

All amounts are attributable in full to equity holders of the parent company. There are no deferred tax effects on the total results recognized directly in equity.

SFC ENERGY AG, BRUNNTHAL
CONSOLIDATED BALANCE SHEET
AT DECEMBER 31, 2017

in €

	Notes	12/31/2017	12/31/2016
Current assets		**21,849,419**	**20,055,653**
Inventories	(14)	7,939,322	7,717,500
Trade accounts receivable	(15)	7,798,627	8,638,153
Receivables from percentage-of-completion	(16)	913,114	614,819
Income tax receivables	(17)	0	155,996
Other short-term assets and receivables	(18)	504,338	888,184
Cash and cash equivalents	(19)	4,408,398	1,756,001
Cash and cash equivalents with limitation on disposal	(20)	285,620	285,000
Non-current assets		**12,684,463**	**13,737,302**
Intangible assets	(21)	10,950,437	11,854,560
Property, plant and equipment	(22)	1,197,253	1,204,876
Financial assets	(33)	71	71
Deferred tax assets	(10)	536,702	677,795
Assets		**34,533,882**	**33,792,955**

SFC ENERGY AG, BRUNNTHAL
CONSOLIDATED BALANCE SHEET
AT DECEMBER 31, 2017

in €

	Notes	12/31/2017	12/31/2016
Current liabilities		**18,563,477**	**13,335,382**
Provisions for taxes	(23)	51,509	85,928
Other provisions	(23)	748,659	560,119
Liabilities to banks	(24)	4,010,253	4,316,886
Liabilities from prepayments	(25)	15,184	101,629
Trade accounts payable	(26)	5,520,020	5,789,615
Liabilities under finance leases	(27)	40,442	42,986
Liabilities from percentage-of-completion	(16)	191,353	262,871
Liabilities from financing	(28)	5,399,603	0
Other short-term liabilities	(28)	2,586,454	2,175,348
Non-current liabilities		**2,075,623**	**7,118,901**
Other long-term provisions	(23)	874,283	1,458,776
Liabilities under finance leases	(27)	19,616	20,849
Other long-term liabilities	(28)	4,157	4,861,199
Other liabilities from financing	(28)	528,906	1,315
Deferred tax liabilities	(10)	648,661	776,762
Equity		**13,894,782**	**13,338,672**
Subscribed capital	(30)	9,659,456	9,047,249
Capital surplus	(30)	75,475,155	73,132,012
Other changes in equity not affecting profit or loss	(30)	–816,921	–489,904
Consolidated net loss	(30)	–70,422,908	–68,350,685
Liabilities and shareholders' equity		**34,533,882**	**33,792,955**

SFC ENERGY AG, BRUNNTHAL
CONSOLIDATED CASH FLOW STATEMENT
FOR THE FINANCIAL YEAR FROM JANUARY 1 TO DECEMBER 31, 2017

in €

		Notes	2017	2016
	Cash flow from ordinary operations			
	Result from ordinary operations		**– 2,035,000**	**– 5,373,039**
+	Net interest income	(9), (37)	1,174,815	686,698
+	Depreciation/amortization and impairments of intangible assets and property, plant and equipment	(12), (21), (22)	1,746,804	2,390,195
–/+	Income/expenses from SAR Plan/ Long Term Incentive Plan	(34)	491,515	– 216,739
+	Changes in allowances	(14), (15)	– 795,656	977,072
–	Losses from disposal of property, plant and equipment	(21), (22)	– 2,296	– 2,807
–	Income from derivatives	(31)	0	0
+/–	Other non-cash expenses/income		269,277	49,815
	Changes to operating result before working capital		**849,459**	**– 1,488,805**
–	Changes to provisions	(23)	– 433,535	– 226,672
–/+	Changes to trade account receivables	(15)	768,703	– 1,715,938
+/–	Changes to inventories	(14)	334,669	264,140
+	Changes to other receivables and assets	(16), (17), (18)	32,451	18,175
–/+	Changes to trade accounts payable	(26)	– 93,367	– 1,685,363
–	Changes to other liabilities	(25), (28)	319,140	– 421,825
	Cash flow from ordinary operations before taxes		**1,777,520**	**– 5,256,288**
+/–	Income tax refund/payment	(10), (37)	– 73,400	24,893
	Cash flow from ordinary operations		**1,704,120**	**– 5,231,395**

SFC ENERGY AG, BRUNNTHAL
CONSOLIDATED CASH FLOW STATEMENT
FOR THE FINANCIAL YEAR FROM JANUARY 1 TO DECEMBER 31, 2017

in €

		Notes	2017	2016
	Cash flow from investment activity			
–	Investments in intangible assets from development projects	(21)	– 767,275	– 435,024
–	Investments in other intangible assets	(21)	– 77,079	– 184,149
–	Investments in property, plant and equipment	(22), (27)	– 496,960	– 301,070
+	Interest and similar income	(9), (37)	7	73
+/–	Payments for acquisition of bank deposits with limitation on disposal	(20)	– 620	150,000
+	Proceeds from disposal of property, plant and equipment	(21), (22)	34,103	205,458
	Cash flow from investment activity		**– 1,307,824**	**– 564,712**
	Cash flow from financial activity			
+	Payments from capital increase	(30)	400,000	1,499,995
–	Cash outflows for costs from capital increase	(30)	– 11,085	– 34,766
–	Repayment of financial debt	(24)	– 2,648,102	– 650,625
+	Proceeds from issuance of convertible bonds and options	(28)	4,900,050	3,485,000
–	Expenses from issuance of convertible bonds and options	(28)	– 88,483	– 85,255
+	Changes to current account liabilities	(24)	547,367	514,706
–	Repayment of liabilities under finace lease	(27)	0	– 47,085
–	Interest paid and other expenses	(9), (37)	– 842,069	– 407,821
	Cash flow from financial activity		**2,257,678**	**4,274,149**
	Net change in cash and cash equivalents		**2,653,974**	**– 1,521,958**
	Currency effects on cash and cash equivalents		– 1,578	893
	Net change in cash and cash equivalents			
	Cash and cash equivalents at beginning of period	(19)	1,756,001	3,277,066
	Cash and cash equivalents at end of period	(19)	4,408,398	1,756,001
	Net change in cash and cash equivalents		**2,653,975**	**– 1,521,958**

SFC ENERGY AG, BRUNNTHAL
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR FROM JANUARY 1 TO DECEMBER 31, 2017

in €

	Notes	Subscribed capital	Capital surplus	Other changes in equity not effecting profit or loss	Net accumulated loss	Total
As of 01/01/2016		**8,611,204**	**72,017,015**	**–712,455**	**–63,357,954**	**16,557,810**
Consolidated net loss						
Result from currency translation recognized in equity					–4,992,731	–4,992,731
Changes in the group of consolidated companies				–150,347		–150,347
Net income from foreign currency translation	(30)			372,898		372,898
Total comprehensive income						**–4,770,180**
Capital increase						
Issuance of convertible bonds – equity component	(30)		84,891			84,891
Issuance of option bonds – equity component			923			923
Capital increase		436,045	1,063,950			1,499,995
Less costs from capital increase	(30)		–34,767			–34,767
As of 12/31/2016		**9,047,249**	**73,132,012**	**–489,904**	**–68,350,685**	**13,338,672**
Consolidated net loss						
Consolidated net loss					–2,072,222	–2,072,222
Result from currency translation recognized in equity	(30)			–327,018		–327,018
Total comprehensive income						**–2,399,240**
Capital increase						
Issuance of convertible bonds – equity component	(30)	450,780	2,114,727			2,565,507
Issuance of option bonds – equity component			928			928
Capital increase	(30)	161,427	238,573			400,000
Less costs from capital increase			–11,085			–11,085
As of 12/31/2017		**9,659,456**	**75,475,155**	**–816,922**	**–70,422,907**	**13,894,782**

SFC ENERGY AG, BRUNNTHAL
CONSOLIDATED SEGMENT REPORTING
FOR THE FINANCIAL YEAR FROM JANUARY 1 TO DECEMBER 31, 2017

in €

	Oil & Gas		Security & Industry		Consumer		Consolidated financial statements	
	2017	2016	2017	2016	2017	2016	2017	2016
Sales	24,458,144	19,295,564	26,382,989	21,096,513	3,450,686	3,649,298	54,291,819	44,041,375
Production costs of work performed to generate sales	−18,629,097	−14,889,999	−15,585,995	−13,317,131	−2,350,849	−2,587,520	−36,565,941	−30,794,650
Gross profit	**5,829,046**	**4,405,565**	**10,796,995**	**7,779,382**	**1,099,838**	**1,061,778**	**17,725,879**	**13,246,725**
Sales costs	−4,242,743	−4,520,679	−4,553,104	−3,369,208	−990,187	−1,236,139	−9,786,034	−9,126,026
Research and development costs	−209,355	−188,672	−3,439,741	−3,638,957	−242,917	−320,669	−3,892,013	−4,148,298
General administration costs	−1,452,627	−1,298,093	−3,068,581	−3,015,357	−494,671	−569,212	−5,015,879	−4,882,662
Other income/expenses	−30,159	98,101	89,842	−77,150	23,645	−8,565	83,328	12,386
Operating loss (EBIT)	**−105,838**	**−1,503,778**	**−174,589**	**−2,321,290**	**−604,292**	**−1,072,807**	**−884,719**	**−4,897,875**
Adjustments EBIT	676,504	960,911	372,005	−151,577	12,872	−23,406	1,061,381	785,928
EBIT underlying	**570,666**	**−542,867**	**197,416**	**−2,472,867**	**−591,420**	**−1,096,213**	**176,662**	**−4,111,947**
Depreciation/amortization	−511,279	−1,045,456	−1,085,843	−1,139,493	−149,682	−205,242	−1,746,804	−2,390,191
EBITDA	**405,441**	**−458,322**	**911,254**	**−1,181,797**	**−454,611**	**−867,565**	**862,085**	**−2,507,684**
Adjustments EBITDA	206,944	24,485	372,005	−151,577	12,872	−23,406	591,821	−150,498
EBITDA underlying	**612,385**	**−433,837**	**1,283,259**	**−1,333,374**	**−441,739**	**−890,971**	**1,453,906**	**−2,658,182**
Financial result							−1,150,281	−475,164
Result from ordinary operations							**−2,035,000**	**−5,373,039**
Income taxes							−37,222	380,308
Consolidated net result							**−2,072,222**	**−4,992,731**

With regard to the information of group segment reporting, please refer to note 38 “Disclosures on consolidated segment reporting”.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR FROM JANUARY 1 TO DECEMBER 31, 2017

1. GENERAL POLICIES, SCOPE OF CONSOLIDATION AND ACCOUNTING AND VALUATION PRINCIPLES

SFC Energy AG (the "Company" or "SFC") is a stock corporation domiciled in Germany. The Company's headquarters are located at Eugen-Sänger-Ring 7, 85649 Brunnthal. The Company is registered in the Commercial Register of the Local Court of Munich under number HRB 144296. The principal activities of the Company and its subsidiaries (the Group) are the development, production and distribution of power generation systems and their components for off-grid and on-grid applications based on fuel cell and other technologies, as well as investment in the equipment and facilities required for these activities and transaction of all other related business. The Company's product portfolio also includes accessories and spare parts, particularly fuel cartridges, solutions for combining fuel cell products with other power sources, power storage units and electrical devices, as well as mechanical, electronic and electrical instruments to monitor and control production and logistics processes. As a provider of off-grid and network-based power supply, the Group serves three segments: "Oil & Gas", "Security & Industry" and "Consumer."

Accounting principles

The consolidated financial statements for 2017 were prepared in accordance with the International Financial Reporting Standards (IFRSs) and the related interpretations of the International Accounting Standards Board (IASB) as they are to be applied in the European Union pursuant to Regulation No. 1606/2002 of the European Parliament and of the Council on the application of international accounting standards. As of December 31, 2017, there were no standards or interpretations to apply that were effective, but had not yet been endorsed by the EU and had an impact on the consolidated finance statements. Accordingly, the consolidated financial statements are also in conformity with the IFRSs as published by the IASB.

The Group's financial year is the calendar year (January 1 to December 31).

The consolidated financial statements are stated in euros (€). Unless otherwise indicated, amounts given in these Notes are rounded to the nearest whole euro (€). Please note that small differences can arise in rounded amounts and percentages due to commercial rounding of figures.

The consolidated income statement was prepared using the cost-of-sales method. The additional disclosures of costs of materials and personnel costs are shown separately in the Consolidated Notes. The Notes also contain the disclosures required under § 315e para. 1 of the German Commercial Code, or HGB ("Consolidated Financial Statements under International Accounting Standards").

With regard to possible risks that could threaten the continued existence of the Group, we explicitly refer to the information in the sections "Financial and Liquidity risks" as well as "Conclusion to the risk report" of the Group Management report. The consolidated financial statements have been drawn up on the basis of the going-concern assumption.

The Management Board of SFC Energy AG approved the consolidated financial statements for release to the Supervisory Board on March 22, 2018. The Supervisory Board is tasked with reviewing the consolidated financial statements and deciding whether to adopt them.

New accounting standards applied

This section describes the standards and interpretations published by the IASB and endorsed by the European Commission that entered into force on January 1, 2017 and were applied to the consolidated financial statements for the first time in financial year 2017.

Amendments to IAS 7 "Disclosure Initiative": The amendment improves information on the change in the Company's indebtedness (please refer also to notes 37). The Company discloses information about changes in financial liabilities whose payments and receipts are shown in the cash flow statement under cash flow from financing activities. Associated financial assets are also included in the disclosures (e.g. assets from hedging transactions). Changes in cash and cash equivalents, changes arising from the acquisition or sale of companies, exchange rate-related changes, changes in fair values and other changes are disclosed. The Group prepares a reconciliation statement for this purpose.

Amendments to IAS 12 "Recognition of Deferred Tax Assets for Unrealized Losses": The amendments clarify the recognition of deferred tax assets for unrealized losses on debt instruments measured at fair value. Use of the new and revised standards had no impact at all or no material impact on the consolidated financial statements.

New accounting standards not yet applied

Below is a summary of the new and revised standards, some of which have been endorsed by the European Commission, that were released by the IASB prior to this report's publication, but which the SFC did not early adopt for 2017:

Amendments to IFRS 2 "Classification and measurement of share-based compensation": The amendments relate to the consideration of exercise conditions in the context of measurement of share-based compensation with cash settlement, the classification of share-based compensation that provides for a net settlement for taxes for be withheld, and the accounting for a change in classification of remuneration from cash-settled to equity compensation.

The amendments are – pending EU endorsement – to be applied to compensation granted or changed in financial years beginning on or after January 1, 2018. Earlier application is permitted. A retroactive application is only possible without the use of later, better knowledge.

Amendments to IFRS 4 "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts": The adjustments relate to the first-time application of IFRS 9 for insurers. As a result of the different dates on which IFRS 9 and the new standard for insurance contracts come into force, there are increased volatilities in results and double the conversion expenses for a transitional period without these adjustments.

The amendments provide for two optional solutions:

- Postponement of the first-time application of IFRS 9: If they apply IFRS 4 to existing insurance contracts, the companies concerned may continue to apply IAS 39 instead of IFRS 9 for financial years beginning before January 1, 2021. This applies only if IFRS 9 has not been applied previously.

- Transition process: Companies applying IFRS 4 to existing insurance contracts may reclassify an amount from "through profit or loss" to "other income" so that the income recognition under IFRS 9 corresponds to that under IAS 39.

IFRS 9 "Financial instruments": IFRS 9 Financial Instruments contains rules for the recognition, measurement and derecognition of hedging instruments. The IASB published the final version of the standard on July 24,2014, as part of the completion of the various phases of its comprehensive project on financial instruments. The accounting for financial instruments under former IAS 39 "Financial Instruments: Recognition and Measurement" can now be completely replaced by accounting under IFRS 9. The version of IFRS 9 that has now been published supersedes all previous versions. The central requirements of the final IFRS 9 can be summarized as follows:

- The requirements of IFRS 9 on scope and recognition and derecognition are largely unchanged from the prior standard IAS 39 Financial Instruments: Recognition and Measurement.

- However, IFRS 9 provides for a new classification model for financial assets.

- The subsequent measurement of financial assets will now be based on three categories with different measurement standards and different recognition of changes in value. The categorization is based on both the contractual cash flows of the instrument and the business model in which the instrument is held. These are therefore mandatory categories. However, companies also have individual options.

- The existing rules in IFRS 9 were essentially carried forward for financial liabilities. The only significant new requirement relates to entities that have chosen to measure debt at fair value under the fair value option. They are required to recognize changes in fair value due to their own credit in other comprehensive income.

- IFRS 9 provides for three stages that now determine the amount of losses to be recognized and the calculation of interest revenue. As soon as a financial instrument is originated or purchased, 12-month expected credit losses are recognized in profit or loss (stage 1). If the credit risk increases significantly, full lifetime expected credit losses are recognized (stage 2). If the credit risk of a financial asset increases to the point that it is considered credit-impaired, interest revenue is calculated based on the amortized costs (i. e. the gross carrying amount adjusted for the loss allowance (stage 3).

- In addition to comprehensive transitional provisions both for the transition and for ongoing application. New requirements versus IFRS 7 Financial Instruments: Notes results primarily from the rules on impairments.

The new standard is effective for annual periods beginning on or after January 1, 2018. The EU has endorsed the standard.

No significant changes were identified with regard to the effects of the new standard on the classification and measurement of financial instruments. The Group's existing bonds and loans have been allocated to the Amortized Cost category. No differences in accounting treatment and measurement are expected.

The conversion to the new standard has been largely completed and the effects of the conversion are currently being analyzed, but these cannot yet be finally determined. Higher write-downs may occur as a result of the new credit loss recognition model.

Amendments to IFRS 9 – Prepayment Features with Negative Compensation: The adjustments relate to a limited adjustment of the assessment criteria relevant for the classification of financial assets. Under certain circumstances, financial assets with a negative early repayment penalty ("prepayment feature with negative compensation") may be carried at amortized cost or at fair value through profit or loss in other comprehensive income instead of at fair value through profit or loss. The amendments are to be applied for the first time as of January 1, 2019, subject to their being incorporated into EU law. The Group currently assumes that there will be no material effects on the consolidated financial statements.

Amendments to IFRS 10 and IAS 28 "Sales or contributions of assets between an investor and its associate/joint venture": The amendments address a known inconsistency between the provisions of IFRS 10 and IAS 28 (2011) in the event of a sale of assets to an associated company or a joint venture or the contribution of assets to an associated company or joint venture.

Under IFRS 10, a parent company must recognize the profit or loss from the sale of a subsidiary in the income statement in the event of a loss of control. By contrast, the currently applicable IAS 28.28 requires that proceeds from the disposal between an investment and an equity-accounted investment (whether an associate company or a joint venture) are only to be recognized in the amount of the other parties' interest in this company.

In the future, the entire profit or loss from a transaction is to be recognized only if the assets sold or invested are a business within the meaning of IFRS 3. This applies regardless of whether the transaction is structured as a share deal or an asset deal. If, on the other hand, the assets do not constitute a business, only a pro rata profit recognition is permissible.

The initial application date of the amendments was postponed by the IASB indefinitely.

IFRS 15 "Revenue from Contracts with Customers": IFRS 15 provides when and how an IFRS reporter has to recognize revenue. Reporters are also required to provide more informative and relevant disclosures than in the past. IFRS 15 is applicable to all contracts with customers, with the exception of the following contracts:

- leases within the scope of IAS 17 Leases,
- financial instruments and other contractual rights or obligations within the scope of IFRS 9 Financial Instruments, IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IAS 27 Separate Financial Statements or IAS 28 Investments in Associates and Joint Ventures,
- insurance contracts within the scope of IFRS 4 Insurance Contracts, and
- non-monetary exchanges between entities in the same line of business in order to facilitate sales to customers or potential customers.

Unlike the current provisions, the new standard provides for a principle-based, five-step model that is applicable to all contracts with customers. Pursuant to this five-step model, step 1 is to identify the contract with the customer. Step 2 is to identify the performance obligations in the contract. Step 3 is to determine the transaction price, and there are explicit provisions regarding the treatment of variable consideration, financing components payments to the customer and exchanges. After the transaction price is determined, step 4 is to allocate the transaction price to the performance obligations in the contract. This is based on the standalone selling prices of the individual performance obligations. Step 5 is to recognize revenue when (or as) the entity satisfies a performance obligation. Revenue is recognized as control of the asset or the service is passed to the customer. When a contract is entered into, IFRS 15 requires companies to determine whether the revenue resulting from the contract should be recognized at point in time or over time. First it must be determined using certain criteria whether the control of the performance obligation has been transferred over time. If this is not the case, then the revenue must be recognized at the point in time when the control passes to the customer. Indicators of this include transfer of legal title, transfer of significant risks and rewards, and formal acceptance. On the other hand, if control passes over time, revenue may only be recognized if progress towards completion can be reliably determined using input or output methods. In addition to the general revenue recognition principles, the standard contains detailed implementation guidance on issues such as sales of goods with right of return, customer options to acquire additional goods and services, principal-agent arrangements and bill-and-hold agreements. The standard also includes new guidance on the costs to obtain and fulfill contracts and when such costs are to be capitalized. Costs that do not meet these criteria are to be expensed when they are incurred. Finally, the standard contains new comprehensive provisions regarding disclosures to be made on the revenue in an IFRS report's financial statements. In particular, qualitative and quantitative disclosures on each of the following points must be made:

- its contracts with customers,
- material judgments and changes to them made when applying the revenue provisions to these contracts,
- assets resulting from capitalized costs to obtain and fulfill a contract with a customer.

The new standard is effective for annual periods beginning on or after January 1, 2018. The EU has endorsed the standard. The Group has largely completed its implementation plan for accounting for income from contracts with customers. Within the Group the only possible effects could be at Simark Controls Ltd. Contracts will be reviewed to determine whether the requirements of IFRS 15 are met or will lead to a change in revenue recognition. Expected changes related to group sales are less than 5 % of sales volume.

Amendment to IFRS 15 "Clarifications of IFRS 15": The amendments contain clarifications on various provisions of IFRS 15 and simplifications regarding the transition to the new standard.

In addition to the clarifications, the amendment provides two further simplifications to reduce the complexity and cost of switching to the new standard. These relate to options for the presentation of contracts that are entered into either at the beginning of the earliest period shown or that have been changed before the start of the earliest period. The amendments are to be applied for the first time starting January 1, 2018.

IFRS 16 "Leases": The new leases standard results in profound changes, particularly in the treatment of leases by lessees. The most serious change is that leases are no longer disclosed as off-balance-sheet transactions and thus as contingent transactions, but will instead have to be recognized in the balance sheet. This eliminates the previous differentiation between operating and finance leases for the lessee. In the future lessees will recognize "right-of-use" assets and a lease liability for all leases within the scope of the standard. The asset will be amortized over the lease term in accordance with the provisions for non-financial assets and the liability is accounted for in accordance with the provisions for financial instruments. The new standard is effective for annual periods beginning on or after January 1, 2019. Early adoption of the standard is possible, provided that IFRS 15 "Revenue from Contracts with Customers" is also applied. The standard was endorsed by the EU in October 2017.

The Group has made an initial evaluation of the possible effects on its consolidated financial statements, but has not yet completed a detailed evaluation. The actual effects from the application of IFRS 16 on the consolidated financial statements at the time of initial application will depend on future economic conditions, such as the Group's interest rate on January 1, 2019, the composition of the leasing portfolio at that time, the Group's estimation on the exercise of extension options and the extent to which the Group takes advantage of exceptional rules and exemptions from accounting recognition.

Thus far the most significant effect that has been identified is that the Group will recognize new assets and liabilities for its operating leases.

In addition, the nature of the expenses related to these leases will now change, because IFRS 16 replaces the straight-line expenses for operating leases with an amortization expense for right-of-use assets and interest expense for liabilities under the lease. The operating result will be improved at the expense of the financial result.

Based on the first assessment, an asset in the amount of approx. € 5.1 m will be capitalized with a corresponding liability. SFC uses an industry-specific software solution for such calculation.

IFRS 17 – "Insurance Contracts": IFRS 17 replaces IFRS 4 and thus for the first time lays down uniform requirements for the recognition, measurement, presentation and disclosure of information on insurance contracts, reinsurance contracts and investment contracts with discretionary participation. In accordance with the valuation model of IFRS 17, groups of insurance contracts are measured on the basis of the expected value of discounted cash flows with an explicit risk adjustment for non-financial risks and a contractual service margin that results in the disclosure of profits in accordance with the provision of services. Subject to adoption into EU law, IFRS 17 must be applied for reporting periods beginning on or after January 1, 2021. No significant effects are expected.

Amendment to IAS 28 – "Long term interests in associates and joint ventures": The amendments clarify that IFRS 9 is applicable to long-term interests in associates and joint ventures that are not accounted for using the equity method. The amendments are – subject to EU endorsement – to be applied for the first time in the first reporting period of a business year beginning on or after January 1, 2019. The Group currently assumes that there will be no material effects on the consolidated financial statements.

Amendment to IAS 40 "Transfers of Investment Property": The amendment to IAS 40 clarifies the cases in which the classification of a property as an "investment property" begins or ends, if the property is still under construction or development. The exhaustive list in the current rule IAS 40.57 was not clear regarding the classification of property that was no yet finished. The list is now no longer considered exhaustive so that unfinished property can be covered by the rule.

The amendments are – subject to EU endorsement – to be applied for the first time in the first reporting period of a business year beginning on or after January 1, 2018. Earlier application is permitted. No effects are expected.

IFRIC 22 "Foreign Currency Transactions and Advance Consideration": IFRIC 22 addresses an application question on IAS 21 The Effects of Changes in Foreign Exchange Rates. It is clarified at what point in time the exchange rate for the translation of transactions that include the receipt or payment of advance consideration in a foreign currency. The determining factor for determining the exchange rate for the underlying asset, income or expense is the date on which the asset or liability resulting from the advance payment is recognized for the first time.

The amendments are – subject to EU endorsement – to be applied for the first time in the first reporting period of a business year beginning on or after January 1, 2018, although early adoption is permissible. Earlier application is permitted. No significant effects are expected.

IFRIC 23 "Uncertainty over income tax treatments": The tax treatment of certain items and transactions may depend on future recognition by the tax authorities or fiscal jurisdiction. IAS 12 Income Taxes regulates how actual and deferred taxes are to be accounted for. IFRIC 23 supplements the provisions of IAS 12 with regard to the recognition of uncertainties regarding the income tax treatment of facts and transactions.

The amendments are – subject to EU endorsement – to be applied for the first time in the first reporting period of a business year beginning on or after January 1, 2019. Earlier application is permitted. The Group currently assumes that there will be no material effects on the consolidated financial statements.

Improvements to IFRS 2014 – 2016: Three IFRSs were amended by the Annual Improvements to IFRSs (2014 – 2016). IFRS 12 clarifies that the disclosures under IFRS 12 also apply to shares in subsidiaries, joint ventures or associates classified as held for sale within the meaning of IFRS 5; the disclosures under IFRS 12.B10 – B16 (financial information) are an exception to this. IAS 28 clarifies that the option to measure a holding in an associated company or a joint venture held by a venture capital company or another qualifying company may be exercised differently per holding. In addition the temporary relief provisions of IFRS 1 Appendix E (IFRS 1.E3 – E7) were stricken for first-time adopters of IFRS.

Subject to adoption into EU law, the amendments to IFRS 12 must be applied for the first time in the first reporting period of a financial year commencing on or after January 1, 2017, and the amendments to IFRS 1 and IAS 28 must be applied for the first time in the first reporting period of a financial year commencing on or after January 1, 2018. Earlier application is permitted. No significant effects are expected.

Improvements to IFRS 2015 – 2017: Four IFRSs (2015 – 2017) were amended by the Annual Improvements to IFRSs (2015 – 2017).

IFRS 3 clarifies that an entity should apply the principles of successive business combinations when it obtains control over an operation in which it previously held an interest as part of a joint operation. The share previously held by the acquirer must be revalued. No significant effects are expected.

IFRS 11 stipulates that a party will not revaluate the share previously held in a business operation in which it was previously involved as part of a joint operation if it obtains joint control. No significant effects are expected.

IAS 12 is amended to the effect that all income tax consequences of dividend payments must be taken into account in the same way as the income on which the dividends are based. No significant effects are expected.

Finally, IAS 23 stipulates that when determining the cost of financing if an enterprise has generally borrowed funds for the procurement of qualifying assets, borrowing costs incurred in connection with the procurement of qualifying assets are not to be taken into account until their completion. No significant effects are expected.

The amendments are – subject to EU endorsement – to be applied for the first time in the first reporting period of a business year beginning on or after January 1, 2019, although early adoption is permissible. The Group currently assumes that there will be no material effects on the consolidated financial statements.

Estimation uncertainty and judgments

The preparation of the consolidated financial statements in accordance with IFRS requires management to make certain assumptions that have an impact on the measurement of assets and liabilities, disclosure of contingent assets and contingent liabilities at the balance sheet date, and the income and expenses disclosed. Actual future amounts may vary from estimates. Variances are recognized in profit or loss at the time more knowledge is gained.

Assumptions and estimates relate mainly to:

Measurement of provisions: Management estimates are used to measure provisions. The carrying amount of warranty provisions, for example, is based on the historical development of warranties and on an assessment of all future, potential warranty cases, weighted by probability of occurrence. The long-term portion of the provisions determined on the basis of these assumptions is discounted. The discount rates that had been used previously were adjusted in the year under review to reflect current market developments. Note 23 contains information about the discount rates used, the change in present value, and the impact of the rate adjustments.

Determination of useful lives for property, plant and equipment and intangible assets: The useful lives for non-current assets are based on estimates by management. SFC reviews the estimated useful lives of property, plant and equipment and intangible assets at the end of each financial year. No estimated useful lives were changed during the financial year. In the context of acquisitions, the useful life of the customer relationships was determined using statistical analyses and management estimates, while that of the acquired technology was determined using empirical values for the industry's average product life cycle (see "Intangible assets" under Section "Accounting Principles").

Mandatory capitalization of self developed intangible assets: Based on management's planning and estimates, development costs are capitalized to the extent IFRS criteria are fulfilled. Please see Note 21 "Intangible assets" for additional information about the development costs capitalized in the year under review.

Recognition of deferred tax assets, particularly for losses carried forward: The recognition of deferred tax assets on tax loss carryforwards of the Company is based on profit forecasts for tax purposes. Please see Note 10 "Income Taxes" for additional information.

Measurement of share-based compensation: Beginning in financial year 2014, the Company's Supervisory Board implemented an SAR plan (SAR Plan 2014 – 2016, SAR Plan 2015 – 2018, SAR Plan 2017 – 2020) with the goal of reconciling the interests of shareholders and management. The SAR Plan 2014 – 2016, which provides for the grant of SARs to members of the Management Board, applies to any newly executed management board employment agreements that go into effect on or after January 1, 2014. Note 34 "Share-Based Compensation" contains information about the measurement model and inputs used to determine the resulting expenses.

Recognition of sales from development assignments: SFC performs development assignments under Joint Development Agreements (JDA). Simark also has long-term customer contracts that are accounted for using the percentage-of-completion method.

Applying the percentage-of-completion method requires estimates for, among other items, the total cost of the contract, the remaining costs to be incurred up to the contract's completion, as well as the total revenues that will be generated from the contract. Any changes the customer makes to a contract can cause the estimated revenues and costs to increase or decrease. For information about the adjustments that became necessary last year, please see Note 16 "Receivables and liabilities from percentage-of-completion".

Write-down of non-financial assets: The Group evaluates all non-financial assets at each balance sheet date to determine whether there are indications of impairment. Goodwill is tested at least annually, even without an indication of impairment. The determination of the recoverable amount of the assets and of the cash generating units requires estimates from management.

Impairment of receivables: Management estimates allowances for receivables expected to be uncollectible based on past experience and the current economic environment. See Note 33: "Financial Instruments".

Scope of the consolidated financial statements

The consolidated financial statements include SFC and all companies directly or indirectly controlled by SFC. Control exists when the Company has power over the investee, is exposed to variable returns from its investment, and has the ability to use its power to affect the amount of the returns. The Company makes a new judgment as to whether it controls an investee when facts and circumstances indicate that one or more of the three criteria for control mentioned above have changed.

If the Company does not have a majority of voting rights, it still controls the investee if it has the practical ability through its voting rights to unilaterally direct relevant activities of the investee. In determining whether its voting rights are sufficient for control, the Company takes all facts and circumstances into consideration, including:

- the relative size and dispersion of other vote holders,
- potential voting rights held by the Company, other vote holders and other parties,
- rights arising from other contractual arrangements, and
- additional facts and circumstances indicating that the Company has or does not have the current ability to direct the relevant activities at the time when decisions must be made, taking into account the voting patterns at earlier shareholder meetings.

Thus, the consolidated financial statements cover SFC as the ultimate parent company, the PBF Group, which was acquired in 2011 and Simark Controls Ltd., which was acquired in 2013. Subsidiaries are consolidated as of the date on which control is acquired and deconsolidated as of the date on which control is lost.

In financial year 2016 the American subsidiary SFC Energy Inc. was deconsolidated at December 31, 2016, and was shown as an investment in the consolidated balance sheet effective immediately. The company is in liquidation.

The annual financial statements of the consolidated companies, which have been prepared in conformity with their national GAAPs, have been reconciled with IFRS and adjusted to reflect the Group's uniform accounting and measurement methods. The financial year of the companies included is the calendar year (January 1 to December 31).

The table below shows the direct and indirect stake the Company had in each of its affiliated companies consolidated as of December 31, 2017:

AFFILIATED COMPANIES FULLY CONSOLIDATED in %

Name of company	Registered office	Share			Currency
		directly	indirectly	total	
Simark Controls Ltd.	Calgary (Kanada)	100.00	–	100.00	CAD
PBF Group B.V.	Almelo (Netherlands)	100.00	–	100.00	EUR
PBF Power Srl	Cluj-Napoca (Rumania)	–	100.00	100.00	RON

In financial year 2017 there were no changes to the ownership interests in the Group that would have resulted in loss of control. There were no material limitations on the ability of the Group of the affiliated companies to obtain access to or use the Group's assets or to meet the Group's liabilities.

ACCOUNTING PRINCIPLES

Revenue recognition

SFC generates the predominant portion of its revenues from the sale of fuel cell systems The EFOY COMFORT product is commonly used in the consumer sector, primarily for caravans and boats. The industrial version, EFOY Pro, is being sold for off-grid industrial applications. The Company also generates revenues from the sale of fuel cell systems specifically developed for the defense & security segment (EMILY) and from the sale of portable fuel cells (JENNY). The Power Manager is also sold in this market. The Power Manager is a versatile electronic converter that enables and facilitates charging and operation of various types of electronic equipment and batteries with different power sources. Revenues are also generated from the sale of fuel cartridges and other products for network solutions and the sale of services and consulting in the military arena.

PBF develops, manufactures and markets customized high-tech power solutions, from power supply units to complete power systems for producers of professional machines and equipment. PBF translates these solutions into actual products, integrating electrical engineering, electronics, mechanical constructions and software.

Simark is a value-added reseller (VAR) and product integration specialist with core expertise in supplying high-quality power supply, instrumentation and automation products to the Canadian oil and gas industry. Simark's product portfolio includes instrumentation and measurement systems, power supply components and drives, as well as security and surveillance equipment for a variety of applications.

These revenues are recognized when the customer or other party responsible for transport picks up the order, i.e., at the time when opportunities and risks are transferred to the customer, provided the amount of revenue can be reliably calculated, economic benefits will flow to the Company, and the costs involved in selling the item can be reliably calculated. Revenues are recognized at the value of the consideration for the sale and delivery of the product to the customer.

In the area of Joint Development Agreements (JDA) SFC develops fuel cells and Power Managers customized to the needs of the client. The Joint Development Agreements are development contracts carried out by the Company together with various public-sector clients.

These long-term development contracts and Simark's long-term production contracts are accounted for using the percentage-of-completion method (PoC method). The percentage of contract completion is determined using the ratio of costs incurred to the expected total cost (cost-to-cost method). Contracts are shown under assets or liabilities from percentage-of-completion. Where accumulated performance (production costs incurred plus profits shown) exceeds individual advance payments, production orders are carried under assets from percentage-of-completion. If there is a negative result after deduction of advance payments, orders are carried under liabilities from percentage-of-completion.

Expense recognition

Production costs of work performed to generate sales and operating expenses are shown at the time of performance or at the time they are incurred.

Intangible assets

Intangible assets acquired for valuable consideration are carried at cost, less amortization on a straight-line basis over the estimated useful life of the asset. The amortization periods are:

- ERP software 5–8 years
- Software 3–10 years
- Patents 5–14 years
- Licenses 2–5 years

Customizing costs for acquired ERP software as costs directly attributable to the acquisition are allocated to intangible assets. They are amortized on a straight-line basis over the expected useful life of the ERP software.

Development costs are capitalized in accordance with IAS 38 "Intangible Assets" if a newly developed asset can be clearly defined, is technically feasible and is intended either for the Company's own use or is to be sold. Capitalization also presumes that it is likely that the development costs will be covered by future cash flows and the development expenses can be reliably measured. Capitalized development costs are amortized on a straight-line basis over the expected useful life of the asset. The useful life of the development costs to be amortized is 5 years at SFC and at PBF. Where requirements for capitalization are not met, expenses are recognized in the year in which they arise. Research costs are shown as current expenses under IAS 38.

Goodwill is carried at cost and tested for impairment at least annually.

The cost at which the other intangible assets identified in the PBF acquisition are carried corresponds to their acquisition-date fair value. They will be amortized on a straight-line basis over their expected useful life.

- PBF customer relationships 8 years
- PBF technology 5 years

The useful life of the customer relationships was determined using statistical analyses and management estimates, while that of the acquired technology was determined using empirical values for the industry's average product life cycle.

The cost at which the other intangible assets identified in the Simark Controls Ltd. acquisition are carried corresponds to their acquisition-date fair value. They will be amortized on a straight-line basis over their expected useful life.

- Simark order book 2 years
- Simark customer relationships 4–6 years

The useful life of the customer relationships was determined using statistical analyses and management estimates.

Property, plant and equipment

Property, plant and equipment is carried at cost, less depreciation, in accordance with its estimated useful life. Cost includes individual costs as well as all direct costs associated with bringing an asset to the site where it will be used and getting it ready for operation. The cost at which property, plant and equipment acquired under finance leases is carried is equal to the present value of the future lease payments.

Property, plant and equipment is depreciated on a straight-line basis.

The amortization periods are:

- Technical plant and machinery 3–10 years
- Other equipment, fixtures and fittings 3–13 years

Cost of borrowing

If the production phase of an item of plant or equipment extends over a long period of time, any borrowing costs incurred until completion of the asset are capitalized as part of acquisition or manufacturing costs in accordance with the provisions of IAS 23. As during the previous year, there were no such borrowing costs during financial year 2017.

Production orders

If the profitability of a production order can be estimated reliably, the revenues and costs associated with the order are recognized in accordance with the progress made on the order as of the closing date. The amount of progress made is determined by comparing the costs incurred for the work performed to the total expected costs.

Impairment of non-financial assets

Intangible assets and non-current assets are tested for impairment on the basis of the cash flows expected from the use of the asset (which are discounted at a rate that reflects the relative risk and timing of those cash flows) and on the basis of the net selling price (impairment testing), if events or market developments suggest a possible correction of the estimated useful life or a possible reduction in value. Furthermore, intangible assets not yet able to be used must be tested for impairment annually. If the net carrying value of an asset is higher than the recoverable amount (greater of value in use or net selling value), an impairment loss is recognized. In calculating expected cash flows, account is taken of actual and predicted income levels and sector-specific, technological, economic and general developments. If it is not possible to determine a recoverable amount for an asset, the recoverable amount of the cash generating unit to which that asset can be allocated is determined.

If the reasons for impairment cease to apply, the impairment loss is reversed and the carrying value of the asset (or cash generating unit) is written back up to the new estimate of the asset's recoverable amount. The asset's recovery is limited to the carrying amount that would have been reported for the asset (or cash generating unit) had no impairment loss been expensed in previous years. Impairment reversals are recognized in profit or loss immediately.

Goodwill is allocated to identifiable groups of assets (cash generating units) or groups of cash generating units that create synergies from the respective acquisition. An impairment loss is recognized if the carrying amount of the cash generating unit to which goodwill is allocated (including the carrying amount of the goodwill itself) is higher than the recoverable amount of the group of assets. The impairment loss is first allocated to the goodwill, then to the other assets in proportion to their carrying amounts. Under IAS 36, impairment losses cannot be reversed in the case of goodwill.

Leases

Leases are classified as finance leases if they transfer substantially all the risks and rewards incidental to ownership to the lessee. All other leases, where economic ownership remains with the lessor, are operating leases. The subsidiary Simark Controls Ltd. had several leases in financial year 2017 in the form of a finance lease. Please see Note 27 "Liabilities from finance leases" for additional information.

The rental and leasing payments from the Group's operating leases are recognized on a straight-line basis over the term of the contract. The leased assets are accounted for by the lessor.

Inventories

Raw materials and supplies are carried at cost at the time of acquisition, plus any additional acquisition costs less any acquisition cost reductions. Finished goods and work in process are carried at their production cost, including directly attributable costs and manufacturing and materials overhead.

Thereafter, inventories are measured taking into account the expected net selling value at the balance sheet date. The consumption tracking method used is the weighted average cost.

Financial assets

Financial assets within the meaning of IAS 39 are classified as financial assets at fair value through profit and loss, loans and receivables, held-to-maturity investments, or available-for-sale assets.

Financial assets are measured at fair value at initial recognition. In the case of financial assets not fair valued through profit or loss, transaction costs directly attributable to the acquisition of the financial asset or the issue of the financial liability are also included.

SFC decides the classification of its financial assets at initial recognition and reviews this classification at the end of each financial year wherever permitted and appropriate. As of the reporting date, the Group had not classified any financial assets as “held to maturity” or “available for sale”.

Loans and receivables are measured at amortized cost using the effective interest rate method. This category particularly includes trade accounts receivable, other financial assets and receivables, and cash and cash equivalents.

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or it transfers the financial asset to a third party in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are also transferred.

Compound financial instruments

Compound financial instruments issued by the Group include convertible bonds in euros, which can be converted into equity shares at the holder’s option, as long as the number of shares to be issued has been determined and does not change through changes in fair value, and a special termination right connected with the convertible bonds. Two of the three convertible bonds were converted into equity in 2017. A warrant-linked bond was also issued in financial year 2017.

The borrowed capital component of the combined financial instrument is recognized on initial recognition at the fair value of a similar liability that does not include an option to convert into equity. The equity component is recognized on initial recognition as the difference between the fair value of the combined financial instrument and the fair value of the borrowed capital component. The termination component of the convertible bonds is determined on initial recognition at fair value using a two-stage option pricing model. Directly attributable transaction costs are attributable to the book value of the debt and equity components of the financial instrument at the time of initial recognition.

In subsequent measurement, the borrowed capital component of the compound financial instrument is measured at amortized cost using the effective interest method. The equity component of the compound financial instrument is carried forward at the value recognized upon initial recognition. The termination component of the convertible bond, which is classified as an embedded derivative, is subsequently measured at fair value.

Interest in connection with the financial liability is recognized in profit or loss. When converted at the due date, the financial liability is reversed to equity without affecting profit or loss.

The warrant-linked bond is also a compound financial instrument and must therefore be presented separately under IAS 32. The option in this case is considered an equity instrument, because a fixed number of equity instruments will be delivered in exchange for a fixed amount of cash. The loan, on the other hand, is classified as a debt instrument.

The issuer's obligation to make scheduled payments of interest and principal is a financial liability. On initial recognition, the fair value of the liability component is the present value of contractually determined stream of future cash flows discounted at the rate of interest applied at that time by the market to instruments of comparable credit status and providing essentially the same cash flows, on the terms, but without the conversion option.

Financial liabilities are initially measured at fair value. Pursuant to IAS 32.31, the total of the debt and equity components on initial recognition corresponds to the issue proceeds from the compound financial instrument. Accordingly, the value of the option component is to be determined using the residual value method, in which the value of the liability component is to be subtracted from the value of the consideration received for the warrant as a whole on the date of issuance.

The warrant-linked bond categorized as FLAC and the loan categorized as FLAC are subsequently measured using the effective interest method at amortized cost. The transaction costs of the loan are thereafter expensed over the term of the loan. There is no subsequent measurement of the equity component so that its book value remains unchanged.

Impairment of financial assets

Financial assets or groups of financial assets are tested for impairment at each balance sheet date. An impairment loss is recognized immediately in the income statement. Financial assets are impaired if there is objective evidence as a result of one or more events that occurred after the initial recognition of the asset that there has been a negative change in the expected cash flows from the financial investment. Objective evidence for our purposes essentially means significant financial difficulties on the part of customers or a breach of contract, such as payment default.

Trade accounts receivable are measured at amortized cost, less appropriate write-downs for recognizable individual risks; this corresponds to the market value.

Other financial assets and receivables are recognized at amortized cost. If there are indications that such other financial assets are impaired, write-downs are applied on a case-by-case basis.

Government grants

Government grants consist of sponsorship for development activities by SFC and PBF, and were received for the development of new fuel cell systems and power generation solutions.

If development costs are capitalized pursuant to IAS 38 "Intangible Assets", the grants for assets are carried as a reduction in the cost of the asset involved.

If the prerequisites for capitalization are not met, the grants are recognized directly in income as a reduction of research and development costs and general administration costs.

Investment grants are deducted directly from acquisition costs.

Deferred and actual taxes

Deferred tax assets and liabilities are recognized using the balance sheet liability method in accordance with IAS 12 "Income Taxes" for all temporary and quasi-permanent differences between amounts under tax rules and amounts under IFRS. In accordance with IAS 12.34, deferred tax assets on losses carried forward are only recognized in the amount for which it is anticipated that there will be sufficient future taxable profits to offset with the loss carryforwards. Deferred tax assets on loss carryforwards are recognized only to the extent that they can be offset with deferred tax liabilities, because future taxable income cannot be assumed with sufficient certainty.

Deferred tax liabilities are recognized on the basis of tax rates applicable at the time of realization.

The actual taxes are calculated at the tax rates applicable in each country.

Provisions

Provisions are recognized in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" if there is a current obligation to a third party from a past event that will probably lead to a future outflow of resources and can be reliably determined. This means that the probability of occurrence must be higher than 50 %. Provisions are recognized for identifiable risks and contingent liabilities in the amount they are likely to cost and are not offset with reimbursements. Other long-term provisions are discounted. The settlement amount also includes cost increases to be taken into consideration at the balance sheet date.

Provisions for warranty claims are recognized on the basis of existing or estimated future claims for damages, taking into account future income from the recycling of fuel cells. There are no guarantees or warranty obligations in excess of normally accepted business levels.

A provision for restructuring is formed only if a detailed, formal restructuring plan is in place and the affected parties have a valid expectation that the restructuring measures will be implemented.

If it appears that the Company will take a loss on a contract, it recognizes a provision for contingent losses for the present obligation from the contract. The amount of the provision equals the amount by which the expected cost of performing the contract or of not performing it, as the case may be, exceeds the anticipated economic benefit from the contract.

Financial liabilities

Financial liabilities are classified, in accordance with IAS 39, as fair valued through profit or loss or as measured at amortized cost.

SFC decides the classification of its financial liabilities at initial recognition.

Financial liabilities measured at amortized cost are measured at initial recognition at the fair value of the received consideration less any transaction costs associated with the borrowing. After initial recognition, financial liabilities are measured at amortized cost using the effective interest method.

A financial liability is derecognized when the underlying obligation has been discharged or cancelled or has expired.

Consolidation

Acquisition accounting is done in compliance with IFRS 10 "Consolidated Financial Statements" by netting the carrying amount of the equity interest and the subsidiary's equity as of the date of initial consolidation.

The effects of all material intra-Group transactions are eliminated. Receivables and liabilities between consolidated companies are offset against one another. All income and expenses from intra-Group transactions are likewise eliminated.

Results on the supply of goods within the Group, which are captured in the carrying amount of inventories, are eliminated. Deferred taxes are recognized on the differences resulting from the elimination of intra-Group results.

Foreign currency translation

In the separate financial statements of the consolidated companies, which are prepared in the local currency, foreign currency transactions arising from business activities are measured in accordance with IAS 21 "Effects of Changes in Foreign Exchange Rates" using the transaction exchange rate. Gains or losses arising from foreign currency translation are recognized in the income statement.

The consolidated companies' single-entity financial statements prepared in foreign currency are translated on the basis of the concept of functional currency under IAS 21 "Effects of Changes in Foreign Exchange Rates", using the modified closing rate method. Since SFC's subsidiaries generally do business autonomously in financial, economic and organizational terms, the functional currency is identical with the companies' local currency.

Consequently, assets and liabilities are translated at the exchange rate applicable on the reporting date; equity is translated at historical rates; and expenses and income are translated at the average rate. The difference resulting from foreign currency translation is offset with no impact on profit or loss, and is recognized separately in equity as other changes in equity not affecting profit or loss.

The exchange rates for the foreign currencies that are of material interest to the Group evolved as follows:

in €

	Average rate	Average rate	Rate on reporting date	Rate on reporting date
	2017	2016	12/31/2017	12/31/2016
US-Dollar (USD)	1.1307	1.1065	1.1988	1.0631
Canadian Dollar (CAD)	1.4662	1.4656	1.5027	1.4138

2. NOTES TO THE CONSOLIDATED INCOME STATEMENT

(1) Sales

Sales are shown in the following table:

		in €
	2017	2016
Sales	**54,291,819**	**44,041,375**
thereof from PoC *	7,538,838	6,371,766

* Previous year values adjusted (see notes 16, acc. IAS 8)

The 23.3 % increase in sales over the prior year in the Oil & Gas segment is attributable to increased spending in the Oil & Gas industry due to the recovery of oil prices. The positive sales growth in the Security & Industry segment is primarily attributable to the increasing demand in the Defense & Security sector and to the continuing robust demand in the Industry sector.

Please see the explanations in Note 38 "Disclosures on consolidated segment reporting" and Note 16 "Receivables and liabilities from percentage-of-completion" for additional information.

(2) Production costs of work performed to generate sales

Production costs of work performed to generate sales were as follows:

		in €
	2017	2016
Costs of materials	29,944,740	25,388,158
Personnel costs	3,353,089	2,740,952
Costs of premises	1,484,335	1,431,193
Transport costs	916,185	508,661
Amortization of self developed intangible assets	307,321	332,936
Other depreciation, amortization and impairment	258,365	223,884
Consultancy	38,322	47,334
Capitalization of amortized development costs	35,048	–59,843
Other	228,535	181,375
Total	**36,565,940**	**30,794,650**

(3) Sales costs

Sales costs were as follows:

		in €
	2017	2016
Personnel costs	6,252,335	5,184,928
Depreciation, amortization and impairment	674,500	1,132,824
Advertising and travel costs	1,028,813	981,321
Consultancy/commissions	551,064	445,299
Costs of materials	104,874	174,683
Additions to allowances for receivables	42,080	148,057
Other	1,132,368	1,058,914
Total	**9,786,034**	**9,126,026**

The personnel costs include expenses of € 319k (previous year: gain € 114k) for the SAR programme of the Management Board.

(4) Research and development costs

Research and development costs were as follows:

		in €
	2017	2016
Personnel costs	2,733,108	2,960,318
Consultancy and patents	846,054	750,673
Costs of premises	376,112	378,360
Costs of materials	338,977	363,833
Other depreciation, amortization and impairment	328,862	366,917
Impairment losses and amortization of self developed intangible assets	587	123,374
Capitalization of self developed intangible assets	– 767,275	– 435,024
Set-off against grants	– 246,511	– 735,701
Other	282,099	375,548
Total	**3,892,013**	**4,148,298**

The figure for impairment losses and amortization of self developed intangible assets include impairment losses on capitalized development costs in the amount of € 121,000.

(5) General administration costs

General administration costs were as follows:

in €	2017	2016
Personnel costs	2,699,476	2,015,656
Audit and consultancy costs	619,396	1,046,222
Investor relations/annual meeting	273,372	322,568
Insurance	220,963	244,385
Depreciation, amortization and impairment	177,171	210,255
Recruiting costs	191,517	193,407
Car-operating costs	140,635	123,101
Travel costs	164,597	118,289
Supervisory Board compensation	112,500	112,500
Costs of hardware and software maintenance	71,100	72,888
Set-off against grants	– 12,567	– 197,265
Other	357,719	620,656
Total	**5,015,879**	**4,882,662**

The personnel costs include expenses of € 173k (previous year: gain € 103k) for the SAR programme of the Management Board.

(6) Other operating income

Other operating income was as follows:

in €	2017	2016
Foreign exchange transaction gains	77,644	58,246
Income from tangible fixed assets sales	2,296	3,497
Other	197,226	34,134
Total	**277,166**	**95,877**

(7) Other operating expenses

Other operating expenses were as follows:

in €	2017	2016
Foreign exchange transaction losses	193,837	38,210
Contingent losses for premises	1	690
Other	0	44,591
Total	**193,838**	**83,491**

(8) Restructuring expenses

There were no restructuring expenses in financial year 2017 or in the prior year.

(9) Financial result

Interest and similar income were as follows:

		in €
	2017	2016
Interest income from liquid funds	7	73
Total	**7**	**73**

The breakdown of interest and similar expense is shown in the following table:

		in €
	2017	2016
Interest expense on option bond/loan	895,947	362,511
Other interest and similar expense	241,294	275,821
Interest costs on other provisions	37,582	48,439
Total	**1,174,822**	**686,771**

The interest and similar expense includes the interest expense on the convertible bond in the amount of € 332,470 (prior year: € 304,634). The interest expense on the loan amounted to € 563,169 (prior year: € 57,877). The interest expense on the warrant-linked bond amounted to € 307 (prior year: € 42).

(10) Income taxes

The breakdown of income taxes is shown in the following table:

		in €
	2017	2016
Actual income taxes on the result for the current year	205,401	–33,442
Deferred tax income (-)/expense (+) from:		
Reversal of deferred tax liabilities on other intangible assets	–213,132	–338,788
Reversal of deferred tax liabilities on capitalized development costs	44,953	–12,877
Recognition of deferred tax assets on other provisions	0	4,799
Balance Income (-)/expenses (+) from income taxes	**37,222**	**–380,308**

The multiplier for trade tax (Gewerbesteuer) in the District of Brunnthal is 330 %, applied on a tax rate of 3.5 %. This yields a trade tax rate of 11.55 % and a total tax rate for SFC (including corporate income tax of 15 % and the solidarity surcharge of 5.5 % levied thereon) of 27.38 % (previous year: 27.38 %).

Income taxes for the subsidiaries in the Netherlands, Romania and Canada are calculated using the applicable tax rate for the specific country. For the year under review, tax rates of 16 % to 25 % (previous year: 16 % to 25 %) were applied.

Deferred tax assets and liabilities were as follows:

		in €
	12/31/2017	12/31/2016
Deferred tax assets		
Loss carryforwards	346,167	293,781
Provisions	23,741	202,171
Inventories	148,332	150,854
Other liabilities	5,549	0
Other	12,913	30,989
Total	**536,702**	**677,795**
Deferred tax liabilities		
Other intangible assets	84,354	302,008
Self developed intangible assets	488,545	325,781
Convertible bonds	456	25,344
Other assets	75,306	123,629
Total	**648,661**	**776,762**

Subject to the tax audit, at the reporting date there were tax losses carried forward in Germany and in the Netherlands in the amount of approximately € 49,841,436 (prior year: € 45,957,953) for corporate income tax purposes and approximately € 47,233,547 (previous year: € 43,105,719) for trade tax purposes. Deferred tax assets of € 346,167 (prior year: € 293,781) have been recognized on these tax loss carryforwards of SFC AG and its Canadian subsidiary. As of December 31, 2017, no deferred tax assets had been recognized for € 91,294,287 (prior year: € 87,334,038) in tax loss carryforwards in the Group. Of these tax loss carryforwards, an amount of € 91,294,287 (prior year: € 87,334,038) can be carried forward indefinitely in Germany. The prior year amounts of loss carryforwards were adjusted to reflect the separate determination of the remaining loss carryforward.

There are no deferred tax liabilities related to outside basis differences.

The following table shows a reconciliation of the income taxes expected in the respective financial year to the actual taxes shown on the consolidated income statement:

		in €
	2017	2016
Tax rate	**27.38 %**	**27.38 %**
Result from ordinary operations	**– 2,035,000**	**– 5,373,039**
Expected tax income	**– 557,183**	**– 1,471,138**
Reconciliation to the reported tax income/expense		
Change in write-down of deferred tax assets	555,252	914,420
Differences in the tax rate	8,837	– 339,700
Taxes from permanent differences – non-deductible expenses	19,728	693,293
Differences arising from currency translation	0	– 90,051
Other	10,589	– 87,132
Reported tax income/expense in the consolidated income statement	**37,222**	**– 380,308**

(11) Cost of materials

The cost of materials (before set-offs against grants and capitalization of self developed intangible assets) was as follows:

		in €
	2017	2016
Raw materials and supplies and related goods	27,728,270	24,061,759
Related services	2,660,321	1,864,915
Total	**30,388,591**	**25,926,674**

(12) Depreciation, amortization and impairments

Please see Note 21 "Intangible assets" and Note 22 "Property, plant and equipment" for information about depreciation, amortization and impairment expenses.

The consolidated income statement was prepared in accordance with the cost-of-sales method and includes pro rata depreciation, amortization and impairments of property, plant and equipment and intangible assets in the production costs of work performed to generate sales, sales costs, research and development costs, and general administration costs.

(13) Personnel expenses and employees

Personnel expenses (before set-offs against grants and capitalization of self developed intangible assets) were as follows:

		in €
	2017	2016
Wages and salaries	11,574,737	10,627,879
Social security expenses required by law	1,355,551	1,342,624
Variables/bonuses	858,366	505,557
Other social security expenses/pensions	324,160	296,248
Expenses for settlements	0	32,476
Expenses/income from SAR/Long Term Incentive Plan	491,515	–216,739
Other	183,932	317,051
Total	**14,788,261**	**12,905,096**

The social security expenses required by law include the Company's share of € 555,312 in contributions to the public pension insurance system (previous year: € 503,858).

The average number of permanent employees was as follows:

	2017	2016
Full-time employees (without Management Board)	212	193
Part-time employees	29	32
Total	**241**	**225**

There was also an average of 9 (previous year: 8) trainees, graduates and student trainees employed.

3. NOTES ON THE CONSOLIDATED BALANCE SHEET

(14) Inventories

Inventories have an expected turnover rate of less than one year and consist of the following:

in €	12/31/2017	12/31/2016
Finished goods	4,808,622	4,819,901
Raw materials and supplies	2,736,608	2,458,064
Unfinished goods	394,092	439,535
Total	**7,939,322**	**7,717,500**

Taking into account the achievable net proceeds on disposal, inventories were written down as follows:

in €	12/31/2017	12/31/2016
Raw materials and supplies – before impairment	2,882,701	2,646,582
Impairment	– 146,093	– 188,519
Net book value	**2,736,608**	**2,458,063**

in €	12/31/2017	12/31/2016
Unfinished and finished goods – before impairment	6,395,749	6,672,053
Impairment	– 1,193,035	– 1,412,617
Net book value	**5,202,714**	**5,259,436**

Inventories with a remaining book value of € 2,246,170 are pledged as collateral for liabilities (prior year: € 3,712,476), while inventories with a remaining book value of € 3,353,021 (prior year: € 3,491,600) were pledged as security.

(15) Trade accounts receivable

Trade accounts receivable and individual allowances for the risk of default consisted of the following:

in €	12/31/2017	12/31/2016
Trade accounts receivable – gross	8,243,744	9,209,423
Allowances for risk of default	– 445,117	– 571,270
Total	**7,798,627**	**8,638,153**

All trade accounts receivable are due in less than one year. For information about the individual allowances, please see the section on “credit risk” in Note 33 “Financial instruments.

Trade accounts receivable with a remaining book value of € 7,487,061 (prior year: € 6,293,000) were pledged as collateral for liabilities.

Trade accounts receivable with a remaining book value before write-downs of € 27,157 (prior year: € 2,438,606) were pledged as collateral for an as yet unused credit line (original interest rate of 5.5 %) in the amount of € 966,071 (prior year: € 375,370).

(16) Receivables and liabilities from percentage-of-completion

If the production costs (including earnings contributions) incurred during the year under review for contracts that are not yet completed exceed the amounts already invoiced (installment payments received), the difference is reported as receivables from percentage-of-completion. Conversely, the difference is reported as liabilities from percentage-of-completion if the prepayments exceed these costs.

		in €
	12/31/2017	12/31/2016
Proceeds shown	7,538,838	6,371,766
Costs incurred and gains recognized under contracts on or before the reporting date	7,825,349	7,427,101
Partial settlements	7,103,588	7,075,154
Production contracts with a positive balance due from the customer (reported as receivables from percentage-of-completion)	**913,114**	**614,819**
Production contracts with a negative balance due from the customer (reported as liabilities from percentage-of-completion)	**– 191,353**	**– 262,871**

Prior-year figures which were shown as percentage-of-completion under line items

- Proceeds shown (€ 3,121k)
- Cost incurred and gains recognized under contracts on or before the reporting date (€ 4,177k)
- Partial settlements (€ 3,825k)

had been adjusted in accordance with IFRS 8. The correction was required due to a transmission error.

The total sales as well as the group result of SFC were kept unchanged. Thus, there is no effect on the basic and diluted earnings per share.

During the course of a project, changes made to the order by customers with respect to the scope of deliverables, e. g. changes to the specifications or the term of the agreement, can result in an increase or a decrease in sales income and expense. The resulting impact for the current period and any foreign currency effects are recognized in profit or loss.

The receivables and liabilities from percentage-of-completion have remaining terms of less than one year (as in the previous year).

(17) Income tax receivables

The income tax receivables in the amount of € 0 (prior year: € 155,996) relate to income tax receivables at Simark Controls Ltd. in the amount of € 0 (prior year: € 155,973), at PBF in the amount of € 0 (prior year: € 0) and at SFC AG in the amount of € 0 (prior year: € 23) and have a remaining term of less than one year.

(18) Other assets and receivables

The other short-term assets and receivables are due in less than one year and consist of the following:

		in €
	12/31/2017	12/31/2016
Deferred income	182,817	328,273
VAT receivables	77,638	169,524
Receivables from grants	11,828	157,904
Prepayments made	32,280	89,234
Others	199,775	143,249
Total	**504,338**	**888,184**

The other current assets and receivables include financial assets in the amount of € 11,828 (prior year: € 157,904).

(19) Cash and cash equivalents

Cash and cash equivalents consist of cash and credit balances and of time and call deposit accounts at banks that mature within three months. Bank accounts in the amount of € 4,261,917 were pledged, however freely available in financial year 2017.

(20) Cash and cash equivalents with limitations on disposal

There is a time deposit blocked in favor of the landlord in the amount of € 285,620 (prior year: € 285,614) in connection with the lease for the Company's building at Eugen-Sänger-Ring 7.

(21) Intangible assets

Below is a statement of the Group's intangible assets:

in €

	Software	Patents and licences	Capitalised patents	Development costs	Goodwill PBF Group and Simark	Other intangible assets	Total
Acquisition costs							
As of 01/01/2016	**900,294**	**516,211**	**571,487**	**5,962,922**	**13,034,073**	**6,684,068**	**27,669,055**
Additions	3,094	181,056	0	435,024	0	0	619,174
Disposals	0	−282,394	0	0	0	0	−282,394
Differences arising from currency translation	3,437	−4,538	0	0	483,485	282,626	765,010
As of 12/31/2016	**906,825**	**410,335**	**571,487**	**6,397,946**	**13,517,558**	**6,966,694**	**28,770,845**
Additions	77,079	0	0	767,275	0	0	844,354
Disposals	−768	0	0	−1,829,972	0	0	−1,830,740
Reclassification	0	−5,416	0	0	0	0	−5,416
Differences arising from currency translation	−2,495	0	0	0	−436,459	−255,139	−694,093
As of 12/31/2017	**980,641**	**404,919**	**571,487**	**5,335,249**	**13,081,099**	**6,711,555**	**27,084,950**
Amortization and impairment losses							
As of 01/01/2016	**−670,941**	**−255,926**	**−568,527**	**−4,205,492**	**−4,961,138**	**−4,239,037**	**−14,901,061**
Scheduled amortization	−85,107	−52,893	−1,781	−334,445	0	−1,317,697	−1,791,923
Disposals	0	119,345	0	0	0	0	119,345
Impairment losses	0	0	0	−121,000	0	0	−121,000
Differences arising from currency translation	−1,835	1,597	0	0	0	−221,408	−221,646
As of 12/31/2016	**−757,883**	**−187,877**	**−570,308**	**−4,660,937**	**−4,961,138**	**−5,778,142**	**−16,916,285**
Scheduled amortization	−109,120	−30,630	−1,180	−313,135	0	−833,729	−1,287,794
Disposals	768	0	0	1,829,972	0	0	1,830,740
Differences arising from currency translation	1,256	−166	0	0	0	237,735	238,826
As of 12/31/2017	**−864,979**	**−218,673**	**−571,488**	**−3,144,100**	**−4,961,138**	**−6,374,136**	**−16,134,513**
Carrying amounts							
As of 01/01/2016	229,353	260,285	2,960	1,757,430	8,072,935	2,445,031	12,767,994
As of 12/31/2016	**148,942**	**222,458**	**1,179**	**1,737,009**	**8,556,420**	**1,188,552**	**11,854,560**
As of 12/31/2017	**115,662**	**186,246**	**−1**	**2,191,149**	**8,119,961**	**337,419**	**10,950,437**

IP rights (patents, trademarks, domain names) at SFC AG with a remaining book value of € 162,570 (prior year: € 787) have been pledged as security. Intangible assets at Simark Controls Ltd. with a remaining book value of € 18,445 have been pledged.

Development costs

Grants of € 259,078 (prior year: € 932,966) were received in connection with development activities and were shown as a reduction of research and development costs € 246,511 (prior year: € 735,701) and of general administration costs € 12,567 (prior year: € 197,265).

Impairment Tests for Goodwill

The goodwill in the financial statements relates to the differences between the purchase prices for the PBF and Simark Controls Ltd. and the net assets of the businesses acquired, as measured under IFRS 3.

The goodwill of the PBF was fully allocated to the cash-generating unit PBF within the Security & Industry segment, while the goodwill from the merger with Simark Controls Ltd. was fully allocated to the Oil & Gas segment.

To figure the recoverable amount in the two cases, we measured the fair value less costs to sell and the value in use by discounting the projected cash flows. Fair value is determined using the total material inputs under step 3 in the hierarchy under IFRS 13.

In doing so, the planned cash flows from the three-year planning (2018 to 2020) prepared by Management was used. In addition, the plan values were then extrapolated using a growth rate of 1.5 % (2021) and 0.5 % (2022 ff.), which was also recognized as the sustainable growth rate.

Goodwill of the PBF

The goodwill of the PBF amounts to € 1,178,831 (prior year: € 1,178,831).

The material assumptions made in determining the fair value less costs to sell and the value in use are revenue growth, operating EBITDA margin and the cost of capital used.

Revenue growth and EBITDA margin

The assumptions result from the budget prepared by management, which includes a projection of revenue, operating costs and the investments and amortization for a period of three years. The cash flows relevant for measurement result from the revenue and profit planning and additional working capital assumptions.

The growth assumptions are based on the general economic environment, the performance of the relevant markets and the specific tapping of new markets in terms of region (Asia) and industry (lasers, semiconductors, security), particularly on the basis of system solutions. Because of this identified potential, an above-average growth rate is expected, which corresponds to a compound average growth rate (CAGR) of approximately 10.0 % p. a. over the entire planning horizon (2018 – 2022).

The planned growth in EBITDA margin is based on the historically observed gross margin and on a detailed resource and materials cost planning. The operating EBITDA margin expected in the long term amounts to around 10.80 %.

Cost of capital

The cost of capital used to discount the cash flows is the weighted average cost of capital (WACC), which was determined on the basis of a group of comparable companies in the same industry as the PBF Group using publicly available data. The WACC indicates the average weighted required return of equity and debt providers based on the ratio between the capital provided and the time value of money. An analysis of the costs of equity and debt and the capital structure at time values is necessary to determine the WACC. The cost of capital used in the reporting year was approximately 8.61 % (or approximately 8.11 % after subtracting growth from the terminal value).

On the basis of the above, the goodwill was determined not to be impaired.

Goodwill of Simark Controls Ltd.

The goodwill on the acquisition of Simark Controls Ltd. amounts to € 6,941,131 (CAD 10,430,435).

The material assumptions in determining the fair value less costs to sell are revenue growth, the operating EBIDTA margin and the cost of capital used.

Revenue growth and EBITDA margin

The assumptions result from the budget prepared by management, which includes a projection of revenue, operating costs and the investments and amortization for a period of three years. The relevant cash flows result from the revenue and profit planning and other working capital assumptions.

The growth assumptions are based on the segment-specific market environment and the currently observed growth rates of the company. Over the entire planning horizon (2018 – 2022), the compound average growth rate (CAGR) amounts to approximately 7.8 % p. a.

The planned growth in EBITDA margin is based on the historically observed gross margin and on a detailed resource and materials cost planning. The operating EBITDA margin expected in the long term is around 9.3 %.

Cost of capital

The cost of capital used to discount the cash flows is the weighted average cost of capital (WACC), which was determined on the basis of a group of comparable companies in the same industry as Simark Ltd. using publicly available data. The WACC indicates the average weighted required return of equity and debt providers based on the ratio between the capital provided and the time value of money. An analysis of the costs of equity and debt and the capital structure at time values is necessary to determine the WACC. The cost of capital used in the reporting year was approximately 8.92 % (or approximately 8.42 % after subtracting growth from the terminal value).

There were no indications of impairment of the goodwill during the reporting year.

Other intangible assets of the PBF and Simark Controls Ltd.

As part of the PBF acquisition, customer relationships, technology and an order book were identified. Below is a statement of the other intangible assets resulting from the PBF acquisition:

in €

	Customer relationships	Technology	Order book	Total
Acquisition costs				
As of 01/01/2017	**1,408,354**	**1,231,359**	**14,309**	**2,654,022**
As of 12/31/2017	**1,408,354**	**1,231,359**	**14,309**	**2,654,022**
Amortization and impairment losses				
As of 01/01/2017	**–894,890**	**–1,043,237**	**–14,309**	**–1,952,436**
Scheduled amortization	–176,044	–188,122	0	–364,166
As of 12/31/2017	**–1,070,934**	**–1,231,359**	**–14,309**	**–2,316,602**
Carrying amounts				
As of 01/01/2017	**513,464**	**188,122**	**0**	**701,586**
As of 12/31/2017	**337,420**	**0**	**0**	**337,420**
Remaining term of amortization (in years)	2	0	0	0

The technology identified in the acquisition of the PBF was written down to € 0 in financial year 2017, as planned.

As part of the Simark Controls Ltd. acquisition, the Simark brand, customer relationships and the company's order book were identified. The following table shows the changes in other intangible assets resulting from the Simark Controls Ltd. acquisition:

				in €
	Simark brand	Customer relationships	Order book	Total
Acquisition costs				
As of 01/01/2017	**37,952**	**3,963,139**	**311,582**	**4,312,673**
Differences arising from currency translation	–2,245	–234,460	–18,433	–255,139
As of 12/31/2017	**35,707**	**3,728,679**	**293,149**	**4,057,535**
Amortization and impairment losses				
As of 01/01/2017	**–31,627**	**–3,482,498**	**–311,582**	**–3,825,707**
Scheduled amortization	–6,099	–463,463	0	–469,562
Differences arising from currency translation	2,019	217,282	18,433	237,734
As of 12/31/2017	**–35,707**	**–3,728,679**	**–293,149**	**–4,057,535**
Carrying amounts				
As of 01/01/2017	**6,325**	**480,641**	**0**	**486,967**
As of 12/31/2017	**0**	**0**	**0**	**0**
Remaining term of amortization (in years)	0	0	0	0

The trademarks and customer relationships identified in connection with the acquisition of Simark Controls Ltd. were written down to € 0 in financial year 2017, as planned.

(22) Property, plant and equipment

Below is a statement of the Group's property, plant and equipment:

in €	Technical equipment and machinery	Other equipment, fixtures and fittings	Payments in advance and assets under construction	Total
Acquisition costs				
As of 01/01/2016	**1,891,039**	**3,547,289**	**30,459**	**5,468,787**
Additions	29,137	258,514	31,470	319,121
Disposals	– 38,912	– 47,660	0	– 86,572
Reclassification	0	30,459	– 30,459	0
Differences arising from currency translation	10,138	19,569	0	29,706
As of 12/31/2016	**1,891,402**	**3,808,170**	**31,470**	**5,731,042**
Additions	200,437	272,577	23,946	496,960
Disposals	– 145,629	– 26,111	– 16,296	– 188,035
Reclassification	0	15,174	– 15,174	0
Differences arising from currency translation	– 4,439	– 23,280	0	– 27,720
As of 12/31/2017	**1,941,771**	**4,046,530**	**23,946**	**6,012,247**
Depreciation and impairment losses				
As of 01/01/2016	**– 1,533,285**	**– 2,545,881**	**0**	**– 4,079,166**
Scheduled depreciation	– 101,849	– 375,421	0	– 477,270
Disposals	0	46,970	0	46,970
Differences arising from currency translation	– 1,718	– 14,982	0	– 16,700
As of 12/31/2016	**– 1,636,852**	**– 2,889,314**	**0**	**– 4,526,166**
Scheduled depreciation	– 88,707	– 370,304	0	– 459,011
Disposals	141,989	14,241	0	156,230
Differences arising from currency translation	593	13,360	0	13,953
As of 12/31/2017	**– 1,582,977**	**– 3,232,017**	**0**	**– 4,814,994**
Carrying amounts				
As of 01/01/2016	357,754	1,001,408	30,459	1,389,621
As of 12/31/2016	**254,550**	**918,857**	**31,470**	**1,204,876**
As of 12/31/2017	**358,794**	**814,513**	**23,946**	**1,197,253**

At Simark Controls Ltd., equipment with a remaining book value of € 148,792 (prior year: € 174,442) is pledged as collateral for liabilities. At SFC AG, equipment with a remaining book value of € 427,747 (prior year: € 95,581) is pledged as security.

(23) Other provisions and tax provisions

The change in other provisions is shown in the following table:

in €

	Warranty provisions	Provisions for contingent losses	Total other provisions	Tax provisions
As of 01/01/2017	**1,659,333**	**359,562**	**2,018,895**	**85,928**
Chances in consolidation group	0	0	0	0
Differences arising from currency translation	0	0	0	0
Additions	474,906	0	474,906	51,509
Interest costs	27,819	9,763	37,581	0
Utilization	– 155,725	– 73,389	– 229,114	– 85,928
Reversal	– 383,391	– 295,936	– 679,326	0
As of 12/31/2017	**1,622,942**	**0**	**1,622,942**	**51,509**
thereof with a remaining term between one and five years	**874,283**	**0**	**874,283**	**0**

Warranty provisions

Warranty provisions are reported at the present value of the net amount required to satisfy the obligations. The discount rate used is 1.33 % (prior year: 1.67 %) for those obligations that would first be due after two years, 1.43 % (previous year: 1.89 %) for those due after three years, 1.58 % (previous year: 1.97 %) for those due after four years and 1.73 % (previous year: 2.14 %) for those due after five years.

Provisions for contingent losses

The provisions for contingent losses relate to contingent losses from rent expenses. These were fully consumed or reversed during the financial year.

Tax provisions

The tax provisions are for corporate income taxes in the Netherlands and Romania and have a remaining term of less than one year.

(24) Liabilities to banks

The short-term portion of liabilities to banks consists of loans and overdraft facilities. The short-term liabilities to banks consist of a variable interest rate loan to Simark Controls Ltd. in the amount of € 1,794,781 (prior year: € 2,582,100) that matures on August 15, 2018 and a drawdown on Simark Controls Ltd.'s credit line in the amount of € 1,363,070 (prior year: € 916,302) and the PBF Group's credit line in the amount of € 852,402 (prior year: € 818,484).

(25) Liabilities from prepayments

Liabilities from prepayments relate to prepayments received on orders and have a remaining term of less than one year.

(26) Trade accounts payable

All trade accounts payable are due in less than one year.

(27) Liabilities under finance leases

The Group has entered into finance leases for various items of property, plant and equipment. These leases pertain exclusively to other equipment, fixtures and fittings of Simark Controls Ltd. The leases range from three to five years. They contain clauses for month-by-month renewal and purchase options at expiration. The net book value as of the reporting date of the property capitalized in conjunction with the finance leases is shown below:

		in €
	12/31/2017	12/31/2016
Other equipment, fixtures and fittings	63,649	67,652
Net book value capitalized in conjunction with finance leases	**63,649**	**67,652**

The liability as of the reporting date under the finance leases is recorded at the present value of the future minimum lease payments. In subsequent years, this liability is reduced by the principal portion of the lease payments owed to the respective lessors. The finance charge portion of the payments is expensed to the income statement.

The following table shows a reconciliation of the future minimum lease payments to liabilities:

						in €
	12/31/2017			12/31/2016		
	Minimum lease payments	Finance charge portion of the lease payments	Liabilities under finance leases (present value)	Minimum lease payments	Finance charge portion of the lease payments	Liabilities under finance leases (present value)
Within 1 year	42,886	1,437	40,442	42,904	1,438	42,986
Between 1 and 5 years	25,068	4,964	19,616	25,078	4,966	20,849
Total	**67,954**	**6,401**	**60,058**	**67,982**	**6,404**	**63,835**

(28) Other liabilities

Other short-term liabilities were as follows:

in €	12/31/2017	12/31/2016
Variables/bonuses	906,614	458,715
Outstanding vacation	394,930	354,323
Wage tax	244,612	317,683
VAT	264,275	153,101
Social security	97,532	139,247
Supervisory board compensation	112,500	112,500
Christmas bonus	172,957	95,474
Trade association contributions	39,600	39,600
Stock-Appreciation Rights Plan	0	36,076
Retention of business records	32,100	32,100
Compensatory tax for the severely disabled	3,120	9,480
Overtime	3,313	2,824
Other	314,902	424,225
Total	**2,586,455**	**2,175,348**

Other current liabilities include financial liabilities of € 152,100 (prior year: € 152,100).

The other short-term assets and receivables consist of the following:

in €	12/31/2017	12/31/2016
Other loans	4,880,363	0
Convertible bond – bond component	519,240	0
Total	**5,399,603**	**0**

The other short-term financial liabilities include a bond issued in August 2017 in the amount of € 4,880,363 and a tranche of the convertible bond in the amount of € 519,240.

Warrant-linked bond

In August 2017 a warrant-linked bond was issued in connection with a fixed-interest bond. The face value of the bond is € 4,997,500. The warrant-linked bond with a face value of € 2,500 matures in 2022 and bears interest at a rate of 4.0 % p. a. The issue price of the warrant-linked bond was 100 % of the face value. In addition, the warrant-linked bond provides option rights to 204,700 no-par-value shares of the Company's common stock with a notional amount of the Company's capital of € 1.00 per share at an option price of € 3.6639 per share.

Convertible bond

This convertible bond was issued in January 2016 with a face value of € 550,000, an issue amount of € 495,000 and an interest rate of 4 %. In January 2018 the bondholder exercised his conversion right. More information on this is provided in Note 41 "Material Events after the Balance Sheet Date".

The convertible bond consists of a debt component (financial liability) and an equity component. The equity component is shown in equity under the capital surplus (see Note 30 "Equity"). The effective interest rate of the financial liability at origination is 10.56 %.

In December 2017 the two additional tranches of the convertible bond existing in the prior year were converted into equity. The nominal amounts of the tranches were € 1,650,000 and € 1,100,000. The convertible bonds contained a right to convert into no-par-value bearer shares of the Company's common stock with a notional amount of the Company's capital of € 1.00 per share at a conversion price of € 6.10.

		in €
	12/31/2017	12/31/2016
SAR Stock Appreciation Rights	528,905	1,315
Total	**528,905**	**1,315**

The long-term liabilities at December 31, 2017 relate exclusively to the obligation recognized from the Stock Appreciation Rights Plan (SAR Plan) for Management Board members in the amount of € 528,906 (prior year: € 1,315).

Other long-term financial liabilities were as follows:

		in €
	12/31/2017	12/31/2016
Convertible bond – bond component	0	2,884,520
Other loan	0	1,975,061
Option bond	4,157	1,618
Total	**4,157**	**4,861,199**

The other long-term financial liabilities include the bond component of a convertible bond (tranche 1), which the Company issued on December 18, 2015 with a total value of € 1,485,000, an interest rate of 4 % and a face value of € 1,650,000. The bondholder is entitled to convert the bond into common stock at a conversion price of € 6.10. Two tranches in addition to this first tranche were issued in financial year 2016. On January 11, 2016 an amount of € 495,000 with an interest rate of 4 % and a nominal amount of € 550,000 was issued. On March 17, 2016 an amount of € 990,000 with an interest rate of 4 % and a nominal amount of € 1,100,000 was issued.

In July 2017 the warrant-linked bond issued in October 2016 was exercised. Further information is provided in Note 30 "Equity". The loan in connection with this warrant-linked bond with a nominal amount of € 1,997,500 was paid back on this occasion.

The other short-term (prior year: long-term) financial liabilities shown under this balance sheet item are as follows:

		in €
	12/31/2017	12/31/2016
Nominal amount of convertible bonds at date of issuance	495,000	2,970,000
Equity component	–33,910	–152,097
Fair value of termination component	291	4,383
Fair value of liability component	461,381	2,822,285
Transaction costs	0	–108,757
Book value of liability component as of issuing date	461,381	2,713,528
Accrued interest less repayment	57,859	170,992
Total book value of liability component as of December, 31	**519,240**	**2,884,520**

(29) Income tax liabilities

There were no income tax liabilities on the reporting date (prior year: € 0).

(30) Equity

Changes to SFC's equity are shown in the Consolidated Statement of Changes in Equity.

Subscribed capital

Subscribed capital increased in financial year 2017 from € 9,047,249 to € 9,659,456. This increase is first attributable to the exercise of a warrant-linked bond issued in 2016, which contained an option right to 161,427 shares of SFC Energy AG with a notional amount of the Company's capital of € 1.00 per share at an option price of € 2.4779 per share.

The increase is also attributable to the exercise of two existing tranches of a convertible bond. The convertible bond contained a right to convert into no-par-value bearer shares of the Company's common stock with a notional amount of the Company's capital of € 1.00 per share at a conversion price of € 6.10. This exercise increased the capital by € 450,780.

Capital surplus

The capital surplus amounted to € 75,475,155 on the balance sheet date (prior year: € 73,132,012). The increase in the capital surplus is partly attributable to the equity component of the warrant-linked bond issued in August 2017 in the amount of € 928 and of the warrant-linked bond exercised in July 2017 in the amount of € 238,573 less the related costs of the capital increase. Capital surplus also increased by € 2,114,727 due to the exercise of the convertible bond in December 2017.

Conditional capital

Pursuant to the resolution of the shareholders of SFC AG at a meeting on June 14, 2016, the Management Board was authorized to issue, with the consent of the Supervisory Board, by June 13, 2021, bearer convertible bonds and/or warrant-linked bonds or a combination of these instruments, with a total face value of up to € 14,000,000 with or without maturity limits and to grant conversion or option rights (including with a duty to convert) to the holders of convertible bonds for new no-par-value bearer shares of the Company's common stock with a notional amount of capital of up to € 3,485,930 (Conditional Capital 2016), as further set forth in the convertible bond and/or warrant-linked bond indenture. There was also a Conditional Capital of € 819,672 (Conditional Capital 2011).

Following the corporate actions taken during the financial year, SFC AG has Conditional Capital 2016 in the amount of € 3,324,503 and a Conditional Capital 2011 in the amount of € 368,892 for the grant of no-par-value bearer shares of common stock to the holder or the creditor of convertible and/or warrant-linked bonds, participatory rights and/or participatory bonds (or combinations of these instruments).

Authorized capital

At their meeting on May 17, 2017, the shareholders resolved to cancel Authorized Capital 2016/I, to create new Authorized Capital and to amend section 5 (Authorized Capital) of the Company's bylaws.

The Authorized Capital of June 14, 2016 (Authorized Capital 2016/I) was hereby canceled. The Management Board was now authorized by the shareholders' resolution of May 17, 2017 to increase the capital, with the Supervisory Board's consent, on one or more occasions by May 16, 2022 in exchange for cash contributions and/or contributions in kind by up to a total of € 4,523,624 (Authorized Capital 2017/I).

Authorization to acquire own shares

The Company's Management Board is not currently authorized to purchase shares of the Company.

Other changes in equity not affecting profit or loss

The other changes in equity not affecting profit or loss relate to changes not recognized in profit or loss from foreign subsidiaries' currency translation.

4. OTHER DISCLOSURES

(31) Contingent liabilities

Contingent liabilities are possible obligations that arise from past events and whose existence will be confirmed only by the occurrence of one or more uncertain future events beyond the control of SFC. Furthermore, present obligations are contingent liabilities when it is not probable that they will be claimed and/or the amount of the obligation cannot be measured with sufficient reliability.

There were no identifiable contingent liabilities as of the reporting date.

(32) Other financial liabilities

The other financial liabilities result from leases entered into.

Obligations under operating leases

The Company has financial liabilities under operating leases, particularly from the leases for business premises and from motor vehicle, hardware, copier and office furniture leases.

In the current financial year € 2,060,244 (prior year: € 2,413,674) was expensed under operating leases.

The total minimum rent payments under such non-terminable operating leases that had an initial or remaining term of more than one year as of the reporting date were made up as follows, broken down by due date:

		in €
	12/31/2017	12/31/2016
Minimum rental payments under operate leases		
Within 1 year	2,053,064	1,900,724
Between 1 and 5 years	3,604,427	2,915,680
More than 5 years	0	0
Total	**5,657,491**	**4,816,404**

The agreement for the Company's production, development and administration building is also an operating lease. The agreement automatically terminates after the end of ten years. There is an option to renew the lease on a one-time basis for an additional five years.

Order commitments

The Group had purchasing commitments of € 12,895,834 (prior year: € 9,259,956) as of the reporting date. These relate primarily to blanket orders for raw materials and supplies.

Contingent liabilities

There were no contingent liabilities as of the reporting date.

Financial Covenants

Simark Controls Ltd.

In connection with financing for the subsidiary Simark, comprehensive financial covenants were entered into with the lending banks depending on various threshold values at Simark, as were repayment clauses that apply in the event of a breach. The following covenants and threshold values were agreed to for Simark at December 31, 2017:

- Working Capital Ratio (WCR) (both banks):
  Current assets/current liabilities: > 1.20

- Debt Service Coverage Ratio (DSCR):
  EBITDA/debt service: > 1.20

- Funded Debt to EBITDA Ratio (FDER):
  Interest-bearing liabilities/EBITDA: < 2.50

PBF

There was no longer a financial covenant in connection with the financing of the subsidiary PBF at December 31, 2017.

PBF

A financial covenant was also agreed to in connection with the financing of SFC AG. This covenant provides for compliance with the following clause:

- Financial liabilities at group level < € 14 million.

SFC AG was in compliance with all financial covenants at December 31, 2017.

(33) Financial instruments

The following table shows the financial assets and liabilities by measurement category and class:

CARRYING AMOUNTS SHOWN ON THE BALANCE SHEET		in €
	12/31/2017	12/31/2016
Financial assets		
Financial assets measured as at net book value		
Interests in SFC Energy Inc.	71	71
Loans and receivables		
Trade accounts receivable	7,798,627	8,638,153
Other assets and receivables – short-term	11,828	157,904
Cash and cash equivalents	4,408,398	1,756,001
Cash and cash equivalents with limitation on disposal	285,620	285,000
Financial assets measured as at fair value through profit or loss		
Other long-term assets and receivables	0	0
Financial liabilities		
Liabilities carried at amortized costs		
Liabilities to banks	4,010,253	4,316,886
Trade accounts payable	5,520,020	5,789,615
Liabilities under finance leases	60,058	63,835
Other long-term financial liabilities	4,157	4,861,199
Other liabilities – short-term	152,101	152,100
Other financial liabilities – short-term	5,399,603	0

The book values of the financial assets and financial liabilities carried at amortized cost are largely the same as their fair values. The fair values of the financial assets and financial liabilities carried at amortized cost of the non-converted tranche amounted to € 505,885 at the reporting date (prior year: € 2,790,464). The fair value of the warrant-linked bond issued in August 2017 and carried at amortized cost amounted to € 1,656 on the reporting date and the fair value of the loan amounted to € 4,936,878.

The book values of the financial assets and financial liabilities carried at amortized cost in the prior year are also close to the fair values because, with the exception of the long-term portion of a loan taken out, they were all short-term.

Financial assets and liabilities measured at fair value are assigned to one of the following three hierarchy levels: Financial assets and financial liabilities are assigned to Level 1 if there are quoted prices in active markets for identical assets and liabilities. They are assigned to Level 2 if the inputs on which the fair value measurement is based are observable either directly as prices or indirectly from prices. Financial assets and liabilities are assigned to Level 3 if the fair value measurement is not based on observable inputs. There were no financial assets and liabilities assigned to Level 3 based on fair value measurement in financial year 2017.

The assignment to Fair Value levels was as follows:

FAIR VALUE HIERARCHY in €

	12/31/2017		
	Level 1	Level 2	Total
Financial assets			
measured as at amortized costs			
Interests in SFC Energy Inc.	0	71	71
Loans and receivables			
Trade accounts receivable	0	7,798,627	7,798,627
Other assets and receivables – short-term	0	11,828	11,828
Cash and cash equivalents	0	4,408,398	4,408,398
Cash and cash equivalents with limitation on disposal	0	285,620	285,620
Financial liabilities			
Liabilities carried at amortized costs			
Liabilities to banks	0	4,010,253	4,010,253
Trade accounts payable	0	5,520,020	5,520,020
Liabilities under finance leases	0	60,058	60,058
Other long-term financial liabilities	0	4,157	4,157
Other short-term financial liabilities	0	5,399,603	5,399,603
Other liabilities – short-term	0	152,101	152,101

FAIR VALUE HIERARCHY			in €
		12/31/2016	
	Level 1	Level 2	Total
Financial assets			
measured as at amortized costs			
Interests in SFC Energy Inc.	0	71	71
Loans and receivables			
Trade accounts receivable	0	8,638,153	8,638,153
Other assets and receivables – short-term	0	157,904	157,904
Cash and cash equivalents	0	1,756,001	1,756,001
Cash and cash equivalents with limitation on disposal	0	285,000	285,000
Financial assets measured as at fair value through profit or loss			
Other long-term assets and receivables	0	0	0
Financial liabilities			
Liabilities carried at amortized costs			
Liabilities to banks	0	4,316,886	4,316,886
Trade accounts payable	0	5,789,615	5,789,615
Liabilities under finance leases	0	63,835	63,835
Other long-term financial liabilities	0	4,861,199	4,861,199
Other liabilities – short-term	0	152,100	152,100

The breakdown by measurement category of income and expense from the financial instruments was as follows:

EXPENSES AND INCOME FROM THE FINANCIAL INSTRUMENTS in €

	2017	2016
Financial assets		
Loans and receivables		
Trade accounts receivable		
Income from write-downs of trade accounts receivable	166,558	47,924
Expense from write-downs of trade accounts receivable	–42,080	–148,057
Income from currency translation of trade accounts receivable	60,383	54,146
Expense from currency translation of trade accounts receivable	–190,124	–26,250
Cash and cash equivalents		
Interest income	7	73
Interests		
Result from deconsolidation	0	211,534
Net result of loans and receivables	**–5,256**	**139,369**
Measured as at fair value through profit or loss		
Other long-term assets and receivables		
Expense of financial assets measured as at fair value	0	–3,304
Net result of financial assets measured as at fair value through profit or loss	**0**	**–3,304**
Financial liabilities		
Liabilities carried at amortized costs		
Liabilities to banks		
Interest expense	–241,297	–275,813
Trade accounts payable		
Income from currency translation of trade accounts payable	17,261	4,100
Expense from currency translation of trade accounts payable	–3,714	–11,960
Other long-term financial liabilities		
Interest expense	–895,947	–362,511
Net result of liabilities carried at amortized costs	**–1,123,697**	**–646,184**

Capital management

SFC considers a strong financial profile for the Group to be a fundamental requirement for further growth. SFC's strategic orientation, and especially its chosen expansion strategy, will require further investments that will have to be financed to ensure future business success – particularly in product development, the tapping of further market segments and new regions, and expanding the business in existing market segments. The funds that flowed to the company in connection with the public offering in May 2007, the cash capital increases in November 2014 and August 2016, the convertible bonds in 2015 and 2016, the issue of a loan and the warrant-linked bond in August 2017 were acquired for these investments. Until used to implement the growth strategy, excess liquidity is invested with various banks in low-risk securities (e. g., call and time deposits).

On August 3, 2017 the Management Board of SFC AG, with the consent of the Supervisory Board given on the same date, entered into an overall financing plan with Harbert European Growth Capital Fund (Harbert) consisting of the issuance of a secured, fixed-interest bond with a face value of € 4,997,500, the entry into related security agreements and the issuance and the issuance of a warrant-linked bond.

The secured fixed-interest bearer bond has a face value of € 4,997,500 and is to be repaid in stages by December 31, 2018. The warrant-linked bond was issued pursuant to the authorization granted by the shareholders at their meeting on June 14, 2016, by means of a private placement to Harbert, with shareholders' preemptive rights disapplied.

The warrant-linked bond with a face value of € 2,500 and a maturity by 2022 bears interest at 4.0 % p. a. The issue price of the warrant-linked bond was set at 100 % of its face value. In addition, the warrant-linked bond offers option rights to 204,700 no-par-value shares of the Company's common stock with a notional amount of the Company's capital of € 1.00 per share at an option price of € 3.6639 per share.

This corporate action provided the Company with gross issue proceeds in the amount of € 5 million.

The Group's capital management focuses on cash and cash equivalents (see Note "Cash and Cash Equivalents"), equity (see Note "Equity") and liabilities to banks (see Note "Liabilities to Banks").

The table below shows the Company's equity and total equity and liabilities as of the respective reporting dates:

COMPANY'S EQUITY RATIO		in €
	12/31/2017	12/31/2016
Equity	**13,894,782**	**13,338,672**
As a percentage of total capital	40.2 %	39.5 %
Long-term liabilities	2,075,623	7,118,901
Short-term liabilities	18,563,477	13,335,382
Liabilities	**20,639,099**	**20,454,283**
As a percentage of total capital	59.8 %	60.5 %
Total equity and liabilities	**34,533,882**	**33,792,955**

SFC's capital structure changed in financial year 2017 through the conversion of the convertible bond, the loan taken out, the warrant-linked bond issued and capital increases that were implemented. The equity ratio increased to 40.2 % (prior year: 39.5 %) because of these corporate actions.

Underlying operating result

One of the instruments employed by the Company for internal steering in financial year 2017 was the "underlying operating result". The following table shows the reconciliation of the operating result (EBIT) reported in SFC's consolidated income statement to the underlying operating result:

RECONCILIATION TO UNDERLYING OPERATING RESULT (EBIT)		in €
	2017	2016
EBIT (earnings before interest and taxes)	**– 884,719**	**– 4,897,875**
Reported as production costs of work performed to generate sales		
Expenses from contract terminations	0	24,020
Reported as sales costs		
Impairment of intangible assets identified in acquisitions	469,563	936,426
Expenses for the management board SAR Plan	318,419	– 113,895
Expenses for personnel, bonus	0	42,221
Reported as general administrations costs		
Expenses for the management board SAR Plan	173,096	– 102,844
Expenses for acquisition-related personnel costs	100,303	0
Underlying operating result (EBIT)	**176,662**	**– 4,111,947**

Risks such as market risk, credit risk and liquidity risk may arise in connection with financial instruments and are discussed below.

Risks and hedging policy

As a result of SFC's international activities, changes in exchange rates, commodities prices and interest rates can affect the assets, financial condition and earnings of the Group. There are also credit and liquidity risks associated with market price risks or that accompany a worsening of the operating business or disruptions to financial markets.

Credit risk

Credit risk results primarily from trade accounts receivable. The risk consists of the possibility of default by a contractual partner because the customer structure is characterized by different large customers. To prevent credit risk, creditworthiness is checked by reviewing credit information files for selected customers, and regular status reports with an early warning function are obtained. Deliveries to new customers are generally subject to advance payment. In addition, all past-due receivables are discussed weekly as part of receivables management, and steps are taken with the responsible sales employees. In terms of credit risk prevention practices at the subsidiaries PBF and Simark, which have a transparent clientele and can readily identify delinquencies, past-due accounts are first handled by employees in the accounting department and then turned over to the responsible sales employee for discussion with the customer.

The amounts shown on the balance sheet are net of the write-downs for receivables expected to be uncollectible, as estimated by management on the basis of past experience and the current economic environment. Individual allowances are made as soon as there is an indication that receivables are not collectible. The indications are based on close contact with the respective customers as part of receivables management.

The maximum amount of default is the net carrying amount of the receivable. No collateral from unpaid receivables was acquired or recognized during the reporting period or during the previous year. Receivables from the sale of products are secured for SFC through a reservation of ownership.

Of the € 7,798,627 in trade accounts receivable (prior year € 8,638,153) the largest five customers account for € 1,008,997, € 599,928, € 258,381, € 209,804 and € 198,333, in total € 2,275,444 (prior year: the largest five customers accounted for € 608,580, € 497,719, € 469,526, € 455,641 and € 404,550, in total € 2,610,676). There are no other material risk concentrations.

The following table shows the changes in the write-down of trade accounts receivables over the course of the year:

DEVELOPMENT OF WRITE-DOWNS OF TRADE ACCOUNTS RECEIVABLES		in €
	2017	2016
Write-downs as of January, 01	**571,270**	**519,542**
Additions	42,080	148,057
Use	– 1,674	– 48,405
Release	– 166,559	– 47,924
Write-downs as of December, 31	**445,117**	**571,270**

There are also past-due trade accounts receivable that have not been written down in the amount of €3,043,584 (prior year: €2,363,630). These can be broken down by maturity range as follows:

		in €
	2017	2016
Gross book value of the impaired receivables	377,642	871,703
Specific write-downs	–278,750	–571,270
Net book value of the impaired receivables	**98,892**	**300,433**
Not past due or impaired	4,656,150	5,974,091
Past due and not impaired		
Up to one month past due and not impaired	2,514,184	1,306,303
One to three months past due and not impaired	280,983	351,307
Three to six months past due and not impaired	196,393	704,742
Over six months past due and not impaired	52,025	1,278
Receivables per balance sheet	**7,798,627**	**8,638,154**

The outstanding receivables that are neither past due nor impaired are of high credit quality because of the current client base. There was no indication as of the balance sheet date that any defaults were to be expected on these receivables.

No write-downs of the other financial assets were taken. There were no past-due receivables in this regard at the balance sheet date.

There are also credit risks with regard to cash. This cash substantially includes short-term time and call deposits and immediately available deposits at banks. SFC is exposed to credit risks associated with the investment of liquid funds to the extent the banks fail to meet their obligations. To minimize this risk, the banks in which the investments are made are carefully chosen, and the investments are divided among several banks. Moreover, only short-term time deposits have been made, which are covered by the deposit insurance of the banks. The maximum risk position corresponds to the book value of the cash as of the reporting date.

Liquidity risk

Liquidity risk describes the possibility that SFC may not be able to meet its payment obligations. This risk was counteracted by the capital increases in May 2007, November 2014, August 2016 and July 2017 and by the convertible bond issue in 2015 and 2016 and the issuance of the loan and warrant-linked bond in August 2017. The cash reserves increased significantly from the prior year due to these corporate actions.

The ultimate responsibility for liquidity risk management rests with the Management Board, which has formulated an appropriate strategy for managing the short-, medium- and long-term funding and liquidity requirements. The Group manages liquidity risk by maintaining reserves and by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

SFC is subject to liquidity risks from the financial liabilities that it holds, which are presented undiscounted in the table below on the basis of their earliest possible maturity. The cash flows from financial instruments that are short-term and long-term assets are also shown. The remaining net liquidity outflow is covered by existing cash.

in €

	2017			2016		
	Total	1 year	> 1 year	Total	1 year	> 1 year
Non-derivative financial liabilities						
Liabilities to banks	–4,010,253	–4,010,253	0	–4,316,886	–4,316,886	0
Trade accounts payable	–5,520,020	–5,520,020	0	–5,789,615	–5,789,615	0
Liabilities under finance leases	–60,058	–40,442	–19,616	–63,835	–42,986	–20,849
Other long-term financial liabilities	–4,157	0	–4,157	–4,861,199	0	–4,861,199
Other short-term financial liabilities	–5,399,603	–5,399,603	0	–	–	–
Other financial liabilities	–152,100	–152,100	0	–152,101	–152,101	0
Total cash outflow	**–15,146,191**	**–15,122,419**	**–23,773**	**–15,183,636**	**–10,301,588**	**–4,882,048**
Non-derivative financial assets						
Cash and cash equivalents	4,694,017	4,694,017	0	2,041,001	2,041,001	0
Trade accounts receivable	7,798,627	7,798,627	0	8,638,153	8,638,153	0
Other financial assets	11,828	11,828	0	157,904	157,904	0
Total cash inflow	**12,504,472**	**12,504,473**	**0**	**10,837,058**	**10,837,058**	**0**
Net liquidity from financial instruments	**–2,641,719**	**–2,617,946**	**–23,773**	**–4,346,578**	**535,470**	**–4,882,048**

With respect to those financial liabilities having a residual maturity of more than one year at Simark, the Group expects to make interest payments of € 63,901 (prior year: € 210,108) through the end of the liabilities' term, assuming an interest rate of 5.31 % (prior year: 6.91 %).

Interest at the rate of 4 %, or € 21,940 (prior year: € 263,638) would have been paid on the convertible bonds until they matured. However, the tranche of the convertible bond still in existence was converted into equity in January 2018 (see Note 41 "Material Events after the Balance Sheet Date").

Interest in the amount of € 306,991 is to be paid on the loan issued in August 2017 by the end of the term at an interest rate 10.5 %, while € 500 is to be paid on the warrant-linked bond by the end of its term at an interest rate of 4 %.

Cash includes cash equivalents with limitations on disposal.

Interest rate risk

Interest rate risk results primarily from the investment of cash. As part of the capital increase in 2007, shares were also placed in the United States. In that context, SFC had to assume the contractual obligation to comply with certain tax laws in the United States. Consequently, no investments may exceed a three-month term at present. In that respect, the net interest income or expense of SFC is materially influenced by short-term interest rates.

In addition, the Group is exposed to interest rate risk arising from short- and long-term floating-rate liabilities. An increase or decrease of 50 basis points in the interest rate level would have increased the net interest income or expense by € 5,370 (prior year: € 9,065). The Group is not subject to any other material interest rate risk from variable-interest instruments.

SFC has not defined any risk management objectives or actions based on the aforementioned restrictions. Risk is measured during the year in the context of the rolling year-end forecast.

Exchange rate risk

In the future, due to Simark's volume of business, SFC will generate a substantial portion of its revenues in Canadian dollars, which will be offset by expenses and payments in Canadian dollars. In addition, SFC and Simark also generate sales in US dollars in North America. Furthermore, Simark purchases some of its products in US dollars. No currency forwards were entered into in financial year 2017.

The foreign currency translation of the assets and liabilities of Simark Controls Ltd. at December 31, 2017 would have had an effect of € – 763,395 (prior year: € – 867,594) if exchange rates had fluctuated by – 5 % and an effect of € 763,395 (prior year: € 867,594) if exchange rates had fluctuated by + 5 %, which would have been reflected in the Group's equity.

There were no material effects from foreign currency translation of the business of the Romanian subsidiary and its transactions in Romanian leu.

The measurement of the foreign currency receivables and payables of SFC, PBF and Simark at December 31, 2017 would have changed the gain or loss on currency translation by € 13,225 (prior year: € – 9,850) if the exchange rate had fluctuated by – 5 % and would have changed it by € – 13,225 (prior year: € 9,850) if the exchange rate had fluctuated by + 5 %.

The objective of foreign currency management is to minimize exchange rate losses in comparison with budget assumptions. For that purpose, an open foreign currency position is calculated on the basis of actual and planned foreign currency positions and adjusted in the context of the rolling year-end forecast. If large open positions exist, the open balance is hedged with currency forwards to the extent the forecast and market expectations indicate significant deviations from the budgeted assumptions. There were no open currency forwards as of the reporting date. In this respect, foreign exchange risk exists for the unhedged portion of sales.

(34) Share-based compensation

Stock Appreciation Rights Plan

As part of the Management Board employment agreements, the Company entered into a contract for the creation of a stock appreciation rights plan (SAR Plan). The goal of the plan is to foster a business policy that is strongly aligned with shareholder interests in order to promote the long-term appreciation of the shareholders' stakes in the Company. Additional SARs were granted to Dr. Podesser and Mr. Binder in financial year 2017 in connection with their new Management Board employment agreements.

The plan envisages the payment of variable compensation in the form of stock appreciation rights (SARs). One SAR entitles its holder to a cash payment equal to the share price upon exercise less the exercise price. Once vested, SARs can be exercised within one year's time, except on blackout dates, provided certain performance targets are reached. The number of SARs available to exercise largely depends on the average price of SFC's stock for the 30 trading days prior to the end of the vesting period (reference price).

One of the performance targets involves the requirement that the average share price for the 30 trading days prior to the end of the vesting period exceed the average share price for the 30 trading days prior to the award of the SARs. In addition, the stock price must have outperformed the Frankfurt Stock Exchange's ÖkoDAX as of the end of the vesting period.

The SARs awards have been classified and measured as cash-settled share-based compensation transactions pursuant to IFRS 2.30. Their fair market value will be remeasured on each balance sheet date using a Monte Carlo model, taking into account the terms on which the SARs were awarded.

The status of the SARs in 2017 is shown in the following table:

	Tranche PP1	Tranche HP1	Tranche StS1	Tranche HP2	Tranche PP2	Tranche MB1
Number of stock appreciation rights (SAR)	360,000	90,000	180,000	180,000	360,000	180,000
Maximum term (years)	7.0	7.0	7.0	7.0	7.0	7.0
Outstanding number of phantom shares at the beginning of the reporting period (01/01/2017)	120,000	7,500	60,000	120,000	0	0
During 2017 reporting period						
SAR awarded	0	0	0	0	360,000	180,000
SAR forfeited	120,000	0	60,000	60,000	0	0
SAR exercised	0	0	0	0	0	0
SAR expired	0	0	0	0	0	0
SAR outstanding at the end of the reporting period (12/31/2017)	**0**	**7,500**	**0**	**60,000**	**360,000**	**180,000**
Exercisable SAR at the end of the reporting period (12/31/2017)	**0**	**0**	**0**	**0**	**0**	**0**

The status of the SARs in the prior year is shown in this table:

	Tranche PP1	Tranche HP1	Tranche StS1	Tranche HP2
Number of stock appreciation rights (SAR)	360,000	90,000	180,000	180,000
Maximum term (years)	7.0	7.0	7.0	7.0
Outstanding number of phantom shares at the beginning of the reporting period (01/01/2016)	240,000	7,500	120,000	180,000
During 2016 reporting period				
SAR awarded	0	0	0	0
SAR forfeited	120,000	0	60,000	60,000
SAR exercised	0	0	0	0
SAR expired	0	0	0	0
SAR outstanding at the end of the reporting period (12/31/2016)	**120,000**	**7,500**	**60,000**	**120,000**
Exercisable SAR at the end of the reporting period (12/31/2016)	**0**	**0**	**0**	**0**

The following parameters were considered in connection with the measurement at December 31, 2017:

	Tranche PP1	Tranche HP1	Tranche HP2	Tranche PP2	Tranche MB1
Measurement date	12/31/2017	12/31/2017	12/31/2017	12/31/2017	12/31/2017
Remaining term (years)	3.25	3.00	4.50	6.25	6.17
Expected volatility	44.98 %	43.14 %	42.87 %	40.38 %	40.52 %
Risk-free interest rate	– 0.44 %	– 0.49 %	– 0.24 %	0.00 %	– 0.01 %
Dividend yield	0.00 %	0.00 %	0.00 %	0.00 %	0.00 %
Strike price	€ 1.00	€ 1.00	€ 1.00	€ 1.00	€ 1.00
Share price on the measurement date	€ 6.19	€ 6.19	€ 6.19	€ 6.19	€ 6.19

The following parameters were considered in the measurement in the prior year (December 31, 2016):

	Tranche PP1	Tranche HP1	Tranche StS1	Tranche HP2
Measurement date	12/31/2016	12/31/2016	12/31/2016	12/31/2016
Remaining term (years)	4.25	4.00	4.67	4.50
Expected volatility	40.55 %	41.51 %	41.12 %	39.76 %
Risk-free interest rate	– 0.59 %	– 0.62 %	– 0.53 %	– 0.41 %
Dividend yield	0.00 %	0.00 %	0.00 %	0.00 %
Strike price	€ 1.00	€ 1.00	€ 1.00	€ 1.00
Share price on the measurement date	€ 2.02	€ 2.02	€ 2.02	€ 2.02

For the term, the length of time from the measurement date to the end of the respective agreement was used. The share price was determined via Bloomberg using the closing price in XETRA trading at December 31, 2017. The volatility shown is based on the historical volatility of the SFC share over time frames matching the respective remaining terms. Volatility expectations are based on the assumption that historic volatility is indicative of future trends. The expected dividend yield is based on market estimates for the amount of the expected dividend on the SFC share in 2017 and 2018.

At December 31, 2017 a liability in the amount of € 528,906 (thereof € 450,725 long term) in connection with the SAR Plan was recognized under other liabilities (December 31, 2016: € 37,390; thereof € 37,390 long term). The period expense for the period from January 1 to December 31 was € 491,515 (prior year period: gain in the amount of € 192,726).

(35) Related party transactions

IAS 24 "Related Party Disclosures" defines related parties as companies and persons that have the ability to directly or indirectly control or exercise significant influence over the reporting entity or that participate in the joint management of the reporting entity.

Persons in key positions at SFC are the Management Board members and the Supervisory Board members along with close members of their families. The Management Board and Supervisory Board were made up as follows in financial years 2016 and 2017:

Management Board members

Dr. Peter Podesser, Simbach am Inn, a businessman, CEO (Chairman)
Steffen Schneider, Gräfelfing, a businessman, CFO (until May 17, 2017)
Marcus Binder, Munich, an engineer, Board Member (Defense & Security), (beginning March 1, 2017)
Hans Pol, Ede, Netherlands, a businessman, Board Member (Industry)

Supervisory Board members

Tim van Delden, Düsseldorf, who holds a degree in engineering (Chairman)
David William Morgan, Rolvenden (United Kingdom), MA ACA, a businessman (Deputy Chairman)
Hubertus Krossa, Wiesbaden, a businessman

Companies that are directly or indirectly controlled by members of management in key positions or are under their significant influence are also classified as "related parties" under IAS 24 "Related Party Disclosures".

The compensation of persons in key positions was as follows:

	2017		2016	in €
	Fixed portion	Variable portion	Fixed portion	Variable portion
Management Board	844,147	870,829	776,709	– 216,761
Supervisory Board	112,500	0	112,500	0
Total	**956,647**	**870,829**	**889,209**	**– 216,761**

We had € 935,934 in liabilities to persons in key positions as of the reporting date (prior year: € 188,394).

The variable portion includes the expense for the Stock Appreciation Rights Plan (SAR Plan) for members of the Management Board.

FINANCIAL YEAR 2017	Fixed compensation	Short-term performance based compensation	Long-term performance based compensation	Total in €
Dr. Peter Podesser	374,145	264,000	305,552	943,697
Hans Pol	197,866	42,000	70,640	310,506
Steffen Schneider	102,616	18,750	– 10,213	111,152
Marcus Binder	169,520	54,542	125,558	349,620
Total	**844,147**	**379,292**	**491,537**	**1,714,976**

FINANCIAL YEAR 2016	Fixed compensation	Short-term performance based compensation	Long-term performance based compensation	Total in €
Dr. Peter Podesser	373,312	– 20,011	– 64,804	288,498
Hans Pol	190,346	0	– 79,969	110,376
Steffen Schneider	213,051	– 4,002	– 47,975	161,074
Total	**776,709**	**– 24,013**	**– 192,748**	**559,948**

(36) Earnings per share

Earnings per share are calculated by dividing the consolidated net income for the year that is attributable to shareholders of the parent by the average number of shares in circulation. The calculation of diluted earnings per share is based on the profit attributable to the holders of shares of common stock and a weighted average of the shares of common stock in circulation after eliminating all dilutive effects of potential shares of common stock. In financial year 2017 the diluted and basic earnings per share were identical because there was protection from dilution, because conversion into common shares would reduce the loss per share for the current year.

The weighted average of common shares at December 31, 2017 was as follows:

	2017	2016
Number of shares in circulation at the beginning of the period	9,047,249	8,611,204
Effect of the shares issued in August	76,754	58,139
Weighted average number of shares at December, 31	**9,124,003**	**8,669,343**

(37) Disclosures on the consolidated cash flow statement

The consolidated cash flow statement shows the origin and use of cash flows. In accordance with IAS 7 "Cash Flow Statements", cash flow statements break down cash flows into cash flow from ordinary operations, cash flow from investment activities and cash flow from financial activities. The "cash and cash equivalents" item in the cash flow statement corresponds to the "cash and cash equivalents" item in the balance sheet. Cash and cash equivalents consist of cash and credit balances in the amount of € 3,484,778 (prior year: € 390,372) as well as time and call deposit accounts in the amount of € 923,620 (prior year: € 1,365,629).

Income tax payments and refunds primarily pertained to the withholding tax on capital and the solidarity surcharge withheld from credited interest when call and time deposits matured, and income tax payments for the Canadian and Romanian subsidiaries.

Because SFC invests surplus cash in short-term, low-risk financial securities, the interest that is received is allocated to the cash flow from investment activity. Interest payments are shown in the cash flow from financial activity.

The following table contains a reconciliation of the liabilities transactions to the cash flow from financing activities:

in €

	12/31/2016	Payment effective	Payment non-effective			12/31/2017
			Exchange rate change	Interest	Conversion	
Other Liabilities from financing	–4,861,199	2,212,122	0	895,947	–2,565,507	–5,403,760
Liabilities to banks	–4,316,886	–344,287	–203,639	241,293	0	–4,010,253
Liabilities from financing	–63,835	0	–3,776	0	0	–60,058
Subscribed capital and capital surplus	–82,179,261	389,843	0	0	2,565,507	–85,134,611
Total	**–91,421,180**	**2,257,678**	**–207,415**	**1,137,240**	**0**	**–94,608,682**

(38) Disclosures on consolidated segment reporting

As part of the consolidated segment reporting pursuant to IFRS 8 "Operating Segments", the segments are broken down in accordance with the internal reporting to the Management Board and Supervisory Board that forms the basis for corporate planning and accounting for resources.

Internally, the Management Board uses sales, gross margin and EBITDA when steering the Group and implementing the realignment of its business with the core markets "Oil & Gas", "Security & Industry" and "Consumer".

As in the prior year, the segment reporting in financial year 2017 is the same as the internal reporting structure.

The "Oil & Gas" segment covers distribution and service as well as product integration for power supply, instrumentation and automation products for the oil and gas market.

The "Security & Industry" market is highly diversified and could include any area of industry, except oil and gas, where professional users run electrical equipment away from the grid and use SFC's EFOY Pro fuel cell. This includes applications in security and surveillance, traffic management, wind power and environmental technology, as well as defense and security applications for military organizations and government authorities. The product portfolio for this market also includes the portable JENNY, the vehicle-based EMILY, the SFC Power Manager and network solutions. Additionally, PBF sells its high-performance electronic components for integration into precision defense equipment as well as into testing and metering systems in this segment.

In the "Consumer" segment, SFC's EFOY COMFORT fuel cells are used to supply power to RVs, vacation cottages and sailboats.

There is no offsetting between the segments. The net result from interest income and interest expenses is shown in the financial result.

Below is a breakdown of sales and non-current segment assets by region:

in €

	Sales from transactions with external customers		Long-term Assets	
	2017	2016	12/31/2017	12/31/2016
North America	24,755,160	19,678,696	7,109,568	8,062,034
Europe (not including Germany)	17,264,250	13,304,905	2,832,672	2,883,275
Germany	6,536,048	6,141,821	2,205,450	2,114,127
Asia	5,302,817	3,099,212	0	0
Rest of the world	433,544	1,816,741	0	0
Total	**54,291,819**	**44,041,375**	**12,147,689**	**13,059,436**

Sales were broken down by region on the basis of each customer's registered office. Sales of € 6,536,048 (prior year: € 6,141,821) were generated in the Group's home market of Germany.

No single customer accounted for more than 10 % of total sales in 2017 or in the previous year.

The depreciation of fixed assets included in production costs can be broken down by segment as follows:

		in €
	2017	2016
Security & Industry	485,251	480,752
Consumer	115,483	137,226
Oil & Gas	0	0
Total	**600,734**	**617,978**

There was interest income of € 5 in the Security & Industry segment, € 2 in the Consumer segment and € 0 in the Oil & Gas segment.

Interest expense came to € 750,270 in Security & Industry, € 220,589 in Consumer and € 203,963 in Oil & Gas.

The internal reporting is limited to income and expense items. Thus, there are no balance sheet items addressed in segment reporting.

(39) Auditor's fees

The auditor's fees were:

		in €
	2017	2016
Financial statements	160,667	129,500
Total	**160,667**	**129,500**

The change from the prior year is a result of the fact that the IFRS financial statement audit for Simark Controls Ltd. was conducted by Deloitte Canada in financial year 2017 and is thus included in the presentation above.

(40) Declaration of conformity with the German Corporate Governance Code

As required by § 161 of the German Stock Corporation Act (AktG), the Management Board and Supervisory Board issued a declaration of conformity with the German Corporate Governance Code in 2018 and published it on the website of SFC Energy AG (https://www.sfc.com/en/investors/corporate-governance/). The Management Board and Supervisory Board published an updated declaration of conformity on SFC Energy AG's website on March 22, 2018. This declaration of conformity will remain available on the Internet for the next five years and thus be accessible to the public on a long-term basis. It is also published in the Annual Report as part of the Corporate Governance Report.

(41) Material events after the balance sheet date

On January 24, 2018 an investor exercised his conversion right, converting his convertible bond in the amount of € 550,000 into 90,156 bearer shares of no-par-value common stock, so that the new subscribed capital is € 9,749,612, divided into 9,749,612 bearer shares of no-par-value common stock. The Company has Conditional Capital 2011 in the amount of € 278,736 after the issuance of new shares.

As of the current date, there are no further events of material significance that could have a material effect on the Group's assets and liabilities, financial position or results of operations.

Brunnthal, March 22, 2018

The Management Board

Dr. Peter Podesser
Chairman of the Board (CEO)

Hans Pol
Board Member (Industry)

Marcus Binder
Board Member (Defense & Security)

SFC ENERGY AG, BRUNNTHAL CONSOLIDATED FINANCIAL STATEMENTS AND GROUP MANAGEMENT REPORT FOR FINANCIAL YEAR 2017 RESPONSIBILITY STATEMENT

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

Brunnthal, March 22, 2018

The Management Board

Dr. Peter Podesser
Chairman of the Board (CEO)

Hans Pol
Board Member (Industry)

Marcus Binder
Board Member (Defense & Security)

The following auditor's report (Bestätigungsvermerk) has been issued in accordance with Section 322 German Commercial Code (Handelsgesetzbuch) in German language on the German version on the consolidated financial statements and the group management report (Konzernlagebericht) of SFC Energy AG as of and for the fiscal year ended December 31, 2017. The group management report is neither included nor incorporated by reference in this Prospectus.

INDEPENDENT AUDITORS' REPORT

TO SFC ENERGY AG, BRUNNTHAL/GERMANY

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

Audit Opinions

We have audited the consolidated financial statements of SFC Energy AG, Brunnthal/Germany, and its subsidiaries (the Group), which comprise the consolidated balance sheet as at December 31, 2017, the consolidated income statement and 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, 2017, and the notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of SFC Energy AG, Brunnthal/Germany, for the financial year from January 1 to December 31, 2017. In accordance with the German legal requirements, we have not audited the content of the group management report specified in the "Other information" section of our auditor's report.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the International Financial Reporting Standards (IFRS) as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e (1) German Commercial Code (HGB) and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at December 31, 2017, and of its financial performance for the financial year from January 1 to December 31, 2017 and

- the accompanying group management report as a whole provides an appropriate view 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 appropriately presents the opportunities and risks of future development. Our audit opinion on the group management report does not cover the content of the group management report specified in the "Other Information" section of our auditor's report.

Pursuant to Section 322 (3) Sentence 1 German Commercial Code (HGB), we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with Section 317 German Commercial Code (HGB) and the EU Audit Regulation (No. 537/2014; referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) Point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. 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 on the group management report.

Material uncertainty related to going concern

In this regard, we refer to the statements within the chapters "Financial and liquidity risks" as well as "Summary of the risk report" within the group management report, in which Management states that – due to the narrow linking between the results from operations and the liquidity – a further postponing of larger projects in the defence segment may negatively affect the, at present sufficient, liquidity base and that thus risks may arise that threaten the Group as a going concern. These chapters of the group management report are referred to within the chapter "1. General Policies, Scope of Consolidation and Accounting and Valuation Principles" of the consolidated notes. In the aforementioned chapters of the group management report, the Management Board explains events and/or circumstances, which indicate that a material uncertainty within the meaning of Sec. 322 (2) Sentence 3 German Commercial Code (HGB) exists that may cast significant doubt on the Group's ability to continue as a going concern.

Our audit opinions are not modified in respect to this matter.

Key audit matters in the audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from January 1 to December 31, 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In the following, we present recoverability of goodwill as the key audit matter we have determined in the course of our audit.

Our presentation of this key audit matter has been structured as follows:

a) Description (including reference to corresponding information in the consolidated financial statements)

b) Auditor's response

Recoverability of goodwill

a) The goodwill disclosed within the consolidated financial statements of SFC Energy AG of € 8,120k in total (23.5 % of the balance sheet total) refers to goodwill of two companies, which is subject to an impairment test at least once a year.

The recoverable amount of the cash-generating unit (CGU) is determined by calculating the fair value less costs of disposal by using the discounted cash flow method. Here, discretionary decisions of the Management Board materially affect the outcome of these assessments in estimating the future cash inflows and in when selecting the discounting rate. Thus, the respective impairment tests bear a high uncertainty.

This fact was classified as key audit matter as the impairment test of goodwill is complex and thus highly depends on estimations and assumptions of the Management Board.

Details provided by the Management Board on the performed impairment tests are provided within the consolidated notes under Point 21; information on the applied accounting and valuation options is provided in Chapter 1 under the point "Impairment of non-financial assets".

b) We have assessed the appropriateness of the material assumptions and discretionary decisions as well as of the computation method of the impairment test, also under inclusion of our valuation experts from the Valuation Services team.

Our analysis of future cash flows for the assessment of the expected impacts of events or developments was made by assessing the reliability of the planning system of SFC Energy AG, amongst others by means of an analysis of the adherence to budget.

Our assessment was based on a reconciliation of the cash inflows to the three-year planning (2018 to 2020), prepared by the Management Board and approved by the Supervisory Board. Furthermore, we have assessed, under consideration of the used growth rate, the extrapolation of the target values for the two years after the detailed planning phase, taking into account the sustainable growth. Within the scope of the assessment of the underlying three-year planning, we have discussed the central planning assumptions and measures with the Management Board focussing on the development of the sales markets in Canada and Europe as well as on the development of the sales and procurement prices.

Within the scope of our audit of the determination of the used discounting rate, we have audited, together with our valuation experts, the used parameters, including the weighted average capital costs (WACC) and the computation scheme.

In addition, we have understood the systematic approach when performing the impairment test and the application of the computation scheme (Discounted Cash Flow Method) under participation of our valuation experts.

Finally, we assessed the completeness and appropriateness of the disclosures provided on the recoverability of goodwill within the notes to the consolidated financial statements.

Other Information

The Management Board is responsible for the other information. The other information comprises:

- the Group's statement on corporate governance pursuant to Section 315d German Commercial Code (HGB) referred to in Chapter "Declaration on Corporate Governance" of the group management report,
- the Corporate Governance Report pursuant to No. 3.10 of the German Corporate Governance Code,
- the legal representatives' confirmation relating to the consolidated financial statements and to the group management report pursuant to Section 297 (2) Sentence 4 and Section 315 (1) Sentence 5 German Commercial Code (HGB) respectively and
- all the remaining parts of the Annual Report, with the exception of the audited consolidated financial statements and group management report and our auditor's report.

Our audit opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our group audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of the Management Board and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

The Management Board is responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) German Commercial Code (HGB) and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, the Management Board is responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Management Board is responsible for assessing the Group's ability to continue as a going concern. It also has the responsibility for disclosing, as applicable, matters related to going concern. In addition, it is responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the Management Board is responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the Management Board is responsible for such arrangements and measures (systems) as it has considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The Supervisory Board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

Auditor's Responsibilities for the audit of the Consolidated Financial Statements and of the Group Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 German Commercial Code (HGB) and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional scepticism throughout the audit. We also

- identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.

- evaluate the appropriateness of accounting policies used by the Management Board and the reasonableness of estimates made by the Management Board and related disclosures.

- conclude on the appropriateness of the Management Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may 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 draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and with the additional requirements of German commercial law pursuant to Section 315e (1) German Commercial Code (HGB).

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.

- evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.

- perform audit procedures on the prospective information presented by the Management Board in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the Management Board as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with the Supervisory Board, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Supervisory Board with a statement that we have complied with the relevant independence requirements, and communicate with it all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with the Supervisory Board, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

OTHER LEGAL AND REGULATORY REQUIREMENTS

Further information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the annual general meeting on May 17, 2017. We were engaged by the Supervisory Board on December 11/13, 2017. We have been the group auditor of SFC Energy AG, Brunnthal/Germany, without interruption since the financial year 2007.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Julius Pinckernelle.

Munich, March 22, 2018

Deloitte GmbH
Wirtschaftsprüfungsgesellschaft

Götz
Wirtschaftsprüfer (German public auditor)

Pinckernelle
Wirtschaftsprüfer (German public auditor)

FINANCIAL CALENDAR 2018

February 08, 2018	Preliminary Figures 2017
March 29, 2018	Annual Report 2017
May 07, 2018	Q1 Interim Disclosure 2018
May 09, 2018	Annual General Meeting
August 21, 2018	Q2 Report 2018
November 06, 2018	Q3 Interim Disclosure 2018

SHARE INFORMATION

Bloomberg Symbol	F3C
Reuters Symbol	CXPNX
WKN	756857
ISIN	DE0007568578
Number of shares	9,749,612
Stock Category	No-par value shares
Stock segment	Prime Standard, Renewable Energies
Stock exchange	Frankfurt, FWB
Designated Sponsors	Hauck & Aufhäuser Privatbankiers KGaA

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Oil & Gas: iStock, spooh; Industry: iStock, KristinaGreke
Milestones: iStock, dan_prat/Mikael_Broms/BraunS
All other images: Mark Hashemi, SFC Energy AG

Statements about the future
This interim report contains statements and information about the future. Such passages contain such word as "expect", "intend", "plan", "believe", "aim", "estimate", etc. Such statements about the future are based on current expectations and certain assumptions. They therefore also contain a number of risks and uncertainties. A multitude of factors, many of which are beyond the control of SFC, affect our business, our success, and our results. These factors can lead the Group's actual results, success, and performance to deviate from the results, success, and performance in the statements made explicitly or implicitly about the future. SFC assumes no obligation to update any forward looking statements.