Annual Report 2013

SFC ENERGY

SFC ENERGY AG CONSOLIDATED KEY FIGURES

in k€

	1/1–12/31/2013	1/1–12/31/2012
Sales	32.413	31,260
Gross margin total	10.640	12,763
Gross margin	32.8 %	40.8 %
EBITDA	–4,474	730
EBITDA margin	–13.8 %	2.3 %
EBITDA underlying	–2,203	829
EBITDA margin underlying	–6.8%	2.7 %
EBIT	–8.836	–524
EBIT margin	–27.3 %	–1.7 %
EBIT underlying	–4,217	–961
EBIT margin underlying	–13.0 %	–3.1 %
Consolidated net loss	-8,912	–426
Net loss per share, diluted	-1.16	–0.06

	12/31/2013	12/31/2012
Order backlog	17,636	9,564

	12/31/2013	12/31/2012
Equity	29,063	36,394
Equity ratio	61.0 %	76.4 %
Balance sheet total	47,649	47,617
Cash (freely available)	7,143	22,626

	12/31/2013	12/31/2012
Permanent employees	256	189

CONTENT

INTRODUCTION BY THE MANAGEMENT BOARD

Hans Pol CSO / **Dr. Peter Podesser** CEO / **Gerhard Inninger** CFO

DEAR SHAREHOLDERS, PARTNERS, CUSTOMERS, SUPPLIERS AND EMPLOYEES,

Fiscal year 2013 was dominated by the challenging environment facing the original core business of SFC Energy AG and by the acquisition of the Canadian company Simark Controls Ltd. (Simark). Weak demand in the international defense markets, particularly in Germany and the United States, led to a downturn in business, to which we responded with extensive restructuring and streamlining of our fuel cell business.

With the acquisition of Simark in 2013, we took a further important step in the forward integration of our company and continued to push ahead with the strategic orientation of becoming a system supplier of integrated and grid-independent power and power management solutions.

Simark has over 40 years of experience as an established distribution and service company with advanced product and system integration expertise focused on power, instrumentation, and security products used in the Canadian oil and gas industry. In addition to its cutting-edge products, customers particularly admire its extensive, proven distribution and service organization.

Integrating Simark offers our Group very attractive economic prospects as a result of improved access to the fast-growing oil and gas market in North America, combined with Simark's expertise in product and system integration, which will also benefit us in other regions and markets.

The integrated and grid-independent power solutions used to run security, control, monitoring, metering, and drive systems are also increasingly important in other sectors. These include the wind energy industry, traffic management, numerous security and defense applications, and the leisure markets.

SFC Group has the right skills to provide integrated, clean, economically attractive solutions to meet this growing need. These solutions combine our expertise in off-grid power generation based on fuel cells with industrial power management for extremely demanding applications with direct access to big markets such as the oil and gas industry.

In its present form, our Group is broad-based and stable. Thanks to its attractive combination of technological strength, innovation, and proximity to the market, we expect continued strong growth and a solid economic development of the SFC Group in the coming years. The Group kicked off the new year with a large order backlog, which confirms our assessment.

A consistent focus on fast growing industrial markets, such as the oil and gas or wind energy industries, is also allowing the Group to become independent of the difficult to predict defense markets and cyclical consumer market. This establishes the basis for sustainable growth over the next few years.

The SFC Group would not be at this strategically crucial point today without the dedication of its teams. A total of 250 engineers, developers, product specialists, sales people, production employees and office personnel work at the locations of SFC Energy in Brunnthal near Munich (Germany), Almelo (Netherlands), Cluj Napoca (Romania), and in Calgary and Edmonton, Alberta; Saskatoon, Saskatchewan; and Vancouver, British Columbia (all in Canada). They devote their experience and skills to ensuring that all customers are provided with integrated solutions tailored to their needs – quickly and in proximity to the market – thanks to the amalgamation of each employee's individual area of expertise. We would like to thank our employees at this juncture for their valuable work – particularly given the sometimes very laborious and not always simple restructuring and integration measures we have instituted over the past few years.

Our Group is clearly headed in the direction of profitable growth. To ensure that all of the Group's markets proceed efficiently in this direction, the Supervisory Board expanded our Managing Board to include an officer responsible for sales effective January 1, 2014. We are pleased that Hans Pol has taken over the role as the Group's Chief Sales Officer. Hans Pol is one of the founders of PBF Group B.V., which has been part of the SFC Group since December 2011. As managing director with responsibility for sales, he played a decisive role in the development of our Group's industrial and security business.

At this juncture we would also like to thank Gerhard Inninger, who will resign from the Management Board for personal reasons at the end of this year's General Shareholders' Meeting by mutually amicable agreement. As Chief Financial Officer, Gerhard Inninger contributed his experience and showed exemplary dedication as he participated in the acquisition and integration of the companies in the Netherlands and Canada and in the reorientation of SFC Energy AG. Gerhard Inninger will continue to advise and support SFC Energy on financial matters as a full-time consultant.

After a difficult year of transition and consolidation we are convinced that we are in an excellent position for very successful corporate development in the coming years thanks to our current team of experts, our attractive product portfolio, and our proven proximity to the market and to our customers. We project that our total sales will be between € 55 million and € 60 million and that underlying EBITDA will be positive in fiscal 2014.

We would like to thank all of our customers, shareholders and employees for their support. We look to the future of our company with great optimism and invite you to continue with us along the path that will take us there.

With best wishes,
The SFC Energy AG Management Board

Dr Peter Podesser Chief Executive Officer	**Gerhard Inninger** Chief Financial Officer	**Hans Pol** Chief Sales Officer

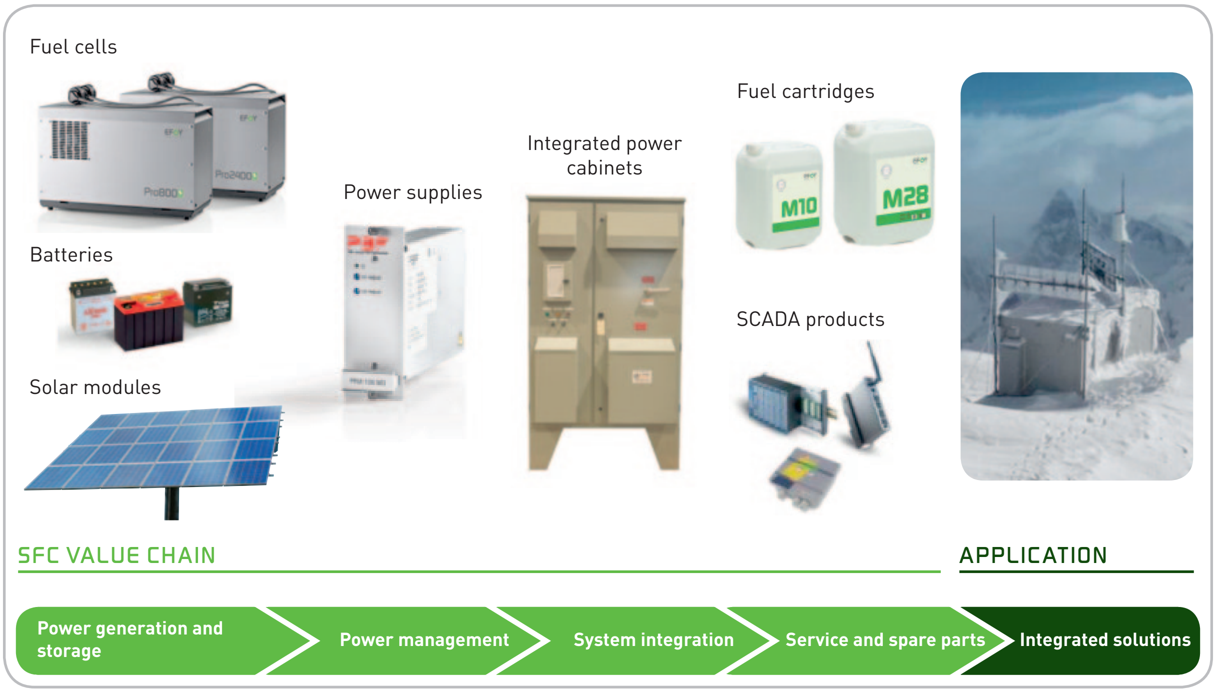
SFC ENERGY – INTEGRATED POWER SOLUTIONS – FUEL CELL GENERATORS, HYBRID POWER, POWER MANAGEMENT

GENERATING ELECTRICAL ENERGY WHERE IT'S NEEDED

Today's devices are increasingly being used off-grid. Countless sensors are used in the oil and gas industry to monitor wells and pipelines, while surveillance cameras on fences at national borders and at accident hotspots or event venues supply online image data. Warning lights and obstacle lights keep construction sites, wind turbines, and traffic interchanges safe, while sensors near areas at risk for tsunamis, avalanches, or earthquakes promptly sound the alarm when conditions turn critical. And of course all of us rely on telecommunications equipment in remote locations to keep us connected.

These are just a few of the countless industrial applications in which equipment must function around the clock, in all kinds of weather, throughout the year. To do this, each type of equipment needs a reliable source of power precisely tailored to its requirements.

SFC ENERGY SYSTEM SOLUTIONS



The SFC Group develops and produces integrated power solutions that can be used for various applications simply by setting them up and switching them on. Configuration of the systems is precisely coordinated with individual requirements. Safely protected in special cabinets, weather-resistant outdoor boxes, or sturdy housings, autonomous power generating devices, power storage units, power management systems, and converters work together to keep equipment running reliably. To supply electricity, SFC Group combines its proven fuel cells with alternative energy sources, such as solar modules. This hybrid operation offers major advantages thanks to the smart combination of power sources. When a solar module and a fuel cell work side by side, the solar module supplies the application with free electricity as long as the sun is shining. If the solar power is no longer sufficient to run the equipment during bad weather or in the winter, the fuel cells automatically switch on and take over the job of supplying power. All types of batteries are used as power storage units. Power management is adapted to each application, and SFC Group specialists work with integrators and customers to develop the right configurations. Customers ultimately need only connect their equipment to the integrated system, and the "off-grid socket" is ready to go.

ALL ELECTRICITY IS NOT ALIKE

SFC Group systems are also being successfully used in grid-based applications. Mains electricity requires subsequent "processing" before it can be used for many sensitive high-power devices such as electron microscopes, high-tech video and audio systems, and laser equipment. The power management experts of the SFC Group are developing and producing custom premium power supply systems with an extremely high power density, which are positioned between the socket and the device to ensure that each device is run by electricity that has been precisely "smoothed out." This significantly reduces the energy costs associated with operation of the devices and simultaneously improves performance and extends their useful life.

Many well-known German and international OEMs and system suppliers take advantage of the power management expertise of the SFC Group, from planning to production. The Group makes small series in Europe, with mass production in China. Customers benefit from fast development times and attractive prices. The SFC Group continues to support customers with efficient product lifecycle management after products are launched.

INTEGRATED SOLUTIONS FOR ATTRACTIVE GROWTH MARKETS

Thanks to the acquisition of Simark in 2013 and the resulting access to the growing North American oil and gas markets, there are now even more potential applications for the SFC Group's integrated power systems (see the interview concerning the oil and gas market later in this report).

INDUSTRIAL APPLICATIONS

GRID-INDEPENDENT POWER FOR PROFESSIONAL INDUSTRIAL APPLICATIONS

Off-grid equipment must function reliably in many professional industrial applications, such as surveillance, control, metering, or data transmission equipment.

This requires enormous effort: Batteries are heavy, have limited capacity, and must be replaced frequently, which sometimes involves a helicopter ride to the remotest of locations. Solar modules on their own are unreliable during bad weather or in the winter. Diesel generators are loud and often need maintenance, and environmental restrictions limit their use in many areas. Hybrid power solutions by SFC Energy are used for energy generation, in traffic management, in the surveillance and security industry, for telecommunications, and in environmental technology. We believe these areas offer long-term sustained growth potential for our Group.

Products

EFOY Pro fuel cell / Specifically developed for the most demanding industrial applications

The EFOY Pro fuel cell is a lightweight, robust power generating device for grid-independent industrial applications. It produces power for equipment on-site – quietly, on a fully automatic basis, and with practically zero emissions. Customers value the enormous flexibility offered by the EFOY Pro. It can be combined with all kinds of power generating devices and power storage units to form a hybrid system and can be protected from weather by integrating it into almost any type of box. The resulting power solutions allow grid-independent equipment to run for months with no intervention by users, saving valuable time and reducing logistics cost.

EFOY ProCube / Lightweight and easy to use for all outdoor mobile and stationary applications

The EFOY ProCube is a maintenance-free, weather-resistant power box for outdoor mobile and stationary applications. The sturdy box contains the fuel cell, fuel cartridge, and power management device. Users need only plug in their devices and switch them on. The EFOY ProCube offers maximum flexibility: It can be set up and operated anywhere and at any time of year after only a few steps. This makes it ideal for all types of portable scenarios, from supplying power to warning systems at a temporary construction site to powering a volcano sensor that must operate for months. This power supply solution is often used on vehicles or in covert investigations.

EFOY ProBox / Reliable power even under extreme conditions

The EFOY ProBox was developed to fulfill the demanding requirements of the oil and gas industry and other applications in which equipment must operate reliably under extreme weather and environmental conditions. The systems are designed to operate with no user intervention over long periods of time and can withstand temperatures from plus 50°C to minus 40°C. When temperatures are below freezing, the waste heat from the integrated EFOY Pro fuel cells is used to keep the entire system warm, preventing the battery and electronics from freezing. At high ambient temperatures, an effective heat conduction system prevents overheating of the components in the box. Like all integrated SFC energy solutions, the EFOY ProBox can also be combined with other power generating devices, e.g. solar modules, to form a hybrid system.

EFOY ProCabinet / Power source for stationary off-grid equipment

The EFOY ProCabinet is a professional switch cabinet solution for autonomous outdoor power used in stationary equipment. The sturdy switch cabinet is equipped with EFOY Pro fuel cells, batteries, cabling, and power electronics. The system is designed to be combined with other power generating devices in a hybrid system. This complete solution by SFC Energy can be used for isolated operation of devices such as sensor and metering technology, surveillance cameras, or repeater stations, and also as a backup power for critical infrastructure.

PRODUCTS FOR THE OIL AND GAS INDUSTRY

The oil and gas industry utilizes mechanical and electrical equipment, as well as instrumentation and automation solutions for day to day operations. The equipment is used from well head production through to processing and refining facilities and pipelines. The acquisition of Simark Controls opens an attractive new market potential for integrated product solutions in all facets of the oil and gas industry.

The SFC Group offers highly specialized fuel cell generators for reliable off-grid power applications, low and medium voltage electrical machine power products, instrumentation and measurement solutions, gas and flame detection safety systems and SCADA solutions (supervisory control and data acquisition) – all tailored to the specific application.

Examples of the broad range of SFC Group products:

SCADA systems for the oil and gas industry / Safe data for safe processes

SCADA systems sold by the SFC Group are computer-controlled systems for measuring, monitoring, and controlling many of the processes involved in oil and gas extraction, such as the operation of extraction systems or pipelines. SCADA systems collect, visualize, and analyze real-time data that can be used as a basis for controlling and optimizing extraction output. The data also serves as a basis for monitoring production processes and documenting compliance with strict operating and environmental protection requirements for wells and pipelines.

Foto: Evergreen Energy Technologies Inc.

The SFC Group's SCADA systems offer the particular competitive advantage of being used in combination with reliable off-grid power solutions by SFC Energy based on fuel cells and solar modules combined in hybrid operation. The SCADA systems at remote wells and pipelines are safely and reliably supplied with power under the harshest weather and environmental conditions, meaning that they can continue to perform their important work without interruption, with no need for human intervention and over long periods of time.

Power products for oil and gas equipment / More safety, more efficiency, more productivity in oil and gas production

VFD (variable frequency drive) systems sold by the SFC Group control the speed and torque of motors that operate expensive drilling equipment such as electrical submersible pumps, progressive cavity pumps, feed/recycle pumps, fans, compressors, and other specialty rotating equipment.

The design and the system integration are targeted to individual applications at all stages of oil and gas production. These complete solutions are designed to meet the specific needs and specifications of the end users' application. The emphasis is on providing reliability efficiency, process optimization, and productivity to rotating equipment. However, customers will find that the greatest advantage of VFD systems is that they reliably protect drive systems by automatically adjusting output to ambient conditions. The lower costs of operation, logistics, and consumption offered by VFD systems are as equally important to customers. This prevents expensive down times and repairs to high-value systems and minimizes expenses for materials and other costs.

POWER ELECTRONICS

Expensive, highly sensitive instruments such as electron microscopes, semiconductor equipment, laser and hifi equipment, testing and metering devices, security systems, and medical devices need "clean" power.

In this case, the term "clean" does not refer to how the electricity is produced but rather to the precision of the voltage curve. Having the right voltage is the only way to ensure that devices can perform optimally and last for a long time. The SFC Group develops and produces smart, reliable power supply solutions for these demanding applications, with the Group's expertise in power management adding significant value. Customers in this area particularly appreciate the Group's experience and expertise in developing efficient customized solutions for specific applications.

Products

The SFC Group's portfolio for this market includes a broad range of specialized high-power electronic components, external and internal converters, switch mode power supplies, and special coils.

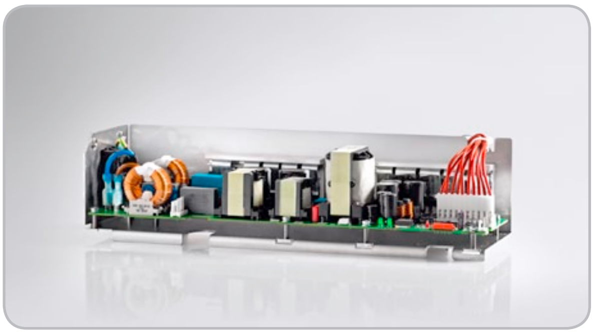
Here are a few examples of the wide range of SFC Group products:

AC/DC network components for LED backlight display systems / High power for LCD screens

The innovative LED backlight technology can be used to create ultra-thin, highly luminous LCD screens using individually controlled points of light. To comply with strict mechanical and electrical requirements, the SFC Group develops and produces specialized high-power network components that are highly efficient and allow permanent, maintenance-free installation in the systems.

Coils and network components / Smooth electricity for sensitive equipment

The quality of the images produced by electron microscopes depends in large measure on the quality of the power supply. In addition to specifically developed switch mode network components, the SFC Group also supplies special deflection coils for these and many other specific applications to ensure that the highly sensitive instruments perform optimally.



DEFENSE & SECURITY

The integrated power solutions of SFC Energy AG that are used for defense and government applications may be mobile, portable, or stationary. On vehicles, they quietly provide environmentally friendly power that is imperceptible outside the vehicle, without having to run the vehicle's engine.

As distributed power sources in the field, they ensure that communication equipment, data transmission devices, portable radar systems, and sensors used by troops have a reliable power supply at all times and in every kind of weather. The systems produce almost no heat or noise signature, so they are ideal for covert operations. For special forces, the SFC Group offers portable power solutions that soldiers can use autonomously to run the devices they carry while on dismantled deployment.

Products

Portable SFC energy network / Reliable power for dismounted deployments

The SFC energy network is a lightweight, portable hybrid system that can be used by soldiers while out on mission to charge batteries or supply power to their devices directly. It comprises the portable JENNY fuel cell by SFC, fuel cartridges, and smart power management. The high-power SFC energy network charges both stationary and mobile electrical devices, quietly, completely automatically, and undetectably.

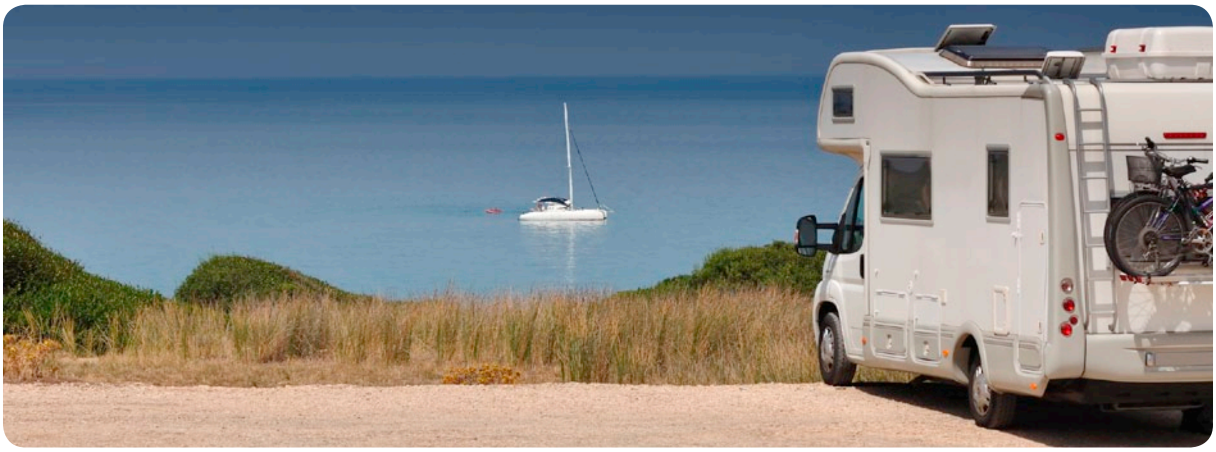
EMILY 3000 / Portable charging station for flexible applications

The EMILY 3000 offers users the ultimate flexibility for charging. In addition to conventional batteries, this ruggedized fuel cell can also charge modern lithiumion and lithium-polymer batteries. The EMILY 3000 works in hybrid operation with the SFC 3G Power Manager and can charge up to four batteries at once.

EMILYCube 2500 / Fuel cell generators for off-grid electricity

The EMILYCube 2500 combines a high-power SFC fuel cell, a lithium-ion battery, and a fuel cartridge in a lightweight, compact box to provide a convenient, complete energy solution. The portable charging station is ready for immediate use in any terrain and under any weather conditions, reliably supplying power to electrical devices over long periods of time.

CONSUMER



Markets

Reliable off-grid electricity is increasingly popular with end consumers. The EFOY COMFORT fuel cells that were specifically designed for this market have established themselves for leisure applications over the years. RV users and yacht owners value the autonomy, comfort, and convenience offered by these lightweight, quiet power generation devices. Fuel cells are often used in hybrid operation in the Consumer segment as well, usually in combination with a solar module.

Products

EFOY COMFORT fuel cells / Mobile power for leisure applications

These quiet, environmentally friendly fuel cell generators are now found all over the world on RV's and sailing yachts and in cabins. They are connected to batteries that they automatically charge based on need, and users don't have to do a thing.

WHAT INDUSTRY CUSTOMERS REALLY WANT

An interview with Dr. Peter Podesser, CEO of SFC Energy AG, and Mark Wheeler, President of Simark Controls Ltd.

What business objectives is the SFC Group pursuing with the Simark acquisition?

Dr. P. Podesser: Simark is very well established as a supplier of industrial designed power product solutions, automation and measurement solutions, and safety systems for the oil and gas industry in western Canada. With Simark we can bring our expertise and products into this fast-expanding market and offer real customer benefits.

We have learned from our Industry business that it's not enough to produce and sell a high-quality industrial fuel cell. Customers want a complete solution that will reliably run with the lowest possible expense and effort.

We have oriented our business model to that need. With Simark, we gain a very well established business with complementary products, excellent access to a highly attractive growth market that urgently needs these solutions, and system integration expertise which we can also use in other international markets.

What technology and/or market strengths separate Simark from the pack?

M. Wheeler: We supply integrated systems to our customers for their various applications. Based on our experience in the market and our technical know how, we help customers increase production, control each element more efficiently, and automate processes. Our solutions make oil and gas production safer, faster, and more cost-effective for our customers.

Source: © 3dmentat / Fotolia

What particular advantages result for customers in the oil and gas industry from the combination of skills offered by SFC and Simark?

M. Wheeler: Operators of oil and gas production wells are subject to strict legal requirements and must collect production and metering data on an hourly basis. This is done using SCADA (supervisory control and data acquisition) computer systems, which compile and analyze real-time data for surveillance, control, and optimization of wells. The equipment needs a reliable source of electricity, since it cannot be allowed to switch off. But wells are often located miles from the power grid. Some of them can be reached only by helicopter. A trouble-free power supply generally requires enormous logistical effort. Batteries are heavy and quickly run down, solar modules don't offer enough electricity in bad weather and especially during the long Canadian winter, and generators need a lot of maintenance. This means that teams must constantly travel to the drilling site. A single helicopter mission can easily amount to CAD 3,000 to 5,000.

We offer these customers integrated, winter-proof hybrid power supply solutions using SFC fuel cells and solar modules. A system contains the proven EFOY Pro fuel cells, batteries, fuel cartridges, and all of the electronics, cabling, and power control needed for the application, safely protected in a sturdy box. The system is configured to be able to supply power reliably over several months without any intervention by users. That means it pays for itself within less than 18 months. And customers can be sure they always have reliable power and are in compliance with the strict legal requirements at all times.

What markets are you targeting with the integrated SFC power supply and power management solutions?

M. Wheeler: Canada is the third-largest natural gas producer in the world. There are approximately 175,000 producing gas wells and 125,000 producing oil wells in Western Canada, most of them are off-grid, and their number is constantly growing. Our customers know us to be a reliable supplier of automation, control, and power supply solutions, and they particularly value our ability to provide our expertise from planning to installation of the equipment, followed by support from our technical service team during the operational phase. We offer one-stop shopping, and they know they can depend on everything we deliver operating reliably in the field. With the portfolio of the SFC Group, we can now expand the products we offer to include autonomous hybrid power supply solutions using fuel cells and solar modules. There is enormous need for these solutions and we expect great demand for them. Over the long term we hope to supply our solutions to the international oil and gas markets as well.

How do you see the future of SFC Group over the medium and long term?

Dr. P. Podesser: We want to grow by offering solutions that combine our innovative products and our knowledge of the market into highly attractive systems for industrial power supply applications. In that regard, we are primarily addressing off-grid, but also grid-based applications. Our solutions add value in both cases: They save money, prolong the service life of equipment, make processes faster and more efficient, and increase safety – of devices and processes – for people and environment.

We will continue to consistently focus on industrial markets, with the most important being oil and gas, security, and wind. Our international positioning and our production facilities in Europe and North America put us in a good position for sustained profitable growth.

MILESTONES IN 2013

NEW DEVELOPMENTS FOR MARKETS AND PRODUCTS

JANUARY 2013

Source: Leonardo Yachts

+++ Leonardo Yachts offers EFOY COMFORT fuel cells on luxury daysailers +++

EFOY fuel cells are an optional accessory that provides quiet, emission-free on-board power for these elegant yachts in any weather.

+++ EFOY COMFORT factory installed in caravans by the Knaus Tabbert Group +++

The RV maker is installing the fuel cells in its new Eurostar directly in the factory as part of the autonomy package. This makes the Knaus Tabbert Group the first vehicle manufacturer in the world to offer factory-installed fuel cells in a caravan.

Source: Knaus-Tabbert-Gruppe

FEBRUARY 2013

+++ EFOY Pro powers wind metering systems +++

GWU-Umwelttechnik is using fuel cells to supply power to a LIDAR wind metering system on a mobile trailer. The system is applied to measure wind fields in the atmosphere at different altitudes and times for planning wind farms.

Source: GWU-Umwelttechnik

MARCH 2013

+++ Marex Boats factory installing EFOY COMFORT in luxury motor yachts +++

The leading northern European manufacturer of top-of-the-line motor yachts is factory installing the EFOY COMFORT in all luxury powerboat models in its popular Aft Cabin Cruiser series. Marex motor yachts have received many major international awards.

+++ EFOY Pro running border station in Canada +++

MC Border Security, a Canadian specialist in surveillance technology, is using complete solutions by SFC Energy to ensure a reliable power supply for covert investigation and surveillance systems at border security stations far from the grid.

APRIL 2013

+++ New EFOY Pro generation for professional industrial applications +++

SFC Energy is launching the sale of a new generation of its successful EFOY Pro fuel cells that offers higher power and expanded functions for demanding industrial applications.

+++ EFOY COMFORT fuel cells now in the U.S. and Canada +++

SFC Energy is now importing its popular EFOY COMFORT series for leisure applications for consumers in Canada and the United States.

MAY 2013

+++ New EMILY 3000 for vehicle-based defense applications +++

The EMILY 3000 offers even higher output, improved power management, and greater flexibility for charging. The ruggedized fuel cell charges modern lithium-ion and lithium-polymer batteries as well as conventional batteries. It can also be used in many different non-vehicle applications.

JUNE 2013

+++ New EFOY Pro energy solutions for industrial applications +++

EFOY Pro energy solutions are fully integrated power supply systems for the challenging conditions faced by outdoor applications far from the grid. Customers can choose from among three models: the EFOY ProCube for portable and vehicle-based power generation, the EFOY ProCabinet for stationary equipment, and the EFOY Pro-EnergyBox for use in extreme weather conditions, under high heat, and at temperatures below freezing for long periods.

+++ SFC Energy expands network of dealers in the Caribbean +++

Sailboat owners will be able to buy EFOY fuel cartridges on the islands of Guadeloupe and Martinique. SFC Energy is increasing the visibility of its popular EFOY COMFORT power generating devices in the Caribbean, an important region for its marine business.

Source: Convergint Technologies

+++ EFOY Pro supplies power for oil and gas applications +++

The fuel cells are being used in off-grid power supplies for the surveillance trailers of Convergint Technologies, a Canadian oil and gas system integrator.

JULY 2013

+++ SFC signs contract for acquisition of Simark Controls +++

The Group is taking another major strategic step toward becoming a system supplier and in the direction of forward integration and expansion into the North American oil and gas market by acquiring Simark Controls, a Canadian value-added reseller (VAR) and product integrator for power supply, instrumentation, and automation products.

SIMARK CONTROLS

+++ SFC Energy and Mastervolt jointly develop integrated energy solutions +++

As part of their cooperation, SFC Energy and Mastervolt will inform customers how both technologies can work together and what benefits this will bring to the end user. Two energy solutions are being offered for marine and leisure applications.

SEPTEMBER 2013

+++ New pre-series model of the portable JENNY 1200 fuel cells +++

The new product is a further development of the successful JENNY 600S fuel cell for defense and security applications. The power output has been doubled compared with its predecessor, while the easy-to-carry small format and practical shape have been retained.

SUPERVISORY BOARD REPORT

SUPERVISION OF COMPANY MANAGEMENT

The dominant factors in financial year 2013 were the acquisition of the Canadian Simark Controls Ltd. (Simark) and the restructuring of SFC Energy AG's core business, in particular at the Brunnthal location. 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, 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, in financial year 2013 the Supervisory Board of SFC Energy AG was made up of three members. In financial year 2013, the members of the Supervisory Board were (i) Tim van Delden, (ii) David Morgan and (iii) Dr. Jens Thomas Müller. In financial year 2013, 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 ten times during financial year 2013: on March 22 (to review the financial statements for financial year 2012), on March 25, April 30, May 6, June 6, June 10, July 3, July 23, October 24 and November 29, 2013. Five of these meetings, at which all Supervisory Board members attended, were held on March 22, May 6, July 23, October 24 and November 29, 2013 were held in person. The other five meetings, at which also all Supervisory Board members attended: on March 25, April 30, June 6, June 10 and July 3, 2013 were held as telephone conferences. 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, timely information regarding the Company's revenue, profit and cash flow performance, budget planning, the Company's and the Group's current position, including its 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 of the meetings of the Supervisory Board also included finance and controlling, sales and marketing, operations, quality management, human resources, 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 events 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 on current business events.

During financial year 2013 the Company's M&A strategy was an important topic at the Supervisory Board meetings. The Supervisory Board reviewed potential acquisitions and acquisition targets, obtained detailed information on them from the Management Board as well as from employees of the M&A consulting firm engaged by the Company. It also raised questions and took an active part in discussions of the Company's M&A strategy, discussed the risks and opportunities of proposed acquisitions with the Management Board in detail, and requested additional information about the potential acquisition targets. With regard to the Company's M&A strategy, in particular the acquisition of the Canadian Simark was discussed in detail at several Supervisory Board meetings with the members of the Management Board, employees of the Company and external consultants. The Supervisory Board accompanied and supervised the selection of Simark as an acquisition target and was provided at different meetings on April 30, May 6, June 6, June 10 and July 3, 2013, by the Management Board with extensive information about the planned integration of Simark into the SFC Group, details of the potential acquisition (such as the envisaged contractual terms and conditions, the purchase price and its components), the transaction costs and the financing of the purchase price. The Supervisory Board members discussed both jointly with the Management Board and among themselves the objectives pursued with the acquisition of Simark, inter alia with respect to the integration of Simark in the context of the Company's strategic orientation. After thorough discussions and consultations, the Supervisory Board approved the share purchase agreement, the financing of the transaction as well as the employment contracts with the management team of Simark. In addition, the Supervisory Board thoroughly reviewed the capital increase out of the approved capital that was decided by the Management Board to partly finance the acquisition of Simark. It discussed the legal framework for exercising approved capital with subscription rights excluded in this specific case and whether the issue price for the new shares was adequate. After comprehensive consultations, the Supervisory Board approved the capital increase, the exclusion of subscription rights and further decisions made by the Management Board regarding the contents of the rights inherent in the shares and the remaining terms and conditions of the share issue. Moreover, the Supervisory Board actively supported the efforts of the Management Board to integrate Simark in the SFC Group.

In financial year 2013, the Supervisory Board also dealt with Management Board issues, in particular with the creation of a new Management Board resort responsible for sales SFC/PBF as well as the future composition of the Company's Management Board. After detailed internal discussions, diligent analysis of the market situation and duly consideration of risks and opportunities the Management Board employment contract of Dr Peter Podesser as CEO was extended and Hans Pol, former PBF Groups B.V. managing director and SFC Energy AG's sales manager, was appointed to the Management Board of the Company as Chief Sales Officer SFC/PBF with effect from January 1, 2014. At the meeting on March 25, 2013, the Supervisory board further dealt with annual bonuses for Management Board members for financial year 2012 and targets for annual bonuses for financial year 2013. After detailed internal consultation and discussion with the affected members of the Management Board, the Supervisory Board decided to introduce a virtual stock option program for the members of the Management Board that replaces the former Long Term Incentive Program (LTIP) and applies to newly concluded or extended Management Board employment contracts.

A key topic discussed at Supervisory Board meetings in financial year 2013 was also the negative deviation of business development from the budget planning. Causes, consequences and potential measures concerning the budget deviation were repeatedly debated. The Supervisory Board discussed both, internally and with the Management Board, potential cost cuttings in all business units and the required restructuring measures. In addition, the Supervisory Board approved the proposal of the Management Board to further reduce the Company's headcount.

At its meeting on March 22, 2013, the Supervisory Board primarily discussed the management report and the annual financial statements prepared in accordance with the German Commercial Code and the group management report and consolidated financial statements prepared in accordance with IFRS for financial year 2012. It discussed and approved these documents with the auditor in attendance. At the meeting on July 23, 2013, the Supervisory Board was provided by the Management Board as well as by the heads of individual business units with extensive information about developments, risks and problems of the individual business units as well as about intended means to reduce risks. The topic discussed at the Supervisory Board meeting on October 24, 2013 included, among other things, the financial report for the third quarter. At its meeting on November 29, 2013, the Supervisory Board heard a comprehensive report from the Management Board on strategy and planning including the budget for 2014. Topics discussed at this meeting also included the continued integration of Simark into the SFC Group, the examination of the risk management system and the progress of the restructuring of the individual business units of SFC Group, in particular realized and planned measures to reduce the headcount.

COMMITTEES

The Supervisory Board did not set up any committees in financial year 2013 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 30) as part of the statement pursuant to Section 289a of the German Commercial Code.

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 36).

In financial year 2013, 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. At its meeting on March 22, 2013, the Supervisory Board decided, as a matter of precaution and for purposes of clarification, that the member of the Supervisory Board David Morgan, who is the Chairman of the Advisory Board of Conduit Ventures Ltd. (Conduit), should abstain from voting on any potential resolution regarding the acquisition of companies or the entering into close business relations with companies in which Conduit holds an equity interest. By way of this voting rights preclusion, conflicts of interest shall be avoided. No such circumstances arose in 2013.

The Supervisory Board examined the efficiency of its activities in financial year 2013.

The Company is committed to complying with the recommendations of the German Corporate Governance Code. The annual declaration of conformity required from the Management and Supervisory Boards is available on the Company's homepage at http://www.sfc.com/en/investors/corporate-governance#header. The most recent declaration dates from March 21, 2014. It is also reproduced in the annual report (on page 30).

ACCOUNTING

Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft, Munich, was chosen and appointed by the annual general meeting to audit the Company's financial statements for financial year 2013 and 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:

(i) IFRS: Impairment testing of goodwill; purchase price allocation regarding the acquisition of Simark;

(ii) HGB: Revenue recognition; accounting related internal control system in the process areas procurement and financial management; completeness and valuation of provisions; impairment assessment regarding the shares in PBF.

The auditor audited the annual financial statements of SFC Energy AG as of December 31, 2013 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 315a 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 on March 21, 2014. 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. As the annual financial statements for the financial year ended December 31, 2013, show no net income for the year, no proposal for allocating net income was required from the Management Board. 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 21, 2014, it approved the annual and consolidated financial statements for financial year 2013 and the corresponding management reports. The annual financial statements were thus established in accordance with Section 172 (1) of the German Stock Corporation Act.

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 financial year 2013.

Brunnthal, March 21, 2014

The Supervisory Board

Tim van Delden
Chairman

THE SHARE

DEVELOPMENT OF THE INDEXES

The upswing on the stock markets continued in 2013. After a cautious start to the year without a clear upward or downward trend, most of the world's stock indexes rose considerably during the second half of the year. Stocks were noticeably higher, stimulated by the ongoing aggressive actions of the central banks: bond buy-backs and low interest rates. The trend on the German market was particularly dynamic. The leading German index DAX was up 25 percent at year end to 9,552.16 points. The MDAX shot up even further, ending the year at 16,574.45, for a gain of some 39 percent. The SDAX improved its performance by 29 percent. The TecDAX gained 41 percent, closing at 1,166.82 points. In contrast, the ÖkoDaX lost 3 percent, ending the year at 46.10 points.

DEVELOPMENT OF THE SFC SHARE

SFC SHARE PRICE GRAPH JANUARY 2013 TO MID MARCH 2014 in €

SFC Energy AG's share started the year on January 2, 2013, at € 6.15, which was also its high for the year. The share bottomed out at € 3.30 on November 28. SFC Energy AG's share ended the year at € 3.93.

In all 1,225,514 shares changed hands on Xetra and the Frankfurt trading floor during the reporting year. Daily trading volume averaged 4,766 shares.

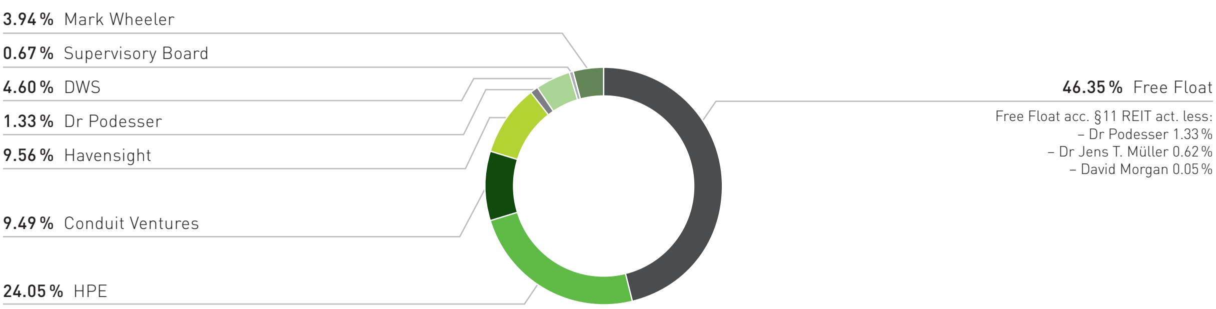
INVESTOR RELATIONS

SFC Energy AG continued to pursue an ongoing dialog with investors, shareholders, analysts, and members of the business and financial press in 2013.

The Management Board of SFC Energy AG presented the Group's quarterly, half-year, and annual figures at investor conferences and one-on-one discussions around the world. These opportunities were used to provide in depth information about SFC Energy AG's business model and its current business performance to interested groups with knowledge of the industry.

SHAREHOLDER STRUCTURE

SHAREHOLDERS STRUCTURE AS OF DECEMBER 31, 2013 in %



The shareholder structure of SFC Energy AG was essentially unchanged in 2013. Almost 50 percent of the shares are held by large institutional investors that follow and support the Company's efforts to grow. Some 46 percent of the shares are in free float.

ANALYST RESEARCH

Three banks/equity research firms covered SFC Energy AG in 2013. They published unbiased expert opinions on SFC Energy AG in international research studies for stockholders and investors. Current research studies that SFC Energy is permitted to publish are available on the Internet at www.sfc.com under the menu item Investor Relations.

GENERAL MEETING OF SHAREHOLDERS

SFC Energy AG's 2013 Annual General Meeting was held on May 6 at Haus der Bayerischen Wirtschaft in Munich. The shareholders and shareholder representatives in attendance were given a detailed presentation on business developments and earnings, as well as a report on the 2012 accounts. Results for the first quarter and the outlook were also discussed.

More than 60 percent of the Group's share capital was represented, and all of the resolutions presented to the shareholders were adopted with large majorities. A detailed agenda and results of the voting are available on the Internet at www.sfc.com under the menu item Investor Relations.

DIRECTORS' SHAREHOLDINGS

	12/31/2013
Management Board	
Dr Peter Podesser	106,800
Gerhard Inninger	0
Hans Pol	116,462
Supervisory Board	
Tim van Delden	0
David Morgan	4,000
Dr Jens T. Müller	50,000

CORPORATE GOVERNANCE REPORT AND STATEMENT PURSUANT TO SECTION 289A 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 289a of the German Commercial Code ("Handelsgesetzbuch" – "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 share holders' 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.

For the period as of the issuance of the last Compliance Statement of March 22, 2013, until June 9, 2013, the following statement refers to the version of the Code dated May 15, 2012, as published in the Bundesanzeiger on June 15, 2012. Since June 10, 2013, the statement refers to the version of the Code dated May 13, 2013, as published in the Bundesanzeiger on June 10, 2013.

In accordance with Section 161 of the German Stock Corporation Act *(Aktiengesetz)* the Management Board and the Supervisory Board of SFC Energy AG declare that, with the following exceptions, the Company has complied and will comply in full with the Recommendations of the Government Commission on the German Corporate Governance Code, as amended:

- According to Section 4.2.3 para. 2 Sentence 6 of the Code in its version of May 13, 2013, the amount of compensation of the Management Board shall be capped, both overall and for the variable compensation components. With the beginning of the financial year 2014 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 1 January 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.

- 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 of 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 3 of the Code, the Supervisory Board shall specify concrete objectives regarding its composition which, whilst considering the specifics of the enterprise, take into account the international activities of the enterprise, potential conflicts of interest, the number of independent Supervisory Board members, an age limit to be specified for the members of the Supervisory Board and diversity. In particular, these concrete objectives shall stipulate an appropriate degree of female representation. Recommendations by the Supervisory Board to the competent election bodies shall take these objectives into account. The concrete objectives of the Supervisory Board and the status of the implementation shall be published in the Corporate Governance Report. The Company deviates from the recommendation to lay down, take account of and publish such concrete objectives. 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, its potential conflicts of interest, the number of independent Supervisory Board members, an age limit laid down in the Supervisory Board's Rules of Internal Procedure and diversity. However, the Supervisory Board holds the view that it is neither necessary nor appropriate to set concrete objectives or gender-specific quotas as this would restrict in a blanket fashion the election of suitable candidates especially at SFC Energy AG as a smaller exchange-listed company with a Supervisory Board comprised 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 3 of the Code.

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

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 and quarterly reports 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 11, 2013.

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.

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 two members, Dr. Peter Podesser, who serves as Chief Executive Officer (CEO), and Gerhard Inninger, who serves as Chief Financial Officer (CFO). With effect from January 1, 2014, Hans Pol was appointed as new member of the Company's Management Board. Mr. Pol is responsible for the resort Sales SFC/PBF.

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.

During the last 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 fiscal year 2013, Dr. Podesser was member of the supervisory board of COC AG, Burghausen. Besides, 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 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 page 22).

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 financial year 2013 the Supervisory Board of SFC Energy AG was made up of three members, which were elected by the shareholders. In financial year 2013, the members of the Supervisory Board were (i) Tim van Delden (Chairman), (ii) David Morgan (Deputy Chairman) and (iii) Dr. Jens Thomas Müller. In accordance with the recommendations of the German Corporate Governance Code, the members of the Supervisory Board were elected individually at the Annual General Meeting on May 9, 2012.

Of the Supervisory Board members currently in office, David Morgan especially qualifies as an independent financial expert within the meaning of Section 100 Subsection 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 financial year 2011, David Morgan also served as Chairman of the Company's Audit Committee.

The Supervisory Board has not specified any concrete objectives regarding its composition. To ensure compliance with the legal requirements the Supervisory Board will continue to base its proposals of 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. However, the Supervisory Board holds the view that it is neither necessary nor appropriate to set concrete objectives or gender-specific quotas as this would restrict in a blanket fashion the election of suitable candidates especially at SFC Energy AG as a smaller exchange-listed company.

Except for Dr. Jens Thomas Müller, who was elected to the Company's Supervisory Board at the proposal of the Company's shareholder HPE PRO Institutional Fund B.V., Amsterdam, The Netherlands, which holds more than 25 percent of the voting rights in SFC Energy AG, no other former members of the Management Board of SFC Energy AG have sat or 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.

In financial year 2013, 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. At its meeting on March 22, 2013, the Supervisory Board decided, as a matter of precaution and for purposes of clarification, that the member of the Supervisory Board David Morgan, who is the Chairman of the Advisory Board of Conduit Ventures Ltd. *(Conduit)*, should abstain from voting on any potential resolution regarding the acquisition of companies or the entering into close business relations with companies in which Conduit holds an equity interest. By way of this voting rights preclusion, conflicts of interest shall be avoided. No such circumstances arose in 2013.

The Supervisory Board's term of office amounts to five years. The current term of office ends at the close of the Annual General Meeting 2017.

Dr. Jens Thomas Müller has resigned from his post as member of the Company's Supervisory Board, effective from the Annual General Meeting on May 16, 2014. Therefore, it is intended to elect a new member of the Supervisory Board on the Annual General Meeting 2014.

Supervisory Board Committees

In financial year 2013, the Supervisory Board had (as in previous years) not formed 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

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 the Company's risk management and risk controlling are adequate. 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 Rewards of the Group Management Report, on page 68.

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 latest statement regarding the Company's compliance with the German Corporate Governance Code and all previous declarations of conformity are also accessible via the Company's website.

Pursuant to Section 15a of the German Securities Trading Act ("Wertpapierhandelsgesetz"), 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 fiscal year 2013, no dealings have been carried out by the members of the Management Board and/or Supervisory Board for which a disclosure was required.

All directors' dealings pursuant to Section 15a of the German Securities Trading Act are published on the Company's website at www.sfc.com. The total number of shares in SFC Energy AG held by Management Board members as of December 31, 2013 was 1,33 %, of which 1,33 % were held by Dr. Peter Podesser. As of this date, the members of the Supervisory Board held 0,67 % 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 & Touche GmbH Wirtschaftsprüfungsgesellschaft, Munich, was appointed by the ordinary annual general meeting to audit the Company's financial statements for financial year 2013 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.

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 financial year 2013, the targets were for the Company to reach the amounts budgeted for Group sales, gross margin and adjusted EBITDA, and each target was tied to 1/3 of the bonus.

Under a long-term incentive program (LTIP) of the Group, the members of the Management Board could in the fiscal year 2013 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 participates in the LTIP since 2009, Gerhard Inninger participates in the program as of 2012. 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 and 2011 to 2013 (Dr. Peter Podesser) and financial years 2012 to 2014 and 2013 to 2015 (Dr. Podesser and Gerhard Inninger). 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. More detailed information about the LTIP can be found in the Notes on page 130.

With the beginning of the financial year 2014 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. More detailed information about the SAR-Program 2014-2016 can be found under the heading "Share Options Programs" on page 38 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 EUR 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 2013

Compensation of the members of the Management Board totaled EUR 658,600 in financial year 2013. Compensation in financial year 2013 included the fixed compensation, non-cash perquisites, variable profit and performance-based compensation, expenditure for the Long-Term Incentive Program and premiums for accident, pension, and life insurance. The above total includes all amounts that were laid out in 2013 or set aside as provisions in the consolidated financial statements for 2013, less the amounts that had been set aside as of December 31, 2012.

The total and individual compensation (including non-cash perquisites) of the individual members of the Management Board in 2013 breaks down as follows:

FINANCIAL YEAR 2013				in €
	Fixed compensation	Short-term performance-based compensation	Long-term performance-based compensation	Total amount
Dr Peter Podesser	370,648	55,817	0	426,465
Gerhard Inninger	210,626	14,689	15,821	232,135
Total	**572,274**	**70,505**	**15,821**	**658,600**

Compensation of the Supervisory Board

The members of the Supervisory Board receive a fixed-only annual compensation in the amount of EUR 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 2013 breaks down as follows:

FINANCIAL YEAR 2013	in €
	Total
Tim van Delden, Chairman	50,000
David Morgan, Deputy Chairman	37,500
Dr Jens Müller	25,000
Total	**112,500**

Share Option Programs

With the beginning of the financial year 2014 the Supervisory Board of the Company has implemented a virtual stock option program *("Stock Appreciation Rights" 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, on and replaces the existing LTIP. 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 virtual stock options to be issued to the members of the Management Board is limited and will be reduced retrospectively if the stock exchange price of the shares of SFC Energy AG at previous agreed cut-off dates falls below certain thresholds. The SAR-Program 2014-2016 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 EUR 1.00 per virtual stock option.

The terms of the SAR-Program 2014-2016 are as follows:

TERMS OF THE SAR-PROGRAM

Date of issuance	January 1, 2014 (Hans Pol); April 1, 2014 (Dr. Peter Podesser)
Term	7 years
Waiting period	4 years (Hans Pol); 4 to 6 years (Dr. Peter Podesser)
Cut-off dates	January 1, 2015 (Hans Pol); April 1, 2015, April 1, 2016, and April 1, 2017 (Dr. Peter Podesser)
Exercise price	EUR 1.00
Performance targets (stock market price targets)	Stock exchange price increase in respect of stock exchange price at day of issuance and better development than benchmark (ÖkoDAX)

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 2013

BASIS OF THE GROUP

The Group's Business Model

Organizational structure of the Group and locations

The Group comprises SFC Energy AG, Brunnthal, Germany; SFC Energy Inc., Rockville, Maryland, USA (SFC); PBF Group B.V., Almelo, Netherlands, and its subsidiaries (PBF); and Simark Holdings Ltd., Calgary, Canada, and its subsidiaries (Simark).

The Management Board of SFC is responsible for running the Group. The Supervisory Board appoints, monitors, 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 Act (Kapitalmarktgesetz), as well as the German Corporate Governance Code.

The Company's German location is in Brunnthal. SFC is represented in the United States by its subsidiary SFC Energy Inc. in Rockville, Maryland. PBF is headquartered in Almelo, Netherlands, and Cluj, Romania. Simark is headquartered in Calgary, Canada, and has additional offices in Edmonton, Vancouver and Saskatoon.

Acquisitions

On July 4, 2013, SFC Energy AG and Simark Holdings Ltd. signed a purchase agreement for the acquisition of 100 % of the shares of Simark Controls Ltd. of Calgary, Canada, and of 541462 Alberta Ltd. of Calgary, Canada. After fulfilling all closing conditions, the transaction was completed on August 30, 2013 (acquisition date), so that SFC Energy AG now directly or indirectly owns 100 % of the acquired companies. The company 541462 Alberta Ltd. is just a holding company. All operating activities are conducted by Simark Controls Ltd.

The total consideration for the acquisition of Simark as set forth in the purchase agreement consisted of the following components at the time of acquisition:

	in Mio. CAD	in Mio. €
Cash component, due at closing	16.25	11.67
SFC stock component, due in 2015	3.75	2.69
Earn-Out component, due in 2014	1.67	1.20
Cash component, due in 2015 and 2016	3.33	2.39
Total	**25.00**	**17.95**

For further details concerning the purchase price components, see the information in the Notes.

A loan in the amount of CAD 4.125 million was taken out to finance the transaction. See the information under "Capital structure" for details.

Simark has been fully recognized in the consolidated financial statements since the initial consolidation date of September 1, 2013.

Simark employs approximately 70 people and has a highly qualified, experienced, and diverse distribution and service organization in the oil and gas industry of western Canada. The company has established itself over the past few years as a systems integrator for high-tech product solutions with advanced manufacturing expertise. Simark's strong distribution and service organization in Canada will considerably accelerate SFC's growth in the attractive North American oil and gas industry thanks to Simark's direct access to the market and further use of the existing SFC partnership structure. The possibility of future regional expansion of the business into the United States offers additional potential for growth.

Environmentally friendly SFC energy supply systems are already being used in the oil and gas industry, primarily in the fields of metering and instrumentation, as well as surveillance and security technology. Joint distribution of the entire product portfolio allows considerable synergies to be achieved in these areas.

Using Simark's advanced product integration and manufacturing expertise, system solutions using SFC fuel cells will be locally developed and produced for specific markets during a second integration phase.

It is also planned to contribute SFC's current civilian business in North America to the new joint organization and to run it from Calgary.

Segments, sales markets, products, and services

In running the Group, the Management Board distinguishes between the Industry, Consumer, and Defense & Security segments. These segments represent the Group's most important sales markets.

The corporate purpose of SFC Energy AG, which was officially amended at the Annual General Meeting held on May 6, 2013, is to develop, produce and market energy supply systems and their components for off-grid and grid-based devices, including on the basis of fuel cell technology, to make the investments this requires and to conduct all 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; and mechanical, electronic, and electrical instruments to monitor and control production and logistics processes. SFC is the first company in the world with series-produced commercial products in the area of methanol fuel cells for multiple target markets.

The Industry market is highly diversified. In principle it could include any area of industry where professional users run electrical equipment away from the grid and use SFC's EFOY Pro fuel cell. This includes applications in the security and surveillance industry, traffic management, the wind energy industry, and the oil and gas industry. In the Consumer market, SFC sells compact fuel cell generators under the EFOY COMFORT brand to generate electricity for RVs, sailboats, and cabins through established commercial channels (wholesales, retailers and OEMs). The Defense & Security market includes defense and security applications for defense organizations and governments. The product portfolio for this market includes the JENNY 600S, the vehicle-based EMILY 3000, the EMILY Cube 2500, the SFC Power Manager, and network solutions. In addition to these products, a further portion of sales is generated by joint development agreements (JDAs) with military customers from Europe and the United States.

PBF develops and manufactures reliable high-tech power supply systems. This technology-oriented company works closely with its customers to develop customized 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 defense and security, analytical systems, research and science, industry, and semiconductors. Most of its products are sold through distribution partners, but some are sold directly to customers. Almost all of PBF's sales are in the Industry segment, with a smaller share of sales generated in the Defense & Security 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 and drives, and security and surveillance technology for different applications in the oil and gas industry, as well as the mining, forestry, and municipal utilities markets.

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. Looking ahead, the focus will increasingly be on providing whole-product solutions, with fuel cells continuing to constitute the core technology and core component.

The acquisitions of PBF in 2011 and Simark in 2013 were further major steps in the Group's strategic aim of becoming a system supplier.

Steering system

For internal steering purposes, the Management Board uses sales, the underlying operating result before depreciation and amortization (EBITDA) and the underlying operating result (EBIT).

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.

The Group's primary focus in fiscal year 2013 was to orient its portfolio to integrated total solutions. The Group continued its efforts to systematically build up international markets and expand market penetration.

Research and development

The Group continues to make considerable investments in research and development. A total of € 7,560k was spent on R&D in fiscal year 2013 (previous year: € 6,046k), including costs related to joint development projects.

A total of € 207k in development costs was capitalized during the period under review, compared with € 380k a year earlier. The scheduled amortization of capitalized development costs amounted to € 717k (€ 545k). Impairment charges on capitalized development costs amounted to € 311k (€ 0k), and impairment charges on the goodwill of PBF amounted to € 734k (€ 0k). The amortization of intangible assets recognized in the purchase price allocation for PBF came to € 205k. The share of capitalized development costs in total research and development costs (capitalization rate), not including the aforementioned amortization and impairment charges on capitalized development costs and goodwill, was therefore 3.7 % (7.2 %).

Sixty employees (23 at SFC, 34 at PBF and 3 at Simark), almost one-quarter 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. SFC pursues an active patent strategy to expand the barriers to entry in its markets and to safeguard its own competitiveness and marketing options. SFC currently holds a portfolio of 16 granted patents (prior year: 15).

The focus of SFC's research and development activities was as follows in fiscal year 2013:

- Development of a range of energy solutions that help customers use and reliably power a vast array of industrial applications under the harshest of conditions.
- Tests on further reducing unit costs and increasing capacity through technological innovations and an improved operating strategy, particularly for our fuel cell stacks, which represent the technical core of fuel cell systems, in order to increase power density and reduce degradation while cutting back on the amount of material used.
- Significant improvements to the reliability, service life, and robustness of devices developed for the Industry market, including under harsh environmental conditions, in order to make products even more attractive and build on SFC's technological edge.
- Initial field testing of advanced prototype equipment with significantly improved output power followed by presentation to customers in the Industry market.
- Increases in the power of portable products in the defense segment, followed by evaluation and delivery of the first prototypes to different military customers.
- Development of higher-output energy supply solutions for vehicle-based and stationary applications in order to better meet customer requirements in the defense segment.

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

- The further development of new projects was successfully pursued in the area of network component solutions (AC to DC) in the 150 W to 3000 W output range.
- PBF also continued its research in the area of buck-boost PFC converters that should lead to greater efficiency over a large input voltage range.
- A new project for military applications was launched in the 400 W power range.

The following joint projects were continued by PBF and SFC:

- A new, efficient, lower-cost Power Manager for broader military application was successfully developed and prototypes were delivered.

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). The volume of subsidies in fiscal year 2013 (including the administration cost portion) was € 1,001k (€ 1,339k).

ECONOMIC REPORT

Macroeconomic and sector-based background conditions

The economy as a whole

According to the Ifo Institute [1], the pace of world economic expansion accelerated slightly during the past year. World industrial production and world trade increased more sharply than in summer 2013. However, the global trends varied sharply in the individual regions. The economic situation in the advanced economies further improved, but key emerging economies performed relatively weakly for both structural and economic reasons in many places. This meant that for the first time in over four years the industrialized countries were the driving force behind the economic improvement. Overall, the global pace of expansion was considerably more moderate than in the years before the financial crisis broke out.

In particular, during summer 2013 the euro area's economy again experienced moderate growth after a recession that lasted for over a year. An important factor in this was the gradual trend toward less restrictive fiscal policy, as well as the decrease in the uncertainty regarding the integrity of the monetary union. Although the mood of both consumers and manufacturers has improved almost everywhere in the euro area over the past few months, according to the Ifo Institute, the economic situation of the individual national economies remains heterogeneous. Several countries in the euro area, such as Portugal, Spain, Italy, and Greece, as well as France, are still suffering the effects of very high private and/or public debt. The situation in the banking sector also remains fragile.

1 Ifo Economic Forecast 2013/2014, Ifo Institute, December 17, 2013

Based on information from the Ifo World Economic Survey and the majority of the other early indicators, the Ifo Institute expects a further, albeit slight, acceleration of world production during the coming winter. This projection is based on the assumption that there will be no renewed escalation of the euro crisis, which the Institute considers to be the main risk to global economic development in 2014.

Germany – German economy returning to growth in 2014

According to the German Federal Statistical Office (Destatis)[2], the German economy was generally stable on average in 2013 with the price-adjusted gross domestic product (GDP) up by 0.4 %. In the previous two years, GDP grew more strongly (by 0.7 % in 2012 and by a full 3.3 % in 2011), but, according to Destatis, the economic situation improved during the course of 2013 following a weak phase last winter. Consumption was the main driving force for the growth of the German economy: Household final consumption rose a price-adjusted 0.9 %, while government final consumption was up 1.1 %. In contrast, gross fixed capital formation was down, with companies and the government in Germany together spending 2.2 % less on machinery, equipment, and vehicles than they had the previous year. Price-adjusted gross fixed capital formation in construction decreased, too, though only by 0.3 %.

German foreign trade, which is generally very robust, was less dynamic on average in 2013, due to a continuing difficult external economic environment. In price-adjusted terms, German exports of goods and services were up a total of 0.6 % on a year earlier. At the same time, however, imports rose by 1.3 %. The balance of exports and imports thus reduced GDP growth in 2013 by making a negative contribution of minus 0.3 %.

Most service branches increased their output in 2013. Business services experienced a particularly large growth rate of 3.4 %. In construction, however, price-adjusted gross value added was down again, although the decrease in 2013 (minus 1.2 %) was just half that in 2012. Industry (excluding construction), which accounts for a good quarter of total gross value added, roughly maintained the previous year's level. Total price-adjusted gross value added of all economic sectors rose 0.4 %, as did GDP.

For the seventh consecutive year, employment reached a record level at 41.8 million in 2013. However, growth in employment (plus 0.6 %) slowed down considerably. Labor productivity (price-adjusted gross domestic product per person in employment) was down 0.2 % in 2013.

According to provisional calculations, federal, state and local governments and social security funds recorded slight net borrowing of € 1.7 billion at the end of the year. Both federal and state governments again reduced their deficits markedly from the previous year, while local governments and social security funds again achieved a large surplus. When measured as a percentage of gross domestic product at current prices, the deficit ratio of the federal government was minus 0.1 %, which corresponds to a nearly balanced budget.

2 German Federal Statistical Office Wiesbaden, press release 16/2014; January 15, 2014

Based on the Ifo Business Climate Index[3], the Ifo Institute predicts an acceleration of general economic production for Germany. The Institute considers the reason for this to be the improvement in the world economic environment and the favorable trend for economic background conditions in Germany. Uncertainty on the part of companies has diminished, but remains sufficiently high on the part of investors who could invest abroad to keep them interested in making a relatively secure investment in Germany. The Institute therefore assumes that economic expansion will be driven by the domestic economy and expects an average increase of 1.9 % in real gross domestic product in 2014.

The German Federal Ministry of Economics and Energy (BMWi)[4] also sees the German economy as returning to growth following a difficult winter. After a weak start to the fourth quarter, the Ministry reports that industry registered a clear increase in new orders during the fourth quarter and a positive development in the business climate. Employment is also increasing after seasonal adjustment, but the reduction in unemployment is stagnating, partly because of a lack of skills among the unemployed. The Ministry considers a fresh stimulus to be necessary in this area.

Consumer market

a) Caravaning

According to the CIVD[5] and the European Caravan Federation (ECF)[6], total sales by the German caravanning industry in 2013, at € 6.0 billion, were down a modest 4.3 % from the previous year's level. Sales of leisure vehicles declined by 9.6 % to € 3.0 billion, with sales of caravans down 25 % to € 0.5 billion and gross proceeds on RVs falling by 5.5 % to € 2.5 billion.

Due to the economic downturn in several European export markets, manufacturers of leisure vehicles were forced to make considerable adjustments to production levels in 2013. The production of leisure vehicles fell 14 % compared with 2012 to 70,993 units. Exports declined by 12 %. In contrast to the general economic situation in Europe, however, Germany remained stable, functioning as an anchor of stability.

According to the association, the number of new RV registrations[7] still remained solid in 2013. There were a total of 24,809 new RV registrations. This corresponds to growth of 3.1 % compared with the previous year (24,062 units) and is another new record. Europe's challenging market environment is clearly making itself felt among the newly registered caravans: At 16,665 new vehicle registrations, the caravan market in 2013 was down 5.5 % from 2012, when 17,638 caravans had been registered.

Based on a member survey conducted by the caravanning industry association CIVD[8], the German caravanning sector anticipates a stable market trend in the leisure vehicle market in 2014, with a slight downward trend in the caravan segment. It is anticipated that RVs will again show a positive trend. In spite of the difficult economic situation in Europe, most members assume that export demand will remain stable or increase slightly, with estimates for caravan exports being slightly more positive than expectations for domestic business.

Overall, the association anticipates a stabilizing trend on the German leisure vehicle market in 2014, and its objective is to maintain the level of sales from the prior year.

3 Ifo Business Climate Germany – Results of the January 2014 Ifo Business Survey, January 2014
4 BMWi German Federal Ministry of Economics and Energy, press release, The economic situation in Germany in January 2014, January 13, 2014
5 Data: CIVD Caravaning Industrie Verband e.V., press release on industry sales, January 13, 2014
6 Data: ECF European Caravaning Federation, press release on markets, January 13, 2014
7 Data: CIVD Caravaning Industrie Verband e.V., press release on registrations, January 13, 2014
8 Data: CIVD Caravaning Industrie Verband e.V., press release on market developments, January 13, 2014

b) Marine market

According to the German Marine Industry Association (BVWW)[9], the European boating sector experienced another setback in 2013. The production figures of the European boat manufacturers were at the previous year's level in 2013, putting them only slightly above the results for crisis year 2009. However, the association believes that this year's trade fair season so far points to a recovery of the market next year.

German boat manufacturers, which export more than 85% of their products, have also been affected by weak demand over the past few years. The traditionally important sales markets on the Mediterranean were particularly hurt by the debt crisis. It was also impossible to compensate for setbacks in those markets, which are traditionally important for German manufacturers, by developing new markets such as Brazil or China. However, German boat manufacturers did use product innovations in some cases to make up for lost sales.

After a tough start for the marine equipment and accessories business, a good summer resulted in positive momentum. However, the suppliers could not fully compensate for the losses sustained in the spring. The industry projects that sales declined by 3% to 5% for the year. However, about three-quarters of accessory suppliers report that business was as good as or better than the previous year. In line with the trend of using existing yachts for longer periods of time, owners continue to invest in equipping their boats. Top-of-the-line technologies offering greater comfort and convenience, as well as other high-value navigation and communication technologies, are particularly popular.

The industry anticipates a 3% increase in total sales during the coming year. Individual companies are also increasingly optimistic about the future. According to the national survey on the economy which the association conducted at the end of the year, over three-quarters of companies expect business to be as good as it has been or even better over the next two to three years.

Defense & Security market

The international defense and security market continued to be affected by ongoing reforms and spending cuts in several major European and international defense organizations, just as it had been during the previous year. The situation in the United States, a major sales market, was influenced by continuing budget disputes. The failure to adopt a defense budget, along with spending cuts required by law (the "sequester"), caused most new projects to come to a standstill. The reforms of the German Bundeswehr and the comprehensive restructuring of the procurement process also caused delays in overall procurement. In the context of these difficult conditions, few new projects were carried out in the areas of the development and commercial use of autonomous power sources based on fuel cells.

Industry market

a) Fuel cells (SFC)

There is still no official data about the number of electric and electronic devices that are used off-grid for industrial applications, because the markets are extremely diverse. Overall, there was a continuation of the trend toward applications and devices that are used far from any power outlets. At the same time, demand grew for integrated, user-friendly power sources that enable such equipment to run reliably under any weather conditions and be controlled remotely. Likewise, demand is growing for autonomous units to charge batteries used on board conventional vehicles with internal combustion engines.

9 Data: German Marine Industry Association (BVWW), press release on the Boot 2013 International Boat Show, January 15, 2014

b) Power electronics and switched mode network components (PBF)

For assessing the economic development of the markets relevant to PBF (power electronics and switched mode network components), we draw on information provided about the sub-segment of the electronics industry referred to as “electronic components and systems” in the industry statistics of the German Electrical and Electronic Manufacturers’ Association (ZVEI).

According to the association [10], the global market for electrotechnical and electronic products grew by 4 % last year to € 3,592 billion. The Asian market experienced the strongest growth, expanding by 6 % to € 2,063 billion, which corresponds to a 57 % share of the world market. The American electronics market rose 4 % in 2013 to € 758 billion (21 % share of the world market). In contrast, the market volume in Europe stagnated at € 641 billion (18 % share of the world market).

Exports by the German electronics industry from January to November 2013 totaled € 146 billion, down 1.4 % from the same period during the previous year. ZVEI assumes that exports will have declined by 1 % to € 158 billion for all of 2013.

The association believes that growth will continue to come primarily from Asia (2014: +7 %, 2015: +8 %) in the next few years. The American market is likely to grow by 5 % or 6 %, developing in line with the world market average, but the association expects that growth in Europe will lag behind that (2014: +3 %, 2015: +4 %). The association [11] anticipates moderate growth (2 %) for the German electronics industry in 2014, with sales rising to almost € 170 billion. This assumes that Europe will not experience any new setbacks in overcoming the euro debt crisis.

In November 2013 [12], ZVEI was projecting growth of at least 3 % to around USD 474 billion for the full year 2013 in the world market for the “electronic components and systems” sub-segment (in-house manufacturers and electronic manufacturing service providers). For 2014, the association anticipates growth of 5 % to USD 497 billion in the world market for electronic components.

On the European market, the forecast called for an increase in sales of at least 2 % to approximately USD 60 billion. The association believes that the European market will grow by at least 3 % in 2014, to sales of about USD 62 billion, leaving behind the weak period in 2012, when sales dropped by 9 %.

For Germany, the November analysis by the market experts in ZVEI’s Electronic Components division [13] projected an increase of almost 3 % to at least € 17 billion for 2013 as a whole. ZVEI anticipates growth in the German domestic market for electronic components to be at least 3 % in 2014, since the decline in the demand for components used in industrial electronics for motor vehicle electronics finally ended in 2013. The renewable energy sector also seems to have reversed its downward trend.

10 Data: ZVEI press release 08/2014, January 24, 2014
11 Data: ZVEI press release 140/2013, December 19, 2013
12 Data: ZVEI press release 118/2013, November 12, 2013
13 ZVEI press release 118/2013, November 12, 2013

c) Oil and gas market (Simark)

For assessing the economic development of the markets in which Simark operates (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. The world oil market is highly complex, according to the U.S. Energy Information Agency (EIA)[14], an independent organization that prepares statistics and analyses on the international energy industry. The world oil market is dominated by government controlled and private economic entities, with government controlled national oil companies controlling 85% of proven oil deposits and 58% of production in 2010. The agency estimates proven oil deposits to total about 1.5 trillion barrels and production to total about 89 million barrels per day.

According to *International Energy Outlook 2013*[15], which was published in July 2013, the EIA anticipates a 56% increase in global energy consumption between 2010 and 2040. Most of that growth (90%) is projected to come from non-OPEC countries. Even if renewable energy sources and nuclear energy are the fastest growing energy sources (2.5% growth per year), the agency estimates that fossil fuels will still cover almost 80% of world energy requirements through 2040. The study states that natural gas is the fastest growing fossil fuel, with world consumption due to grow by 1.7% annually.

Where oil production[16] is concerned, the EIA expects growth in the production of oil by non OPEC countries to reach a record level of 1.9 million barrels per day in 2014, with the U.S. and Canada together accounting for almost 70% of that growth. The EIA estimates that crude oil production in the U.S. will average 7.5 million barrels per day in 2013, which represents a year-on-year increase of 1.0 million barrels per day. The EIA predicts that domestic crude oil production will be 8.5 million barrels in 2014 and 9.3 million barrels in 2015. The forecast for 2015 would be the highest level since 1972.

The need for equipment that can operate, control, and monitor oil and gas extraction and production systems will continue to increase as demand for petroleum and natural gas rises. A stable economic outlook is therefore expected for this market.

14 EIA, Short-term Energy Outlook, January 07, 2014
15 EIA, International Energy Outlook, July 25, 2013
16 EIA, Energy in Brief, September 13, 2013

EARNINGS AND FINANCIAL POSITION

Earnings position

The SFC Group (the "Group") posted sales of € 32,413k in fiscal year 2013, for an increase of 3.7 % from the prior-year period's € 31,260k. It should be noted that the sales figure for fiscal year 2013 contains € 8,146k from the Canadian company Simark, which was acquired in early July 2013 and consolidated for the first time as of September 1, 2013. Because of this acquisition, there is only limited comparability with the prior-year figures, which did not include Simark.

Sales for SFC went from € 18,279k to € 11,082k, for a decrease of 39.4 % from the prior year.

PBF had sales of € 13,185k, 1.6 % above the previous year's € 12,981k.

Simark's first contribution to consolidated sales was € 8,146k.

In a comparison of the two fiscal years, EBIT for the Group decreased from minus € 524k to minus € 8,836k.

Restructuring measures instituted during the fourth quarter of 2013 due to the considerable worsening of the earnings position have affected the course of business. Those measures include the elimination of 14 jobs in the fuel cell business and reassessment and consolidation of the floor space being used in the rented building in Brunnthal and the associated contingent loss provisions.

As was the case the year before, there were other exceptional items in fiscal year 2013 besides those mentioned above.

The following effects on earnings are not reflected in the underlying earnings:

- The acquisition of Simark: acquisition costs (€ 1,076k), personnel expenses resulting from the agreed contingent consideration (€ 994k), depreciation/amortization and expense resulting from the purchase price allocation (€ 596k),
- Subsequent valuation of the acquisition of PBF: impairment charges on goodwill (€ 1,468k), income from the reclassification of the earn-out provision (€ 921k),
- Additional expenses: restructuring (€ 567k), contingent losses (€ 396k), impairment charges on capitalized development costs (€ 311k), and other (€ 132k).

The reconciliation to the underlying operating result (EBIT underlying) and the assignment of exceptional items to the line items in the income statement is contained in the table below:

		in k€
	2013	2012
EBIT (earnings before interest and taxes)	**–8,836**	**–524**
Production costs of work performed to generate sales		
Impairment of intangible assets identified in acquisitions	210	0
Expenses for acquisition-related personnel costs Simark	172	0
Expenses for acquisition-related materials	28	0
Research and development costs		
Impairment of goodwill PBF	734	0
Impairment losses capitalized development	311	0
Sales costs		
Impairment of goodwill PBF	734	0
Expenses for acquisition-related personnel costs Simark	650	0
Impairment of intangible assets identified in acquisitions	358	0
Expenses from contract terminations	50	0
Expenses for personnel, bonus	24	0
General administration costs		
Expenses for acquisition-related personnel costs Simark	172	0
Expenses from contract terminations	30	0
Other operating income		
Income from the reversal of earn-out provision identified in acquisitions PBF	–921	0
Reversal of impairment charges on capitalized development costs	0	–536
Income from reversal of provisions from contract terminations	0	–124
Other operating expenses		
Cost for acquisitions (in 2013 for acquisition Simark)	1,076	133
Contingent losses from rent expenses and leasing	396	0
Expenses from contract terminations	29	90
Restructuring expenses		
Expenses from contract terminations	567	0
EBIT underlying	**–4,217**	**–961**

Underlying EBITDA also decreased. Underlying EBITDA was € 829k in 2012. In 2013, underlying EBITDA was minus € 2,203k. As with underlying EBIT, this marks a roughly € 3 million decrease from the previous year.

The Group's sales and earnings figures were thus well below expectations and the forecast from the prior year, which assumed sales growth of around 10 % and an associated further improvement in earnings. Actual sales for the Group were about 6 % less than expected. The earnings forecast (underlying EBITDA) was missed by around € 3 million. Reference is made to the revised sales and earnings forecast dated October 9, 2013.

Sales by segment

The following table shows a comparison of segment sales for the 2013 fiscal year:

SALES BY SEGEMNT			in k€	in %
Segment	2013	2012	Change	Change
Industry	24,969	17,500	7,469	42.7
Consumer	4,799	4,838	–39	–0.8
Defense & Security	2,645	8,922	–6,277	–70.4
Total	**32,413**	**31,260**	**1,153**	**3.7**

Sales in the Industry segment rose from € 17,500k to € 24,969k. PBF, which generated nearly all of its sales in the Industry segment, accounted for € 12,668k (€ 12,650k) of this amount. Sales by Simark of € 8,146k fall exclusively within this segment. Sales posted by SFC declined from € 4,850k to € 4,155k. The number of EFOY fuel cell units sold decreased from 974 to 779. The main cause of the decrease at SFC is that there was no major traffic technology project this year that compares with the one during the previous year. There were also delays in the shipment of fuel cells in the oil and gas sector, because the distribution that previously went through a Canadian oil and gas integrator working for the company is now being handled directly by Simark.

Sales in the Consumer segment were down slightly in 2013, dropping from € 4,838k to € 4,799k, although the number of fuel cells sold rose from 1,663 to 1,697. This result should be considered positive given the downward market trend.

Sales in the Defense & Security segment in fiscal year 2013 were € 2,645k against € 8,922k, for a decrease of 70.4 %. The decrease is primarily due to contract award delays relating to the unresolved budget situation in the U.S. and shifts in the German Bundeswehr as a result of reform. Some necessary technical follow-up work is also delaying new contracts in Germany. JDA sales improved from € 501k to € 602k.

Sales by region

Sales growth in fiscal year 2013 was the result of the first-time consolidation of Simark in the North America region.

SALES BY REGION			in k€	in %
	2013	2012	Change	Change
Europe (without Germany)	12,420	12,799	–379	–3.0
North America	10,188	3,316	6,872	207.2
Germany	7,145	12,583	–5,438	–43.2
Asia	1,918	2,316	–398	–17.2
Rest of the world	742	246	496	201.6
Total	**32,413**	**31,260**	**1,153**	**3.7**

In Europe (excluding Germany), a major market, PBF had sales of € 7,167k, while SFC had sales of € 5,253k. More than half of PBF's sales were generated in the Netherlands. The year-on-year change at SFC (previous year: € 4,608k) was predominantly due to the increase in sales in the European Industry market.

The level of sales in North America increased significantly thanks to the acquisition of Simark.

In Germany, the obvious decrease in SFC's sales from € 9,900k to € 3,282k was primarily caused by the reporting last year of a major contract with the German Bundeswehr, and the aforementioned decrease in the area of traffic control in the Industry segment. PBF contributed sales of € 3,863k in Germany, up from € 2,683k during the previous year.

Altogether, Germany's share of sales declined from 40.3 % to 22.0 % during fiscal year 2013.

PBF dominated the Group's business in Asia, with sales of € 1,289k (previous year: € 1,807k). As was the case during the previous year, most of SFC's sales were for projects involving industrial applications in Singapore.

Gross margin

Gross margin in fiscal year 2013 was € 10,640k, or 32.8 %. In contrast, last year's figures were € 12,763k, or 40.8 %. The decrease in gross margin was due to shifts in the share of sales among the segments, as well as a higher percentage of sales by PBF and Simark, Group companies that have lower margins as a result of different business models.

When comparing fiscal years, the Group company SFC had a much lower gross margin of € 4,432k, or 40.0 % (2012: € 8,538k, or 46.7 %). The cause of the decrease was lower sales in the high-margin Defense & Security and Industry segments. In addition to this change in the product mix, it was not possible to repeat the cost savings achieved during the previous year with the introduction of a new product platform.

The Group company PBF achieved a gross margin of € 4,384k, or 33.2 % (2012: € 4,225k or 32.5 %).

Simark's gross margin was € 1,824k or 22.4 %.

PBF and Simark have lower gross margins than SFC because of their respective distributor models. The year-on-year change in the individual segments' gross margin was as follows:

GROSS MARGIN	in k€	in k€	in %
Segment	2013	2012	Change
Industry	7,804	6,579	18.6
Consumer	1,742	1,788	–2.6
Defense & Security	1,094	4,396	–75.1
Total	**10,640**	**12,763**	**–16.6**

Sales costs

Sales costs rose by 40.4 % from € 5,862k to € 8,233k due to the acquisition of Simark.

The Group company SFC experienced a 14.5 % decrease to € 4,044k (prior year period: € 4,729k).

Sales costs for Simark, including effects from the purchase price allocation and the prorated earn-out, were € 2,290k.

PBF's sales costs were € 1,165k (prior year period: € 1,133k).

Impairment charges on goodwill in the amount of € 734k (€ 0k) are also contained in the 2013 figures.

Research and development costs

In 2013 research and development costs increased 44.4 %, rising to € 6,149k from € 4,257k in the previous year.

SFC saw costs increase from € 1,977k to € 2,769k. The primary causes of this in fiscal year 2013 were impairment charges on capitalized development costs in the amount of € 311k and subsidies that were € 287k less than the year before.

PBF's research and development costs were € 2,523k (prior year: € 2,280k) or 19.1 % (17.6 %) of its sales.

Simark is included in research and development costs for the first time for an amount of € 123k.

The figures for 2013 also include impairment charges on goodwill for PBF in the amount of € 734k (€ 0k).

Development costs in the amount of € 207k (€ 380k) and internally generated patents in the amount of € 0k (€ 3k) were capitalized in the reporting period. Impairment charges on capitalized development costs were € 311k (€ 0k) in 2013. Additionally, it is important to note that development costs incurred as part of JDAs are reported as production costs of work performed to generate sales, and that any subsidies received for government-sponsored development projects are offset against development costs. Adjusted for these two effects and adding back in the capitalized development costs and patents, true research and development expenditures in 2013 totaled € 7,560k, which represents an increase of 25.0 % from the previous year's € 6,046k.

General administration costs

General administration costs increased 8.6 % in 2013, rising to € 3,860k from € 3,555k the previous year. They were therefore 11.9 % last year versus 11.4 % the year before when expressed as a percentage of sales.

Other operating income

Other operating income primarily includes income from the reclassification of the earn-out liability from the PBF acquisition in the amount of € 921k.

Other operating expenses

Other operating expenses primarily reflect acquisition costs of € 1,076k from the Simark acquisition, contingent loss provisions for rent expenses and leasing of € 396k, and foreign exchange transaction losses of € 189k.

Restructuring expenses

A total of € 567k in restructuring expenses (€ 0k) was reported in fiscal year 2013 in connection with layoffs.

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

EBITDA fell from € 730k in the prior year to minus € 4,474k. The EBITDA margin fell from 2.3 % to minus 13.8 %. Adjusted for the one-off effects mentioned earlier, EBITDA was minus € 2,203k, or minus 6.8 % of sales.

Operating result (EBIT)

Consolidated EBIT decreased significantly from minus € 524k to minus € 8,836k in 2013. The EBIT margin deteriorated from minus 1.7 % to minus 27.3 %. Adjusted for the one-off effects mentioned earlier, EBIT was minus € 4,217k, or minus 13.0 % of sales.

Interest and similar income

Interest and similar income decreased from € 214k to € 67k, primarily due to the lower balance of cash and cash equivalents.

Interest and similar expenses

The interest and similar expenses item in the amount of € 194k consists of interest paid to banks and the interest cost on liabilities and provisions.

Result for the year

The result for 2013 came to minus € 8,912k, following minus € 426k the previous year. This includes the above-mentioned exceptional items in the total amount of € 4,619k (€ 437k) for fiscal year 2013.

Earnings per share

Earnings per share under IFRS (undiluted and diluted) deteriorated from minus € 0.06 to minus € 1.16.

New orders and order backlog

New orders in fiscal year 2013 totaled € 35,559k (including four months for Simark), compared with € 33,822k in 2012. It should be noted that this item for the previous year included the series contract with the German Bundeswehr for portable fuel cells with energy networks for a net value of almost € 5 million.

This put the order backlog at € 17,636k as of December 31, 2013 (December 31, 2012: € 9,564k), with € 707k of the amount attributable to SFC, € 8,281k to PBF, and € 8,648k 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 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 brought in through the May 2007 public stock offering were raised specifically for this purpose. Until they are used to implement the growth strategy, excess liquidity has been 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. SFC is authorized to acquire its own shares on or before May 5, 2015, in an amount not to exceed ten percent of its capital stock.

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

Available cash and cash equivalents had decreased considerably by December 31, 2013, to € 7,143k (December 31, 2012: € 22,626k) in particular due to the acquisition of Simark.

A loan in the amount of CAD 4.125 million was taken out in the context of the acquisition of Simark. The conditions are as follows:

- Term 60 months, through July 2018
- Monthly payment CAD 49,110, with a final payment of CAD 1,227,510 due in 2018
- Interest: Base interest rate for Canadian Dollar Bankers Acceptances (BA) plus performance-based premium between 4 % and 6 %
- Detailed covenants based on various Simark performance indicators and clauses requiring repayment in the event of non-compliance
- Collateral provided by pledging the shares in Simark

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

COMPANY'S EQUITY RATIO		in k€
	12/31/2013	12/12/2012
Equity	**29,063**	**36,393**
As a percentage of total capital	61.0	76.4
Long-term liabilities	5,918	3,562
Short-term liabilities	12,669	7,662
Liabilities	**18,587**	**11,224**
As a percentage of total capital	39.0	23.6
Total capital	**47,650**	**47,617**

The capital structure of SFC changed in 2013, mainly because of the acquisition of Simark. SFC still shows an equity ratio of 61.0 % (prior year: 76.4 %).

Property, plant and equipment is financed with equity, and current assets cover current liabilities.

Capital expenditures

In fiscal year 2013, € 207k (€ 380k) was capitalized for the further development of products. Capital expenditures were also made in software, machinery, and equipment.

Total capital expenditures in 2013 came to € 758k (€ 878k). Capital expenditures were financed with equity or under existing loan agreements.

Cash and cash equivalents

There was a net cash inflow of € 184k in fiscal year 2012, but in 2013 there was a net cash outflow of € 15,474k, due primarily to the acquisition of Simark and the negative result for the year. In that respect, the earnings position of the Group and its future liquidity are closely connected.

At the end of December 2013, the Company had available cash and cash equivalents of € 7,143k (end of December 2012: € 22,626k). Furthermore, € 285k (€ 285k) in time deposits was pledged as a lease security deposit.

There were current liabilities to banks in the amount of € 2,139k as of the reporting date (previous year: € 372k).

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

Simark	line of credit CAD 2.5 million	not drawn: CAD 0.8 million
PBF	line of credit € 0.75 million	not drawn: € 0.2 million

Cash flow from ordinary operations

There was a net cash outflow of € 7,312k from ordinary operations in 2013 versus a net cash inflow of € 1,258k in the previous year.

The primary cause of this was the negative result and the subsequent negative changes to the operating result before working capital in the amount of € 5,089k, versus positive changes of € 1,180k in the prior year.

Cash flow from investment activity

Net cash used for investment activity totaled € 6,594k in the period under review, versus € 657k the previous year. Of that, € 5,585k was for the acquisition of Simark and € 412k for the PBF earn-out.

Cash flow from financial activity

There was a net cash outflow of € 1,568 from financial activity in 2013, in contrast to a net cash outflow of € 416k the previous year. The Simark acquisition was the main cause of the net cash outflow. The payment of amounts owed by Simark Controls Ltd., which counted toward the purchase price, was partially financed through the assumption of financial liabilities.

Refer to the Notes for a presentation of the purchase price and the acquired assets and liabilities.

Assets & liabilities

The Group's financial situation and balance sheet changed as a result of the acquisition of Simark.

Total equity and liabilities increased by 0.1 % as of December 31, 2013, to € 47,650k from € 47,617k as of December 31, 2012.

The equity ratio decreased from 76.4 % to 61.0 % due to the net loss for the period.

Inventories and trade accounts receivable rose by € 7,460k, or 78.4 %, largely because of the acquisition of Simark.

The most significant intangible assets are the goodwill of Simark in the amount of € 7,126k (€ 0k) and of PBF in the amount of € 4,672k (€ 6,140k), other intangible assets relating to the acquisition of Simark in the amount of € 3,616k (€ 0k) and PBF in the amount of € 1,845k (€ 2,227k), and capitalized development costs in the amount of € 1,265k (€ 2,087k). Impairment charges in the amount of € 1,468k (€ 0k) were taken on the goodwill of PBF in fiscal year 2013. The decrease in other intangible assets relating to the acquisitions of Simark and PBF reflects the amortization of the customer relationships, technology, and order books acquired. With respect to the capitalized development costs, the sum of € 206k was capitalized, € 717k was amortized, and € 311k represented an impairment charge.

Non-current assets increased from € 14,020k to € 21,715k. The share of non-current assets in total assets climbed from 29.4 % to 45.6 % as a result. It should be noted that the building occupied by SFC is under a long-term lease but is not shown under non-current assets pursuant to IFRS rules.

Liabilities rose by 65.6 % from € 11,224k to € 18,587k as a result of the acquisition.

Altogether, liabilities made up 39.0 % of total equity and liabilities (December 31, 2012: 23.6 %).

With the net loss for the period, shareholders' equity decreased to € 29,063k at December 31, 2013, against € 36,394k at December 31, 2012. Subscribed capital and the capital surplus increased by € 2,208k due to the capital increase against in-kind contributions.

Financial and non-financial 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 fiscal year 2013 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:

- Number of employees and professional development

- Quality indicators, assessments, and failure rates

Supplier quality remained at the previous year's level with around 4 % of deliveries having defects. The mean time to failure of fuel cells in the Industry segment was improved by some 7 %.

Sustainability is a key factor in the Group's long-term business success. SFC strives to maximize its environmental efficiency in everything it does. This approach is at the heart of product development as well as production processes. SFC 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 reject rates in the manufacturing process. SFC is ISO 9001 certified and hopes to have its environmental management system certified to ISO 14001 in 2014.

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. Our goal is to have satisfied employees who want to work for the Company for a long time. Professional development is tailored to employees' individual circumstances at SFC. In addition to providing field-specific training, we offer 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, 2013:

EMPLOYEES

	12/31/2013	12/31/2012	Change
Board members	2	2	0
Research and development	60	60	0
Production, logistics, quality management	94	74	20
Sales & Marketing	73	34	39
Administration	27	19	8
Permanent employees	**256**	**189**	**67**

The Group employed 7 trainees, graduates, and student trainees as of December 31, 2013 (December 31, 2012: 11).

SFC had 85 permanent employees as of December 31, 2013, which is fewer than the previous year (88).

The number of employees at PBF decreased from 101 to 100.

Simark had 71 employees as of the reporting date.

All in all, the number of employees in the Group was much higher than on last year's reporting date due to the acquisition of Simark. However, termination agreements were signed with 10 employees at SFC in conjunction with the restructuring program mentioned earlier. These employees are due to leave the company in 2014.

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. 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 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 financial year 2013, the targets were for the Company to reach the amounts budgeted for Group sales, gross margin and adjusted EBITDA, and each target was tied to 1/3 of the bonus.

Under a long-term incentive program (LTIP) of the Group, the members of the Management Board could in the fiscal year 2013 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 participates in the LTIP since 2009, Gerhard Inninger participates in the program as of 2012. 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 and 2011 to 2013 (Dr. Peter Podesser) and financial years 2012 to 2014 and 2013 to 2015 (Dr. Podesser and Gerhard Inninger). 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 financial year 2014 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. More detailed information about the SAR-Program 2014-2016 can be found under "Share Options Programs".

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 2013

Compensation of the members of the Management Board totaled € 658,600 in financial year 2013. Compensation in financial year 2013 included the fixed compensation, non-cash perquisites, variable profit and performance-based compensation, expenditure for the Long-Term Incentive Program and premiums for accident, pension, and life insurance. The above total includes all amounts that were laid out in 2013 or set aside as provisions in the consolidated financial statements for 2013, less the amounts that had been set aside as of December 31, 2012.

The total and individual compensation (including non-cash perquisites) of the individual members of the Management Board in 2013 breaks down as follows:

FINANCIAL YEAR 2013				in €
	Fixed compensation	Short-term performance-based compensation	Long-term performance-based compensation	Total amount
Dr Peter Podesser	370,648	55,817	0	426,465
Gerhard Inninger	210,626	14,689	15,821	232,135
Total	**572,274**	**70,505**	**15,821**	**658,600**

Compensation of the Supervisory Board

The members of the Supervisory Board receive a fixed-only annual compensation in 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 2013 breaks down as follows:

FINANCIAL YEAR 2013	in €
Tim van Delden, Chairman	50,000
David Morgan, Deputy Chairman	37,500
Dr Jens Müller	25,000
Total	**112,500**

Information that is to be included in the Notes to the financial statements in accordance with § 314(1) No. 6a of the German Commercial Code (HGB) can be found in the Notes to the Consolidated Financial Statements.

Stock Option Programs

With the beginning of the financial year 2014 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, on and replaces the existing LTIP. 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 virtual stock options to be issued to the members of the Management Board is limited and will be reduced retrospectively if the stock exchange price of the shares of SFC Energy AG at previous agreed cut-off dates falls below certain thresholds. The SAR-Program 2014-2016 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.

Other related parties

Please see the section entitled "Related-party transactions" in the Notes.

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 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 our U.S. subsidiary is primarily performed or monitored by the parent company, which ensures that accounting standards are applied uniformly throughout the Group.

Bookkeeping for the Dutch subsidiary PBF and its affiliates is performed by the bookkeeping department in the Netherlands. 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 and its affiliates 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 Energy AG has reviewed the accounting-based internal control system and believes that it was fully functional in fiscal year 2013. 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, monitoring, 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.

The risk management system used at SFC also includes an early warning system that is 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, an uniform project management tool for the entire Group, and other process-related indicators. PBF has been integrated into this risk management system. The integration of Simark is planned for fiscal year 2014.

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, and liquidity 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 trade accounts receivable, other financial assets and receivables, and cash and cash equivalents. 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, and other liabilities.

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 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.

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 increase in May 2007. SFC still has cash reserves it can use to finance the further planned growth of the Group. However, their amount dropped significantly from the previous year due to the Simark acquisition and net loss in 2013.

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 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. 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

Due to Simark's business volume, SFC will generate a substantial portion of its future revenues in Canadian dollars, which will be offset by expenses and payments in Canadian dollars. In addition, SFC 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 for the U.S. subsidiary. Furthermore, Simark purchases some of its products in U.S. dollars.

The objective of foreign currency management is to minimize exchange rate losses in comparison with budget assumptions. 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. If large open positions exist, most of 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.

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

TAKEOVER-RELATED DISCLOSURES PURSUANT TO § 315(4) HGB

The capital stock of SFC Energy AG totals € 8,020,045.00 and is divided into 8,020,045 ordinary bearer shares with no par value representing a notional amount of our capital stock of € 1.00 per share. The capital stock is completely paid-up. Each share confers one vote.

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

The parties that directly and indirectly own capital exceeding 10 % of the voting rights are listed in the table below[17]:

NAME	in %
Holland Private Equity B.V. (via HPE PRO Institutional Fund B.V.)	24.04

Shareholders have no special rights that confer control.

Members of the Management Board of SFC Energy 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.

The Management Board is authorized to increase the Company's subscribed capital by up to € 3,234,285 on one or more occasions before May 5, 2018, with the Supervisory Board's consent, by issuing new no-par-value bearer shares, in exchange for cash or in-kind contributions (authorized capital 2013). As a general rule, shareholders are to be granted a preemptive right to subscribe for these shares. However, under certain circumstances the preemptive subscription right of shareholders may be excluded with the Supervisory Board's consent. Pursuant to § 5(5) of the Articles of Association, the terms of the capital increase are specified by the Management Board, with approval by the Supervisory Board.

The Company has a conditional capital 2011 in the amount of € 3,576,443.00 for 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). No such instruments had been issued as of the reporting date. As stated in § 5(4) of the Articles of Association, the Management Board will determine the remaining details of the execution of the conditional capital increase, with approval by the Supervisory Board.

The General Meeting held on May 6, 2010, authorized the Management Board to acquire treasury shares on or before May 5, 2015, in an amount not to exceed ten percent of the Company's capital stock on May 6, 2010. No use had been made of this authorization as of the balance sheet date.

There are currently no agreements at SFC Energy AG that are contingent on a change of control following a takeover offer.

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

In December 2013, the Management Board extended Dr. Podesser's Management Board contract by three more years starting April 1, 2014. The contract specifies that Dr. Podesser can terminate his Management Board contract for cause if a third party acquires the majority of voting rights in SFC (change of control). Such termination by Dr. Podesser is subject to one year's notice upon request by the Supervisory Board of SFC and/or the party acquiring the controlling majority. If Dr. Podesser's employment as a member of the Management Board ends early due to a change of control occurring on or before March 31, 2016, he will be entitled to receive the value of one year's compensation, based on full achievement of targets, provided, however, that the amount he receives may not exceed the value of the compensation for the remaining term of his Management Board contract at the time of his resignation. This severance pay will be due when the change of control becomes effective. By contrast, Dr. Podesser's right of termination will be excluded and he will not receive any severance pay if there is a change of control after March 31, 2016.

Pursuant to the above contract, on April 1, 2014 Dr. Podesser will also be granted 360,000 virtual stock options ("stock appreciation rights," SARs) under the 2014-2016 SAR Plan with a strike price of € 1.00 each. The SARs may expire to a specified extent on three predefined dates depending on SFC's stock price. 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, 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).

In December 2013, Hans Pol was appointed to serve on the Management Board from January 1, 2014 to June 30, 2015. His contract as a member of the Management Board contains a similar agreement on the 2014-2016 SAR Plan. Mr. Pol was granted 90,000 SARs on January 1, 2014.

There are no corresponding compensation agreements with employees.

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 Group companies Simark and PBF each relate to the Industry segment.

Market risks

Macroeconomic developments

The still very high level of private and/or public debt in several countries in the euro area and the U.S. and the fragile situation in the banking sector could continue to have a negative effect on the world economic climate in 2014. However, experts do expect a further – albeit modest – acceleration of global manufacturing assuming there is no renewed escalation of the euro crisis, which the Ifo Institute, as mentioned above, considers to be the main risk to global economic development in 2014.

Consumer market

The German caravanning industry association CIVD and the European Caravan Federation ECF assume that the present trend in the industry will stabilize, with the goal being to maintain last year's level of sales. This is considered to be an indicator that the trend for sales of EFOY fuel cells will remain at the same level in this market.

The traditional segment of RV buyers, generally wealthy retirees, continues to decline. Younger customers tend to prefer other, cheaper vehicle and travel options. On top of that, consumers are still cutting back on their leisure spending, which contributes to the extreme cyclicality of this market.

The marine market is also cyclical in this way, which affects the sale of accessories, the segment of this market which is important to SFC. Even though quality accessories improve comfort, convenience, and safety, in addition to adding value, spending is still cut in this area in difficult economic times.

Defense & Security market

As discussed previously in this report, current budget cuts and structural changes are still having an impact on planning and capital spending decisions at the major defense organizations in Europe and North America. For SFC, this affects both development programs with defense partners and commercial orders.

Industry market

Fuel cells (SFC): It is anticipated that the developing market of off-grid and mobile industrial systems will continue to grow in view of its increasing strategic importance. However, the degree to which many segments of the industrial market depend on the overall economy, government budgets, and economic stimulus plans plays an important role here, as well.

Power electronics and switched mode network components (PBF): Power electronic components and systems are needed anywhere power is used. As a rule, the electronics industry develops in sync with the overall economy. The provision, storage, and distribution of power play a very important role in the emerging energy markets and markets of the future, so there is constant and widespread demand for these parts. In this respect, we continue to rate the market risks in this segment as relatively low at this time.

Oil and gas market (Simark): Continuous growth is forecast in the oil and gas market in Canada and the United States for the next few years. New extraction systems and production facilities are being developed all over the world to cover the rising need for energy. Simark develops, produces, and distributes high-quality metering systems, power supply components and drives, and security and surveillance technology for extraction, transport, and production equipment in the oil and gas industry. Equipment and solutions by Simark and SFC are needed for numerous functions both during the construction phase and later during operation of the equipment and pipelines, from conventional metering, control, and surveillance all the way to active environmental protection. In this respect, we continue to rate the market risks in this segment as relatively low at this time.

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 enter into competition with us based on their own developments. 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 risks

As the intellectual property situation becomes more complicated and products more complex, there remains a certain risk of possible patent infringement by SFC. However, as a result of its unique position as a supplier of commercial direct methanol fuel cell systems, SFC has obtained intellectual property rights or filed applications for them (currently 16 patents 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 intellectual property rights 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.

During the second quarter of 2011, SFC entered into an agreement on the acquisition of a non-exclusive license for SFC Energy Inc. 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.

We may be asked to pay damages for possible patent infringement in respect of a piece of equipment that is currently out of service. SFC has formed a provision in the amount of € 40k to cover this risk.

Competition

SFC enjoys a unique position today thanks to our technological leadership and marketing edge in the area of DMFC systems. 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 and security market. Furthermore, the first competing products are now appearing on the market in our consumer and remote power supply target 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. 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 user industry. Intensively fostering long-standing customer relationships, a clear emphasis on 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 issues or defects that may cost us money, negatively impact business, or generate bad publicity. This includes problems caused by suppliers who fail to meet our quality specifications. 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 Defense & Security and Industry segments that we will be unable to deliver at the corresponding level of quality within the allotted amount of time, which could affect subsequent contracts. In one case in the Defense & Security segment, we agreed to do technical follow-up work. The risk was covered by increasing the warranty provision by € 265k.

Purchasing and production-related risks

SFC 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 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. Another risk is having claims asserted against us if we are unable to make all deliveries under master agreements.

The products of two suppliers accounted for around 60 % of Simark's sales in 2013. 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 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 € 889k on the balance sheet date. This corresponds to a scope of around 1.5 years.

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 € 30k annually.

Foreign exchange rates

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 generate sales in U.S. dollars in North America that are offset, in particular, by expenses and payments in U.S. dollars for the U.S. subsidiary. In addition, Simark purchases some of its products in U.S. dollars.

No currency forwards were entered into in fiscal year 2013. 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. and Canadian dollar could cause book losses if forward transactions were remeasured.

A 5 % change in the exchange rate of the Canadian dollar compared with the assumptions used for corporate planning would have an effect of around 2 % on consolidated revenue and around 7 % 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 were raised for these capital expenditures. 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.

Our cash and cash equivalents have decreased considerably due to the acquisition of Simark and the 2013 operating result. Consequently, the acquisition has increased the liquidity risk, particularly because outside financing was obtained for part of the purchase price within the Simark group and therefore Simark must comply with the corresponding loan agreements to counter the risk of the loans being called early or the risk of an increase in the interest rate for the borrowed capital.

Thanks to our customer structure (high percentage of industrial customers, military customers, and wholesalers, low percentage of private end customers), there were no significant payment defaults in 2013 not addressed through impairment. As of the reporting date, individual allowances totaling € 68k had been recognized at SFC for at-risk receivables. At PBF there were allowances of € 11k, and at Simark there were individual allowances of € 88k.

Interest rate risks

The interest rate risk results primarily from the aforementioned outside financing at Simark, 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 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. Since interest rates are low at present, this risk is very limited and is around € 60k if interest rates change by 1 %.

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 Company's planned growth. There is also the risk that key employees could 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.

Risks related to the wish of management and key employees to remain with the company result from the change of ownership at Simark. Specific knowledge of the industry is a major factor for success in the oil and 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. Monitoring of the high-availability servers has also been adapted to growing needs. SFC 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 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. In some cases, authorities in Germany have objected to product labeling and distribution channels. SFC is working to obtain a legal clarification. 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 has started offering additional product and safety training to dealers in Germany to ensure proper qualification of their employees.

Acquisition of Simark

The acquisition of Simark and the resulting change in ownership structures have resulted in risks with regard to relationships with customers and suppliers. Intensive discussions are being held with customers and suppliers to counter those risks.

There are also risks with regard to the integration of Simark – previously owner-operated – into a publicly traded company and the resulting need to adjust to and accept the associated processes.

Other risks

Changes in the budget situation in Germany could lead to restrictions in the award of subsidies. The resulting need to use a greater amount of equity to finance SFC development projects would put corresponding downward pressure on earnings.

Conclusion to 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 fiscal year 2014 develops in accordance with the corporate planning that has been adopted.

REPORT ON OPPORTUNITIES

Market opportunities

The key determinants of the Group's future development lie in our ability to successfully increase sales. The primary examples of this are raising volumes and margins in current markets, particularly the oil and gas industry; 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 and gas industry

Simark's strong distribution and service organization in Canada will considerably accelerate our growth in the Canadian oil and 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 planned regional expansion of Simark's business operations into the United States. This offers further potential for major growth, given the massive investments in this sector in the U.S. The increase in the international distribution of Simark products in the field of metering and instrumentation offers additional potential for growth.

SFC power supply systems are already being used in the oil and gas industry, primarily in the fields of metering and instrumentation, as well as surveillance and security technology. Joint distribution of our entire product portfolio could offer considerable synergies and allow faster growth in this area.

Using Simark's advanced product integration and manufacturing expertise, system solutions using SFC fuel cells and PBF power supplies will be locally developed and produced for specific markets during a second integration phase.

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

Defense & Security

Our planning for this market for fiscal year 2014 has been conservative, because key parameters that resulted in unsatisfactory business trends in 2013 have not yet materially changed. Very good technical results from testing of SFC products and the confirmation of important user groups' interest in and increasing need for light, portable, mobile power supply systems that are difficult to detect are important prerequisites for a return to growth in this market. Initial signs of a revival of demand in the previous key markets of Germany and the U.S., combined with a geographical expansion of operations, for example in Israel, are important steps in this direction.

Broader customer base for PBF

One major success in 2013 was the considerable broadening of the customer base for PBF products and the resulting reduction in dependence on a few key customers. 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.

Improved product mix

The continuing trend over the past few years toward products that use fuel cells with higher power classes and integrated product solutions in the area of power management offer considerable potential for improving gross margins at the product level. The successful market launch of a new product platform for supervisory control and data transmission (SCADA) offers considerable opportunity for improving our product mix and for accelerated growth by Simark in Canada.

Other opportunities

Costs and efficiency

The necessary restructuring measures that were instituted in 2013 will lead to greater efficiency and an improved cost structure along the entire value chain for our fuel cell business in 2014. Meeting or exceeding planned targets could have an appreciable effect on earnings compared with fiscal year 2013.

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. Accelerated market penetration in the fully integrated system business thus offers major opportunities for growth in current business fields and on the basis of existing customer relationships.

The first test and pilot systems using fuel cells in higher power classes, ranging from 0.5 KW to about 2.5 KW, are opening up new applications, particularly for backup and emergency power supplies, as well as for additional on-board power supplies in vehicles.

Integrated systems for security, 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 raw material prices and favorable exchange rate developments.

DECLARATION ON CORPORATE GOVERNANCE

The Management Board issued the corporate governance statement for 2013 and published it on the website of SFC Energy AG (www.sfc.com/en/investors/corporate-governance). It will issue an updated corporate governance statement pursuant to § 289a of the German Commercial Code on March 27, 2014 and make it available on the Internet at www.sfc.com/en/investors/corporate-governance.

FORECAST REPORT

For 2014, SFC believes that there will be a recovery in its Defense business and an expansion of its international Industry business, particularly in the North American oil and gas market. The Management Board therefore expects that consolidated sales will be between € 55 million and € 60 million and that underlying EBITDA will be positive and much improved and underlying EBIT will be much improved.

The Management Board assumes that conditions will remain difficult in the Consumer market, but still expects sales to at least equal the previous year's level.

Most growth is expected in the Industry market and will be achieved as a result of the Simark acquisition, in addition to strategic partnerships and the greater focus on complete solutions. Compared with fiscal year 2013, it is anticipated that sales will nearly double in 2014, partly because Simark will be consolidated for the full year, whereas it contributed to consolidated sales for only four months in fiscal year 2013.

In the Defense & Security market, it is believed that contracts will be awarded in 2014 for projects that had been delayed. Accordingly, a strong increase in sales is expected in this segment.

When calculating Simark's sales revenue and earnings, the Management Board assumes an exchange rate of 1.40 between the Canadian dollar and the euro. Revenue growth is primarily volume-driven. Assumptions for the oil and gas industry are based on sector forecasts. 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 increase slightly, and a slight improvement in quality indicators is also assumed.

On the reporting date, the Group had available cash and cash equivalents in the amount of € 7.1 million. With a trend for its operating result in fiscal year 2014 in line with forecasts for sales and earnings, the Group will have sufficient own funds, on the order of € 3 million to € 5 million, to meet its financial obligations.

SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

Hans Pol was appointed to the Management Board of SFC effective January 1, 2014. He is Chief Sales Officer for SFC and PBF.

Gerhard Inninger, Chief Financial Officer for SFC, will resign from the Management Board for personal reasons at the end of the Annual General Meeting on May 16, 2014, by mutually amicable agreement with the Supervisory Board. Gerhard Inninger will remain fully available to advise the Group on finances and will continue to supervise operational activities in his current area of responsibility.

Brunnthal, March 21, 2014

The Management Board

Dr. Peter Podesser
CEO

Gerhard Inninger
CFO

Hans Pol
CSO

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, 2013

			in €
	Notes	2013	2012
Sales	(1)	32,413,114	31,259,726
Production costs of work performed to generate sales	(2)	–21,773,099	–18,497,113
Gross margin		**10,640,015**	**12,762,613**
Sales costs	(3)	–8,233,072	–5,861,523
Research and development costs	(4)	–6,148,653	–4,257,185
General administration costs	(5)	–3,860,496	–3,554,938
Other operating income	(6)	1,041,429	748,742
Other operating expenses	(7)	–1,708,490	–362,155
Restructuring expenses	(8)	–566,981	0
Operating loss		**–8,836,248**	**–524,446**
Interest and similar income	(9)	66,554	213,804
Interest and similar expenses	(9)	–194,459	–134,277
Loss from ordinary operations		**–8,964,153**	**–444,919**
Income taxes	(10)	52,268	19,330
Consolidated net loss		**–8,911,885**	**–425,589**
NET LOSS PER SHARE	(34)		
undiluted		–1.16	–0.06
diluted		–1.16	–0.06

SFC ENERGY AG, BRUNNTHAL
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR FROM JANUARY 1 TO DECEMBER 31, 2013

			in €
	Notes	2013	2012
Consolidated net loss		**–8.911.885**	**–425,589**
OCI items that may be recycled to profit or loss in the future:			
Result from currency translations		–627.216	31,104
Total other results	(30)	**–627.216**	**31,104**
Total comprehensive income		**–9.539.101**	**–394,485**

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, 2013

in €

	Notes	12/31/2013	12/31/2012
Current Assets		**25,934,454**	**33,597,825**
Inventories	(14)	7,713,256	5,814,778
Trade accounts receivable	(15)	9,258,049	3,696,497
Receivables from Percentage-of-Completion	(16)	217,932	0
Income tax receivables	(17)	110,014	57,805
Other short-term assets and receivables	(18)	1,207,667	1,118,230
Cash and cash equivalents	(19)	7,142,536	22,625,515
Cash and cash equivalents with limitation on disposal	(20)	285,000	285,000
Non-current assets		**21,715,222**	**14,019,617**
Intangible assets	(21)	19,053,809	11,000,118
Property, plant and equipment	(22)	2,295,999	2,400,291
Deferred tax assets	(10)	365,414	619,208
Assets		**47,649,676**	**47,617,442**

SFC ENERGY AG, BRUNNTHAL CONSOLIDATED BALANCE SHEET AT DECEMBER 31, 2013

in €

	Notes	12/31/2013	12/31/2012
Current liabilities		**12,669,182**	**7,661,752**
Provisions for taxes	(23)	88,466	52,383
Other provisions	(23)	713,710	946,934
Liabilities to banks	(24)	2,139,136	371,656
Liabilities from prepayments	(25)	13,894	14,088
Trade accounts payable	(26)	5,086,833	3,033,123
Liabilities under finance leases	(27)	51,771	0
Liabilities from percentage-of-completion	(16)	1,172,797	68,009
Other short-term liabilities	(28)	3,329,640	3,175,559
Income tax liabilities	(29)	72,937	0
Non-current liabilities		**5,917,537**	**3,561,896**
Other long-term provisions	(23)	1,799,661	1,386,527
Liabilities to banks	(24)	2,281,526	0
Liabilities under finance leases	(27)	30,759	0
Other long-term liabilities	(28)	70,648	1,041,206
Deferred tax liabilities	(10)	1,734,944	1,134,163
Equity		**29,062,657**	**36,393,794**
Subscribed capital	(30)	8,020,045	7,502,887
Capital surplus	(30)	69,569,925	67,878,818
Other changes in equity not affecting profit or loss	(30)	–664,303	–37,087
Consolidated net loss	(30)	–47,862,710	–38,950,824
Liabilities and shareholders' equity		**47,649,676**	**47,617,442**

SFC ENERGY AG, BRUNNTHAL
CONSOLIDATED CASH FLOW STATEMENT
FOR THE FINANCIAL YEAR FROM JANUARY 1 TO DECEMBER 31, 2013

in €

		Notes	2013	2012
	Cash flow from ordinary operations			
	Result before taxes		**–8,964,153**	**–444,919**
+/–	Net interest income	(9), (37)	127,905	–79,527
+	Depreciation/amortization of intangible assets and property, plant and equipment	(12), (21), (22)	4,362,247	1,254,507
–/+	Income/expenses from Long Term Incentive Plan	(32)	–319,131	226,524
+	Changes in allowances	(14), (15)	24,515	35,158
+	Losses from disposal of property, plant and equipment	(21), (22)	1,842	504
–/+	Other non-cash income/expenses		–322,259	188,243
	Changes to operating result before working capital		**–5,089,034**	**1,180,490**
+/–	Changes to provisions	(23)	105,472	–640,662
–/+	Changes to trade accounts receivable	(15)	–2,124,781	840,570
+/–	Changes to inventories	(14)	302,906	–1,023,587
+	Changes to other receivables and assets	(16), (17), (18)	771,759	637,241
–	Changes to trade accounts payable	(26)	–1,968,183	–137,490
–/+	Changes to other liabilities	(25), (28)	724,660	409,271
	Cash flow from ordinary operations before taxes		**–7,277,202**	**1,265,833**
–	Income tax payments	(10), (37)	–34,455	–8,140
	Cash flow from ordinary operations		**–7,311,656**	**1,257,693**

SFC ENERGY AG, BRUNNTHAL
CONSOLIDATED CASH FLOW STATEMENT
FOR THE FINANCIAL YEAR FROM JANUARY 1 TO DECEMBER 31, 2013

in €

		Notes	2013	2012
	Cash flow from investment activity			
–	Investments in intangible assets from development projects	(21)	–206,595	–380,317
–	Investments in other intangible assets	(21)	–120,594	–180,215
–	Investments in property, plant and equipment	(22), (27)	–345,319	–317,746
–	Cash outflows for the acquisition of subsidiaries, less acquired cash		–5,997,436	0
+	Interest and similar income	(9), (37)	75,883	221,250
+	Proceeds from disposal of property, plant and equipment	(21), (22)	0	30
	Cash flow from investment activity		**–6,594,061**	**–656,998**
	Cash flow from financial activity			
+	Raising of financial dept	(24)	3,026,154	0
–	Repayment of financial debt	(24)	–4,495,576	–387,734
–	Interest paid and other expenses	(9), (37)	–98,361	–28,487
	Cash flow from financial activity		**–1,567,783**	**–416,221**
	Net change in cash and cash equivalents		**–15,473,500**	**184,474**
	Currency effects on cash and cash equivalents		–9,480	–2,100
	Net change in cash and cash equivalents			
	Cash and cash equivalents at beginning of period	(19)	22,625,515	22,443,141
	Cash and cash equivalents at end of period	(19)	7,142,536	22,625,515
	Net change in cash and cash equivalents		**–15,473,500**	**184,474**
	Cash on the balance sheet			
	Cash and cash equivalents		7,142,536	22,625,515

SFC ENERGY AG, BRUNNTHAL
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR FROM JANUARY 1 TO DECEMBER 31, 2013

in €

	Notes	Subscribed capital	Capital surplus	Other changes in equity not effecting profit or loss	Net accumulated loss	Total
As at 01/01/2012		**7,502,887**	**67,878,818**	**–68,191**	**–38,525,235**	**36,788,279**
Consolidated net loss					–425,589	–425,589
Result from currency translation recognized in equity	(30)			31,104		31,104
Total comprehensive income						**–394,485**
As at 12/31/2012		**7,502,887**	**67,878,818**	**–37,087**	**–38,950,824**	**36,393,794**
Consolidated net loss					–8,911,885	–8,911,885
Result from currency translation recognized in equity	(30)			–627,216		–627,216
Total comprehensive income						**–9,539,101**
Capital increase						
Issuance of shares for the acquisition of Simark	(30)	517,158	1,691,107			2,208,265
As at 12/31/2013		**8,020,045**	**69,569,925**	**–664,303**	**–47,862,710**	**29,062,957**

SFC ENERGY AG, BRUNNTHAL
CONSOLIDATED SEGMENT REPORTING
FOR THE FINANCIAL YEAR FROM JANUARY 1 TO DECEMBER 31, 2013

in €

	Industry		Consumer		Defense & Security		Consolidated financial statements	
	2013	2012	2013	2012	2013	2012	2013	2012
Sales	24,969,540	17,499,451	4,798,784	4,838,181	2,644,790	8,922,094	32,413,114	31,259,726
Production costs of work performed to generate sales	-17,166,179	-10,920,746	-3,056,478	-3,050,521	-1,550,442	-4,525,846	-21,773,099	-18,497,113
Gross margin	**7,803,361**	**6,578,705**	**1,742,306**	**1,787,660**	**1,094,348**	**4,396,248**	**10,640,015**	**12,762,613**
Sales costs	-5,792,988	-2,902,338	-1,166,308	-1,510,575	-1,273,776	-1,448,610	-8,233,072	-5,861,523
Research and development costs	-3,981,802	-2,798,866	-569,248	-404,726	-1,597,603	-1,053,593	-6,148,653	-4,257,185
General administration costs	-2,352,958	-1,850,263	-676,943	-659,220	-830,595	-1,045,455	-3,860,496	-3,554,938
Other income/expenses (balance)	-593,996	-41,865	-262,113	-40,790	-377,933	469,242	-1,234,042	386,587
Operating loss (EBIT)	**-4,918,383**	**-1,014,627**	**-932,306**	**-827,651**	**-2,985,559**	**1,317,832**	**-8,836,248**	**-524,446**
Adjustments EBIT	3,687,036	8,451	264,654	44,213	667,166	-489,340	4,618,856	-436,677
EBIT underlying	**-1,231,347**	**-1,006,176**	**-667,652**	**-783,438**	**-2,318,393**	**828,492**	**-4,217,392**	**-961,123**
Depreciation/amortization	-3,045,694	-889,156	-500,351	-347,745	-816,202	-17,606	-4,362,247	-1,254,507
EBITDA	**-1,872,689**	**-125,471**	**-431,955**	**-479,906**	**-2,169,357**	**1,335,438**	**-4,474,001**	**730,061**
Adjustments EBITDA	1,676,991	8,456	264,654	44,213	329,438	46,218	2,271,084	98,887
EBITDA underlying	**-195,698**	**-117,015**	**-167,301**	**-435,693**	**-1,839,919**	**1,381,656**	**-2,202,917**	**828,948**
Financial result							-127,905	79,527
Result from ordinary operations							**-8,964,153**	**-444,919**
Income taxes							52,268	19,330
Consolidated net result							**-8,911,885**	**-425,589**

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, 2013

1. GENERAL ACCOUNTING POLICIES AND SCOPE OF CONSOLIDATION

SFC Energy AG (the "Company" or "SFC") is a stock corporation domiciled in Germany. The Company's headquarters is 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 supplier of off-grid and grid-based power supply solutions, the Group serves the core markets "Industry", "Defense & Security" and "Consumer".

Accounting principles

The consolidated financial statements for 2013 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, 2013, there were no standards or interpretations to apply that were effective, but had not yet been endorsed by the E.U. 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 prepared 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 Notes. The Notes also contain the disclosures required under § 315a para. 1 of the German Commercial Code, or HGB ("Consolidated Financial Statements under International Accounting Standards").

In the equity section of the balance sheet, the accumulated loss brought forward from the previous year and last year's net loss were combined into one consolidated net loss figure. The previous year's figures were restated accordingly. A breakdown of the changes in equity giving rise to the consolidated net loss can still be viewed in the Consolidated Statement of Changes in Equity.

The Management Board of SFC Energy AG approved the consolidated financial statements for release to the Supervisory Board on March 21, 2014. 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 had entered into force as of January 1, 2013 and were applied to the consolidated financial statements for the first time in the 2013 financial year:

Amendments to IAS 1 "Presentation of Items of Other Comprehensive Income": The amendments require that items included in other comprehensive income be divided into those that will be "recycled" into profit or loss in subsequent periods and those that will not. Entities are required to apply the amendments retrospectively for annual periods beginning on or after July 1, 2012. The E.U. endorsed them in June 2012. The amendments relate solely to the presentation of other comprehensive income. The Group's assets, financial condition and earnings were not affected.

Amendments to IFRS 7 "Financial Instruments: Disclosures": In December 2011, the IASB issued amendments to IFRS 7 entitled "Disclosures - Offsetting Financial Assets and Financial Liabilities". The amendments stipulate new qualitative and quantitative disclosure requirements for certain netting arrangements. The amendments are effective on a retrospective basis for annual periods beginning on or after January 1, 2013. The E.U. endorsed the amendments in December 2012. They did not affect our consolidated financial statements.

IFRS 13 "Fair Value Measurement": The standard deals with fair value measurement and related disclosures in the Notes. Its purpose is to bring about further convergence of IFRS and U.S. Generally Accepted Accounting Principles (U.S. GAAP). It provides guidance on how to determine fair value when its use is required by other IFRSs. The standard is effective for annual periods beginning on or after January 1, 2013. The E.U. endorsed it in December 2012. It did not have any material impact on our consolidated financial statements.

"Improvements to International Reporting Standards 2011": On May 3, 2012, the IASB issued its "Annual Improvements to IFRSs 2009-2011 Cycle". The Annual Improvements process allows the IASB to make necessary, but non-urgent, amendments to IFRSs. As part of the annual improvements project 2009-2011, minor amendments were made to IFRS 1, IAS 1, IAS 16, IAS 32 and IAS 34. However, their application did not materially affect the Company's consolidated financial statements.

Amendments to IAS 19 "Employee Benefits": In June 2011, the IASB published amendments to IAS 19. These will have effects on the recognition and measurement of expense for defined benefit plans, in particular. Among other things, the current option of recognizing actuarial gains and losses immediately in profit or loss, in other comprehensive income or deferring such recognition using the "corridor method" has been eliminated. In the future, they will have to be recognized immediately in other comprehensive income. In addition, past service cost that arises in connection with a change of the plan will need to be recognized as it occurs, and, when determining the net interest component, the net defined benefit asset and net defined benefit liability will both be discounted at a uniform rate that is linked to the yields on high-quality corporate bonds. Entities are required to apply the amendments retrospectively for annual periods beginning on or after January 1, 2013. The E.U. endorsed them in June 2012. These amendments had no 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 Group did not early adopt for 2013:

Revised IAS 27 "Separate Financial Statements": As part of the May 2011 release of the new standard IFRS 10, the title of IAS 27 "Consolidated and Separate Financial Statements" was changed to "Separate Financial Statements". In the future, IAS 27 will only contain rules on separate financial statements. The existing guidelines and explanatory notes for separate financial statements remained unchanged. The other parts of IAS 27 are being replaced by IFRS 10 "Consolidated Financial Statements". Entities are required to apply the new version for annual periods beginning on or after January 1, 2014. The E.U. endorsed it in December 2012.

Revised IAS 28 "Investments in Associates and Joint Ventures": As part of the May 2011 release of the new standard IFRS 11, IAS 28 "Investments in Associates" was also renamed and revised. Joint ventures that fall under the definition of the new standard IFRS 11 "Joint Arrangements" are to be accounted for using the equity method, in accordance with the revised IAS 28. The basic procedure for assessing the presence of significant influence and rules for applying the equity method did not change. Entities are required to apply the revised standard for annual periods beginning on or after January 1, 2014. The E.U. endorsed it in December 2012.

Amendments to IAS 32 "Financial Instruments: Presentation": In December 2011, the IASB issued amendments to IAS 32 entitled "Offsetting Financial Assets and Financial Liabilities". The amendments did not change the offsetting requirements of IAS 32 per se, but did formalize the offsetting rules by clarifying the meaning of a legally enforceable right of set-off and providing examples where a gross settlement mechanism may still be considered equivalent to net settlement. Entities are required to apply the amendments retrospectively for annual periods beginning on or after January 1, 2014. The E.U. endorsed the amendments in December 2012.

IFRS 9 "Financial Instruments": In November 2009, the IASB published new requirements for classifying and measuring financial assets. Pursuant to IFRS 9, financial assets are to be measured either at amortized cost or fair value. Taking into account the amendments of December 2011, IFRS 9 goes into effect for annual periods beginning on or after January 1, 2015. Thus far, the E.U. has not endorsed the standard.

Additions to IFRS 9 "Financial Instruments": In October 2010, the IASB issued requirements on the accounting for financial liabilities. The amendments add requirements on accounting for financial liabilities to the "Financial Instruments" standard issued in November 2009. If an entity elects the fair value option for a financial liability, the amount of change in the fair value that is attributable to changes in the entity's own credit risk shall be presented in other comprehensive income and not in profit or loss. Taking into account the amendments of December 2011, entities are required to apply the additions for annual periods beginning on or after January 1, 2015. Thus far, the E.U. has not endorsed the standard.

Amendments to IFRS 9 "Financial Instruments" and IFRS 7 "Financial Instruments: Disclosures": In December 2011, the IASB published amendments to IFRS 9 and IFRS 7 entitled "Mandatory Effective Date and Transition Disclosures". The amendments move the mandatory effective date of IFRS 9 from annual periods beginning on or after January 1, 2013 to annual periods beginning on or after January 1, 2015. They also introduce exceptions to the requirement of restating prior periods that allow entities to make modified disclosures in the Notes on transition to IFRS 9. The modified Notes disclosures required by IFRS 9 were added as an amendment to IFRS 7. Thus far, the E.U. has not endorsed the amendments to either standard.

Amendments to IFRS 9 "Financial Instruments", IFRS 7 "Financial Instruments: Disclosures" and IAS 39 "Financial Instruments: Recognition and Measurement": In November 2013, the IASB issued amendments on hedge accounting that included with respect to IFRS 9 the introduction of a new general hedge accounting model, permission to early adopt the provision that changes in the fair value of liabilities designated as at fair value through profit caused by changes in the issuer's own credit risk be recognized in other comprehensive income, and removal of the January 1, 2015 mandatory effective date. As a result, the current version of IFRS 9 does not include an effective date, but the standard is available for early adoption, subject to any local endorsement procedures such as those in the E.U. A mandatory effective date will be determined when all phases of the project are complete and a final version of IFRS 9 is issued. The IASB decided at its meeting in November 2013 that IFRS 9 will be effective for reporting periods beginning on or after January 1, 2017 at the earliest.

IFRS 10 "Consolidated Financial Statements": In May 2011, the IASB published the new standard IFRS 10. The standard replaces the guidelines on control and consolidation in IAS 27 "Consolidated and Separate Financial Statements" and SIC 12 "Consolidation – Special Purpose Entities". The definition of "control" is amended by the new IFRS 10 so that the same criteria are applied to all companies to determine a control relationship. The new standard is effective for annual periods beginning on or after January 1, 2014. The E.U. endorsed it in December 2012.

IFRS 11 "Joint Arrangements": In May 2011, the IASB published the new standard IFRS 11. Under IFRS 11, two joint arrangement situations will be distinguished in the future: joint operations and joint ventures. The current option to choose the proportionate consolidation method of accounting for jointly controlled entities was eliminated. In the future, the equity method must be used. If a joint operation is involved, the assets, liabilities, income and expenses directly attributable to the participating company are recognized directly in the consolidated financial statements of that company. The new standard replaces IAS 31 "Interests in Joint Ventures" and SIC 13 "Jointly Controlled Entities – Non-Monetary Contributions by Venturers" and is applicable to annual periods beginning on or after January 1, 2014. The E.U. endorsed the standard in December 2012.

IFRS 12 "Disclosure of Interests in Other Entities": IFRS 12, which was issued by the IASB in May 2011, establishes the required explanatory notes for companies that prepare their financial statements in accordance with the two new standards IFRS 10 "Consolidated Financial Statements" and IFRS 11 "Joint Arrangements". The standard replaces the disclosure requirements currently contained in IAS 28 "Investments in Associates". Explanatory notes regarding subsidiaries, associates, joint arrangements and non-consolidated structured entities (special purpose entities) are now governed by IFRS 12. The new standard is effective for annual periods beginning on or after January 1, 2014. The E.U. endorsed it in December 2012.

Amendments to IAS 19 "Employee Benefits": In November 2013, the IASB published amendments to IAS 19 entitled "Defined Benefit Plans: Employee Contributions". The amendments introduce a choice in the accounting for defined benefit plans when employees (or third parties) are required to make contributions. Entities are required to apply the amendments retrospectively for annual periods beginning on or after July 1, 2014. Thus far, the E.U. has not yet endorsed the amendments.

Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosure of Interests in Other Entities": In June 2012, the IASB issued "Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12)". The amendments clarify the transition guidance in IFRS 10 and provide additional transition relief in all three standards. The amendments are effective for annual periods beginning on or after January 1, 2014 and were endorsed by the E.U. in April 2013.

Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 27 "Separate Financial Statements": In October 2012, the IASB issued "Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)", which sets out an exception to the consolidation of subsidiaries under IFRS 10 "Consolidated Financial Statements". The exception applies to parent companies meeting the definition of an "investment entity". Instead of consolidating certain subsidiaries, these entities would measure the relevant investments at fair value through profit or loss in accordance with IFRS 9 "Financial Instruments" or IAS 39 "Financial Instruments: Recognition and Measurement". The amendments are effective for annual periods beginning on or after January 1, 2014 and were endorsed by the E.U. in November 2013.

Miscellaneous: "Improvements to IFRSs 2010-2012 Cycle" and "Improvements to IFRSs 2011-2013 Cycle": On December 12, 2013, the IASB issued its "Annual Improvements to IFRSs 2010-2012 Cycle" and "Annual Improvements to IFRSs 2011-2013 Cycle". The Annual Improvements process allows the IASB to make necessary, but non-urgent, amendments to IFRSs. As part of the annual improvements project 2010-2012, minor amendments were made to IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16/IAS 18 and IAS 24. The annual improvement projects 2011-2013 involved changes to IFRS 1, IFRS 3, IFRS 13 and IAS 40. The respective amendments are effective for reporting periods beginning on or after July 1, 2014 and are to be applied prospectively only. Earlier application is permissible. Thus far, the E.U. has not yet endorsed the amendments.

The Company currently projects that use of the new and revised standards will have no impact at all or no material impact on the consolidated financial statements.

Uncertainty of estimates and discretionary judgments

The preparation of the consolidated financial statements in accordance with IFRS requires management to make certain assumptions that have an effect 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 provisions determined on the basis of these assumptions are 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. In addition, in forming contingent loss provisions for rent expenses (see Note 23), estimates concerning the likelihood of drawing on the provisions are made.

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 2 "Accounting Principles").

Mandatory capitalization of self-produced 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 and its U.S. subsidiary is based on profit forecasts for tax purposes. Please see Note 10 "Income taxes" for additional information.

Measurement of share-based payment: The Company has set up a Long Term Incentive Plan for members of the Management Board and selected executives. Note 34 "Share-based payment" 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. Please see Note 33 "Financial instruments" for additional information.

Acquisition: Additional estimates were required in conjunction with establishing the acquisition-date fair value of items relating to the acquisition of Simark Controls Ltd, especially the value to be assigned in the purchase price allocation to acquired intangible assets. Please see the information about changes in the scope of consolidation later in this section.

Scope of consolidation

The consolidated financial statements include SFC and all companies directly or indirectly controlled by SFC. SFC controls a company when it has over half of the entity's voting rights or otherwise has the power to govern its financial and operating policies so that it can derive a benefit from the entity's business activities. Thus, the consolidated financial statements cover SFC as the ultimate parent company, SFC's U.S. subsidiary, the PBF Group, which was acquired in 2011, Simark Controls Ltd. and 541462 Alberta Ltd., which were acquired in the reporting year, and Simark Holdings Ltd., which was established in the reporting year. Subsidiaries are consolidated as of the date on which control is acquired and deconsolidated as of the date on which control is lost.

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 consolidated companies is the same as the calendar year (January 1 through December 31).

The table below shows the direct and indirect stake the Company had in each of its consolidated subsidiaries as of December 31, 2013.

FULLY CONSOLIDATED SUBSIDIARIES in %

Name of company	Registered office	Share			Currency
		directly	indirectly	total	
SFC Energy, Inc.	Rockville (USA)	100.00	–	100.00	USD
Simark Holdings Ltd.	Alberta (Canada)	100.00	–	100.00	CAN
Simark Controls Ltd.	Alberta (Canada)	5.83	94.17	100.00	CAN
541462 Alberta Ltd.	Alberta (Canada)	15.00	85.00	100.00	CAN
PBF Group B.V.	Almelo (Netherlands)	100.00	–	100.00	EUR
PBF Power Srl	Cluj-Napoca (Romania)	–	100.00	100.00	RON

In addition, PBF Group B.V. still holds a 100 % stake in PBF Hong Kong Limited, China. The non-operating subsidiary had an acquisition-date fair value of € 0 and was not included in the consolidated financial statements because of its immateriality.

Changes in the scope of consolidation

In addition to the parent company, SFC Energy AG, the consolidated group consists of 6 (previous year: 5) foreign subsidiaries.

PBF Group B.V. and Power Concepts B.V. were merged into P&E Interholding B.V. effective January 1, 2013. P&E Interholding B.V. was then renamed PBF Group B.V. The merger was officially approved in a resolution dated December 11, 2013, and recorded in the appropriate register the same day.

SFC Energy AG formed Simark Holdings Ltd., domiciled in Alberta, Canada, with a certificate of incorporation dated May 23, 2013, in connection with the acquisition of the shares of Simark Controls Ltd., Alberta, Canada, and 541462 Alberta Ltd., Alberta, Canada.

On July 4, 2013, SFC Energy AG and Simark Holdings Ltd. signed a purchase agreement for the acquisition of 100 % of the shares of Simark Controls Ltd. and 541462 Alberta Ltd. After fulfilling all closing conditions, the transaction was completed on August 30, 2013 (acquisition date), so that SFC Energy AG now directly or indirectly owns 100 % of the acquired companies. The company 541462 Alberta Ltd. is just a holding company. All operating activities are conducted by Simark Controls Ltd.

The principal reason for the acquisition of Simark Controls Ltd. is the planned forward integration and expansion into the North American oil and gas market as the next strategic step towards establishing the SFC Group as a systems supplier.

The payments, as set forth in the purchase agreement, are as follows:

AS AT 08/31/2013	in Mio. CAD $	in Mio. €
Cash component, due at closing	16.25	11.67
SFC stock component	3.75	2.69
Earn-out component, due in 2014	1.67	1.20
Cash component, due in 2015 and 2016	3.33	2.39
Total	**25.00**	**17.95**

Exchange rate Euro/CAD $ (as at 08/31/2013): 1,3934

The cash component due at closing included a total of € 5.86m that was used to settle certain liabilities of Simark Controls Ltd. This amount is not considered part of the purchase price for purposes of the purchase price allocation and was reported as an equity contribution in Simark Controls Ltd.'s financial statements prepared in accordance with local accounting standards.

Prior to the date of acquisition, the cash component due at closing was reduced by € 0.22m under a working capital adjustment agreement.

The share component consists of the award to the sellers of 517,158 new shares of SFC to be issued from the Company's existing authorized capital. The shares were priced at a volume weighted average price of € 5.14 plus a 5 % premium (€ 5.39).

Based on the price at which SFC stock was trading on the acquisition date, the fair value of the SFC stock component is € 2.21m.

Both the earn-out component and the 2014 and 2015 cash components due in 2015 and 2016 are separate transactions within the meaning of IFRS 3.51 because the payments are linked to the continued employment of certain members of Simark Controls Ltd.'s management.

The contingent consideration (earn-out component) will be awarded if earnings surpass CAD 2.99m in 2013 (specifically, EBITDA 2013 plus the gross margin on the increase in the order backlog in 2013). The payout for achieving CAD 2.99m is 65 % of the contingent consideration, while that for reaching CAD 4.60m is 100 %. The minimum amount the SFC Group would have to pay under this arrangement is € 0. The maximum is € 1.20m.

In contrast to the assumption made during preparation of the report for the first nine months of 2013, we believe at this time that the conditions for payment of the earn-out component will largely be met. Therefore, the fair value of the contingent consideration (earn-out component) is approximately CAD 1.4m, or € 0.9m.

The cash component of € 2.39m, with half due in 2015 and the other half in 2016, is considered remuneration (future personnel costs) pursuant to IFRS 3 B55 since the payments are linked to further employment of the sellers.

The minimum amount the SFC Group would have to pay under this arrangement (cash components due in 2015 and 2016) in the absence of such further employment is € 0. The maximum is € 2.39m.

The fair value of the total consideration within the meaning of IFRS 3 (excluding the remuneration, but including the liabilities settled on behalf of Simark Controls Ltd.) comes to € 7.56m.

The entire purchase price allocation is provisional.

The Group incurred acquisition-related costs of € 1.076m, which were predominantly attributable to consulting fees. These costs have been reported under other operating expenses.

The provisional reconciliation of the purchase price to the acquired goodwill is as follows:

CHANGES IN THE SCOPE OF CONSOLIDATION	in CAD $	in CAD $	in CAD $	in €
	Indicative amounts as of 3rd quarter	Adjustments in 4th quarter	End-of-year figures	End-of-year figures
Contribution				
Cash and cash equivalents	15,921,738	–	15,921,738	11,426,538
Equity instruments (517,158 ordinary shares by SFC)	3,076,996	–	3,076,996	2,208,265
Change of control pool	–306,191	–	–306,191	–219,744
Buyer-settled liabilities	–8,159,144	–	–8,159,144	–5,855,565
Total	**10,533,399**	–	**10,533,399**	**7,559,494**
The contingent consideration agreed between the parties (earn-out and cash component due in 2015 and 2016) is being reported as personnel costs.				
Amounts recognized for the identifiable assets acquired and liabilities assumed				
Inventories	2,991,064	250,000	3,241,064	2,326,011
Trade accounts receivable	6,448,710	–	6,448,710	4,628,039
Other assets and receivables	214,162	–	214,162	153,697
		–		
Intangible assets identified in purchase price allocation analysis	6,106,415	–9,157	6,097,258	4,375,813
Remeasurement of inventories in purchase price allocation analysis	39,286	–	39,286	28,195
Deferred tax liabilities on these identified intangible assets	–1,597,882	2,381	–1,595,501	–1,145,042
Intangible assets	38,347	–	38,347	27,520
Assets	332,911	–	332,911	238,920
Deferred tax assets	186,233	–62,500	123,733	88,799
Liabilities	–12,826,051	–	–12,826,051	–9,204,859
Provisions	–1,994,546	–	–1,994,546	–1,431,424
Deferred tax liabilities	–16,409	–	–16,409	–11,776
Total identifiable net assets	**–77,760**	**180,724**	**102,964**	**73,894**
Goodwill	**10,611,159**	**–180,724**	**10,430,435**	**7,485,600**

Exchange rate Euro/CAD $ (as at 08/31/2013): 1,3934

The difference between the above purchase price, cash and cash equivalents, and the cash component due at closing is attributable to the volume of working capital being lower than agreed in the purchase agreement.

The reported goodwill of € 7.49m predominantly reflects cross-selling opportunities and economies of scale that are expected from the business combination.

The acquired receivables have been stated at their fair value of € 4.63m. The gross amount is € 4.72m, but has been written down by € 0.09m.

No other contractual amounts are expected to be uncollectible.

There were no contingent liabilities to report.

Goodwill cannot be amortized.

The acquisition-related costs came to € 1.08m.

The sales and earnings of Simark Controls Ltd. were as follows (excluding any effects from the purchase price allocation):

Period since initial consolidation (09/01 – 12/31/2013):

Sales:	€ 8.3m
Result from ordinary operations:	€ 0.3m

2013 financial year (01/01 – 12/31/2013):

Sales:	€ 25.1m
Result from ordinary operations:	€ 0.7m

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 3000 and EMILY Cube 2500) and from the sale of portable fuel cells (JENNY). The "Power Manager" is also used 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.

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 estimated 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 6 years 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 Group 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 6 years
- PBF order book 1 year

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 3 – 4 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 depreciation 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 2013.

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.

Leasing

Leasing contracts are classified as finance leases when the leasing conditions transfer all important risks and opportunities associated with ownership to the lessee. All other leasing contracts, where economic ownership remains with the lessor, are operating leases. In financial year 2013, there were finance leases at subsidiary Simark Controls Ltd. 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.

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 as well as for studying product field quality.

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 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.

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 IAS 27 "Consolidated and Separate 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 single-entity 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 effect 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
	2013	2012	12/31/2013	12/31/2012
US-Dollar (USD)	0.75290	0.77773	0.72637	0.75844
Canadian Dollar (CAD)	0.70607	n/a	0.68325	n/a

2. NOTES ON THE CONSOLIDATED INCOME STATEMENT

(1) Sales

Sales are shown in the following table:

		in €
	2013	2012
Sales	**32,413,114**	**31,259,726**
thereof from POC	2,645,207	501,116

The slight increase in sales compared to the previous year is largely due to two offsetting effects: the additional sales contributed by Simark Controls Ltd., fully consolidated since August 30, 2013, and a decrease in sales at SFC Energy AG.

The latter occurred primarily in the Defense & Security segment and was due to contract award delays caused by the unresolved budget situation in the U.S. and to reform-driven shifts in the German Bundeswehr. In addition, some necessary technical follow-up is delaying new contracts in Germany.

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 €
	2013	2012
Cost of materials	16,199,554	13,926,477
Personnel costs	2,887,827	2,426,224
Cost of premises	842,655	734,891
Depreciation and amortization	731,186	470,000
Transport costs	661,398	385,402
Consultancy	117,093	82,647
Other	333,386	471,472
Total	**21,773,099**	**18,497,113**

(3) Sales costs

Sales costs were as follows:

in €	2013	2012
Personnel costs	4,062,002	2,796,931
Depreciation and amortization	1,350,502	229,928
Advertising and travel costs	1,062,870	1,322,973
Consultancy/commissions	804,634	615,203
Cost of materials	110,608	86,246
Additions to allowances for receivables	11,890	79,096
Other	830,564	731,146
Total	**8,233,072**	**5,861,523**

(4) Research and development costs

Research and development costs were as follows:

in €	2013	2012
Personnel costs	3,309,768	3,253,408
Other depreciation and amortization	1,099,001	335,195
Depreciation and amortization of self produced intangible assets	1,055,508	584,329
Consultancy and patents	558,508	586,623
Cost of materials	476,739	488,694
Cost of premises	414,591	369,099
Other	249,297	134,608
Capitalization of self-produced intangible assets	–206,595	–383,250
Set-off against grants	–808,165	–1,111,521
Total	**6,148,653**	**4,257,185**

The figure for amortization of self-produced intangible assets includes € 311,420 in impairment losses on capitalized development costs (previous year: € 0).

(5) General administration costs

General administration costs were as follows:

		in €
	2013	2012
Personnel costs	1,840,478	1,718,017
Audit and consultancy costs	606,627	569,416
Insurance	197,708	144,311
Investor relations/annual meeting	189,277	184,067
Travel costs	172,341	121,239
Depreciation and amortization	153,210	170,617
Supervisory Board compensation	112,500	112,500
Car-operating costs	108,496	78,839
Recruiting costs	67,012	20,335
Costs of hardware and software support	51,869	59,743
Other	554,009	603,490
Set-off against grants	–193,031	–227,636
Total	**3,860,496**	**3,554,938**

(6) Other operating income

Other operating income was as follows:

		in €
	2013	2012
Income from the reversal of liabilities PDF earn-out	921,331	123,752
Foreign exchange transaction gains	71,963	68,468
Other income from other periods	69	2,571
Reversal of impairment charges on capitalized development costs	0	535,563
Other	48,065	18,388
Total	**1,041,429**	**748,742**

(7) Other operating expenses

Other operating expenses were as follows:

		in €
	2013	2012
Acquisition-related costs	1,076,409	132,638
Contingent losses for premises	395,626	0
Foreign exchange transaction losses	189,342	139,320
Expenses from other periods	1,117	2,009
Other	45,996	88,188
Total	**1,708,490**	**362,155**

(8) Restructuring expenses

There were € 566,981 in restructuring expenses in 2013. Reported as part of the operating result, these expenses consisted almost entirely of payments related to layoffs. There were no restructuring expenses in the previous year.

(9) Financial result

Interest and similar income were as follows:

		in €
	2013	2012
Interest income from liquid funds	66,554	210,504
Other	0	3,300
Total	**66,554**	**213,804**

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

		in €
	2013	2012
Interest cost on other provisions	75,242	80,058
Other	119,217	54,219
Total	**194,459**	**134,277**

(10) Income taxes

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

	2013	2012
		in €
Actual income taxes on the result for the current year	113,960	18,258
Deferred tax income (-)/expense (+) from:		
Reversal of deferred tax liabilities on other intangible assets	−250,293	−98,293
Recognition of deferred tax liabilities on capitalized development costs	40,800	24,243
Recognition of deferred tax assets on assets	1,531	0
Recognition of deferred tax assets on inventories	47,980	36,462
Recognition of deferred tax assets on other provisions	−6,246	0
Balance income (–) / expenses (+) from income taxes	**−52,268**	**−19,330**

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 United States, Netherlands, Romania and Canada are calculated using the applicable tax rate for the specific country. For the year under review, tax rates of 18 % to 26 % (previous year: 18 % to 25 %) were applied.

Deferred tax assets and liabilities were as follows:

	12/31/2013	12/31/2012
		in €
Deferred tax assets		
Loss carryforwards	120,427	387,114
Provisions	177,698	130,981
Inventories	15,415	86,279
Other liabilities	158	35,822
Other	51,717	−20,988
Total	**365,414**	**619,208**
Deferred tax liabilities		
Other intangible assets	1,401,505	556,668
Self-generated intangible assets	270,061	549,962
Other assets	63,378	27,533
Total	**1,734,944**	**1,134,163**

At the reporting date, there were tax losses carried forward in the amount of approximately € 40,010,887 (previous year: € 34,634,445) for corporate income tax purposes and approximately € 33,806,798 (previous year: € 29,217,165) for trade tax purposes. These amounts are subject to change based on the results of the tax audit. Deferred tax assets of € 120,427 have been recognized on these tax loss carryforwards of SFC and its U.S. subsidiary. No deferred tax assets have been formed on the losses brought forward by Simark Holdings Ltd. As of December 31, 2013, no deferred tax assets had been recognized for € 72,753,359 (previous year: € 60,628,288) in tax loss carryforwards in the Group. Of these tax loss carryforwards, an amount of € 68,854,454 (previous year: € 57,362,949) can be carried forward indefinitely in Germany, while loss carryforwards in the U.S. of € 4,065,848 (previous year: € 3,364,586) expire after 20 years. In addition, deferred tax assets on deductible temporary differences of € 51,006 were not recognized either.

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 €
	2013	2012
Tax rate	**27.38%**	**27.38 %**
Loss from ordinary operations	**–8,964,153**	**–444,919**
Expected tax charge	**–2,454,385**	**–121,819**
Reconciliation to the tax charge		
Change in write-down of deferred tax assets	1,730,081	411
Differences in the tax rate	20,283	52,375
Taxes from permanent differences – non-deductible expenses	–40,223	–12,088
Effect of goodwill impairment, non-tax-deductible	401,947	0
Differences arising from the currency translation	31,237	13,075
Other	258,793	48,716
Tax charge pursuant to consolidated income statement	**–52,268**	**–19,330**

(11) Cost of materials

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

		in €
	2013	2012
Raw materials and supplies and related goods	13,995,291	10,696,906
Related services	3,120,587	3,804,703
Total	**17,115,878**	**14,501,609**

(12) Depreciation and amortization

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

The consolidated income statement was prepared in accordance with the cost-of-sales method and includes pro rata depreciation and amortization 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-produced intangible assets) were as follows:

		in €
	2013	2012
Wages and salaries	8,939,678	7,387,744
Social security expenses required by law	1,215,237	1,124,836
Personnel costs from earn-out	993,514	0
Variables/bonuses	602,408	976,471
Restructuring expenses	566,981	0
Other social security expenses/pensions	369,420	319,462
Income/expenses from Long Term Incentive Plan	–319,131	226,523
Other	298,949	159,543
Total	**12,667,057**	**10,194,579**

The social security expenses required by law include the Company's share of € 618,841 in contributions to the public pension insurance system (previous year: € 586,530).

The average number of permanent employees was as follows:

	2013	2012
Full-time employees (incl. Management Board)	190	159
Part-time employees	31	27
Total	**221**	**186**

There was also an average of 6 (previous year: 10) trainees, graduates and student trainees.

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 €
	12/31/2013	12/31/2012
Raw materials and supplies	3,670,780	3,670,781
Finished goods	3,727,216	1,753,744
Unfinished goods	315,259	390,253
Total	**7,713,256**	**5,814,778**

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

		in €
	12/31/2013	12/31/2012
Raw materials and supplies – before impairment	3,934,562	3,804,237
Impairment	–263,782	–133,456
Net book value	**3,670,780**	**3,670,781**

		in €
	12/31/2013	12/31/2012
Unfinished and finished goods – before impairment	4,552,046	2,268,953
Impairment	–509,571	–124,956
Net book value	**4,042,476**	**2,143,997**

A total of € 313,365 for the impairment of inventories (previous year: € 148,521) was expensed to the consolidated income statement. Inventories with a remaining book value of € 3,501,976 were pledged as collateral for liabilities (previous year: € 1,931,396).

(15) Trade accounts receivable

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

		in €
	12/31/2013	12/31/2012
Trade accounts receivable – gross	9,424,795	3,800,421
Allowances for risk of default	–166,746	–103,924
Total	**9,258,049**	**3,696,497**

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 € 4,883,323 (previous year: € 0) were pledged as collateral for liabilities.

Trade accounts receivable with a remaining book value before write-downs of € 2,220,700 (previous year: € 1,643,368) were pledged as collateral for an as yet unused credit line (original interest rate of 5.6 %) in the amount of € 193,065.

(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 €	12/31/2013	12/31/2012
Proceeds shown	2,645,207	501,116
Costs incurred and gains recognized under contracts on or before the reporting date	3,568,464	504,949
Partial settlements	4,523,329	572,958
Production contracts with a positive balance due from the customer (reported as receivables from percentage-of-completion)	**217,932**	**0**
Production contracts with a negative balance due from the customer (reported as liabilities from percentage-of-completion)	**–1,172,797**	**–68,009**

Changes the customer makes to a contract's scope of work during the project life cycle by adjusting, say, the specifications or the length of time to completion, can increase or decrease the revenues and costs associated with the contract. The resulting impact for the current period and any foreign currency effects are recognized in profit or loss.

In financial year 2013, project volumes decreased by € 7,617 (previous year: increased by € 813,638) because of these kinds of changes and because of exchange rate differences, with total estimated projects costs rising by only € 6,148 from the prior year (previous year: € 502,775). Consequently, sales decreased by € 7,617 in 2013 (previous year: increased by € 252,463), and the gross margin decreased by € 13,765 (previous year: increased by € 140,568). The change in total project costs will not cause any increase in contract costs in subsequent years (previous year: increase of € 390,879).

The receivables and liabilities from percentage-of-completion have remaining terms of less than one year.

(17) Income tax receivables

The income tax receivables relate to refunds of tax (including the solidarity surcharge) withheld on investment income as well as Dutch corporate income tax 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 €
	12/31/2013	12/31/2012
VAT receivables	312,553	42,168
Prepayments made	236,186	82,878
Other advance payments	209,204	0
Deferred income	197,804	58,722
Receivables from grants	81,644	379,389
Interest receivables on time deposit	1,076	10,405
Receivables from previous shareholders PBF	0	350,000
Other	169,199	194,668
Total	**1,207,667**	**1,118,230**

The other assets and receivables include financial assets in the amount of € 291,924 (previous year: € 739,794).

(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.

(20) Cash and cash equivalents with limitations on disposal

There is a bank guarantee in the amount of € 285,000 (previous year: € 285,000) in connection with the lease for the Company's building at Eugen-Sänger-Ring 7. Time deposits in the amount of € 285,000 (previous year: € 285,000) were pledged to secure this lease guarantee.

(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 at 01/01/2012	**556,942**	**329,733**	**568,554**	**4,101,291**	**6,139,969**	**2,654,022**	**14,350,511**
Additions	134,838	42,444	2,933	380,317	0	0	560,532
Disposals	−5,551	0	0	0	0	0	−5,551
Reclassifications	−202	0	0	0	0	0	−202
Differences arising from the currency translation	−708	−4,543	0	0	0	0	−5,251
as at 12/31/2012	**685,319**	**367,634**	**571,487**	**4,481,608**	**6,139,969**	**2,654,022**	**14,900,039**
Changes in the scope of consolidation	27,521	0	0	0	7,485,600	4,375,813	11,888,933
Additions	64,828	55,766	0	206,595	0	0	327,189
Disposals	−43,743	0	0	0	0	0	−43,743
Differences arising from the currency translation	−2,908	−10,019	0	0	−359,039	−209,881	−581,846
as at 12/31/2013	**731,017**	**413,381**	**571,487**	**4,688,203**	**13,266,530**	**6,819,954**	**26,490,572**
Depreciation and impairment losses as at 01/01/2012	**−355,203**	**−65,964**	**−474,561**	**−2,385,952**	**0**	**−34,176**	**−3,315,856**
Scheduled depreciation	−123,970	−25,062	−39,674	−544,655	0	−393,176	−1,126,537
Additions	0	0	0	535,563	0	0	535,563
Disposals	5,546	0	0	0	0	0	5,546
Differences arising from the currency translation	609	754	0	0	0	0	1,363
as at 12/31/2012	**−473,018**	**−90,272**	**−514,235**	**−2,395,044**	**0**	**−427,352**	**−3,899,921**
Scheduled depreciation	−82,115	−47,256	−27,450	−716,638	0	−949,591	−1,823,050
Disposals	43,722	0	0	0	0	0	43,722
Impairment losses	0	0	0	−311,420	−1,468,032	0	−1,779,452
Differences arising from the currency translation	1,548	2,023	0	0	0	18,367	21,938
as at 12/31/2013	**−509,862**	**−135,505**	**−541,685**	**−3,423,102**	**−1,468,032**	**−1,358,576**	**−7,436,763**
Carrying amounts							
as at 01/01/2012	201,739	263,769	93,993	1,715,339	6,139,969	2,619,846	11,034,655
as at 12/31/2012	**212,301**	**277,362**	**57,252**	**2,086,564**	**6,139,969**	**2,226,670**	**11,000,118**
as at 12/31/2013	**221,154**	**277,876**	**29,802**	**1,265,101**	**11,798,498**	**5,461,378**	**19,053,809**

Development costs

Grants of € 1,001,196 (previous year: € 1,339,157) were received in connection with development activities and were shown as a reduction of research and development costs (€ 808,165) and of general administration costs (€ 193,031).

There were indications in the 2013 financial year that some capitalized development work had lost value due to budget uncertainties and the need for technical follow-up work on products already delivered to the German Bundeswehr. Based on an impairment test of the corresponding assets, an impairment loss of € 311,420 was recognized on capitalized development costs in financial year 2013 (previous year: € 0). The amount of the impairment charge was determined on the basis of the respective assets' value in use assuming a discount rate of 9.50 %. The impairment charges were reported under research and development costs and relate to the Defense & Security segment.

In the prior year there had been a reversal of € 535,563 in impairment losses previously recognized on capitalized development costs that was reported on the income statement under other operating income.

Goodwill of the PBF Group and Simark Controls Ltd.

The € 6,139,969 in goodwill resulting from the acquisition of the PBF Group was allocated to the cash generating unit "PBF Group". To figure the recoverable amount when testing for impairment, we measured the fair value less costs to sell by discounting the projected cash flows given in the three-year budget (2014 to 2016) approved by management. A growth rate of 1.5 % was used to extrapolate cash flows in the next-to-last budget year. For the last budget year 0.5 % was used. The total cost of capital used for discounting was based on the risk-free interest rate of 2.75 % and a market risk premium of 6.25 %. From there, the beta factor, tax rate and capital structure of the peer group was used to arrive at a weighted average cost of capital (WACC) of 8.62 %. Determining the fair value less costs to sell for the cash generating units required the use of historical data, forecasts about market performance, and market research. Where the Company's budget is concerned, the principal underlying assumptions included market growth rates and the rate of growth in selling prices and purchase prices, as taken from external market studies and current price developments with due consideration for changes in macroeconomic indicators. On the basis of the above, the goodwill was determined to be impaired by € 1,468,032 in the reporting year, with half of that amount captured in the depreciation and amortization reported under sales costs and the other half in the depreciation and amortization reported under research and development costs. The main reasons for this impairment were a lack of cross-selling to the existing customer bases of SFC and PBF and less joint development of products than originally anticipated.

The € 7,485,600 (CAD 10,430,435) in goodwill resulting from the acquisition of Simark Controls Ltd. was allocated to the cash generating unit Simark, which is active in the "Industry" segment exclusively. To figure the recoverable amount when testing for impairment, we measured the fair value less costs to sell by discounting the projected cash flows given in the three-year budget (2014 to 2016) approved by management. A growth rate of 1.5 % was used to extrapolate cash flows in the next-to-last budget year. For the last budget year 0.5 % was used. The total cost of capital used for discounting was based on the risk-free interest rate of 3.90 % and a market risk premium of 5.00 %. From there, the beta factor, tax rate and capital structure of the peer group was used to arrive at a weighted average cost of capital (WACC) of 8.47 %. Determining the fair value less costs to sell for the cash generating units required the use of historical data, forecasts about market performance, and market research. Where the Company's budget is concerned, the principal underlying assumptions included market growth rates and the rate of growth in selling prices and purchase prices, as taken from external market studies and current price developments with due consideration for changes in macroeconomic indicators.

Other intangible assets of the PBF Group and Simark Controls Ltd.

As part of the PBF Group acquisition, customer relationships, technology and an order book were identified. Below is a statement of the other intangible assets resulting from the PBF Group acquisition:

in €

	Customer relationships	Technology	Order book	Total
Acquisition costs				
as at 01/01/2013	**1,408,354**	**1,231,359**	**14,309**	**2,654,022**
Changes in the scope of consolidation	0	0	0	0
as at 12/31/2013	**1,408,354**	**1,231,359**	**14,309**	**2,654,022**
Depreciation and impairment losses				
as at 01/01/2013	**–190,714**	**–222,329**	**–14,309**	**–427,352**
Scheduled depreciation	–176,044	–205,227	0	–381,271
as at 12/31/2013	**–366,758**	**–427,556**	**–14,309**	**–808,623**
Carrying amounts				
as at 01/01/2013	**1,217,640**	**1,009,030**	**0**	**2,226,670**
as at 12/31/2013	**1,041,596**	**803,803**	**0**	**1,845,399**
Remaining term of depreciation and amortization (in years)	6	4	0	

As part of the Simark Controls Ltd. acquisition, the Simark brand, customer relationships and an order book were identified. Below is a statement of the other intangible assets resulting from the Simark Controls Ltd. acquisition:

in €	Trade brands	Customer relationships	Order book	Total
Acquisition costs as at 01/01/2013	**0**	**0**	**0**	**0**
Changes in the scope of consolidation	38,508	4,021,161	316,144	4,375,813
Differences arising from the currency translation	–1,847	–192,871	–15,163	–209,881
as at 12/31/2013	**36,661**	**3,828,291**	**300,980**	**4,165,932**
Depreciation and impairment losses as at 01/01/2013	**0**	**0**	**0**	**0**
Scheduled depreciation	0	–357,853	–210,467	–568,320
Differences arising from the currency translation	0	11,565	6,802	18,367
as at 12/31/2013	**0**	**–346,288**	**–203,665**	**–549,953**
Carrying amounts as at 01/01/2013	**0**	**0**	**0**	**0**
as at 12/31/2013	**36,661**	**3,482,003**	**97,315**	**3,615,979**
Remaining term of depreciation and amortization (in years)	3	3–4	2	

(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	Total
Acquisition costs as at 01/01/2012	**1,134,478**	**3,227,123**	**4,361,601**
Additions	39,656	278,090	317,746
Disposals	0	–71,948	–71,948
Reclassifications	–3,475	3,677	202
Differences arising from the currency translation	0	–429	–429
as at 12/31/2012	**1,170,659**	**3,436,513**	**4,607,172**
Changes in the scope of consolidation	71,204	167,716	238,920
Additions	135,473	295,132	430,605
Disposals	0	–61,005	–61,005
Reclassifications	401,461	–401,461	0
Differences arising from the currency translation	–3,415	–10,660	–14,075
as at 12/31/2013	**1,775,382**	**3,426,235**	**5,201,617**
Depreciation and impairment losses as at 01/01/2012	**–385,643**	**–1,229,380**	**–1,615,023**
Scheduled depreciation	–202,363	–461,170	–663,533
Disposals	0	71,419	71,419
Differences arising from the currency translation	0	256	256
as at 12/31/2012	**–588,006**	**–1,618,875**	**–2,206,881**
Scheduled depreciation	–269,493	–490,252	–759,745
Disposals	0	59,184	59,184
Differences arising from the currency translation	98	1,727	1,825
as at 12/31/2013	**–857,401**	**–2,048,216**	**–2,905,617**
Carrying amounts			
as at 01/01/2012	748,835	1,997,743	2,746,578
as at 12/31/2012	**582,653**	**1,817,638**	**2,400,291**
as at 12/31/2013	**917,980**	**1,378,019**	**2,295,999**

Fixtures and fittings with a remaining book value of € 1,174,213 have been pledged as collateral for liabilities (previous year: € 303,491).

(23) Other provisions and tax provisions

The change in other provisions is shown in the following table:

in €	Warranty provisions	Provisions for contingent losses	Other provisions	Total other provisions	Tax provisions
as at 01/01/2013	**1,919,811**	**413,650**	**0**	**2,333,461**	**52,383**
Differences arising from the currency translation	–29	0	–776	–805	0
Additions	415,408	395,626	24,021	835,055	36,082
Interest cost	63,328	11,914	0	75,242	0
Use	–79,551	–211,604	0	–291,155	0
Reversal	–438,428	0	0	–438,428	0
as at 12/31/2013	**1,880,539**	**609,586**	**23,245**	**2,513,371**	**88,466**
of which with a remaining term of between one and five years	1,344,750	431,666	23,245	**1,799,661**	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 3.43 % (previous year: 3.79 %) for those obligations that would first be due after two years, 3.59 % (previous year: 3.93 %) for those due after three years, 3.76 % (previous year: 4.08 %) for those due after four years and 3.93 % (previous year: 4.22 %) for those due after five years.

Provisions for contingent losses

The provisions for contingent losses relate to contingent losses from rent expenses. A draw on the long-term portion of the provisions is not likely until 2015 at the earliest. The amount to set aside in each case was based on current lease agreements. The discount factors ranged from 3.43 % to 4.22 % depending on the remaining term.

Other miscellaneous provisions

The item other miscellaneous provisions includes a bonus payable to sales employees once they reach three years of service in the Group.

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. In the previous year, this item consisted exclusively of overdraft facilities. The increase in current liabilities to banks is largely attributable to € 402,651 (previous year: € 0) disbursed to Simark Holdings Ltd. under a floating rate loan that matures on July 15, 2018 and the utilization of the credit line of Simark Controls Ltd. amounting € 1,179,549 (previous year: € 0). The long-term portion of this loan comes to € 2,281,526 (previous year: € 0) and is reported under non-current liabilities to banks.

(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 €	12/31/2013	12/31/2012
Other equipment, fixtures and fittings	107,931	0
Net book value capitalized in conjunction with finance leases	**107,931**	**0**

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 €	12/31/2013			12/31/2012		
	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 a year	53,566	1,795	51,771	0	0	0
between 1 and 5 years	38,354	7,595	30,759	0	0	0
Total	**91,920**	**9,390**	**82,530**	**0**	**0**	**0**

(28) Other liabilities

Other short-term liabilities were as follows:

		in €
	12/31/2013	12/31/2012
Contingent consideration from the acquisition (Simark)	961,406	0
Variables/bonuses	668,569	471,630
Restructuring expenses	443,407	0
Outstanding vacation	252,299	210,696
Wage tax	244,949	262,083
VAT	241,722	618,585
Christmas bonus	154,210	132,211
Social security	81,578	33,580
Long Term Incentive plan	77,161	396,292
Supervisory board compensation	50,000	32,240
Trade association contributions	49,000	55,600
Retention of business records	30,500	30,000
Expenses from termination of contracts	25,200	0
Accruals for invoices	15,334	188,205
Compensatory tax for the severely disabled	10,920	5,760
Overtime	4,756	36,085
Liabilities from acquisitions (PBF)	0	668,667
Severance and release of duties	0	3,400
Other	18,628	30,525
Total	**3,329,640**	**3,175,559**

The other long-term liabilities relate exclusively to the non-current portion of an obligation resulting from the termination of employment relationships. In the previous year, other long-term liabilities included the accrued liability from the Long Term Incentive Plan for members of the Management Board and selected executives, as well as the earn-out component from the purchase price agreement for the PBF acquisition.

Other liabilities include financial liabilities of € 1,060,406 (previous year: € 1,401,421).

(29) Income tax liabilities

The income tax liabilities of € 72,937 (previous year: € 0) pertain exclusively to foreign income tax liabilities of Simark Controls Ltd.

(30) Equity

Changes to SFC's equity are shown in the Consolidated Statement of Changes in Equity.

Subscribed capital

At the balance sheet date, subscribed capital amounted to € 8,020,045 (previous year: € 7,502,887) and was divided into 8,020,045 (previous year: 7,502,887) bearer shares without par value, with a notional amount in the capital stock of € 1.00 per no-par-value share. This increase is due to the acquisition of Simark Controls Ltd., part of the purchase price for which was settled through the issuance of 517,158 new shares to the existing shareholders of Simark Controls Ltd. in a non-cash capital increase.

The subscribed capital has been fully paid in. Each share confers one vote. Shareholders have no special rights that confer control.

Capital surplus

The capital surplus came to € 69,569,925 at the reporting date (previous year: € 67,878,818). The increase of € 1,691,107 is attributable to the acquisition of Simark Controls Ltd., which involved the issuance of 517,158 no-par-value shares of stock with a notional amount in the capital stock of € 1.00 per non-par-value share at a price of € 4.27 each.

Conditional capital

The Company has a conditional capital 2011 in the amount of € 3,576,443 for 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). No such instruments had been issued as of the reporting date. As stated in § 5 para. 4 of the Articles of Association, the Management Board will determine the remaining details of the execution of the conditional capital increase, with approval by the Supervisory Board.

Authorized capital

Following this partial utilization of the authorized capital, as described above, the Management Board is authorized to increase the Company's share capital, with the Supervisory Board's approval, by as much as € 3,234,285 on one or over several occasions on or before May 5, 2018, by issuing new bearer shares without par value in return for cash or non-cash contributions (remaining Authorized Capital 2013). As a general rule, shareholders are to be granted a preemptive right to subscribe for these shares. However, under certain circumstances the preemptive subscription right of shareholders may be excluded with the Supervisory Board's consent. Pursuant to § 5 para. 5 of the Articles of Association, the terms of the capital increase are specified by the Management Board, with approval by the Supervisory Board.

Authorization to acquire own shares

The general meeting held on May 6, 2010 authorized the Management Board to acquire treasury shares on or before May 5, 2015 in an amount not to exceed ten percent of the Company's capital stock on May 6, 2010. No use had been made of this authorization as of the balance sheet date.

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.

Expenses of € 1,634,275 were recognized from operating leases last year (previous year: € 1,368,502).

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 €
	12/31/2013	12/31/2012
Minimum rent payments under operate leases		
within 1 year	1,850,423	1,313,581
between 1 and 5 years	6,159,372	5,002,159
> 5 years	1,246,923	2,396,646
Total	**9,256,718**	**8,712,386**

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. A provision for contingent losses was formed in connection with vacant space under this lease agreement (see Note 23 "Other provisions and tax provisions").

Order commitments

The Group had purchasing commitments of € 11,223,253 (previous year: € 7,374,837) as of the reporting date. These relate primarily to blanket orders for raw materials and supplies.

Contingent liabilities

With respect to contingent liabilities, reference is made to the cash components 2014 and 2015 discussed in the notes on changes in the scope of consolidation.

(33) Financial instruments

The following table shows the financial assets and liabilities by measurement category and class.

CARRYING AMOUNTS PURSUANT TO THE BALANCE SHEET in €

	12/31/2013	12/31/2012
Financial assets		
Loans and receivables		
Trade accounts receivable	9,258,049	3,696,497
Other assets and receivables – short term	291,924	739,794
Cash and cash equivalents	7,142,536	22,625,515
Cash and cash equivalents with limitation on disposal	285,000	285,000
Financial liabilities		
Liabilities carried at amortized cost		
Liabilities to banks	4,420,661	371,656
Trade accounts payable	5,086,833	3,033,123
Liabilities under finance leases	82,530	0
Other liabilities – short term	99,000	87,840
Liabilities measured as at fair value through profit or loss		
Other liabilities – long term	0	644,914
Other liabilities – short term	961,406	668,667

The book values of the financial assets and financial liabilities carried at amortized cost are close to the fair values because, with the exception of the long-term portion of a loan taken out, they were short-term in the reporting year. The book value of the long-term portion of the loan also corresponds to its fair value since it accrues interest at a floating rate of interest tied to market interest rates. The book values of the financial assets and financial liabilities carried at amortized cost in the previous year were close to the fair values, as well, because, with the exception of the long-term portion of the earn-out component, they were 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. The only financial liabilities fair valued as Level 3 liabilities are the earn-out components (contingent consideration) relating to the Simark Controls Ltd. acquisition (see "Changes in the scope of consolidation") and to the shares of the PBF Group acquired in 2011. Fair valued at € 1,313,581 in the prior year, the contingent consideration for the acquired shares of the PBF Group, which consisted of two earn-out components (projected EBITDA in 2012, sales from cross-selling effects and from the distribution of jointly developed products in 2012/2013), had a fair value of € 0 at December 31, 2013.

Below is a reconciliation of the financial instruments assigned to Level 3:

RECONSILIATION OF THE FINANCIAL INSTRUMENTS		in €
	2013	2012
According to the balance-sheet as at 01/01	**1,313,581**	**1,287,849**
Changes affecting profit or loss	–901,097	25,732
Additions	961,406	0
Disposals	– 412,484	0
According to the balance-sheet as at 12/31	**961,406**	**1,313,581**

The breakdown by measurement category of income and expense from the financial instruments was as follows:

EXPENSES AND INCOME FROM THE FINANCIAL INSTRUMENTS		in €
	2013	2012
Financial assets		
Loans and receivables		
Trade accounts receivable		
Income from write-downs of trade accounts receivable	6,209	7,556
Expense from write-downs of trade accounts receivable	–11,891	–49,713
Income from currency translation of trade accounts receivable	70,749	65,218
Expense from currency translation of trade accounts receivable	–184,241	–102,636
Cash and cash equivalents		
Interest income	66,555	210,504
Net result of loans and receivables	**–52,619**	**130,929**
Financial liabilities		
Liabilities carried at amortized cost		
Liabilities to banks		
Interest expense	–34,830	–21,835
Trade accounts payable		
Income from currency translation of trade accounts payable	1,214	3,249
Expense from currency translation of trade accounts payable	–5,101	–36,684
Net result of liabilities carried at amortized cost	**–38,717**	**–55,270**
Financial liabilities		
measured at fair value through profit or loss		
Income from the reversal of liabilities PBF earn-out	921,331	0
Net result of liabilities carried at fair value through profit or loss	**921,331**	**0**

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 brought in through the May 2007 public stock offering were raised specifically for this purpose. Until used to implement the growth strategy, 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. SFC is authorized to acquire its own shares on or before May 5, 2015 in an amount not to exceed ten percent of its capital stock.

The Group's capital management focuses on cash and cash equivalents (see Note 19), equity (see Note 30) and liabilities to banks (see Note 24).

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

COMPANY'S EQUITY RATIO in €

	12/31/2013	12/31/2012
Equity	**29,062,957**	**36,393,794**
As a percentage of total capital	61.0	76.4
Long-term liabilities	5,917,537	3,561,896
Short-term liabilities	12,669,182	7,661,752
Liabilities	**18,586,719**	**11,223,648**
As a percentage of total capital	39.0	23.6
Total capital	**47,649,676**	**47,617,442**

The capital structure of SFC changed in 2013, mostly because of the acquisition of Simark. Its equity ratio still stood at 61.0 % even with the acquisition (previous year: 76.4 %).

One of the instruments employed by the Company for internal steering in financial year 2013 was the "underlying operating result", i.e., underlying earnings before interest and income taxes. 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 €

	2013	2012
EBIT (earnings before interest and taxes)	**–8,836,248**	**–524,446**
Restructuring expenses	566,981	0
Reported as production costs of work performed to generate sales		
Impairment of intangible assets identified in acquisitions	210,467	0
Expenses for acquisition-related materials	27,739	0
Expenses for acquisition-related personnel costs	171,679	0
Reported as research and development costs		
Impairment losses capitalized development	311,420	0
Impairment of goodwill	734,016	0
Reported as sales costs		
Expenses from contract terminations	50,000	0
Impairment of intangible assets identified in acquisitions	357,853	0
Expenses for personnel, bonus	24,021	0
Expenses for acquisition-related personnel costs	650,155	0
Impairment of goodwill	734,016	0
Reported as general administrations costs		
Expenses from contract terminations	30,000	0
Expenses for acquisition-related personnel costs	171,679	0
Reported as other operating expenses		
Contingent losses from rent expenses and leasing	395,626	0
Acquisition-related costs	1,076,409	132,638
Expenses from contract terminations	0	90,000
Other one off effects	28,125	0
Reported as other operating income		
Reversal of impairment charges on capitalized development costs	0	–535,563
Income from the reversal of earn-out provision identified in acquisitions	–921,331	0
Income from the reversal of provisions from contract terminations	0	–123,752
EBIT underlying	**–4,217,392**	**–961,123**

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 € 9,258,049 in trade accounts receivable (previous year: € 3,696,497), the largest 5 customers account for € 714,555, € 556,347, € 498,626, € 411,709 and € 359,329 (previous year: € 404,056, € 403,435, € 268,860, € 263,891 and € 252,094 attributable to the largest 5 customers). 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:

WRITE-DOWNS		in €
	2013	2012
Write-downs at 1/1	**103,924**	**178,614**
Changes in the scope of consolidation	84,377	0
Additions	11,890	79,096
Use	–27,234	–146,229
Release	–6,212	–7,556
Write-downs at 12/31	**166,746**	**103,924**

There are also past-due trade accounts receivable that have thus far not been written down in the amount of € 2,193,882 (previous year: € 1,202,816). These can be broken down by maturity range as follows:

		in €
	2013	2012
Gross book value of the impaired receivables	284,376	103,924
Specific write-downs	–166,746	–103,924
Net book value of the impaired receivables	**117,631**	**0**
Not past due or impaired	6,946,537	2,493,682
Past due and not impaired		
Up to one month past due and not impaired	1,169,043	1,045,991
One to three months past due and not impaired	595,266	17,057
Three to six months past due and not impaired	408,181	135,622
Over six months past due and not impaired	21,392	4,147
Receivables per balance sheet	**9,258,049**	**3,696,497**

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, and there were no past-due amounts from these assets 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 increase in May 2007. SFC still has cash reserves it can use to finance the further planned growth of the Group. However, their amount dropped significantly from the previous year due to the Simark acquisition and net loss in 2013.

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 adequate 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 €

	2013			2012		
	Total	1 year	> 1 year	Total	1 year	> 1 year
Original financial liabilities						
Liabilities to banks	–4,420,661	–2,139,136	–2,281,526	–371,656	–371,656	0
Trade accounts payable	–5,086,833	–5,086,833	0	–3,033,123	–3,033,123	0
Liabilities under finance lease	–82,530	–51,771	–30,759	0	0	0
Other financial liabilities	–1,060,406	–1,060,406	0	–1,401,421	–756,507	–644,914
Total cash outflow	**–10,650,430**	**–8,338,146**	**–2,312,284**	**–4,806,200**	**–4,161,286**	**–644,914**
Original financial assets						
Cash and cash equivalents	7,427,536	7,427,536	0	22,910,515	22,910,515	0
Trade accounts receivable	9,258,049	9,258,049	0	3,696,497	3,696,497	0
Other financial assets	291,924	291,924	0	739,794	739,794	0
Total cash inflow	**16,977,509**	**16,977,509**	**0**	**27,346,806**	**27,346,806**	**0**
Net liquidity from financial instruments	**6,327,079**	**8,639,364**	**–2,312,284**	**22,540,606**	**23,185,520**	**–644,914**

With respect to those financial liabilities having a residual maturity of more than one year, the Group expects to make interest payments of € 728,098 through the end of the liabilities' term, assuming an interest rate of 6.22 %.

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 € 2,624 (previous year: € 103,676). 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

Due to Simark's business volume, SFC will generate a substantial portion of its future revenues in Canadian dollars, which will be offset by expenses and payments in Canadian dollars. In addition, SFC 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 for the U.S. subsidiary. Furthermore, Simark purchases some of its products in U.S. dollars. No currency forwards were entered into in financial year 2013.

There would have been a positive effect of € 164,540 on the Group's equity if, when translating the assets and obligations of SFC Energy Inc. as of December 31, 2013, the exchange rate had fluctuated by –5% and a negative effect of € 164,540 if the rate had fluctuated by +5%. There would have been a positive effect of € 1,027,868 on the Group's equity if, when translating the assets and obligations of Simark Controls Ltd. as of December 31, 2013, the exchange rate had fluctuated by –5% and a negative effect of € 1,027,868 if the rate had fluctuated by +5%.

There were no material effects from foreign currency translation of the business of the Romanian subsidiary and its transactions in Romanian leu.

Measurement of SFC's, PBF's and Simark's foreign currency receivables and liabilities as of December 31, 2013 would have led to an increase of € 838 in the foreign currency result if the rate had fluctuated by –5% and a decrease of € 838 if the 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 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. If large open positions exist, most of 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 payment

The Supervisory Board adopted a long-term incentive plan in March 2009. This plan is intended to reward the contribution by members of the Management Board and selected executives to increasing the Company's value. The plan includes variable compensation in the form of phantom shares, each of which is based on the total value of one SFC share. A phantom share entitles its holder to a cash payment equal to the then-current share price plus any dividend per share. The phantom shares of Tranches 1 and 3 were issued to members of the Management Board of SFC Energy AG, while the rights of Tranche 2 were awarded to executives.

The plan is divided into various sub-tranches with different performance periods of three calendar years each. At the beginning of each performance period, a preliminary value is assigned to the allotment by taking the volume allotted and dividing it by the weighted average market price of a share of SFC stock for the first three months of the respective performance period.

Payouts under the plan will be made after the end of the respective performance period and will correspond to the final number of phantom shares of that performance period multiplied by the average price of a share of SFC stock for the first three months after the respective performance period. The final number of phantom shares depends on the achievement of predefined EVA (economic value added) targets. If a participant's employment with the Company ends, there will be no allotment for any performance periods not yet begun. Unless a participant is terminated for cause, payouts under Tranche 1 and Tranche 3 of the plan for any performance period already commenced as of the respective participant's departure will be made on the basis of the number of phantom shares initially allotted at the beginning of the respective performance period and will reflect the portion of the performance period served. Pro rata payouts will be made under Tranche 2 unless SFC terminates the employment relationship without notice for cause or does so with notice for conduct-related reasons. Pro rata payouts are also excluded if the respective executive quits with notice.

The status of the phantom shares in 2013 is shown in the following table:

	Tranche 1	Tranche 2	Tranche 3
Number of phantom shares	121,629	95,245	37,015
Maximum term (years)	3.0 – 5.0	3.0	3.0 – 5.0
Contractual remaining term on 12/31/2013 (years)	1.0 – 2.0	1.0 – 2.0	2.0 – 3.0
Outstanding number of phantom shares at the beginning of the 2013 reporting period (1/1/2013)	76,576	45,897	28,272
during the 2013 reporting period			
Phantom shares awarded	0	20,909	5,679
Phantom shares forfeited	14,994	34,953	0
Phantom shares exercised	0	0	0
Phantom shares expired	0	0	0
Phantom shares outstanding at the end of the 2013 reporting period (12/31/2013)	**61,582**	**31,853**	**33,951**
Exercisable phantom shares at the end of the 2013 reporting period (12/31/2013)	**0**	**0**	**0**

All of the Tranche 2 phantom shares awarded in 2013 (sub-tranche 2.5) were allocated to the executives on April 16, 2013. The preliminary value assigned to the allotment was € 120,000.

The estimated number of provisionally allotted phantom shares in Tranche 3.3 was calculated on the basis of a Monte Carlo simulation and may change at subsequent balance sheet dates as a function of the actual trend for the price of the SFC share.

The status of the phantom shares in the previous year is shown in this table:

	Tranche 1	Tranche 2	Tranche 3
Number of phantom shares	121,629	74,336	37,015
Maximum term (years)	3.0 – 5.0	3.0	3.0 – 5.0
Contractual remaining term on 12/31/2012 (years)	1.0 – 3.0	1.0 – 2.0	2.0 – 4.0
Outstanding number of phantom shares at the beginning of the 2012 reporting period (1/1/2012)	121,629	44,267	37,015
during the 2012 reporting period			
Phantom shares awarded	0	30,069	0
Phantom shares forfeited	45,053	28,439	8,743
Phantom shares exercised	0	0	0
Phantom shares expired	0	0	0
Phantom shares outstanding at the end of the 2012 reporting period (12/31/2012)	**76,576**	**45,897**	**28,272**
Exercisable phantom shares at the end of the 2012 reporting period (12/31/2012)	**0**	**0**	**0**

The phantom shares awarded were classified and measured as cash-settled share-based payment transactions. The fair market value of the phantom shares is remeasured on each balance sheet date using a Monte Carlo simulation, taking into account the terms on which the phantom shares were awarded. The measurement of the options that were still outstanding at December 31, 2013 and December 31, 2012 was based on the following inputs:

Measurement date	12/31/2013	12/31/2012
Remaining term (years)	1.0 – 3.0	1.0 – 4.0
Share price on the measurement date	€ 3.93	€ 6.05
Strike price	€ 0.00	€ 0.00
Expected volatility	28.30 % – 35.94 %	34.65 % – 39.87 %
Risk-free interest rate	0.10 % – 0.48 %	0.02 % – 0.17 %
Dividend yield	0.00 %	0.00 %

The term in each case is the period from the measurement date to the end of each performance period. The expected volatility is based on the assumption that the historical volatility seen for matching maturities on a weekly basis is indicative of future trends. Therefore, the actual volatility which occurs may differ from the assumptions. The weighted average of the fair market value of the phantom shares issued during the reporting period was € 0.00 as of the reporting date (previous year: € 5.61).

For the year ended December 31, 2013, SFC AG had the following income from cash-settled share-based payment arrangements under the LTIP (previous year: expense):

		in €
	2013	2012
Income/expenses for cash-settled share-based payment transactions	–319,131	226,523

At December 31, 2013, liabilities of € 77,161 and € 0 were accrued under other short-term liabilities and other long-term liabilities, respectively (previous year: € 0 and € 396,292). The intrinsic value of the liabilities at December 31, 2013 was close to their book values.

(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 members of the Management Board and the Supervisory Board were as follows in financial years 2012 and 2013:

Management Board members

Dr Peter Podesser, Simbach am Inn, a businessman (Chairman)
Gerhard Inninger, Munich, who holds a degree in finance
Hans Pol, Ede, Netherlands, a businessman (from January 1, 2014)

Supervisory Board members

Dr Rolf Bartke, Berlin, a business engineer (Chairman until May 9, 2012)
Tim van Delden, Düsseldorf, who holds a degree in engineering (Chairman from May 9, 2012)
David William Morgan, Rolvenden (United Kingdom), MA ACA, a businessman (Deputy Chairman)
Dr Jens Müller, Munich, who holds a degree in chemistry

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”.

There were no related party transactions with companies last year or in the previous year.

In 2013, fuel cartridges worth € 75.46 were sold to Dr Jens Müller on arm’s length terms.

The compensation of persons in key positions was as follows:

in €

	2013		2012	
	Fixed portion	Variable portion	Fixed portion	Variable portion
Management Board	572,274	86,326	572,274	397,249
Supervisory Board	112,500	0	112,500	0
Total	**684,774**	**86,326**	**684,774**	**397,249**

We had € 282,898 in liabilities to persons in key positions as of the reporting date (previous year: € 684,066).

The variable portion includes the expense for the Long Term Incentive Program for members of the Management Board.

FINANCIAL YEAR 2013 — in €

	Fixed compensation	Short-term performance based compensation	Long-term performance based compensation	Total
Dr Peter Podesser	370,648	55,817	0	426,465
Gerhard Inninger	201,626	14,689	15,821	232,135
Total	**572,274**	**70,505**	**15,821**	**658,600**

FINANCIAL YEAR 2012				in €
	Fixed compensation	Short-term performance based compensation	Long-term performance based compensation	Total
Dr Peter Podesser	370,648	187,939	114,201	672,788
Gerhard Inninger	201,626	51,005	44,104	296,735
Total	**572,274**	**238,944**	**158,305**	**969,523**

With respect to the long-term performance-based compensation for Dr. Podesser, provisions of € 246,996 from the compensation components granted in previous years for the Long Term Incentive Program (LTIP) were reversed in the 2013 financial year. There have been no payments to date from the LTIP.

(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. As during the prior year, there were no dilutive effects to be taken into account in determining the number of outstanding shares or any dilutive effects on SFC's earnings. The following table breaks down the calculation of earnings per share:

CALCULATION OF BASIC AND DILUTED EARNINGS PER SHARE		
	2013	2012
Number of shares in circulation at the beginning of the period	7,502,887	7,502,887
Number of shares in circulation at the end of the period	8,020,045	7,502,887
Weighted average number of shares in circulation	**7,675,273**	**7,502,887**
Number of potentially dilutive shares of common stock	0	0
Weighted average number of shares used to calculate the diluted earnings per share	**7,675,273**	**7,502,887**
Consolidated net loss (€)	**–8,911,885**	**–425,589**
Net loss per share diluted (€)	–1.16	–0.06
Net loss per share undiluted (€)	–1.16	–0.06

(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 (€ 1,247,771; previous year: € 915,943) as well as time and call deposit accounts (€ 5,894,765; previous year: € 21,709,572).

Income tax payments and refunds pertain mostly to the investment income tax and solidarity surcharge withheld from credited interest when call and time deposits matured as well as income tax payments for the Canadian, Dutch 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.

(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 aligning its business with the core markets "Industry", "Consumer" and "Defense & Security".

The "Industry" market is highly diversified and could include any area of industry where professional users run electrical equipment away from the grid and use SFC's EFOY Pro fuel cell. Right now, the Company's technology enables applications in security and surveillance, traffic management, wind power and environmental technology, as well as in the oil and gas sector. Additionally, PBF sells nearly all of its high-performance electronic components for integration into precision defense equipment as well as testing and metering systems in this segment. Simark's sales are generated exclusively in this segment.

In the "Consumer" market, SFC's EFOY COMFORT fuel cells are used to supply power to RVs, vacation cottages and sailboats.

The "Defense & Security" segment covers defense and security applications for defense organizations and governments. SFC's product portfolio for this market includes the JENNY 600S, the vehicle-based EMILY 3000, the EMILY Cube 2500, the SFC Power Manager and network solutions.

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	
	2013	2012	12/31/2013	12/31/2012
Europe (not including Germany)	12,420,514	12,798,835	7,559,401	9,103,235
North America	10,187,749	3,315,764	11,194,459	222,820
Germany	7,144,709	12,583,093	2,595,948	4,074,354
Asia	1,918,501	2,315,620	0	0
Rest of the world	741,641	246,414	0	0
Total	**32,413,114**	**31,259,726**	**21,349,808**	**13,400,409**

Sales were broken down by region on the basis of each customer's registered office. Sales of € 7,144,709 (previous year: € 12,583,093) were generated in the Group's home market of Germany.

No single customer accounted for more than 10 % of sales in 2013. In the previous year, one customer accounted for 20.35 % of total sales, all of which was generated in the Defense & Security segment.

The depreciation of fixed assets included in production costs can be broken down by segment as follows:

		in €
	2013	2012
Industry	438,321	174,976
Consumer	213,253	115,884
Defense & Security	79,613	179,141
Total	**731,186**	**470,000**

In addition, an impairment loss of € 1,468,032 was recognized in the year under review on the goodwill identified in the PBF Group acquisition (see Note 21 "Intangible assets"). This impairment loss was attributable to the Industry segment. The impairment charge of € 311,420 on capitalized development costs was attributable in full to the Defense & Security segment.

There was interest income of € 12,782 in the Defense & Security segment, € 24,953 in the Industry segment and € 28,819 in the Consumer segment. Interest expense came to € 18,337 in Defense & Security, € 134,780 in Industry and € 41,343 in Consumer.

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 €
	2013	2012
Financial statements	124,500	110,000
Tax consultancy	386	4,197
Total	**124,886**	**114,197**

(40) Statement of compliance 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 2013 and published it on the website of SFC Energy AG (www.sfc.com/en/investors/corporate-governance). The Management Board and Supervisory Board will publish an updated declaration of conformity for 2014 on SFC Energy AG's website on March 27, 2014. 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 will also be published in the Annual Report as part of the Corporate Governance Report.

(41) Material events after the balance sheet date

Hans Pol was appointed to the Management Board of SFC effective January 1, 2014. He is Chief Sales Officer for SFC and the PBF Group.

Gerhard Inninger, Chief Financial Officer for SFC, will resign from the Management Board for personal reasons at the end of the Annual General Meeting on May 16, 2014, by mutually amicable agreement with the Supervisory Board. Gerhard Inninger will remain fully available to advise the Group on finances and will continue to supervise operational activities in his current area of responsibility. There were no other significant events after the balance sheet date.

Brunnthal, March 21, 2014

The Management Board

Dr Peter Podesser
CEO

Gerhard Inninger
CFO

Hans Pol
CSO

SFC ENERGY AG, BRUNNTHAL CONSOLIDATED FINANCIAL STATEMENTS AND GROUP MANAGEMENT REPORT FOR FINANCIAL YEAR 2013 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 21, 2014

The Management Board

Dr Peter Podesser
CEO

Gerhard Inninger
CFO

Hans Pol
CSO

INDEPENDENT AUDITORS' REPORT

We have audited the consolidated financial statements prepared by SFC Energy AG, Brunnthal, – comprising the income statement and statement of comprehensive income, the balance sheet, the cash flow statement, the statement of changes in equity, the segment reporting and the notes to the consolidated financial statements – and the group management report for the financial year from 1 January to 31 December 2013. The preparation of the consolidated financial statements and the group management report in accordance with the International Financial Reporting Standards (IFRS), as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB are the responsibility of the Parent Company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB ("German Commercial Code") and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer. Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements of the SFC Energy AG, Brunnthal, comply with IFRS, as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Without qualifying our opinion, we draw attention to the statements on liquidity, performance and position of the Group provided by management in the group management report. In the sections on "Liquidity" and "Summary of the Group's performance and position" in this report it is stated that due to the close link between results of operations and the future liquidity of the Group, deviations from the forecast sales and results could have a negative impact on financial resources, which are currently still adequate.

Munich, 21 March 2014

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

Götz
Wirtschaftsprüfer (German public auditor)

Becker
Wirtschaftsprüfer (German public auditor)

FINANCIAL CALENDAR 2014

May 13, 2014	Q1 Report
May 16, 2014	Annual General Meeting 2014
August 5, 2014	Q2 Report
November 13, 2014	Q3 Report
November, 2014	DVFA Analysts' Conference

SHARE INFORMATION

Bloomberg Symbol	F3C
Reuters Symbol	CXPNX
WKN	756857
ISIN	DE0007568578
Number of shares	8,020,045
Stock Category	No-par value shares
Stock segment	Prime Standard, Renewable Energies
Stock exchange	Frankfurt, FWB
Designated Sponsor	Close Brothers Seydler

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