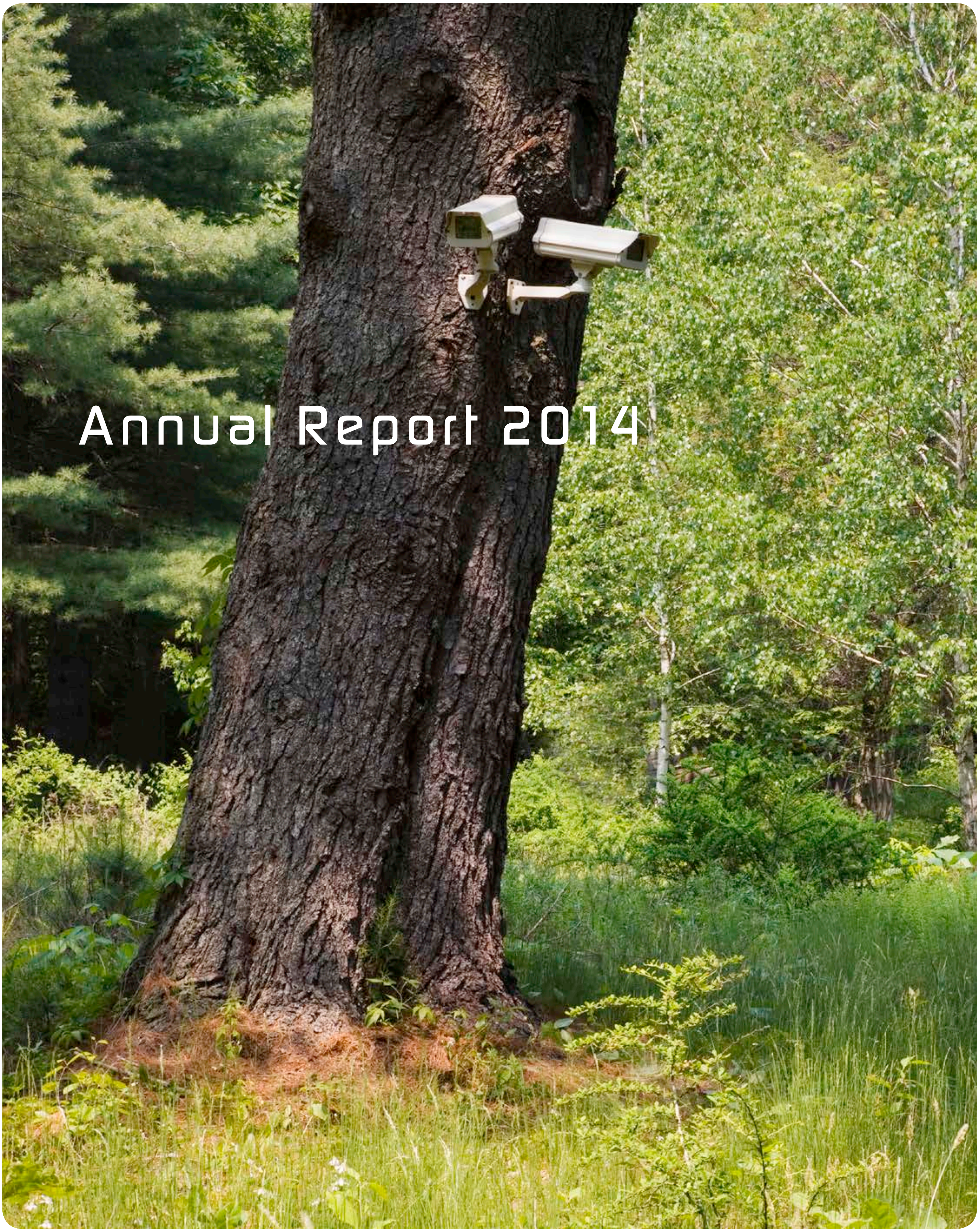
Annual Report 2014



SFC
ENERGY

SFC ENERGY AG CONSOLIDATED KEY FIGURES

in k€

	1/1–12/31/2014	1/1–12/31/2013	Change in %
Sales	53,631	32,413	65.5 %
Gross profit	15,661	9,925	57.8 %
Gross margin	29,2 %	30,6 %	–
EBITDA	–1,177	–4,474	73.7 %
EBITDA margin	–2.2 %	–13.8 %	–
EBITDA underlying	379	–2,203	117.2 %
EBITDA margin underlying	0.7 %	–6.8 %	–
EBIT	–4,269	–8,836	51.7 %
EBIT margin	–8.0 %	–27.3 %	–
EBIT underlying	–1,223	–4,217	71.0 %
EBIT margin underlying	–2.3 %	–13.0 %	–
Consolidated net loss	–4,826	–8,912	45.8 %
Net loss per share, diluted	–0.60	–1.16	48.4 %

	12/31/2014	12/31/2013	Change in %
Order backlog	10,626	17,636	– 39.7 %

	12/31/2014	12/31/2013	Change in %
Equity	27,589	29,063	– 5.1 %
Equity ratio	58.4 %	61.0 %	
Balance sheet total	47,256	47,649	– 0.8 %
Cash (freely available)	6,122	7,143	– 14.3 %

	12/31/2014	12/31/2013	Change in %
Permanent employees	246	256	– 3.9 %

CONTENT

LETTER TO SHAREHOLDERS

Steffen Schneider Chief Financial Officer / **Dr. Peter Podesser** Chief Executive Officer / **Hans Pol** Chief Sales Officer

DEAR SHAREHOLDERS, PARTNERS, CUSTOMERS, SUPPLIERS AND EMPLOYEES,

SFC Energy AG can look back on a successful fiscal year in 2014, in which it forged ahead with its strategic goal of becoming a system supplier of integrated power supply and power management solutions. Thanks to a strong second half, we reported massive growth in the reporting period, with sales soaring to € 53.6 million. At the same time, we managed to break even – as planned – on an underlying EBITDA basis. The primary drivers behind this performance were the successful integration of Canada-based Simark Controls Ltd. and the related significant expansion of our commitment in the Oil & Gas industry. Despite the decline in oil prices in the second half of the year and the negative effects of the exchange rate for the Canadian dollar, Simark generated organic growth of more than 20 % over plan.

The expansion of our business portfolio increases the economic stability of the SFC Group. The comprehensive restructuring and streamlining in the fuel cell field, which we initiated in 2013 in response to the temporarily difficult environment in SFC Energy's original core business, produced the intended effect in 2014. Our single-minded focus on fast-growing industrial markets has paid off. Along with the systematic expansion of our systems business, this is the basis for sustainable economic success in this dynamic growth market. As a result, our industrial fuel cell business grew organically by more than 18% in 2014. Our solutions combine our proven expertise in off-grid power generation based on fuel cells with industrial power management for extremely demanding applications that enjoy direct access to attractive markets such as the Oil & Gas industry.

With the Canadian market launch of the extreme temperature fuel cell solution known as EFOY ProCabinet, we very quickly combined Simark's know-how with SFC technology. Our customers can rely on a reliable off-grid power supply in the harshest of conditions. The systematic expansion of our production and development plant in Romania, including the transfer of the production of the EFOY Pro EnergyBox to Cluj, is another significant step towards the integration of the organization in Europe, which provides us with significant efficiency gains while allowing us to cut costs.

In connection with our joint development program with the German Bundeswehr, and also with other renowned defense organizations, we have developed innovative product platforms that can also be used in the civilian area. An example of this is the development of the high-power 500-watt platform, the demand for which is heavy in both the military and the civilian sectors of back-up and emergency power supply.

In the Defense and Security sector we have seen a fundamental change in the prevailing environment. The spending cuts in defense budgets in the past few years are being reassessed in light of the new geopolitical situation. Thus, for example, the members of NATO have confirmed their goal of increasing the defense budget to 2% of GDP. This shift in thinking will result in investments in new technologies – including in the important sector of power and energy supply. The "Homeland Security" sector is also gaining in importance, not least because of greater threats by terrorists. As a result, spending in this field continues to be revised upward.

We see enormous market opportunities in the area of emissions-free emergency home power supply. With the EFOY GO!, a "mobile power outlet" based on pioneering lithium battery technology, we have developed a new product platform that in combination with our established fuel cell products is aimed at this market, which is experiencing growth, particularly in the United States and Asia. In this connection we used the expertise of our teams in the Netherlands and Germany to introduce a product strategy to address brand new markets and customer segments: in addition to our traditional Motorhome and Marine markets, we are now targeting the high-growth Outdoor and Camping markets. In a sturdy, compact box, EFOY GO! contains everything needed for off-grid power supply on the road, adding an intelligent, lightweight, easy-to-use transportable mobile and emergency power supplier to our portfolio. In combination with our EFOY Comfort, the EFOY GO! allows users to go for weeks without connecting to the power grid. The official launch date for sales of our compact portable power package is planned for summer 2015. In this area, we plan to offer products for back-up and emergency power supply in the home, as well as for industrial applications and disaster facilities.

In the fourth quarter of 2014 we further strengthened the equity basis of SFC Energy AG via the successful placement of a cash capital increase. In the course of this transaction, the company's share capital was increased by € 591,159 to € 8,611,204. The 591,159 new shares were placed through a private placement at a price of €5.52 per share. We were able to place the new shares with our largest existing shareholders and also gained new investors. The continuing support and the trust of our existing shareholders and the interest of new investors confirm our strategy and demonstrate the growth potential of our business model.

The capital increase provided the company with gross issue proceeds in the amount of € 3.26 million. The cash from the capital increase will be deployed for the market launch of the new EFOY GO! platform and will be used selectively for further penetration of the Oil & Gas market, with a focus on North America.

Since September 1, 2014, Steffen Schneider has enhanced the management of SFC Energy as our new CFO. He is responsible for the Finance, Controlling, Investor Relations, Procurement and IT departments. Mr. Schneider is an expert in international financial and capital markets and is deeply and intimately familiar with our company, which he served for many years as a consultant, during which time he also became familiar with our strategy and got to know our international management team. In his previous capacity as a consultant, Mr. Schneider was responsible for acquisition projects and for SFC's initial public offering. Together we will continue to implement our capital markets strategy, thus ensuring the continued expansion of our shareholder base.

SFC Energy AG is now a group of companies with around 250 highly-motivated employees at locations in Germany, Canada, the Netherlands, Romania and the United States. Without the professional skills and expertise of our employees, and their extraordinary motivation and willingness to work hard, we would not be able to present these results today. The SFC Group would not be at this strategically significant point today without its committed teams, who use their experience and skills to ensure that our customers receive the right integrated solutions to their needs – quickly and in proximity to the market. We would like to take this opportunity to express our heartfelt thanks to all our employees for their continued excellent performance in the past fiscal year – particularly for their valuable work during the successful integration of Simark Controls.

Despite the increasing challenges in the Oil & Gas industry, we remain cautiously optimistic for the current fiscal year. With our strong, diversified product portfolio, SFC Energy is now on sounder financial footing. Thanks to this attractive combination of technological strength, innovation, and proximity to the market, we expect continued strong growth and solid economic growth of the SFC Group in the coming years.

We do not believe that the decline in oil prices in recent months is due to structural problems. However, spending in the Oil & Gas industry could be reduced in the short term if oil prices remain low, with a resulting delay in individual projects. Even if the outlook for the current year is more difficult in this segment because of the collapse in oil prices in recent months, the market remains attractive in the medium term and the related enormous growth potential is unchallenged.

Based on our current planning, we consider revenues for the current 2015 fiscal year in a range from € 55 to 65 million to be realistic. Management believes that the measures to increase sales in the Industry and Defense sectors and the streamlining of cost structures in Canada will result in continued improvement of operating results versus 2014.

We would like to take this opportunity to thank our customers, shareholders and employees for their support and constructive dialogue in the past fiscal year. We are extremely optimistic about the future of our company and cordially 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

Steffen Schneider
Chief Financial Officer

Hans Pol
Chief Sales Officer

INTELLIGENT POWER SOLUTIONS MADE BY SFC ENERGY

Flexible hybrid power, reliable off grid power, power management and secure back-up power – these are some of today's most urgent customer requirements in industry as well as consumer applications. SFC Energy develops and produces customized, market specific solutions for these demands from production and service locations in Germany, the Netherlands, Romania, Canada, and the U.S.

OIL & GAS INDUSTRY

SECURITY & INDUSTRY

CONSUMER

OIL & GAS INDUSTRY

OIL & GAS INDUSTRY

At the time this report is produced the oil & gas industry has been impacted by the downward oil price trend, which makes it hard to predict the industry's readiness to invest in 2015 and beyond. Still, industry experts assume that in addition to an expected slow down in the context of new projects, owners and operators will extensively optimize and modernize technical and existing infrastructures. They expect that oil and gas producers will focus even more heavily on increasing production efficiency and on lowering production costs than before. SFC Energy can effectively support the industry in two product and application categories.

Measuring devices, power products, instrumentation

SFC Energy offers intelligent one-stop product solutions for a number of oil & gas applications. These products help operators to comply with the strict legal regulations, they enable real time control and monitoring of electrical devices at wells and pipelines, and they increase production efficiency, speed and reliability of production equipment. SFC Energy's innovative portfolio encompasses a range of special products for the oil & gas industry, e.g. low and medium voltage electrical machine power products, instrumentation and measurement solutions, as well as gas and flame detection safety systems.

SCADA computer systems

SFC Energy sells computer-controlled systems for measuring, monitoring and controlling many of the processes involved in oil and gas extraction. They are used for operating extraction systems and pipelines. The systems collect, visualize and analyze real time data for controlling and optimizing production parameters like performance or speed. They supply important data for monitoring production processes that also serves for controlling and documenting compliance with operation and environment regulations. In response to the individual application requirements SFC Energy combines SCADA systems with reliable off grid power supplies based on SFC fuel cells hybridized with solar modules. This ensures reliable, uninterrupted and user free operation of the systems over long periods of time, even in toughest environmental and weather conditions.

Variable frequency drives

Variable frequency drives (VFD systems) control speed and torque of motors operating drilling equipment, pumps, fans, compressors and other specialty rotating equipment. They automatically adapt motor performance to the individual ambient conditions, ensuring overload protection, reliability, efficiency, optimized processes, and increased production output. Operating, logistics and power costs are minimized while expensive down times and repairs to high value systems are prevented. VFD system design and integration by SFC Energy is geared to meet individual application requirements.

Off-grid power

Reliable power availability at oil and gas wells and pipelines is a constant expensive challenge for the operators. Sensors, measuring devices, pumps, and control systems have to operate 24/7 to ensure safe production processes – even miles away from civilization. Bringing power to them is often difficult: In the cold dark winter months generators and solar modules are pushed to their limits, batteries have to be exchanged regularly. This causes expensive, tedious service trips to the outdoor device locations.

For these applications SFC Energy offers integrated energy solutions specifically configured to the individual requirements. Well protected in special cabinets, weather proof outdoor boxes or sturdy housing the autonomous power generators, storage devices, power management and inverters work together to keep equipment running reliably, 24/7, in any weather and even in the most demanding conditions. Hybridization with other power sources, i.e. solar modules, wind or water generators, is possible. This hybrid operation offers decisive advantages to the operators: In a combination of solar and fuel cell, the solar module will provide power free of charge as long as the sun shines. Only when solar output runs low in foul weather phases or in winter, the fuel cell will automatically switch on and produce power. Any kind of battery can be used as power storage. Power management is adapted to the specific configuration by SFC Energy specialists in cooperation with integrators and customers. In the end all the customer has to do is connect his device to the integrated system. SFC Energy's portfolio of off-grid power products is presented in detail in the "Security & Industry" chapter.

While industry experts expect that new projects may be delayed in the current market situation, they also see a counter trend: According to them, the industry will use the low oil price period for extensively optimizing and modernizing their technical infrastructure and their existing production sites. SFC Energy continues to see a long term growth potential for the dedicated SFC oil & gas product portfolio of power supplies and special equipment.

SECURITY & INDUSTRY

SECURITY & INDUSTRY

More and more sensitive infrastructure, environmental and safety equipment is used off-grid and on the move, e.g. cameras, monitoring, measuring and control systems, early warning and security devices. All of them require reliable power availability for continuous, uninterrupted operation.

SFC offers an extensive portfolio of power solutions for security and industry applications. All products are delivered in fully integrated, weather proof, user friendly plug & play installations, with all parameters being defined by the customer: Customers can select anything from hybrid power generation to any kind of battery configuration and performance class, including a wide range of additional options.

SFC's customers in this demanding market are professional users in the security & surveillance, wind, telecommunication, traffic and environmental industries, as well as numerous international government and defense organizations. SFC Energy sees a sustainable growth potential in these demanding, continually growing markets.

Off-grid power

EFOY Pro fuel cell

The EFOY Pro fuel cell is a lightweight, robust power generating device for industrial off-grid applications. It produces silent, fully automatic power for equipment onsite – with practically zero emissions. It features ultimate flexibility: Hybridization with all kinds of alternative power generators and storages is easy. The robust fuel cell can be integrated into almost any kind of casing or cabinet. It is remote controllable and will run for months without requiring any user intervention, thus enabling valuable time and cost savings.

EFOY ProCube

EFOY ProCube is a maintenance free, weather proof power box for mobile and stationary outdoor uses. The robust box contains a fuel cell, fuel cartridge and a battery. All the user has to do is connect the device and switch it on. The EFOY ProCube, too, 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 mobile scenarios, from supplying power to warning systems at a temporary construction site to powering flood watch sensors over many months. This power supply solution is also often used on board of vehicles or in covert investigations.

EFOY ProEnergyBox

EFOY ProEnergyBox was developed for demanding conditions, where devices have to function reliably even in extreme weather and surroundings. The systems operate without any user intervention over long periods of time and at temperatures from plus 50 °C to minus 40 °C. When temperatures are below freezing, the waste heat from the fuel cells is used to keep the system warm, preventing 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 hybridized with other power generators like solar modules.

EFOY ProCabinet

EFOY ProCabinet is a weather proof switch cabinet solution for autonomous outdoor power used by stationary equipment. This product, too, is designed to be combined with other power generating devices in a hybrid system. EFOY ProCabinet 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 supply for critical infrastructure.

Portable SFC energy network

The SFC energy network was specifically developed for defense applications. The lightweight, portable hybrid system 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. In operation it charges both stationary and mobile electrical devices, quietly, completely automatically, and undetectably.

EMILY fuel cell

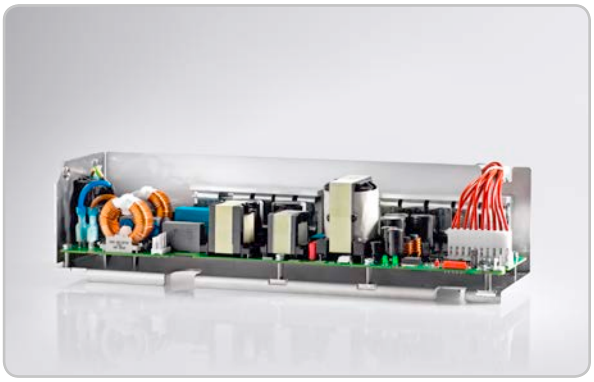
This is another defense product with ultimate charging flexibility. In addition to simultaneously charging four conventional batteries, this ruggedized fuel cell can also charge modern lithium-ion and lithium-polymer batteries. The fuel cell is used as power supply for electric devices on board of defense vehicles or as stationary field charger.

Power electronics

Systems by SFC Energy are also successfully used in grid based applications. Mains electricity requires subsequent "processing" before it can be used for a number of sensitive high-power devices such as electron microscopes, high-tech video and audio systems, and laser equipment. The power management experts of SFC develop and produce 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 SFC Energy, from planning to production. SFC produces small series in Europe, with mass production in China. Customers benefit from fast development times and attractive prices. SFC Energy continues to support customers with efficient product lifecycle management after products are launched.

SFC energy offers a broad range of specialized high-power electronic components, external and internal converters, switch mode power supplies, and special coils.



CONSUMER

CONSUMER

The market for consumer power supplies is continuously changing. Modern consumers use more and more mobile devices away from the grid. At the same time the market experiences a growing demand for reliable grid-independent back-up power generators for important devices at home or on the road during power outages and in other emergency scenarios.

SFC Energy has been successfully selling fuel cells for powering electric and electronic devices away from the grid. In 2014 the new EFOY GO! has further extended SFC Energy's portfolio towards a planned series of new mobile consumer, outdoor and home back-up / emergency power products. For these a significant growth potential has been identified over the coming years.

EFOY COMFORT

EFOY COMFORT fuel cells by SFC Energy have been successfully providing off-grid power in thousands of motor homes, sail boats and holiday cabins. The silent, environmentally friendly fuel cell are connected to the battery and provide power on demand and fully automatically. The owner does not have to do a thing. EFOY COMFORT is available in several power classes.

EFOY GO!

At a weight of only 5.5 kg the portable EFOY GO! is a completely new, innovative mobile socket for providing power to outdoor and leisure activities applications away from the grid. The small power pack will provide reliable power to all kinds of mobile devices like smart phones, GPS equipment, lamps or cooling boxes. In its compact, robust housing EFOY GO! contains everything needed to power devices away from the grid. Latest state of the art lithium technology provides ultimate amounts of power at lowest weight. Devices are simply plugged in like at home. Charging EFOY GO! is also easy: The user has the choice of EFOY COMFORT fuel cell, solar modules, car cigarette lighter or on-grid socket.

MARKET DEVELOPMENT, OIL PRICE, POWER SUPPLIES

An interview with SFC Energy's Management Board

In 2004 SFC Energy has reported highest sales in corporate history and has again reached break even on underlying EBITDA basis. How did you achieve this?

Dr. Peter Podesser: Over the last years, we have consistently developed into a solution provider. With the acquisitions of the past years we have gained direct access into new markets, especially the oil and gas industry, and we have incorporated strong expertise in areas relevant to our solutions, e.g. power electronics, into our company. A stronger focus on professional users and demanding industrial applications has moved us out of the leisure industry's economic dependencies. The 2014 results prove that we have made the right decisions.

In 2014, the oil price has declined by over 50 % from its top in June until the year end. How has this development influenced your oil and gas business?

Dr. Peter Podesser: Despite the downward oil price trend, we have seen the best year in 40 years of corporate history for oil & gas specialist Simark. Of course, the industry's willingness to invest is likely to decrease in the short run, due to sinking incomes. But we agree with the industry experts that the oil and gas industry will use this phase to increase efficiency, implement new security measures, and modernize existing production sites. It is exactly in these applications that we can offer attractive solutions for more operating safety at less cost and effort. We see excellent long term growth potential in this market.

The oil & gas market is your biggest market. Are you not very vulnerable when this market experiences problems?

Dr. Peter Podesser: The oil & gas market is in fact our biggest market; we expect a short term decrease in demand. But in the medium term the fundamental market scenario remains stable and we expect significant growth potential. And we are also growing in our second core market Security & Industry. Here, we see a continuously increasing demand for off-grid power supply solutions, through all industries: wind, security & surveillance, telecommunication, environmental and traffic technologies, to name just a few of the most important ones. With our product portfolio we are really well positioned for sustained growth.

The defense markets, which are also part of the Industry & Security core market, have long been characterized by investment restraints. What is your outlook here?

Dr. Peter Podesser: The defense business was very difficult in the past two years. The saving constraints of many governments and the reorganization processes in the defense organizations on both sides of the Atlantic were the main reasons why planned projects did not materialize at all or only with considerable delays. With regard to the ongoing massive geopolitical changes, however, we have seen a significant change in security politics. This brings the question of raised defense budgets back into political debate. A safe, lightweight, reliable power supply away from the grid is one of the most pressing requirements of modern defense forces. We feel that we are well positioned to grow again in these markets in Europe and outside of Europe, over the coming years.

Have you been afflicted by exchange rate effects?

Steffen Schneider: As in our oil & gas business almost all our sales and expenses are still billed in Canadian dollars, we have an internal protection. Thus our Canadian subsidiary was able to achieve an organic growth of more than 20 % above plan despite the negative oil price development mentioned above. This makes us very proud. Our successful integration of the oil & gas business is not only reflected in the significant sales and revenue increase. We also expect synergy effects for additional growth in North America from the Simark acquisition. In the context of the group consolidation, however, we experienced negative exchange rate effects from the relationship of Euro and weak Canadian dollar. Therefore group sales and result were slightly lower than budgeted.

With the EFOY GO! you presented a radically new product in 2014: A mobile socket. How does this fit into your strategic plan?

Hans Pol: EFOY GO! is an important step in the strategic development of our product portfolio towards integrated back up and emergency power supplies. From today's point of view we see two groups with a special interest in back up and emergency power: industry and private users. In the industrial context this will be primarily security technology, wind, telecommunication or public authority network operators. Up to now we have focused on the low to medium power range up to 250 W. We are planning to open additional markets with new modular offers up to 2.5 kW.

At the same time we will be serving the growing private demand for home back-up solutions with innovative products, ensuring power availability when the public grid is down. For this we will offer integrated power supplies including fuel cell, batteries and power electronics similar to what we are already offering to industry customers. EFOY GO! is our first product in this range of consumer and home back up solutions. It is a highly flexible mobile power supply and it can be recharged via fuel cell, car cigarette lighter, solar module or the socket at home.

Are you planning additional corporate acquisitions?

Steffen Schneider: We are basically open for any steps that strategically support our corporate development. In the end it is all about achieving a sustainable, profitable growth. Having successfully integrated the existing acquisitions we will now concentrate on increasing efficiency at all our locations.

What do you expect for the future?

Dr. Peter Podesser: Despite challenging market conditions in the oil & gas industry we are cautiously optimistic for 2015. Even if investments in the oil & gas industry will go down due to continued low prices, causing individual projects to be delayed, we think that we can continue to grow our operative results 2015 over 2014 by achieving sales increases in the industry and defense segments and by adjusting cost structures in Canada. In the medium term we also continue to expect above average growth potentials for SFC Energy in the oil & gas industry.

MILESTONES IN 2014

NEW DEVELOPMENTS FOR MARKETS AND PRODUCTS

JANUARY 2014

+++ EFOY COMFORT fuel cell introduced to Canadian boat industry +++

Now Canadian boat and yacht owners can also buy the EFOY COMFORT fuel cell. Western Marine Company is a distributor of marine parts and accessories serving customers in both the commercial and recreational marine sectors throughout Canada. Western Marine Company introduces EFOY COMFORT at Toronto International Boat Show.

+++ Marine distributor Stal distributes EFOY COMFORT in Croatia +++

Croatian nautical equipment expert Stal d.o.o makes SFC Energy's full portfolio of EFOY COMFORT fuel cell generators and EFOY fuel cartridges available to marine and leisure customers in the Adriatic region. EFOY COMFORT offers decisive advantages over other power supplies, like Diesel and wind generators or solar modules. It is weather independent, silent and provides reliable on board power anytime, anywhere. The boat owner never has to worry about running out of power again.

APRIL 2014

+++ First series of portable JENNY 1200 fuel cell delivered to U.S. Air Force +++

SFC Energy delivers the first series of the new portable JENNY 1200 fuel cell generator for defense applications to the U.S. Air Force. While the small format has been retained, JENNY 1200 features double the performance over the predecessor model. It also enables faster battery charging and enormous weight reductions thanks to using pure methanol as a fuel. Special forces on the move benefit significantly from this lightweight, reliable, completely intervention free power source.

+++ SFC Energy receives major Singapore order for EFOY Pro fuel cell power solution +++

SFC Energy supplies a large order of integrated hybrid power generators to Singapore partner INNOVERDE Pte/Oneberry Technologies Ltd. The systems will mainly be used for powering CCTV in various applications, such as for the prevention of residential littering or for monitoring construction sites for safety. As in Asia ecological responsibility and a clean environment are becoming more and more important, the environmentally friendly, powerful EFOY Pro fuel cells offer an ideal, cost attractive power solution.

+++ New EFOY ProCabinet +++

At ISA Automation Expo & Conference in Edmonton, Kanada, SFC Energy presents a new extreme weather version of the popular EFOY ProCabinet. It was specifically developed for off-grid power applications in severe arctic conditions and supplies power for months on end without requiring any user intervention or maintenance, down to temperatures of -40 °C. This makes the new integrated power supply an ideal solution for the off-grid power challenges of the oil & gas industry.

+++ New EFOY service center in Canada +++

To offer even faster service to North American customers, SFC Energy opens a new service center and warehouse in Calgary, Canada, at the head office of SFC Energy Group member Simark Controls. SFC now operates two fuel cartridge hubs in North America: One in Fairfield, Ohio, USA and one in Calgary, Canada. The new repair center in Calgary handles all industrial product repairs and technical updates.

JUNE 2014

+++ New integrated remote control power solution with EFOY Pro fuel cells for oil & gas applications +++

At Global Petroleum Show 2014 in Calgary Simark Controls presents a new remote control EFOY Pro fuel cell solution for powering oil & gas SCADA systems and other off-grid applications. It can easily be integrated into the weather proof EFOY ProCabinet. As a competitive advantage Simark's SCADA systems are used in combination with reliable off-grid power solutions based on EFOY Pro fuel cells. They ensure that off-grid systems at remote wells or pipelines are safely and reliably supplied with 24/7 power even in the harshest weather and environmental conditions, ensuring interruption-free operation at all times.

+++ EFOY Pro fuel cells by SFC Energy power obstruction lights of wind turbines +++

Windkraft Service GmbH, a maintenance, testing, and repair services provider for wind energy plants, uses the proven EFOY Pro fuel cells for fully integrated proprietary power supply solutions. Wind energy plant companies can rent the integrated systems for powering their obstruction lights during plant construction phase, with Windkraft offering them full service from installation and launch to final dismantling. Operators benefit from major cost and logistic savings.

AUGUST 2014

+++ SFC Energy presents EFOY GO! Portable power for outdoor activities +++

At Caravan Salon Düsseldorf SFC Energy introduces a completely new, innovative mobile socket for leisure and outdoor activities – EFOY GO! The lightweight power pack (less than 6 kg) has been developed to deliver easy power away from the grid. It expands SFC's offering towards intelligent, easy to use and easy to carry mobile back up and emergency power supplies. In the future SFC will also offer back-up power products for homes, industry and emergency applications.

+++ Route du Rhum successes +++

In what is called the world's most difficult yacht race, the Route de Rhum, Andrea Mura wins second place in the discipline Rhum. Gilles Lamire places third in the discipline of Multi 50, Bertrand Delesne comes in on the twelveth place in the class 40. In the race, from the Bretagne to the Antilles, these sailors relied on the EFOY COMFORT on board.

DECEMBER 2014

+++ SFC receives study order from German Bundeswehr +++

In the study's context SFC Energy will analyze for German Bundeswehr the application potentials and the adaptation requirements of SFC Energy's commercial 0.5 kW fuel cell as power source in defense vehicles. The study builds on the success of the EMILY fuel cell, which has already been approved for use by German Bundeswehr. The 0.5 kW fuel cell will feature a multiplication of power over EMILY, thus opening new capacities and applications to German Bundeswehr.

+++ 92.5 percent of EFOY fuel cell owners recommend it to their friends! +++

EFOY fuel cells make customers happy: In a 2014 customer satisfaction poll performed by SFC Energy 92.5 percent of almost 2,000 EFOY fuel cell owners say that they recommend it anytime.

SUPERVISORY BOARD REPORT

SUPERVISION OF COMPANY MANAGEMENT

The dominant factors in financial year 2014 were the continued integration of the Canadian Simark Controls Ltd., acquired in 2013, into the SFC-Group as well as the implementation of a new Company capital market strategy. 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 2014 the Supervisory Board of SFC Energy AG was made up of three members. In financial year 2014, the members of the Supervisory Board were (i) Tim van Delden, (ii) David Morgan, (iii) Dr. Jens Thomas Müller (until the end of the annual general meeting of the Company of May 16, 2014) and (iv) Hubertus Krossa (since the end of the annual general meeting of the Company of May 16, 2014). In financial year 2014, 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 eight times during financial year 2014: on February 28, March 21 (to review the financial statements for financial year 2013), on May 16, June 5, July 24, October 23, November 24 and December 5, 2014. Five of these meetings, on March 21, May 16, July 24, October 23 and December 5, 2014, which all Supervisory Board members attended, were held in person. The other three meetings, on February 28, June 5 and November 24, 2014, which all Supervisory Board members also attended, 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 the risk position, risk management and corporate compliance, strategic goals and any changes in the Company's organization and personnel. The Supervisory Board discussed the organization of the Company and the Group with the Management Board, ensured that the Company's organization and risk management were effective, and discussed material Company strategy and policy issues with the Management Board. At various Supervisory Board meetings, the Management Board reported to the Supervisory Board on the status of individual business units, the Company's and the Group's economic, financial, technological and strategic position, the Company's domestic and international growth strategy and material developments and events, for instance regarding (imminent) litigation. Regular topics at the Supervisory Board meetings also included finance and controlling, sales and marketing, operations, quality management, human resources, 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 of current business events.

A key topic discussed at the Supervisory Board meetings during financial year 2014 was the continued integration of the Canadian Simark Controls Ltd., acquired in 2013, into the SFC-Group. The Supervisory Board analyzed, discussed and evaluated Simark Control's financial data for each quarter, the first half year and financial year 2014 as a whole, in each case also on a stand-alone basis, and in various meetings was provided by the Management Board with extensive information about the integration of Simark Controls Ltd. into SFC Group, the product integration and the standardization of corporate branding. Moreover, the Supervisory Board actively supported the efforts of the Management Board to further integrate PBF Group into SFC Group. For example, the Chairman of the Supervisory Board travelled to Simark's headquarters in Calgary, Canada, met Simark's directors and employees and formed his own opinion about the developments at Simark and the implementation of the integration measures.

Another important topic at the Supervisory Board meetings during financial year 2014 was the implementation of a new Company capital market strategy. The Supervisory Board was informed in detail by the Management Board, using external consultants, about possible measures to get access to new investors at home and abroad, to finance further growth and to improve the Company's Equity Story, discussed these measures both internally and with the Management Board, and weighed their pros and cons. The Supervisory Board was also kept regularly informed about the status of the implementation and it accompanied and monitored this process.

During financial year 2014, the Company's M&A strategy was also 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 on 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.

In financial year 2014, the Supervisory Board also dealt with Management Board issues, in particular with the change of Gerhard Inninger from a member of the Management Board Management to an external consultant of the Company, as well as with the appointment of Steffen Schneider as new Chief Financial Officer (CFO). After intensive internal discussions, the thorough analysis of the market situation and the assessment of several candidates, the Chairman of the Supervisory Board was charged to enter into contract negotiations with Mr. Schneider, who was appointed as a member of the Management Board with effect from September 1, 2014. The Supervisory

Board also dealt with the annual bonuses for the financial year 2013 for the members of the Management Board and the targets for the annual bonus 2014 as well as with the allocation of business for the Management Board members.

In addition, the Supervisory Board thoroughly reviewed the capital increase out of the approved capital excluding subscription rights that was decided by the Management Board to finance the further growth in the oil and gas sectors as well as the further strengthening of the Company's equity capital. It discussed the legal framework for exercising authorised 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.

At its meeting on February 28, 2014, the Supervisory Board primarily discussed the upcoming change within the Supervisory Board caused by the resignation of Dr. Müller. The Supervisory Board discussed potential succession candidates, verified their qualifications and expertise with regards to the requirements for the members of the Supervisory Board under the German Stock Corporation Act, the German Corporate Governance Code, the Company's statute and the bylaws of the Supervisory Board, as well as giving due consideration to the competences already represented on the Supervisory Board and the potential existence of conflicts of interests. At its meeting on March 21, 2014, 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 2013. It discussed and approved these documents with the auditor in attendance. At the meeting on May 16, 2014, the Management Board and the heads of individual business units provided the Supervisory Board primarily with extensive information about developments, financial figures for the first quarter 2014 and risks and problems experienced by the individual business units and the subsidiaries of SFC Energy AG. The topic discussed at the telephone conference of the Supervisory Board on June 5, 2014 was, among other things, the Company's future capital market strategy. At its meeting on July 24, 2014, the Supervisory Board received a comprehensive report from the Management Board on business development in the first half of 2014 and the expectations for the upcoming twelve months. Topics discussed at this meeting also included the preparation of a capital increase in order to strengthen the Company's equity capital and to finance its further growth as well as the risk management system. At its meeting on October 23, 2014, the Supervisory Board received a report from the Management Board primarily on the business development in the third quarter 2014. In addition, the Supervisory Board discussed and approved the conclusion of a loan agreement for the Romanian Group company PBF Power SRL. Topics discussed at the telephone conference of the Supervisory Board on November 24, 2014 were the Company's capital increase and current business developments. At its meeting on December 5, 2014, the Supervisory Board discussed jointly with the Management Board the budget for 2015 as well as medium-term planning for 2015 to 2017 for the SFC-Group and the Group companies, the Company's activities on the capital market and the planned further reorganization of the Canadian subsidiaries.

COMMITTEES

The Supervisory Board did not set up any committees in financial year 2014 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 32 ff) 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 38 ff).

In financial year 2014, as in previous years, the Supervisory Board thoroughly examined potential conflicts of interest affecting its members and discussed and agreed upon its procedure for handling such conflicts, should they arise. In the year under review, the Supervisory Board did not identify any conflict of interest regarding the members of the Supervisory Board. In addition, the Supervisory Board stated at its meeting on March 21, 2014 that it included an adequate number of independent members in accordance with Section 5.4.2 of the German Corporate Governance Code. None of the members of the Supervisory Board has any business or personal relations with the Company, its executive bodies, a controlling shareholder or an enterprise associated with the latter which may cause a substantial and not merely temporary conflict of interests.
The member of the Supervisory Board David Morgan, who is the Chairman of the Advisory Board of Conduit Ventures Ltd. (*Conduit*), should by resolution of the Supervisory Board 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. However, no such resolutions were adapted in 2014.

The Supervisory Board examined the efficiency of its activities in financial year 2014.

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/de/investoren/corporate-governance#header. The most recent declaration dates from March 20, 2015. It is also reproduced in the annual report (on page 32).

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 2014 and was engaged for the audit by the Supervisory Board. The Supervisory Board negotiated the audit engagement, indicated the focal points of the audit and engaged the auditors. The agreed focal points for the audit were:

IFRS consolidated financial statement

(i) goodwill impairment test
(ii) completeness and valuation of other accruals
(iii) realization of the section testing of Simark
(iv) remuneration report of the Management Board

German Commercial Code-based annual financial statement

(i) impairment of the shares in affiliated companies
(ii) valuation of inventories
(iii) capital increase
(iv) completeness and valuation of other accruals
(v) revenue recognition
(vi) remuneration report of the Management Board
(vii) accounting-related controls in the process areas sales and fixed assets

The auditor audited SFC Energy AG's annual financial statements as of December 31, 2014 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 24, 2015. 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, 2014 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 24, 2015, it approved the annual and consolidated financial statements for financial year 2014 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 2014.

Brunnthal, March 24, 2015

The Supervisory Board

Tim van Delden
Chairman

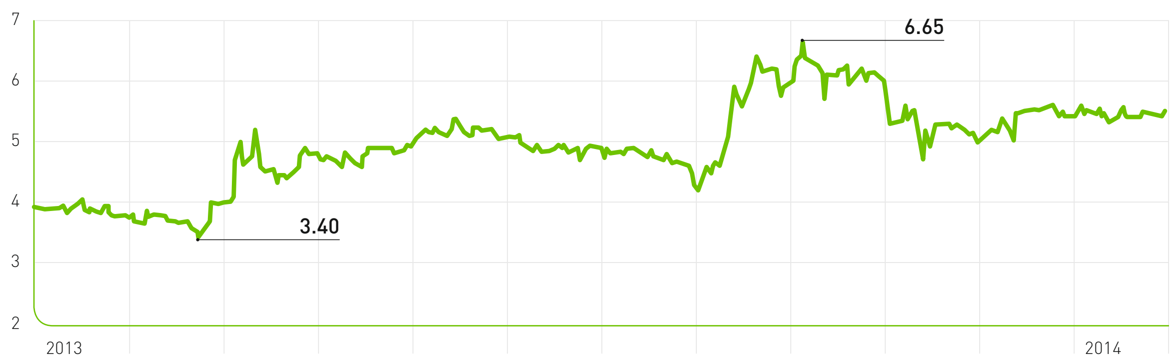
THE SFC ENERGY SHARE

PERFORMANCE OF THE INDEXES

The international stock markets experienced a moderate upward trend in the first half of 2014. The DAX, Germany's leading index, benefited from the record highs on the U.S. stock markets in the first half and from the hopes of a continued relaxed monetary policy by the European Central Bank. When the ECB did indeed relax monetary policy, the DAX closed at over 10,000 points for the first time in history on June 9. In the second half, however, geopolitical tensions, such as the crisis in Ukraine, fears about the economy, and the collapse in oil prices, depressed the mood on the stock markets, putting a stop to the upward trend. On an annual basis the leading German index DAX was up by a moderate 2.6 % and closed at 9,806 points at year end. The MDAX was up around 2.5 % in 2014, closing at 16,935 points. The SDAX shot up even further, ending the year at 7,186, for a gain of some 5.2 %. The TecDAX gained as much as 17.6 %, closing at 1,371 points. In contrast, the ÖkoDaX lost 33.4 %, ending the year at 31.97 points.

PERFORMANCE OF THE SFC SHARE

SFC SHARE PRICE GRAPH FROM END OF DECEMBER 2013 TO END OF DECEMBER 2014 in €



SFC Energy AG shares clearly outperformed the overall market in 2014, with their price rising 41 %. The shares began the year at a price of €3.90 on January 2, 2014. Their low was €3.40 on February 21, 2014. They reached their annual high of €6.65 on September 4, 2014. SFC Energy AG's share ended the year at a Xetra price of € 5.50. The average volume of trading increased to 8,919 shares (previous year: 5,593 shares). At December 31, 2014, SFC Energy AG's market capitalization increased to €47.46 million, on the basis of 8.61 million shares. At December 31, 2013, its market capitalization was €31.52 million, with 8.02 million shares.

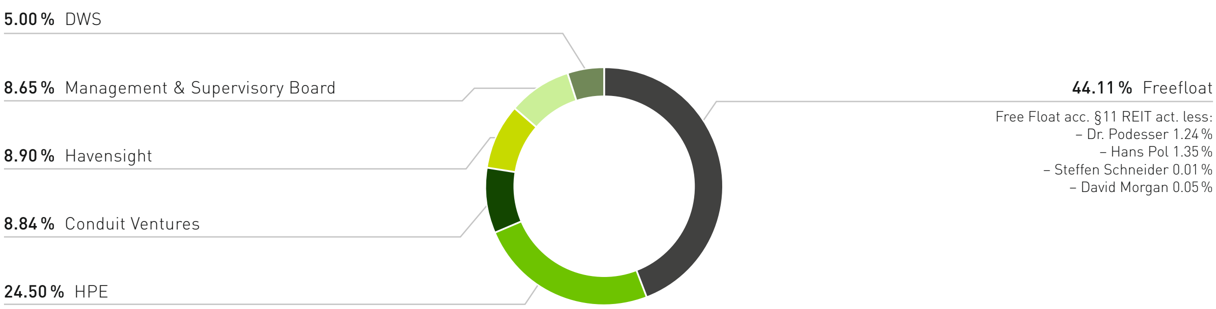
INVESTOR RELATIONS

SFC Energy AG enhanced its ongoing dialog with investors, shareholders, analysts, and members of the business and financial press in 2014. 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 in Germany and 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. The significant price increase and the increased volume of trading reflect the greater momentum of our Investor Relations work and an overall significantly greater investor interest in SFC Energy AG and in the fuel cell sector as a whole.

SFC Energy AG shares are traded in the strictly regulated Prime Standard segment of the Frankfurt Stock Exchange. The designated sponsors are Oddo Seydler Bank and M.M.Warburg.

SHAREHOLDER STRUCTURE

SHAREHOLDERS STRUCTURE AS OF DECEMBER 31, 2014 — in %



The shareholder structure of SFC Energy AG is as follows: around 47 % of the shares are held by large institutional investors that follow and support the company's efforts to grow. Some 44 % of the shares are in free float.

CAPITAL INCREASE

In the fourth quarter of 2014, SFC Energy AG increased the company's share capital from authorized capital by €591,159, excluding the shareholders' preemptive rights, from €8,020,045 to €8,611,204 by issuing 591,159 new bearer shares. The new shares were placed with existing institutional investors and new investors through a private placement at a price of €5.52 per share. The new shares are entitled to participate in profits as of January 1, 2014. The gross issue proceeds from the capital increase amounted to €3.26 million.

ANALYST RESEARCH

In 2014 the research firms of Close Brothers Seydler Research AG (now known as Oddo Seydler Bank AG), Warburg Research GmbH and First Berlin Equity Reseach GmbH covered SFC Energy AG. They published their independent expert opinions on SFC Energy AG in international research studies for stockholders and investors. In their research studies, the analysts recommend holding or buying the SFC Energy share with target prices of €5.90 to €7.60. Interested investors can find more information on the Investor Relations page of the website www.sfc.com.

ANNUAL MEETING OF SHAREHOLDERS

At the annual shareholders' meeting on May 16, 2014, which was held at the Haus der Bayerischen Wirtschaft in Munich, the Management Board of SFC Energy AG provided shareholders and their representatives with detailed information about the performance of the business, the results and the audit report for fiscal year 2013. The results of the first quarter of 2014 and the outlook for SFC Energy AG were also presented. More than 60% of the capital stock was represented at the annual meeting. The shareholders approved management's proposals under all agenda items by a broad majority. A detailed agenda and results of the voting are available on the Internet at www.sfc.com under the menu item Investor Relations.

Chart showing directors' and officers' shareholdings at December 31, 2014.

DIRECTORS' SHAREHOLDINGS

	12/31/2014
Management Board	
Dr. Peter Podesser	106,800
Hans Pol	116,462
Steffen Schneider	1,000
Supervisory Board	
Tim van Delden	0
David Morgan	4,000
Hubertus Krossa	0

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 shareholders' interests and open and up-to-the-minute corporate communication. The Management and Supervisory Boards of SFC Energy AG are committed to upholding the principles of good corporate governance and they believe that these principles are an essential building block of the Company's success.

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

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

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

For the period as of the issuance of the last Compliance Statement of March 21, 2014, until September 29, 2014, the following statement refers to the version of the Code dated May 13, 2013, as published in the Bundesanzeiger on June 10, 2013. Since September 30, 2014, the statement refers to the version of the Code dated June 24, 2014, as published in the Bundesanzeiger on September 30, 2014.

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, 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 4.2.5. para. 3 of the Code, the compensation report shall present the benefits granted to every member of the Management Board during the last financial year, including the maximum and minimum achievable compensation. For this purpose the sample table attached as Annex 1 to the Code shall be used. Since, as was previously explained, there is no limit to the amount paid as variable compensation by SFC Energy AG, a maximum achievable compensation cannot be disclosed. For this reason, no illustration of the maximum achievable compensation will be disclosed in the sample table. As a result, the Company deviates from the recommendations set forth in Section 4.2.5. para 3 of the Code.

- According to Section 5.3.1 of the Code, the Supervisory Board shall, depending on the specifics of the enterprise and the number of its members, form committees with sufficient expertise. In particular, Section 5.3.2 of the Code recommends that an Audit Committee be set up. The Supervisory Board of SFC Energy AG comprises 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 26, 2014.

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 three members, Dr. Peter Podesser, who serves as Chief Executive Officer (CEO), Hans Pol, who is responsible for the sales function SFC/PBF, and Gerhard Inninger, who – until his departure on May 16, 2014 – served as Chief Financial Officer (CFO). His position was filled by Steffen Schneider on September 1, 2014.

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 past fiscal year, 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 company.

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 pages 24 ff.

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 2014 the Supervisory Board of SFC Energy AG was made up of three members, which were elected by the shareholders. In financial year 2014, the members of the Supervisory Board were (i) Tim van Delden, (ii) David Morgan and (iii) Dr. Jens Thomas Müller (until the close of the ordinary General Shareholders' Meeting on May 16, 2014), as well as (iv) Hubertus Krossa (since the close of the General Shareholders Meeting on May 16, 2014). In accordance with the recommendations of the German Corporate Governance Code, Tim van Delden and David Morgan were elected individually at the Annual General Meeting on May 9, 2012. Likewise, Hubertus Krossa was elected individually in the General Shareholders' Meeting on May 16, 2014.

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 at the time held 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 2014, 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. However, no such resolutions were adapted in the year 2014.

The Supervisory Board's term of office generally amounts to five years. The current term of office ends at the close of the Annual General Meeting 2017. In order to allow for a synchronisation of the electoral periods of the members of the supervisory board, Hubertus Krossa was, as an exception, only elected as a member until the close of the General Shareholders' Meeting in 2017.

Supervisory Board Committees

In financial year 2014, 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 pages 73 ff.

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. Management Board Member Steffen Schneider notified SFC Energy AG, that he acquired 1,000 no-par value shares of the company on December 18, 2014. Former Supervisory Board Member Dr. Jens Müller notified SFC Energy AG that he sold (i) 25,000 no-par value shares of the company on March 5, 2014, (ii) 17,835 no-par value shares of the company on March 6, 2014 and (iii) 2,165 no-par value shares of the company on March 7, 2014. At the time of the transactions, Dr. Müller was still a member of the Supervisory Board.

All directors' dealings pursuant to Section 15a of the German Securities Trading Act are published on the Company's website at www.sfc.com. In financial year 2014 no other dealings have been carried out either by the members of the Management Board and/or by the Supervisory Board for which a disclosure was required.

The total number of shares in SFC Energy AG held by Management Board members as of December 31, 2014 was 2,60 %, of which 1,35 % were held by Management Board Member Hans Pol and 1,24 % by the chairman Dr. Peter Podesser. As of this date, the members of the Supervisory Board held 0,05 % 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 2014 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 com-pensation if pre-defined performance targets are met (performance-based bonus). In financial year 2014, the targets were for the Company to reach the amounts budgeted for Group sales (based on the budgeted exchange rate of the Canadian dollar to the Euro), 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 – until the fiscal year 2014 – 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 Po-desser) 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 to the financial statements on page 137.

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 41 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 2014

Compensation of the members of the Management Board totaled EUR 1,014,197 in financial year 2014. Compensation in financial year 2014 included the fixed compensation, non-cash perquisites, variable profit and performance-based compensation, expenditure for the SAR program and premiums for accident, pension, and life insurance. The above total includes all amounts that were laid out in 2014 or set aside as provisions in the consolidated financial statements for 2014, less the amounts that had been set aside as of December 31, 2013.

The individual disclosure of the compensation of each member of the Management Board is published according to sample tables provided in the German Corporate Governance Code, which was published in its current version on September 30, 2014. Chart 1 illustrates the benefits granted in the financial year 2014. Chart 2 shows the amount disbursed. Since no cap to the amount paid as variable compensation has been established (with regard to the SARP), no maximum achievable compensation is being disclosed. This is a deviation from the German Corporate Governance Code.

CHART 1 – BENEFITS GRANTED TO MEMBERS OF THE MANAGEMENT BOARD 2014* €

	Dr. Peter Podesser			Gerhard Inninger			Hans Pol			Steffen Schneider		
	Chairman			CFO			CSO			CFO		
	since November 1, 2006			Aug 16, 2011 to May 16, 2014			since January 1, 2014			since September 1, 2014		
	2013	2014	2014 (Min)	2013	2014	2014 (Min)	2013	2014	2014 (Min)	2013	2014	2014 (Min)
Fixed compensation	350,000	350,000	350,000	180,000	67,742	67,742	0	180,000	180,000	0	60,000	60,000
Fringe benfits	20,648	20,648	20,648	21,626	12,228	12,228	0	20,564	20,564	0	6,976	6,976
Total	**370,648**	**370,648**	**370,648**	**201,626**	**79,970**	**79,970**	**0**	**200,564**	**200,564**	**0**	**66,976**	**66,976**
One-year variable compensation	55,817	112,571	0	14,689	18,374	18,374	0	30,000	0	0	16,667	16,667
Multi-year variable compensation	0	242,317	0	15,821	0	0	0	49,376	0	0	293,900	0
LTIP 2011–2013	0	0	0	0	0	0	0	0	0	0	0	0
LTIP 2012–2014	0	0	0	10,277	0	0	0	0	0	0	0	0
LTIP 2013–2015	0	0	0	5,543	0	0	0	0	0	0	0	0
SARP 2014–2016	0	242,317	0	0	0	0	0	49,376	0	0	293,900	0
Total	**426,465**	**725,536**	**370,648**	**232,135**	**98,344**	**98,344**	**0**	**279,940**	**200,564**	**0**	**377,543**	**83,643**
Service cost	0	0	0	0	0	0	0	0	0	0	0	0
Total	**426,465**	**725,536**	**370,648**	**232,135**	**98,344**	**98,344**	**0**	**279,940**	**200,564**	**0**	**377,543**	**83,643**

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

CHART 2 – ALLOCATION OF MANAGEMENT BOARD COMPENSATION 2014 (AMOUNTS DISBURSED) €

	Dr. Peter Podesser		Gerhard Inninger		Hans Pol		Steffen Schneider	
	Chairman		CFO		CSO		CFO	
	since November 1, 2006		Aug 16, 2011 to May 16, 2014		since January 1, 2014		since September 1, 2014	
	2013	2014	2013	2014	2013	2014	2013	2014
Fixed compensation	350,000	350,000	180,000	67,742	0	180,000	0	60,000
Fringe benfits	20,648	20,648	21,626	12,228	0	10,564	0	3,643
Total	**370,648**	**370,648**	**201,626**	**79,970**	**0**	**190,564**	**0**	**63,643**
One-year variable compensation	192,636	55,571	50,694	33,374	0	0	0	0
Multi-year variable compensation	0	0	0	77,161	0	0	0	0
LTIP 2011–2013	0	0	0	0	0	0	0	0
LTIP 2012–2014	0	0	0	49,974	0	0	0	0
LTIP 2013–2015	0	0	0	27,187	0	0	0	0
SARP 2014–2016	0	0	0	0	0	0	0	0
Total	**563,284**	**426,219**	**252,320**	**190,505**	**0**	**190,564**	**0**	**63,643**
Service cost	0	0	0	0	0	0	0	0
Total	**563,284**	**426,219**	**252,320**	**190,505**	**0**	**190,564**	**0**	**63,643**

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 2014 breaks down as follows:

FINANCIAL YEAR 2014	**in €**
	Total
Tim van Delden, Chairman	50,000
David Morgan, Deputy Chairman	37,500
Dr Jens Müller (until May 16, 2014)	9,315
Hubertus Krossa (since May 16, 2014)	15,685
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 (**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:

MAIN TERMS OF THE SAR PROGRAM 2014 – 2016

Date of Issuance	January 1, 2014 (Hans Pol); April 1, 2014 (Dr. Peter Podesser); September 1, 2014 (Steffen Schneider)
Term	7 years
Waiting period	4 years (Hans Pol); 4 to 6 years (Dr. Peter Podesser); 4 to 6 years (Steffen Schneider)
Cut-off dates	January 1, 2015 (Hans Pol); April 1, 2015, April 1, 2016, and April 1, 2017 (Dr. Peter Podesser); September 1, 2015, September 1, 2016 and September 1, 2017 (Steffen Schneider)
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 2014

BASIS OF THE GROUP

The Group's Business Model

Organizational structure of the Group and locations

The Group comprises SFC Energy AG, Brunnthal, Germany, and 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, supervises and advises the Management Board and is directly involved in decisions that are of fundamental importance for SFC. Information on the compensation structures of the Management Board and Supervisory Board is contained in the Compensation Report.

The legal basis for management and supervision of the Company is the German Stock Corporation Act (Aktiengesetz) and Capital Market 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.

Segments, sales markets, products and services

Until the end of 2013, the Group organized its management according to the Industry, Defense & Security and Consumer markets. As of fiscal year 2014, the Management Board began managing the Group based on the Oil & Gas, Security & Industry and Consumer segments. These segments represent the Group's most important sales markets. The Simark acquisition prompted this change. Because of it, around 50 % of the Group's business is now conducted in the Oil & Gas market. Thus, a separate presentation is required in order to effectively and efficiently manage this largest part of the Company's operations.

The corporate purpose of SFC Energy AG is 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; and mechanical, electronic and electrical instruments to monitor and control production and logistics processes. SFC is the first company in the world with mass-produced commercial products in the area of methanol fuel cells for multiple target markets.

In the Security & Industry segment, SFC generates sales in the Industry and Defense & Security 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 and the wind energy industry. The Defense & Security market includes defense and security applications for defense organizations and governments. The product portfolio for this market includes the portable JENNY, the vehicle-based EMILY, the SFC Power Manager and network solutions. In addition to these products, a further portion of sales is generated by joint development agreements (JDAs) with military customers from Europe and the United States. 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).

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. PBF generates its sales exclusively in the Security & Industry segment.

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

Objectives and strategies

Over the last few years, SFC has systematically expanded its business model to include a comprehensive range of off-grid energy solutions. 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 2014 was again 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 € 5,641k was spent on R&D in fiscal year 2014 (prior year: € 6,845k, adjusted for amortization of capitalized development costs), including costs related to joint development projects.

A total of € 281k in development costs was capitalized in fiscal year 2014, compared with € 207k in the prior year. Amortization of capitalized development costs is reported as production costs of work performed to generate sales. Impairment charges on capitalized development costs were € 23k (€ 311k). In contrast to the prior year (€ 734k), there were no impairment charges on the goodwill of PBF. The amortization of intangible assets recognized in the purchase price allocation for PBF came to € 205k (prior year: € 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 5.2 % (3.7 %).

Fifty-one employees (17 at SFC, 32 at PBF and 2 at Simark), around one-fifth of the people employed by the Group, primarily worked on developing direct methanol fuel cell technology or converters and power supplies and incorporating them into the Group's products as of the reporting date. 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 18 granted patents (prior year: 16).

The focus of SFC's research and development activities was as follows in fiscal year 2014:

- The Company continued to make quality improvements to its series products.
- In the defense market, it successfully delivered higher-output portable pre-series products to military customers. The quality of the products for the defense segment was also further enhanced.
- In order to better meet customer requirements, the Company evaluated and tested individual components of higher-output energy supply solutions for stationary and vehicle-based applications.
- It conducted tests on further reducing unit costs and increasing capacity in order to reduce degradation with increased power density and cut back on the amount of material used.

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

- Existing development projects were continued with success, and some were put into mass production.
- 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.
- The two new projects for power supply systems PSH120 and PZT1250 were launched.

The following product enhancements and new developments were initiated by PBF and SFC together:

- Testing and optimization of a range of energy solutions, including the EFOY ProEnergyBox and the EFOY ProCube, that help customers use and reliably power a vast array of industrial applications under the harshest of conditions.
- Design and development of the new product platform EFOY GO!, and evaluation and qualification of individual components of the new product platform EFOY Go!.

SFC and Simark teamed up to carry out the following project:

- Testing and release of the EFOY ProCabinet as the basis for energy solutions in extreme weather conditions.

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 2014 was € 453k (€ 1,001k).

ECONOMIC REPORT

Macroeconomic and sector-based background conditions

World economy has slowed down considerably

According to the ifo Institute[1] growth in the world economy has slowed down considerably since summer 2014. Global industrial production increased by only half as much in the second and third quarters of 2014 as in the preceding winter period. The Institute attributes this development mainly to a considerable slowdown in economic activity in the advanced economies, where the industrial output was practically stagnant. Even the slight acceleration in economic activity in the emerging economies over the past two quarters was not strong enough to offset the slowdown in the industrialized economies.

The ifo experts see the slowdown in the economies in the eurozone and in Japan as the primary reason for the weakening of the economic momentum in the advanced economies that began in spring 2014. The Institute believes that the reason for slowdown in the Eurozone is the growing skepticism regarding the willingness of the governments of France and Italy to implement the urgently necessary structural reforms in the labor and production markets and to introduce a clear, dynamic and credible consolidation of their financial policies. In the Institute's opinion, this "reform logjam" makes it much less attractive to do business in these two countries and impaired their medium-term growth prospects with negative effects on investments. Another damper on the economy in the eurozone in the Institute's view is the pessimism and the economic sanctions in connection with the political conflict with Russia. The aggregate economic output in Japan actually shrank in the last two quarters of 2014, even though it had expanded significantly at the beginning of the year.

1 ifo Konjunkturprognose 2014/2015, ifo Institut, December 11, 2014.

According to the ifo experts, the weakening of the world economy since mid-2014 is reflected in the clear decline in the ifo global economic climate and a number of other mood indicators, such as the performance of GDP. This leads the Institute to conclude that the global expansion rate will be subdued in the first half of 2015.

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 2014. The price-adjusted gross domestic product (GDP) was 1.5 % higher than in the prior year and thus also above the average growth of 1.2 % for the past ten years. In both of the prior years, GDP experienced must more moderate growth, increasing by 0.1 % in 2013 and by 0.4 % in 2012. According to the Statistical Office, the reasons for this positive trend are the competitiveness of the German economy in a difficult global economy and the strong domestic demand. After a dynamic start to the year and a weak period in the summer, the economy stabilized at the end of 2014.

Again this year consumption was the main driving force for the growth of the German economy: Household final consumption rose by a price-adjusted 1.1 %, while government final consumption was up 1.0 %. Gross fixed capital formation increased as well, with companies and the government in Germany together spending 3.7 % more on machinery, equipment and vehicles than they had in the prior year. The price-adjusted spending on construction was also up by a strong 3.4 %.

According to the Statistical Office, German foreign trade was somewhat more dynamic in 2014, despite a continuing difficult foreign trade environment. In price-adjusted terms, German exports of goods and services were up a total of 3.7 % on a year earlier. Imports grew by almost as much (+3.3 %). Therefore, the balance of exports and imports thus made only a comparably small contribution to GDP growth in 2014 of 0.4 %.

Almost all areas of the economy contributed to the recovery of the German economy. The construction industry experienced strong growth by 2.7 % in 2014, when it also benefited from a particularly mild winter. Industry (excluding construction), which accounts for a good quarter of total gross value added, also increased noticeably by 1.1 %. The service sectors also developed very positively. Total price-adjusted gross value added of all economic sectors rose 1.4 %. For the eighth consecutive year, employment reached a record level in 2014 (42.7 million) –371,000 more people or 0.9 % more than in the prior year. Labor productivity (price-adjusted gross domestic product per person in employment) was up 0.6 % over 2013.

Federal, state and local governments and social security funds ended the year with the second highest financing surplus since German reunification: according to preliminary calculations, this sector amounted to € 11.9 billion at year end. The federal government, local governments and social security funds generated surpluses; only the states posted a slight deficit. When measured as a percentage of gross domestic product at current prices, the surplus ratio of the federal government was + 0.4 %.

2 Statistisches Bundesamt Wiesbaden, Press Release 16/2015; January 15, 2015

In its economic forecast the ifo Institute predicts that the Germany economy will again gradually gain momentum, after the stagnation in the second half of last year[3] . The recovery will primarily be driven by the domestic economy, which is benefiting from the decline in crude oil prices. Equipment investment will gather fresh momentum as rising capacity utilization rates necessitate more urgent investment in expansion. Construction investment is also expected to increase. Private consumption is expected to rise at a similar pace to real disposable income. Export growth will accelerate thanks to the improved world economy and the enhanced price competitiveness of Germany's export sector boosted by the euro's weakening against the US dollar. Imports, however, are likely to grow even faster due to the upturn expected in the domestic economy. The Institute's experts expect that real gross domestic product (GDP) will rise by 1.5 % this year and next year respectively.

The Federal Ministry for Economic Affairs and Energy (BMWi)[4] also sees a growing number of signals that suggest that the Germany economy will continue to recover, after performing sluggishly at the end of 2014. The Ministry bases this assumption on significantly brighter mood indicators. According to the experts, order intakes, revenues and production in industry increased in the fourth quarter, while employment again experienced dynamic growth in the past few months. The drop in oil prices is also affecting consumer prices and is boosting real disposable incomes. As the Ministry sees it, while investment activities still remain restrained, the brightening of the business climate in trade and industry, however, points to improvement.

Oil & Gas market

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 Administration (EIA), 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. In 2013 the agency estimated proven oil deposits to total about 1.5 trillion barrels and production to total about 89 million barrels per day.

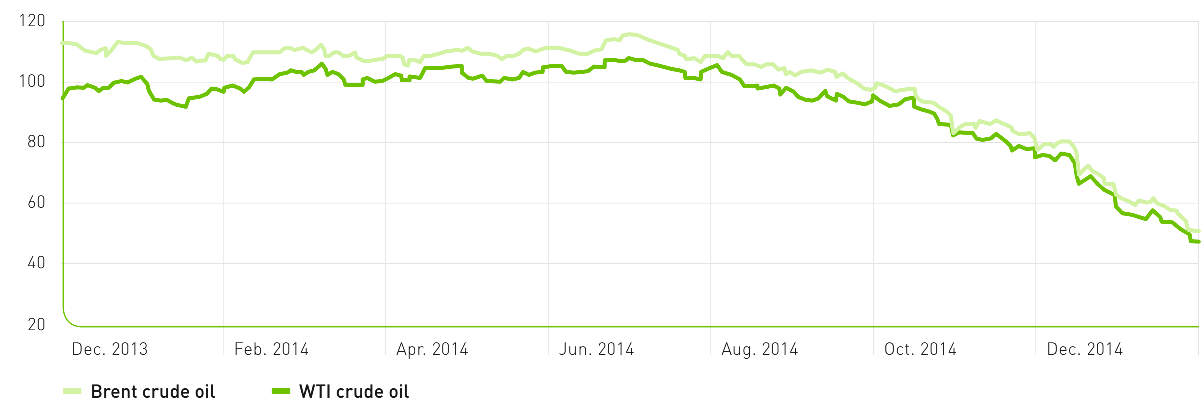
Canada, which is Simark's home market, is the fifth largest gas and crude oil producer in the world. The industry is the largest private investor in Canada, with an investment volume of CAD 74 billion (as of 2013), and employs a total of 550,000 people. The crude oil produced in Canada accounts for 40 % of domestic energy demand and accounts for 17 % of the country's exports. Canada is ranked third in the world in crude oil reserves, after Venezuela and Saudi Arabia. Natural gas accounts for approximately 30 % of Canada's energy demand, and the industry believes that Canada has enough natural gas resources between 700 and 1,300 trillion cubic feet to meet Canada's demand for the next 100+ years at current levels[5].

In June 2014 the Canadian Association of Petroleum Producers (CAPP)[6], had expected a long-term growth in Canadian crude oil production of 4 % per year to a total of 6.4 million barrels per day by 2030, based on the expected stability in the conventional crude oil production and a forecast growth of almost 3 million barrels per day in oil sand production (from 1.9 million barrels per day in 2013 to 4.8 million barrels per day in 2030, for an increase of approximately 250 %). Since then, however, the market situation has changed significantly due to sinking crude oil prices. In January 2015, CAPP expected that short-term investment will fall by 33 % in 2015 and that output will increase more slowly than originally planned. Thus, only 7,350 new wells in Canada are expected in 2015.

3 ifo Konjunkturprognose 2014/2015, ifo Institut, December 11, 2014
4 BMWi Bundesministerium für Wirtschaft und Energie, Press Release "Die wirtschaftliche Lage in Deutschland im Januar 2015", January 15, 2015
5 Canadian Association of Petroleum Producers (CAPP) Website, Basic Statistics.
6 Canadian Association of Petroleum Producers (CAPP), Crude Oil Forecast, Markets & Transportation Report, June 2014.

According to the U.S. Energy Information Administration (EIA) in its most recent Energy Outlook[7] January 2015 was the sixth month in a row in which crude oil prices decreased. The Brent and WTI (West Texas Intermediate – see graph 1) price curves show the continuous price fall; in January 2015, prices were at their lowest level since 2009 (Brent USD 51, WTI USD 50 per barrel). EIA says that the reasons for the price decline are the continued growth in oil production, strong global supply, amid weaker global oil demand growth. For the next two years, EIA forecasts Brent crude oil prices of USD 58 per barrel in 2015 and USD 75 in 2016, while the average WTI prices should be USD 3 to 4 per barrel below that. Production volume should remain high: Total U.S. crude oil production averaged an estimated 9.2 million barrels per day (bbl/d) in December; for 2015 the EIA forecasts 9.3 million barrel per day and 9.5 million barrels per day for 2016. This would be the second highest level of production in U.S. history, which reached its height at 9.6 million bbl/d in 1970.

HISTORICAL CRUDE OIL FRONT MONTH FUTURES PRICES — **Dollars per barrel**



Source: EIA, Short-term Energy Outlook, January 2015, "Market Prices and Uncertainty Report", p. 1.

Crude oil production also set a new record in Russia in December 2014. It is further expected that the agreement between the Iraqi central government and the Kurdish regional government on the distribution of oil income will lead to higher volumes.

In general, in its new forecast[8] EIA expects downward price pressures to be concentrated in the first half of 2015 when global inventory builds are expected to be particularly strong. However, because price is affected by so many factors, the forecasting environment is particularly uncertain, particularly because of the responsiveness of supply to lower prices. Despite OPEC's recent decision to leave its crude oil production target at 30 million bbl/d, key producers could decide to reduce output, tightening market balances. This could apply to a whole range of OPEC members, including Libya, Iraq, Iran, Nigeria and Venezuela. The degree to which non-OPEC supply growth is affected by lower oil prices will also affect market balances and prices in non-OPEC oil-producing countries. Several OPEC and non-OPEC oil producers rely heavily on oil revenues to finance their fiscal budgets. If crude oil prices continue to fall or remain at a lower level, oil-dependent producers will have to make tough policy decisions, including austerity programs and fuel subsidy cuts that could spark social unrest, leaving some countries vulnerable to supply disruptions if protesters target oil infrastructure. Potential new supply disruptions are a real possibility, which makes reliable predictions about this market even more difficult at the present time than usual.

7 EIA, Short-term Energy Outlook, January 7, 2015.
8 EIA, Short-term Energy Outlook, Prices, January 13, 2015.

Security & Industry market

a) Fuel cells

According to consulting firm E4Tech, which published the Fuel Cell Industry Review[9] for the first time in 2014, the fuel cell industry is still very much in the process of formation. The year 2014 saw the entry of Korean conglomerate Doosan, new commercialization efforts by General Electric, and successful capital-raising by companies including Plug Power and FuelCell Energy, and the successful IPO of Intelligent Energy. Overall unit shipments were up compared to 2013. In particular the market researchers see an important trend towards integrated systems. The market targeted by SFC Energy in the lower to medium power range is seen by the experts as a stable, growing market, with stationary autonomously operating complete systems being of great interest to users.

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.

a) Power electronics and switched mode network components

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 in May 2014,[10] the global market for electrotechnical and electronic products grew by 3 % in 2013 to € 3,703 billion. The association predicts that the industrial market, one of the largest in the world, will grow by 5 % and 6 % in 2014 and 2015. The industrialized countries stagnated at a total of € 1,723 billion in 2013. However, growth in the group of countries studied by the association is expected to return to about 4 % in each country in 2014 and 2015. Global growth in 2013 was again supported by the emerging markets, where the market volume is estimated to have grown by 6 % to € 1,858 billion. In 2014 and 2015 the growth is expected to be slightly higher, at 7 % per year. The estimate indicates that in 2013, Asia, at € 2,121 billion, accounted for 57 % of the global market. The Asian market again experienced the strongest growth at 4 % in 2013, and the association expects that it increased by 6 % in 2014 and will do so again in 2015. The American market is estimated to have grown by 3 % to € 779 billion in 2013, bringing its share of the global market to 21 %. Its prospects for growth in 2014 and 2015 are expected to be 5 % and 6 %, respectively. The European electronics market recently declined by 1 % to € 653 billion. Europe today accounts for 18 % of the world market. The European market is expected to return to growth of 3 % and 4 % in 2014 and 2015, but it will grow more slowly than the global market. The German market shrank 5 % in 2013 – due to further declines in imports – but it is still the fifth-largest in the world, after China, the U.S., Japan, and South Korea. The Association published updated figures for Germany[11] in January 2015 for the year 2014. Despite the increasingly unfavorable global economic environment over the past year, the German electronics industry increased its real production from January to November 2014 by 2.4 % vis-à-vis the same period in the prior year. For the entire year 2014, therefore, the Association expects income to grow to € 171 billion. In spite of significant fluctuations from month to month, last year's growth in the electronics industry was consistent with expectations. Exports increased between January and October 2014 by 3.9 % vis-à-vis the prior year to € 136.8 billion. Two thirds of this (€83.2 billion, for an increase of 3.4 %) was sold in Europe. The largest export customer was China with € 12.3 billion (up 15.9 %), which thus surpassed the United States as the largest consumer.

9 E4Tech: "The Fuel Cell Industry Review 2014", November 2014.
10 Data: ZVEI "Welt-Elektromarkt – Ausblick bis 2015" May 2014.
11 Data: ZVEI Press Release 03/2015, January 20, 2015.

The Association expects price-adjusted German electronics production to increase by 1.5 % to just under € 174 billion in 2015.

- In November 2014,[12] ZVEI was projecting growth of 6.5 % to around USD 506 billion for the full year 2014 in the world market for "electronic components" (in-house manufacturers and electronic manufacturing service providers), with the European market growing to almost USD 64 billion. For 2015, the association anticipates growth of over 4 % to around USD 527 billion in the world market for electronic components. The European market is projected to enjoy growth of at least 3 % to some USD 66 billion, thus exceeding the peak in 2011 (USD 64 billion).

  For Germany, the November analysis by the market experts in ZVEI's Electronic Components division projected an increase of 6 % to a new record level of € 18 billion for 2014 as a whole. ZVEI anticipates growth in the German domestic market for electronic components to be just below 4 % in 2015.

c) Defense & Security

According to "The Military Balance 2015" report by the International Institute for Strategic Studies (IISS)[13], which analyzes the defense capabilities and budgets of 171 countries all over the world each year, defense budgets decreased in Europe in 2014, while defense spending in Asia continued to increase by more than 25 %. While there is discussion in Europe as to whether this decrease is sustainable because of the increasingly uncertain situation in the countries of Europe and their close neighbors, Asia is facing the challenge of focusing its efforts on generating the economic growth needed for further modernization of the military, while simultaneously creating the conditions to prevent tensions for escalating into military conflicts.

In Europe the crisis in Ukraine upset the existing balance. In addition, security is endangered by the activities of Islamic extremists in the Middle East and Africa. The security services are busy defending Western society from such threats. In September 2014, 28 NATO member states agreed at the NATO summit in Wales on the goal of spending two percent of GDP for defense. Only very few countries, such as the United States and the United Kingdom, are currently meeting this goal. By contrast, Germany spends currently only 1.3 % of its GDP on its troops.

According to the IISS experts, the West still spent more than half of global defense outlays in 2014, though this was down from 65 % of global totals in 2010. The Institute believes that European states will have to more seriously weigh the optimum balance between their defense ambitions, deficit reduction and discretionary spending, such as military outlays. In contrast, the experts expect spending to fall off significantly in emerging economies in light of falling oil prices, the stagnation of the Russian economy and slowing global growth. The IISS experts believe that issues of technological innovation and knowledge transfer will become increasingly important in the defense organizations. Particularly with regard to technology, the experts recommend that state and non-state actors work more closely together – including across borders – so that military organizations can deploy modern technology quickly and with clear goals in mind. This will also benefit humanitarian organizations, homeland security and protection against pandemics, because these challenges do not stop at borders.

12 Data: ZVEI Press Release 111/2014, November 11, 2014.
13 International Institute for Strategic Studies (IISS) "The Military Balance 2015", February 11, 2015.

Consumer market

a) Caravaning

According to the CIVD[14] and the European Caravaning Federation (ECF)[15] the European caravaning industry stabilized again in 2014, following years of crisis. Around 136,800 new leisure vehicles were sold in Europe in 2014, a decline of about 0.5% relative to the prior year. Caravan sales fell around 2%, whereas RV sales rose slightly, by nearly 1%. After a number of years of sales losses, the experts regard these figures as the first positive sign that leisure vehicle sales figures are firming up in Europe. Apart from Germany, for the first time sales increases were registered in the important markets France, the UK and Sweden.

According to CIVD, the German caravaning industry generated record sales of € 6.62 billion in 2014, an increase of 10.3% over the prior year. The majority of these sales were of new vehicles, but the markets for used vehicles and accessories also turned in a strong performance. Among the new vehicles, RVs increased by 3.7% to €2.6 billion, while sales of caravans of €0.56 billion were up a strong 22.8% over 2013. Thanks to high demand, the market for used RVs and caravans reached a record of €2.7 billion in sales, which represents growth of 13.3%. The accessories business also proved to be strong, with sales of €0.6 billion, which represented an increase of 14.7% over last year and set a new record.

According to the CIVD, the mood in the German caravaning industry was significantly better at the beginning of 2015. This was shown by the CIVD's annual member survey[16] on expectations for the next 12 months. Stable results or even slight growth is expected in 2015, both for the German market and for exports as well. Sales of RVs are expected to be the main driver of growth in Germany. Expectations for growth in exports are also cautiously optimistic again for the first time in several years. Overall the CIVD expects that the German market will continue to grow in 2015 and that the European export markets have already bottomed out and will slowly pick up again.

b) Marine market

Following the difficult year in 2013, when business was severely affected by the weather at the beginning of the season, the recreational marine industry experienced an upturn at the start of the 2014 season, even though sales of boats and equipment were slightly behind expectations in the second quarter. According to the German Marine Industry Association (BVWW)[17] the industry generated total revenues from sales of marine goods and services of around € 1.77 billion for 2014, which represented a 1.7% increase over the prior year. (Sales of megayachts are not included in these figures.) German boat manufacturers increased their production to around 1,700 sailboats and motor yachts (+10%) and gained market share in Germany and abroad thanks to innovative products and good value for money. New models and very affordable entry-level versions boosted the new boat business and resulted in new momentum on the market. According to the Association, the trend towards using existing yachts several years longer than originally planned boosted the equipment business. When the purchase of a new boat is postponed, the existing yacht should at least be better equipped than it used to be. Because the average age of boat owners is increasing and they spend more time on their own boats, they primarily invest in equipment that will make their life on board more comfortable and secure.

14 Data: CIVD Caravaning Industrie Verband e.V., Press Information "Deutsche Caravaningindustrie erzielt Umsatzrekord", January 19, 2015.
15 Data: ECF European Caravaning Federation, Press Release "European leisure vehicle sales stabilize", January 19, 2015.
16 CIVD Caravaning Industrie Verband e.V., Press Information "Mit Optimismus in das Neue Jahr", January 19, 2015.
17 Data: Bundesverband Wassersportwirtschaft (BVWW), Press Releases on "Stabile Nachfrage sorgt für gute Stimmung", January 8, 2015.

EARNINGS AND FINANCIAL POSITION

Introduction

In the period from December 2, 2013 to June 3, 2014, the *Deutsche Prüfstelle für Rechnungslegung DPR e.V.* (DPR) conducted a routine audit of the consolidated financial statements at December 31, 2012 and the group management report for fiscal year 2012, pursuant to § 342b (2) of the German Commercial Code. The result of the audit was that DPR found no accounting errors for fiscal year 2012. In this reporting period, we have already acted on the recommendation for future accounting purposes to report amortization of development costs under production costs incurred to generate sales instead of under research and development costs on the income statement. The comparison figures in the income statement have been adjusted accordingly.

There have also been the following changes to the Management Board.

- Mr. Hans Pol was appointed to the Management Board effective January 1, 2014. Mr. Pol will be Chief Sales Officer with responsibility for SFC and PBF.

- The Chief Financial Officer, Mr. Gerhard Inninger, resigned for personal reasons at the end of the Annual General Meeting on May 16, 2014.

- The Supervisory Board of SFC Energy AG appointed Mr. Steffen Schneider as the Company's new CFO. He began his employment as Chief Financial Officer on September 1, 2014.

Earnings position

The SFC Group (the "Group") posted sales of € 53,631k in fiscal year 2014, for an increase of 65.5 % from the prior-year period's € 32,413k. 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.

SFC had sales of € 11,180k, and thus remained at the prior year's level (€ 11,082k).

PBF had sales of € 13,121k, and was thus also at the same level as last year (€ 13,185k).

With sales of € 29,329k, Simark posted an increase of around 20 % on a CAD basis versus the twelve-month period in 2013.

In a comparison of the two fiscal years, EBIT for the Group improved from minus € 8,836k to minus € 4,269k.

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

- Subsequent measurement of the acquisition of Simark: personnel expenses resulting from the agreed contingent consideration and bonus for key employees of € 1,191k (€ 994k) and depreciation/amortization and expense resulting from the purchase price allocation of € 1,152k (€ 596k).

- Additional expenses: Impairment expense on investments (€ 339k), expenses for the management board SAR plan (€ 118k), expenses for contingent losses (€ 86k) and miscellaneous (€ 160k).

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

		in k€
	2014	2013
EBIT (earnings before interest and taxes)	**–4,269**	**–8,836**
Production costs of work performed to generate sales		
Impairment expense on investments	339	0
Cash component from the Simark acquisition, personnel cost	196	172
Purchase price allocation, amortization of order book	97	210
Purchase price allocation, cost of materials	0	28
Research and development costs		
Impairment of goodwill PBF	0	734
Impairment losses capitalized development	0	311
Sales costs		
Purchase price allocation, amortization of customer relationships and trademarks	1,055	358
Cash component from the Simark acquisition, personnel cost	744	650
Expenses from contract terminations	118	50
Bonus for key employees, personnel costs	70	24
Expenses for the management board SAR plan	50	0
Impairment of goodwill PBF	0	734
General administration costs		
Cash component from the Simark acquisition, personnel costs	196	172
Expenses for the management board SAR plan	68	0
Expenses from contract terminations	42	30
Other operating income		
Income from the reversal of earn-out provision identified in acquisitions PBF	0	–921
Income from the reversal of earn-out provision identified in acquisitions Simark	– 15	0
Other operating expenses		
Contingent losses from rent expenses and leasing	86	396
Cost for acquisitions (in 2013 for acquisition Simark)	0	1,076
Expenses from contract terminations	0	29
Restructuring expenses		
Expenses from contract terminations	0	567
EBIT underlying	**–1,223**	**–4,217**

Underlying EBITDA also improved. Underlying EBITDA was minus € 2,203k in fiscal year 2013. In 2014, on the other hand, underlying EBITDA was positive at € 379k. The Group's sales and earnings figures were thus consistent with expectations and the forecast, which assumed sales of € 55 million to € 60 million and a balanced underlying EBITDA. Although consolidated sales were around € 1.4 million under the lower end of the forecast, this corresponds to the amount resulting from the gap between the budgeted exchange rate of 1.40 for the Canadian dollar and the actual average rate of 1.4663.

Sales by segment

The following table shows a comparison of segment sales for the 2014 fiscal year:

SALES BY SEGMENT			in k€	in %
Segment	2014	2013	Change	Change
Oil & Gas	29,335	8,450	20,885	247.2
Security & Industry	20,186	19,164	1,022	5.3
Consumer	4,110	4,799	– 689	– 14.4
Total	**53,631**	**32,413**	**21,218**	**65.5**

Sales in the Oil & Gas segment rose from € 8,450k to € 29,335k. This segment contains almost exclusively the sales of Simark. Only a four-month period was consolidated in the prior year, while the entire calendar year was consolidated in fiscal year 2014. Sales came exclusively from the sale and integration of products for the North American Oil & Gas market.

Sales in the Security & Industry market rose from € 19,164k to € 20,186k. PBF, which generated all of its sales in this segment, accounted for € 13,121k (prior year: € 13,185k) of this amount. SFC's sales increased from €5,979k to €7,065k, for an increase of 18.2 %, with the number of EFOY units sold up from 767 to 1,029. The main reason for the increase at SFC is that there was a major traffic technology project this year that generated sales of € 1,057k.

Sales in the Consumer segment were down slightly in 2014, dropping from € 4,799k to € 4,110k. The number of fuel cells sold decreased from 1,697 to 1,450. Increased sales in Scandinavia were not able to make up for the economy-based downward trend of the consumer markets in France and Southern Europe as well as lower sales in Germany.

Sales by region

Sales by region evolved as follows:

SALES BY REGION			in k€	in %
Region	2014	2013	Change	Change
North America	30,500	10,188	20,312	199.4
Europe (excluding Germany)	12,944	12,420	524	4.2
Germany	7,805	7,145	660	9.2
Asia	1,794	1,918	– 124	– 6.5
Rest of the world	588	742	– 154	– 20.8
Total	**53,631**	**32,413**	**21,218**	**65.5**

In North America, which is now the most significant market, sales growth in fiscal year 2014 was achieved through the first-time consolidation of Simark for a period of 12 months.

In Europe (excluding Germany), PBF had sales of € 8,242k, while SFC had sales of € 4,702k.

In Germany, the significant increase in SFC's sales from € 3,282k to € 4,407k was primarily attributable to the major contract in the traffic control sector in the Security & Industry segment. PBF contributed sales of € 3,398k in Germany, up from € 3,863k during the prior year.

Germany's share of sales declined from 22.0 % to 14.6 % during fiscal year 2014.

PBF dominated the Group's business in Asia, with sales of € 1,224k (prior year: € 1,289k). As was the case during the prior year, most of SFC's sales were for projects involving industrial applications in Singapore.

Gross profit

Gross profit in fiscal year 2014 was € 15,661k, or 29.2 % gross margin. In the prior year it stood at € 9,925k or 30.6 % gross margin. The change in gross margin was due to shifts in the share of sales among the segments, as well as a higher percentage of sales by Simark, an affiliate with lower margins as a result of its different business model. The margin in that segment was around 26 % due to Simark's different business model, while the cumulative gross margin of SFC and PBF averages over 33 %. The gross profit rose by €5,736k or 57.8 %.

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

GROSS PROFIT			in k€	in %
Segment	2014	2013	Change	Change
Oil & Gas	7,637	1,984	5,653	284.9
Security & Industry	7,090	6,433	657	10.2
Consumer	934	1,508	– 574	– 38.1
Total	**15,661**	**9,925**	**5,736**	**57.8**

The gross profit in the Oil & Gas segment was € 7,637k, or 26.0 % gross margin, and therefore in line with expectations both in percentage and absolute terms.

The Security & Industry segment's gross profit was € 7,090k, which was above the prior year's €6,433k. Primarily because of SFC's higher share of sales in this segment, gross margin increased from 33.6 % to 35.1 %.

The gross margin in the Consumer segment was 22.7 % (prior year: 31.4 %). The main reason for this was the decrease in sales, accompanied by no change in the overhead structure.

Sales costs

Sales costs rose by 28.0 % from € 8,233k to € 10,540k due to the consolidation of Simark.

Group-wide, sales costs as a percentage of sales decreased from 25.4 % to 19.7 %.

The Group company SFC experienced a significant decrease to € 3,520k (prior year period: € 4,044k).

Sales costs for Simark, including effects from the purchase price allocation and the prorated cash component, were € 6,039k (prior year: € 2,290k).

PBF's sales costs were € 979k (prior year: € 1,165k).

The figures for 2013 also included impairment charges on goodwill for PBF in the amount of € 734k.

Research and development costs

Research and development costs fell by € 903k in 2014, from € 5,433k to € 4,530k, not least because of the impairment expenses on the goodwill of PBF included in the 2013 financial statements in the amount of € 734k.

SFC saw costs decrease from € 2,054k to € 1,581k. The primary causes of this in fiscal year 2013 were impairment charges on capitalized development costs in the amount of € 311k and the reduced headcount in the research and development department.

PBF's research and development costs were € 2,537k (prior year € 2,523k), thus remaining at the prior year's level.

Simark is included in research and development costs for an amount of € 412k (prior year: € 123k).

General administration costs

General administration costs increased 26.2 % in 2014, rising to € 3,860k to € 4,872k. They were therefore 9.1 % this year versus 11.9 % the year before when expressed as a percentage of sales.

Other operating income

The figure for other operating income of € 170k contains foreign exchange transaction gains of € 96k. Last year's figure for other operating income primarily reflected €921k in income from reversal of the earn-out liability for PBF.

Other operating expenses

Other operating expenses fell significantly from € 1,708k to € 159k and contain contingent loss provisions for rent expenses and leasing of € 86k, and foreign exchange transaction losses of € 49k. In the prior year, other operating expenses primarily reflected 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

There were no restructuring expenses to report in fiscal year 2014 (prior year: € 567k).

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

EBITDA improved from minus € 4,474k to minus € 1,177k. The EBITDA margin increased from minus 13.8 % to minus 2.2 %. Adjusted for the one-off effects mentioned earlier, EBITDA was € 379k (minus € 2,203k), or plus 0.7 % (minus 6.8 %) of sales.

Operating result (EBIT)

The Group's EBIT improved considerably in 2014, climbing from minus € 8,836k to minus € 4,269k. The EBIT margin improved from minus 27.3 % to minus 8.0 %. Adjusted for the one-off effects mentioned earlier, EBIT was minus € 1,223k (minus €4,217k), or minus 2.3 % (minus 13.0 %) of sales.

Interest and similar income

Interest and similar income fell from € 67k to € 14k, primarily because of the lower cash balance.

Interest and similar expenses

The interest and similar expenses item in the amount of € 312k (€ 194k) consists of interest paid to banks and the interest cost on liabilities and provisions.

Result for the year

The net loss improved in fiscal year 2014 to € 4,826k following a net loss of € 8,912k the year before. This includes the abovementioned one-off effects in the total amount of € 3,046k (prior year: € 4,619k) for fiscal year 2014.

Earnings per share

Earnings per share under IFRS (basic and diluted) improved from minus € 1.16 to minus € 0.60.

New orders and order backlog

New orders in fiscal year 2014 totaled € 46,621k, compared with € 35,559k in 2013 (which included four months for Simark).

Altogether, the order backlog stood at € 10,626k as of December 31, 2014 (prior year: € 17,636k). with € 685k of that amount attributable to SFC (prior year: € 707k) and € 3,898k to PBF (prior year: € 8,281k). Simark is included in this figure with € 6,044k (prior year: € 8,648k).

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 and the cash capital increase in November 2014 were raised specifically for this purpose. Until it is 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.

SFC implemented a cash capital increase in fiscal year 2014, in the course of which a total of € 3,263k was generated in November 2014 through the issuance of 591,159 new bearer shares at a price of € 5.52. The subscribed capital thus increased from € 8,020k to € 8,611k at December 31, 2014. The capital surplus increased by € 2,385k to € 71,955k in 2014. This increase represents the additional paid-in capital paid by the subscribers less the costs of the cash capital increase (€ 287k).

Available cash and cash equivalents amounted to € 6,122k at December 31, 2014, and were down 14.3 % from the prior year (December 31, 2013: € 7,143k).

An additional loan in the amount of CAD 2.0 million was taken out to finance the contingent consideration for Simark. The total financing for Simark thus amounted to CAD 5.2 million at December 31, 2014. The conditions are as follows:

- Term 60 months, through August 2018.
- Monthly payment CAD 79,463, with a final payment of CAD 1,750,000 due in 2018.
- Interest: Base interest rate for Roynat's Floating Base Rate plus performance-based premium between 3.5 % and 5.5 %.
- Detailed covenants based on various Simark performance indicators and clauses requiring repayment in the event of default.
- Collateral provided by pledging the shares in Simark.

The total short-term and long-term liabilities to bank amounted to € 5,058k at December 31, 2014 (prior year: € 4,421k).

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€

	12/31/2014	12/31/2013
Equity	**27,589**	**29,063**
As a percentage of total capital	58.4	61.0
Long-term liabilities	6,296	5,918
Short-term liabilities	13,371	12,669
Liabilities	**19,667**	**18,587**
As a percentage of total capital	41.6	39.0
Total equity and liabilities	**47,256**	**47,650**

SFC's capital structure changed in fiscal year 2014 because of the capital increase, which was only partially able to offset the consolidated loss for the period. SFC still shows an equity ratio of 58.4 % (prior year: 61.0 %).

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

Capital expenditures

In fiscal year 2014, € 281k (€ 207k) was capitalized for the further development of products. Capital expenditures were also made in software, machinery and equipment.

Total capital expenditures in 2014 came to € 750k (€ 758k). Capital expenditures were financed with the Company's own funds or under existing loan agreements. Finance leases were entered in a small amount.

Cash and cash equivalents

There was a net cash outflow of € 1,029k in fiscal year 2014, 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, acquisition activities and its future liquidity are closely connected.

At the end of December 2014, the Company had available cash and cash equivalents of € 6,122k (end of December 2013: € 7,143k). In addition, time deposits in the amount of € 285k were blocked in favor of the landlord. In the prior year, there was a bank guaranty in the amount of € 285k, for which time deposits in the same amount had been pledged.

There were current liabilities to banks in the amount of € 2,013k as of the reporting date (prior year: € 2,139k).

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

Simark	line of credit CAD 3.5 million	of which drawn: CAD 1.1 million
PBF	line of credit € 0.75 million	of which drawn: € 0.54 million
PBF	line of credit € 0.5 million	not utilized

Cash flow from ordinary operations

There was a net cash outflow of € 3,553k from ordinary operations in 2014 versus a net cash outflow of € 7,312k in the prior year.

The primary cause of the outflow in 2014 was the loss for the year and the resulting negative operating cash flow before changes in working capital in the amount of € 1,117k, versus negative cash flow of € 5,089k in the prior year.

Cash flow from investment activity

Net cash used for investment activity totaled € 618k in the period under review, versus € 6,594k in the prior year.

Cash flow from financial activity

There was a net cash inflow of € 3,143 from financial activity in 2014, in contrast to a net cash outflow of € 1,568k the prior year. The cash inflow in 2014 primarily resulted from the cash capital increase. The payment of amounts owed by Simark Controls Ltd., which counted toward the purchase price, was financed through the assumption of financial liabilities.

Assets & liabilities

Total assets fell by 0.8 %, from € 47,650k at December 31, 2013 to € 47,256k at December 31, 2014.

The equity ratio fell from 61.0 % to 58.4 % because of the loss for the period, which was only partially offset by the cash capital increase.

Inventories, trade accounts receivable and receivables from percentage-of-completion rose by € 3,230k, or 18.8 %, largely due to the strong fourth quarter of 2014.

The most significant intangible assets are the goodwill of Simark in the amount of € 7,411k (prior year: € 7,126k) and of PBF in the amount of € 4,672k (prior year: € 4,672k), other intangible assets relating to the acquisition of Simark in the amount of € 2,560k (prior year: € 3,616k) and PBF in the amount of € 1,464k (prior year: € 1,845k) and capitalized development costs in the amount of € 1,140k (prior year: € 1,265k). 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 € 281k was capitalized and € 407k was amortized in fiscal year 2014.

Non-current assets decreased from € 21,715k to € 19,714k. The share of non-current assets in total assets fell from 45.6 % to 41.7 % as a result.

Liabilities rose slightly by 5.8 % from € 18,587k to € 19,667k.

Altogether, liabilities made up 41.6 % of total equity and liabilities (December 31, 2013: 39.0 %).

Due to the negative result after taxes with the counter effect from the capital increase, shareholders' equity decreased to € 27,589k at December 31, 2014, against € 29,063k at December 31, 2013. Subscribed capital and the capital surplus increased by € 2,976k due to the cash capital increase.

Financial and non-financial performance indicators

The sustainable development of the Group is a high priority for the Management Board. The financial performance indicators used to steer the Group and its development in fiscal year 2014 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 increase or decrease in that number
- Quality indicators, assessments, and rejection rates

Supplier quality remained at the prior 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 1 % (prior year: 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 since 2014 its environmental management system has been ISO 14001 certified.

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

With respect to sustainable corporate governance, SFC offers its employees a motivating, socially equitable work environment. It is important to SFC to have satisfied employees who want to work for the Company for a long time. Professional development 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, 2014:

EMPLOYEES

	12/31/2014	12/31/2013	Change
Management Board	3	2	1
Research and development	51	60	– 9
Production, logistics, quality management	99	94	5
Sales & Marketing	70	73	– 3
Administration	23	27	– 4
Permanent employees	**246**	**256**	**– 10**

The Group employed 8 trainees, graduates, and student trainees as of December 31, 2014 (December 31, 2013: 7).

The number of permanent employees at SFC was 72 as of December 31, 2014, and was thus lower than in the prior year (85).

The number of employees at PBF decreased from 100 to 97.

Simark had 77 employees as of the reporting date (prior year: 71).

Business and background conditions

In summary, it can be concluded that at the reporting date the Group had a solid net asset and financial picture, particularly as a result of the cash capital increase. 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 2014, the targets were for the Company to reach the amounts budgeted for Group sales (based on the budgeted exchange rate of the Canadian dollar to the Euro), 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 – until the fiscal year 2014 – 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 the heading "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 2014

Compensation of the members of the Management Board totaled € 1,014,197 in financial year 2014. Compensation in financial year 2014 included the fixed compensation, non-cash perquisites, variable profit and performance-based compensation, expenditure for the SAR program and premiums for accident, pension, and life insurance. The above total includes all amounts that were laid out in 2014 or set aside as provisions in the consolidated financial statements for 2014, less the amounts that had been set aside as of December 31, 2013.

The individual disclosure of the compensation of each member of the Management Board is published according to sample tables provided in the German Corporate Governance Code, which was published in its current version on September 30, 2014. Chart 1 illustrates the benefits granted in the financial year 2014. Chart 2 shows the amount disbursed. Since no cap to the amount paid as variable compensation has been established (with regard to the SARP), no maximum achievable compensation is being disclosed. This is a deviation from the German Corporate Governance Code.

CHART 1 – BENEFITS GRANTED TO MEMBERS OF THE MANAGEMENT BOARD 2014* €

	Dr. Peter Podesser			Gerhard Inninger			Hans Pol			Steffen Schneider		
	Chairman			CFO			CSO			CFO		
	since November 1, 2006			Aug 16, 2011 to May 16, 2014			since January 1, 2014			since September 1, 2014		
	2013	2014	2014 (Min)	2013	2014	2014 (Min)	2013	2014	2014 (Min)	2013	2014	2014 (Min)
Fixed compensation	350,000	350,000	350,000	180,000	67,742	67,742	0	180,000	180,000	0	60,000	60,000
Fringe benfits	20,648	20,648	20,648	21,626	12,228	12,228	0	20,564	20,564	0	6,976	6,976
Total	**370,648**	**370,648**	**370,648**	**201,626**	**79,970**	**79,970**	**0**	**200,564**	**200,564**	**0**	**66,976**	**66,976**
One-year variable compensation	55,817	112,571	0	14,689	18,374	18,374	0	30,000	0	0	16,667	16,667
Multi-year variable compensation	0	242,317	0	15,821	0	0	0	49,376	0	0	293,900	0
LTIP 2011–2013	0	0	0	0	0	0	0	0	0	0	0	0
LTIP 2012–2014	0	0	0	10,277	0	0	0	0	0	0	0	0
LTIP 2013–2015	0	0	0	5,543	0	0	0	0	0	0	0	0
SARP 2014–2016	0	242,317	0	0	0	0	0	49,376	0	0	293,900	0
Total	**426,465**	**725,536**	**370,648**	**232,135**	**98,344**	**98,344**	**0**	**279,940**	**200,564**	**0**	**377,543**	**83,643**
Service cost	0	0	0	0	0	0	0	0	0	0	0	0
Total	**426,465**	**725,536**	**370,648**	**232,135**	**98,344**	**98,344**	**0**	**279,940**	**200,564**	**0**	**377,543**	**83,643**

CHART 2 – ALLOCATION OF MANAGEMENT BOARD COMPENSATION 2014 (AMOUNTS DISBURSED) €

	Dr. Peter Podesser		Gerhard Inninger		Hans Pol		Steffen Schneider	
	Chairman		CFO		CSO		CFO	
	since November 1, 2006		Aug 16, 2011 to May 16, 2014		since January 1, 2014		since September 1, 2014	
	2013	2014	2013	2014	2013	2014	2013	2014
Fixed compensation	350,000	350,000	180,000	67,742	0	180,000	0	60,000
Fringe benfits	20,648	20,648	21,626	12,228	0	10,564	0	3,643
Total	**370,648**	**370,648**	**201,626**	**79,970**	**0**	**190,564**	**0**	**63,643**
One-year variable compensation	192,636	55,571	50,694	33,374	0	0	0	0
Multi-year variable compensation	0	0	0	77,161	0	0	0	0
LTIP 2011–2013	0	0	0	0	0	0	0	0
LTIP 2012–2014	0	0	0	49,974	0	0	0	0
LTIP 2013–2015	0	0	0	27,187	0	0	0	0
SARP 2014–2016	0	0	0	0	0	0	0	0
Total	**563,284**	**426,219**	**252,320**	**190,505**	**0**	**190,564**	**0**	**63,643**
Service cost	0	0	0	0	0	0	0	0
Total	**563,284**	**426,219**	**252,320**	**190,505**	**0**	**190,564**	**0**	**63,643**

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

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 2014 breaks down as follows:

FINANCIAL YEAR 2014	in €
Tim van Delden, Chairman	50,000
David Morgan, Deputy Chairman	37,500
Hubertus Krossa (from May 16, 2014)	15,685
Dr. Jens Müller (until May 16, 2014)	9,315
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.

Share 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.

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

MAIN TERMS OF THE SAR PROGRAM 2014 – 2016	
Date of Issuance	January 1, 2014 (Hans Pol); April 1, 2014 (Dr. Peter Podesser); September 1, 2014 (Steffen Schneider)
Term	7 years
Waiting period	4 years (Hans Pol); 4 to 6 years (Dr. Peter Podesser); 4 to 6 years (Steffen Schneider)
Cut-off dates	January 1, 2015 (Hans Pol); April 1, 2015, April 1, 2016, and April 1, 2017 (Dr. Peter Podesser); September 1, 2015, September 1, 2016 and September 1, 2017 (Steffen Schneider)
Exercise price	€ 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)

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 the laws and accounting rules.

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

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

Bookkeeping for 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 2014. The effectiveness of the internal control system is monitored by the Supervisory Board of SFC Energy AG in accordance with the requirements of the Accounting Rule Modernization Act (*Bilanzrechtsmodernisierungsgesetz*), which went into force in May 2009. It is important to note that an internal control system does not provide absolute certainty that material misstatements in the financial statements will be avoided or discovered, regardless of how it is designed.

Risk management system

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

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

SFC's risk management system also includes an early-warning system based on a system of key figures. The key figures allow an objective overview of the Group's financial situation, a comparison between the budget and actual costs, a detailed preview of anticipated new orders and sales for each segment (sales pipeline), unit-specific cost controlling, cost controlling for development and marketing projects, a uniform project management tool for the entire Group, and other process-related indicators. PBF has been integrated into this risk management system. The risk management system was introduced at Simark during the course of 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, default and liquidity risks, and credit risks. The financial instruments encompass assets and liabilities as well as contractual claims and obligations relating to exchanges and transfers of assets.

Non-derivative financial instruments on the assets side of the balance sheet include cash and cash equivalents, trade accounts receivable, other financial assets. If a default is likely, the credit risk associated with these instruments is addressed with impairments. The financial instruments carried on the liabilities side of the balance sheet are liabilities to banks, trade accounts payable, other liabilities, and liabilities under finance leases.

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 prior year. Receivables from the sale of products are secured for SFC through retention of title.

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

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

Liquidity risk

Liquidity risk describes the possibility that SFC may not be able to meet its payment obligations. This risk was counteracted by the capital increases in May 2007 and November 2014. However, the cash reserves dropped significantly from the prior year due to the Simark acquisition and net loss in 2014.

The ultimate responsibility for liquidity risk management rests with the Management Board, which has formulated an appropriate strategy for managing the short-, medium- and long-term funding and liquidity requirements. SFC manages liquidity risk by maintaining 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.

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

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

Exchange rate risk

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.

The objective of foreign currency management is to minimize exchange rate losses in comparison with budget assumptions. For that purpose, an open foreign currency position is calculated on the basis of actual and planned foreign currency positions and adjusted in the context of the rolling year-end forecast. If large open positions exist, 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.

Credit risk

The loan agreements entered into by the Canadian companies to finance the acquisition of Simark and operations in Canada contain financial covenants relating to Simark.

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

There is also the risk that PBF's credit line will be terminated for failure to achieve earnings figures or other key indicators.

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

The capital stock of SFC Energy AG totals € 8,611,204.00 and is divided into 8,611,204 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[18]:

NAME	Stake as a %
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.

In reliance on the authorization granted by the general meeting held on May 6, 2013 (authorized capital 2013), the Company increased its capital stock pursuant to the articles of association by € 591,159, from € 8,020,045 to € 8,611,204, through the issuance of 591,159 new bearer shares of common stock without par value (no-par-value shares) with a notional amount in the capital stock of € 1.00 each, in exchange for cash contributions, with the preemptive subscription right of existing shareholders excluded. The implementation of the capital increase was recorded in the Commercial Register at the local court in Munich on December 2, 2014.

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 € 2,643,126.00

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

on one or more 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 rule, the shareholders must be given preemptive rights in such situations. However, under certain circumstances the preemptive subscription rights 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.

Currently the following agreements at SFC Energy AG are contingent on a change of control following a takeover offer.

Dr. Podesser's Management Board contract was extended 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 was also granted 360,000 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).

Mr. Hans Pol was appointed to the Management Board effective January 1, 2014 until June 30, 2015. His contract as a member of the Management Board contains a similar agreement on the 2014-2016 SAR Plan with a term ending on December 31, 2018. Mr. Pol was granted 90,000 SARs on January 1, 2014.

Steffen Schneider was appointed to the Management Board for the period from September 1, 2014 to August 31, 2017. His management board employment contract contains a similar agreement regarding the 2014–2016 SAR plan with a term ending on September 1, 2021. Mr. Schneider was granted 180,000 SARs on September 1, 2014.

There are no comparable compensation agreements with other 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 affiliates Simark and PBF relate to the Oil & Gas segment and the Security & Industry segments respectively.

Market risks

Macroeconomic developments

Even though the Ifo Institute expects the global economy to slowly pick up steam in 2015, the experts see considerable risk factors in the structural problems of important advanced economies in the Eurozone and Japan and in certain large emerging economies, such as Brazil and Argentina. They also expect that the growth of China's economy will cool down slightly in the coming year. They view the most recent oil price trends as an additional factor that will boost the global economy in 2015. Oil consumers such as the advanced economies and China, India and the economies of East Asia are likely to profit from the lower prices for oil. However, the experts believe that oil-exporting countries such as Brazil, Russian and numerous other economies will suffer large fiscal losses from the deep decline in the price of oil.

Oil & Gas market

The outlook for the Oil & Gas market has gotten worse because of the price collapse; in particular, there is a risk that falling prices will result in postponement or even cancellation of planned investments in new oil and gas fields. Thus, for example, the Canadian Association of Petroleum Producers (CAPP) expects a 33 % decline in short-term investment in 2015 and a slower increase in volumes than originally planned. Accordingly, only 7,350 new wells are expected to be drilled in 2015 in Canada. There is also the additional risk that the industry will delay its use of innovative technologies for a certain amount of time.

Security & Industry market

Fuel cells: The developing market for off-grid and mobile industry systems is expected to continue to grow because its increasing strategic importance. However, the dependence of many industries on the overall economic situation, government budgets and state economic programs plays an important role here.

Power electronics and switched mode network components: 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.

Defense & Security: On the whole it is assumed that defense spending will again increase in the West on both sides of the Atlantic due to the uncertain situation in Europe and Asia, particularly in the areas of innovation, modernization and increased efficiency. This could have a positive effective for SFC Energy, both with respect to the development programs with defense partners and with respect to commercial orders.

Consumer market

Caravaning: As the new year 2015 begins, the German caravaning association CIVD and the European Caravaning Federation ECF are again cautiously optimistic about the European caravaning industry. Low fuel prices will encourage consumers to travel more, since they will have more money left in their wallets once they purchase fuel. However, given the political and economic uncertainties, consumers are still reluctant to spend money, and their willingness to do so is particularly difficult to estimate in this market, which constitutes a risk for sales of EFOY fuel cells.

It is still to be expected that the traditional segment of RV buyers, generally wealthy retirees, will decline. Younger customers tend to prefer other, cheaper vehicle and travel options.

Marine: The marine market, in spite of growth over the past few years, 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, this is where spending is cut in difficult economic situations.

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 become 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 18 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.

There was a risk that we would be asked to pay damages for possible patent infringement in respect of a piece of equipment that is currently out of service. A settlement was reached in this matter in the first quarter of 2014. Therefore, a claim for those damages will not be made.

Competition

SFC currently enjoys a unique position thanks to our leadership in DMFC systems technology and our marketing edge. Some of the ways we protect this advantage include intellectual property rights, swift action, and a resolute focus on one single technological concept. Some of our competitors – particularly those in the U.S. defense market – have at least comparable access to the market, which primarily results in the risk of losing our leadership position and not getting orders. For example, our ongoing observations of the competitive situation have revealed that competitors from the U.S. have made deliveries to the Defense & Security market. Furthermore, the first competing products are now appearing on the market in our consumer and 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 customer service, and a focus on product and system integration confer a competitive edge and minimize risk.

Product risks

We strive to counter potential product risks such as liability claims for defective products by offering high-quality products and services. But ultimately we are unable to guarantee that our products will be free of 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 Security & Industry segment 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 Security & Industry segment, we agreed to do technical follow-up work. The risk was covered by increasing the warranty provision by € 250k.

A customer in the defense market demanded a new investigation of whether exhaust emissions from SFC products could possibly endanger users. This investigation was performed by an independent laboratory in November 2014 and confirmed the results already available to the customer and the data on hand at SFC. As expected, the laboratory did not find any potential danger to users.

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 57 % of Simark's sales in 2014. 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 € 568k on the balance sheet date. This corresponds to a scope of around 5 quarters.

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 risks

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 2014. 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 3 % on consolidated revenue and around 8 % on underlying EBITDA for the Group.

Financial and liquidity risks

SFC's strategic orientation requires continued capital expenditures, which must be financed to ensure future business success, particularly in the areas of product development and tapping additional market segments and new regions. The funds received by the Group from the public offering in May 2007 and the cash capital increase in November 2014 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.

The conditional payment for the acquisition of Simark and the loss for 2014 led to a decrease in cash on hand. Consequently, the acquisition has increased the liquidity risk, particularly because outside financing was obtained for part of the purchase price for the Simark Group, and we 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 2014 not addressed through write-downs. As of the reporting date, specific write-downs totaling € 31k had been recognized at SFC for at-risk receivables. There were specific write-downs of € 55k at PBF and specific write-downs of € 142k at Simark.

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. SFC's interest income or expense is materially affected by the short-term interest rates on the capital market. Since interest rates are currently low and there is less cash on hand, this risk is very limited and is around € 6k if interest rates change by 0.1 %.

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 Group's planned growth. There is also the risk that key personnel will leave the Group.

SFC is attempting to stay competitive on the labor market by increasing its use of performance-related salary components, flat hierarchies, and early assignment of responsibilities.

Risks related to the willingness of management and other 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 & 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 back-up and archiving functions, restoring availability after outages, redundancy, and reliability. The monitoring of the highly-available server landscape was also adjusted to meet the growing needs. 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. In addition, there was greater cooperation between the Brunnthal and Almelo locations, so that the IT teams could assist each other.

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.

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 2015 develops in accordance with the corporate planning that has been adopted.

REPORT ON OPPORTUNITIES

Market opportunities

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

Oil & Gas Industry

Simark's strong distribution and service organization in Canada should considerably accelerate the sales of SFC products in the Canadian Oil & Gas industry thanks to Simark's direct access to the market and further use of SFC's existing partnership structure. The next logical step is the planned regional expansion of Simark's business operations into the United States. The increase in the international distribution of Simark products in the field of metering and instrumentation offers additional potential for growth.

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 2015 has been conservative, because key parameters that resulted in unsatisfactory business trends in 2013 and 2014 had not yet materially changed at the time of planning. Very good technical results from testing of SFC products and the confirmation of important user groups' interest in and increasing need for light, 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, Israel and the U.S., combined with a geographical expansion of operations, for example in other NATO countries, are important steps in this direction.

Due to the various crises around the world, particularly in Eastern Europe, it appears that a shift in thinking is taking place in the NATO countries, which may result in a significant increase in defense budgets. NATO's goal of spending 2% of GDP on defense is currently met by only three members. This presents SFC with significant opportunities since special forces will be the first to benefit from increased spending.

Broader customer base for PBF

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

Improved product mix

The continuing trend over the past few years toward products that use fuel cells with higher power classes 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 the EFOY 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 and the following years. Meeting or exceeding planned targets could have an appreciable effect on earnings compared with fiscal year 2014. As a result of the rapid collapse of crude oil prices and to take into account the resulting changes in the market environment, a comprehensive cost-cutting plan for the Canadian organization has been adopted and is currently been implemented. Additional costs have been cut by transferring additional products from the Netherlands to Romania, which will make the products even more competitive.

Innovation and further development

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

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

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

External factors

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

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

DECLARATION ON CORPORATE GOVERNANCE

The Management Board issued the corporate governance statement for 2014 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 24, 2015 and make it available on the Internet at www.sfc.com/en/investors/corporate-governance.

FORECAST REPORT

The future performance of oil and gas prices will be of critical importance for the Oil & Gas segment. While we still believe that there will be long-term growth in the Oil & Gas segment, we expect a negative trend for SFC in 2015 due to falling oil and gas prices, which reached their high in the summer of 2014.

However, the relatively low price of oil and gas will have general positive effects on the overall economy and should thus have a positive impact on SFC's Security & Industry segment. For 2015, SFC believes that there will be a recovery in its Defense business and an expansion of its international Industry business. Most growth is expected in these markets and will be achieved through organic growth, in addition to strategic partnerships and a continued focus on complete solutions. In the Defense & Security market, we believe that first contracts will be awarded in 2015 for projects that had been delayed. Accordingly, sales are expected to increase in this segment.

The coming months will show to what extent lower oil and gas prices positively impact the Consumer segment, in which the introduction of the new product platform EFOY GO! will bring growth momentum beginning in the second half of 2015. The Management Board believes that total sales in the Consumer market will at least be at the previous year's level.

The Management Board therefore expects that consolidated sales will be between € 55 million and € 65 million in 2015 and that underlying EBITDA will again be positive and slightly improved and underlying EBIT will be slightly improved.

We expect the volatility on the global currency markets to continue in 2015. When calculating sales revenue and Simark's earnings, the Management Board assumes an exchange rate of 1.425 between the Canadian dollar and the euro. The company's assumptions are based on sector forecasts. Falling oil and gas prices would have a negative impact on spending by oil and gas customers, particularly with respect to new projects. Capitalization of research and development costs is expected to remain at the previous year's level, while the number of employees is expected to decrease slightly or remain the same. A continued improvement in quality indicators is also assumed.

On the reporting date, the Group had available cash and cash equivalents in the amount of € 6.1 million. If its operating result in fiscal year 2015 grows in line with forecasts for sales and earnings, the Group will have sufficient liquidity to meet its financial obligations.

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

SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

There were no material events after the balance sheet date.

Brunnthal, March 24, 2015

The Management Board

Dr. Peter Podesser	**Steffen Schneider**	**Hans Pol**
Chief Executive Officer	Chief Financial Officer	Chief Sales Officer

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, 2014

in €

	Notes	2014	2013
Sales	(1)	53,630,938	32,413,114
Production costs of work performed to generate sales	(2)	–37,969,890	–22,488,499
Gross profit		**15,661,048**	**9,924,615**
Sales costs	(3)	–10,539,535	–8,233,072
Research and development costs [1]	(4)	–4,529,853	–5,433,253
General administration costs	(5)	–4,871,731	–3,860,496
Other operating income	(6)	169,627	1,041,429
Other operating expenses	(7)	–158,714	–1,708,490
Restructuring expenses	(8)	0	–566,981
Operating loss		**–4,269,158**	**–8,836,248**
Interest and similar income	(9)	13,605	66,554
Interest and similar expenses	(9)	–311,600	–194,459
Loss from ordinary operations		**–4,567,152**	**–8,964,153**
Income taxes	(10)	–259,111	52,268
Consolidated net loss		**–4,826,263**	**–8,911,885**
NET LOSS PER SHARE	(36)		
undiluted		–0.60	–1.16
diluted		–0.60	–1.16

1 Prior year figures restated because amortization of capitalized development costs is reported as production costs of work performed to generate sales instead of as research and development costs. See the explanations of the Accounting Principles.

SFC ENERGY AG, BRUNNTHAL
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR FROM JANUARY 1 TO DECEMBER 31, 2014

in €

	Notes	2014	2013
Consolidated net loss		**–4,826,263**	**–8,911,885**
OCI items that may be recycled to profit or loss in the future:			
Result from currency translations		376,055	–627,216
Total other results	(30)	**376,055**	**–627,216**
Total comprehensive income		**–4,450,208**	**–9,539,101**

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

SFC ENERGY AG, BRUNNTHAL
CONSOLIDATED BALANCE SHEET
AT DECEMBER 31, 2014

in €

	Notes	12/31/2014	12/31/2013
Current Assets		**27,541,581**	**25,934,454**
Inventories	(14)	7,653,349	7,713,256
Trade accounts receivable	(15)	11,546,354	9,258,049
Receivables from Percentage-of-Completion	(16)	1,219,263	217,932
Income tax receivables	(17)	3,711	110,014
Other short-term assets and receivables	(18)	711,486	1,207,667
Cash and cash equivalents	(19)	6,122,418	7,142,536
Cash and cash equivalents with limitation on disposal	(20)	285,000	285,000
Non-current assets		**19,714,352**	**21,715,222**
Intangible assets	(21)	17,813,125	19,053,809
Property, plant and equipment	(22)	1,601,049	2,295,999
Deferred tax assets	(10)	300,178	365,414
Assets		**47,255,933**	**47,649,676**

SFC ENERGY AG, BRUNNTHAL
CONSOLIDATED BALANCE SHEET
AT DECEMBER 31, 2014

in €

	Notes	12/31/2014	12/31/2013
Current liabilities		**13,371,035**	**12,669,182**
Provisions for taxes	[23]	60,505	88,466
Other provisions	[23]	625,698	713,710
Liabilities to banks	[24]	2,013,013	2,139,136
Liabilities from prepayments	[25]	3,220	13,894
Trade accounts payable	[26]	6,871,734	5,086,833
Liabilities under finance leases	[27]	49,259	51,771
Liabilities from percentage-of-completion	[16]	57,853	1,172,797
Other short-term liabilities	[28]	3,536,483	3,329,640
Income tax liabilities	[29]	153,270	72,937
Non-current liabilities		**6,295,965**	**5,917,537**
Other long-term provisions	[23]	1,736,567	1,799,661
Liabilities to banks	[24]	3,045,313	2,281,526
Liabilities under finance leases	[27]	86,433	30,759
Other long-term liabilities	[28]	118,428	70,648
Deferred tax liabilities	[10]	1,309,225	1,734,944
Equity		**27,588,933**	**29,062,657**
Subscribed capital	[30]	8,611,204	8,020,045
Capital surplus	[30]	71,954,950	69,569,925
Other changes in equity not affecting profit or loss	[30]	–288,248	–664,303
Consolidated net loss	[30]	–52,688,973	–47,862,710
Liabilities and shareholders' equity		**47,255,933**	**47,649,676**

SFC ENERGY AG, BRUNNTHAL
CONSOLIDATED CASH FLOW STATEMENT
FOR THE FINANCIAL YEAR FROM JANUARY 1 TO DECEMBER 31, 2014

in €

		Notes	2014	2013
	Cash flow from ordinary operations			
	Result before taxes		**–4,567,152**	**–8,964,153**
+	Net interest income	(9), (37)	297,995	127,905
+	Depreciation/amortization of intangible assets and property, plant and equipment	(12), (21), (22)	3,092,550	4,362,247
+/–	Income/expenses from SAR Plan / Long Term Incentive Plan	(32)	118,428	–319,131
+	Changes in allowances	(14), (15)	89,622	24,515
+	Losses from disposal of property, plant and equipment	(21), (22)	6,766	1,842
+/–	Other non-cash expenses/income		–155,415	–322,259
	Changes to operating result before working capital		**–1,117,207**	**–5,089,034**
–/+	Changes to provisions	(23)	–238,257	105,472
–	Changes to trade accounts receivable	(15)	–2,154,356	–2,124,781
+	Changes to inventories	(14)	181,568	302,906
–/+	Changes to other receivables and assets	(16), (17), (18)	–439,743	771,759
+/–	Changes to trade accounts payable	(26)	1,604,578	–1,968,183
–/+	Changes to other liabilities	(25), (28)	–968,981	724,660
	Cash flow from ordinary operations before taxes		**–3,132,398**	**–7,277,202**
–	Income tax payments	(10), (37)	–420,737	–34,455
	Cash flow from ordinary operations		**–3,553,135**	**–7,311,656**

SFC ENERGY AG, BRUNNTHAL
CONSOLIDATED CASH FLOW STATEMENT
FOR THE FINANCIAL YEAR FROM JANUARY 1 TO DECEMBER 31, 2014

in €

		Notes	2014	2013
	Cash flow from investment activity			
–	Investments in intangible assets from development projects	(21)	–281,216	–206,595
–	Investments in other intangible assets	(21)	–171,148	–120,594
–	Investments in property, plant and equipment	(22), (27)	–181,000	–345,319
–	Cash outflows for the acquisition of subsidiaries, less acquired cash		0	–5,997,436
+	Interest and similar income	(9), (37)	14,065	75,883
+	Proceeds from disposal of property, plant and equipment	(21), (22)	1,246	0
	Cash flow from investment activity		**–618,054**	**–6,594,061**
	Cash flow from financial activity			
+	Payments from capital increase	(30)	3,263,198	0
–	Cash outflows for costs from capital increase	(30)	–287,014	0
+	Raising of financial dept	(24)	1,363,971	3,026,154
–	Repayment of financial dept	(24)	–469,701	–4,495,576
–	Changes to current account liabilities	(24)	–431,047	0
–	Repayment of liabilities under finace lease	(27)	–68,442	0
–	Interest paid and other expenses	(9), (37)	–228,283	–98,361
	Cash flow from financial activity		**3,142,682**	**–1,567,783**
	Net change in cash and cash equivalents		**–1,028,506**	**–15,473,500**
	Currency effects on cash and cash equivalents		8,388	–9,480
	Net change in cash and cash equivalents			
	Cash and cash equivalents at beginning of period	(19)	7,142,536	22,625,515
	Cash and cash equivalents at end of period	(19)	6,122,418	7,142,536
	Net change in cash and cash equivalents		**–1,028,506**	**–15,473,500**
	Cash on the balance sheet			
	Cash and cash equivalents		6,122,418	7,142,536

SFC ENERGY AG, BRUNNTHAL
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR FROM JANUARY 1 TO DECEMBER 31, 2014

in €

	Notes	Subscribed capital	Capital surplus	Other changes in equity not effecting profit or loss	Net accumulated loss	Total
As at 01/01/2013		**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**
Consolidated net loss					−4,826,263	−4,826,263
Result from currency translation recognized in equity	(30)			376,055		376,055
Total comprehensive income						**−4,450,208**
Capital increase						
Issuance of shares	(30)	591,159	2,672,039			3,263,198
Less costs from capital increase	(30)		−287,014			−287,014
As at 12/31/2014		**8,611,204**	**71,954,950**	**−288,248**	**−52,688,973**	**27,588,933**

SFC ENERGY AG, BRUNNTHAL
CONSOLIDATED SEGMENT REPORTING
FOR THE FINANCIAL YEAR FROM JANUARY 1 TO DECEMBER 31, 2014

in €

	Oil & Gas		Security & Industry		Consumer		Consolidated financial statements	
	2014	2013	2014	2013	2014	2013	2014	2013
Sales	29,335,224	8,450,621	20,185,697	19,163,708	4,110,017	4,798,784	53,630,938	32,413,114
Production costs of work performed to generate sales	−21,697,836	−6,466,766	−13,095,691	−12,730,517	−3,176,363	−3,291,216	−37,969,890	−22,488,499
Gross profit	**7,637,388**	**1,983,856**	**7,090,006**	**6,433,191**	**933,654**	**1,507,569**	**15,661,048**	**9,924,615**
Sales costs	−6,578,561	−2,769,782	−2,992,243	−4,296,982	−968,730	−1,166,308	−10,539,535	−8,233,072
Research and development costs	−429,302	−159,820	−3,753,128	−4,938,922	−347,422	−334,511	−4,529,853	−5,433,253
General administration costs	−1,667,068	−870,502	−2,510,619	−2,313,051	−694,043	−676,943	−4,871,731	−3,860,496
Other income/expenses (balance)	−1,994	−1,108,992	15,453	137,062	−2,547	−262,113	10,912	−1,234,043
Operating loss (EBIT)	**−1,039,537**	**−2,925,240**	**−2,150,531**	**−4,978,702**	**−1,079,089**	**−932,306**	**−4,269,158**	**−8,836,248**
Adjustments EBIT	2,397,844	2,711,054	338,927	1,643,148	309,086	264,655	3,045,857	4,618,856
EBIT underlying	**1,358,307**	**−214,187**	**−1,811,605**	**−3,335,554**	**−770,003**	**−667,652**	**−1,223,301**	**−4,217,392**
Depreciation/amortization	−1,255,690	−656,896	−1,360,304	−3,205,000	−476,555	−500,351	−3,092,549	−4,362,247
EBITDA	**216,153**	**−2,268,345**	**−790,227**	**−1,773,701**	**−602,535**	**−431,955**	**−1,176,609**	**−4,474,001**
Adjustments EBITDA	1,240,120	2,142,734	278,325	−136,305	36,688	264,655	1,555,133	2,271,084
EBITDA underlying	**1,456,274**	**−125,611**	**−511,903**	**−1,910,006**	**−565,847**	**−167,301**	**378,524**	**−2,202,917**
Financial result							−297,995	−127,905
Result from ordinary operations							**−4,567,152**	**−8,964,153**
Income taxes							−259,111	52,268
Consolidated net result							**−4,826,263**	**−8,911,885**

Please refer to Note (38) "Disclosures on consolidated segment reporting". Prior year figures have been adjusted. Compared with the accounting policies the amortization of capitalized development costs is being shown under production costs of work performed to generate sales. In the previous year, this amortization was reported under research and development costs (see Accounting principles).

NOTES ON THE CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR FROM JANUARY 1 TO DECEMBER 31, 2014

1. GENERAL ACCOUNTING POLICIES AND SCOPE OF CONSOLIDATED COMPANIES

SFC Energy AG (the "Company" or "SFC") is a stock corporation domiciled in Germany. The Company's headquarters are located at Eugen-Sänger-Ring 7, 85649 Brunnthal. The Company is registered in the Commercial Register of the Local Court of Munich under number HRB 144296. The principal activities of the Company and its subsidiaries (the Group) are the development, production and distribution of power generation systems and their components for off-grid and on-grid applications based on fuel cell and other technologies, as well as investment in the equipment and facilities required for these activities and transaction of all other related business. The Group'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 "Oil & Gas", "Security & Industry" and "Consumer".

Accounting principles

The consolidated financial statements for 2014 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, 2014, there were no standards or interpretations to apply that were effective, but had not yet been endorsed by the EU and had an impact on the consolidated finance statements. Accordingly, the consolidated financial statements are also in conformity with the IFRSs as published by the IASB.

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

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

The consolidated income statement was prepared using the cost-of-sales method. The additional disclosures of costs of materials and personnel costs are shown separately in the Notes to the Consolidated Financial Statements. 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").

There has been a change compared with the accounting policies applied to the amortization of capitalized development costs in the consolidated financial statements for the year ended December 31, 2013. In the previous year, this amortization was reported under research and development costs. Now, in order to improve the group's earnings position as a voluntary change, it is being shown under production costs of work performed to generate sales. The numbers for the previous year have been adjusted accordingly for reasons of comparability.

The Management Board of SFC Energy AG approved the consolidated financial statements for release to the Supervisory Board on March 24, 2015. The Supervisory Board is tasked with reviewing the consolidated financial statements and deciding whether to adopt them.

New accounting standards applied

This section describes the standards and interpretations published by the IASB and endorsed by the European Commission that entered into force on January 1, 2014 and were applied to the consolidated financial statements for the first time in fiscal year 2014:

Revised IAS 27 "Separate Financial Statements": The consolidation rules previously contained in IAS 27 (2008) have been revised and are now contained in IFRS 10 "Consolidated Financial Statements." The goal of IAS 27 is to set standards for the accounting for investments in subsidiaries, associates and joint ventures when a company decides to prepare separate financial statements. The standard is effective for annual periods beginning on or after January 1, 2014 and was endorsed by the EU in December 2012. The standard relates solely to separate financial statements and therefore has no impact on the Group's assets, financial position or earnings.

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 within the scope of the definition of the new standard IFRS 11 "Joint Arrangements" are to be accounted for using the equity method in accordance with 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 and it was endorsed by the EU in December 2012. The standard had no impact on the consolidated financial statements.

Amendments to IAS 32 "Financial Instruments: Presentation": In December 2011, the IASB issued amendments to IAS 32 "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 EU endorsed the amendments in December 2012. The standard had no impact on the consolidated financial statements.

Amendments to IAS 36 "Recoverable Amount Disclosures for Non-Financial Assets": With the amendment to IAS 36, the IASB has restricted the requirement to disclose the recoverable amount. However, at the same time, the scope of the disclosures of recognition or reversal of an impairment loss has been expanded. For cash-generating units that contain a significant share of goodwill or of an intangible asset with an indefinite useful life, the recoverable amount must currently always be reported. The corresponding disclosure requirement was introduced by IFRS 13. According to the present amendment to IAS 36, the recoverable amount need only be disclosed in the future if an impairment loss was recognized or reversed in the current period. Entities are required to apply the new version for annual periods beginning on or after January 1, 2014, and it was endorsed by the EU in December 2013. The Company projects that the amendments will have no material impact on the consolidated financial statements, except for possible additional disclosures in some cases.

Amendments to IAS 39 "Novation of Derivatives and Continuation of Hedge Accounting": Under the amendments to IAS 39, novation of a hedging instrument to a central counterparty will not mean that the hedging relationship must be terminated if certain statutory requirements are met. A novation indicates an event for which the original parties to a derivative agree that one or more clearing counterparties replace their original counterparty to become the new counterparty to each of the parties. To benefit from the amended guidance, novation to a central counterparty (CCP) must happen as a consequence of laws or regulations. Entities are required to apply the new version for annual periods beginning on or after January 1, 2014, and it was endorsed by the EU in December 2013. The standard had no impact on the consolidated financial statements.

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 standard is effective for annual periods beginning on or after January 1, 2014 and was endorsed by the EU in December 2012.

Control exists under IFRS 10 when the following three prerequisites are cumulatively met:

a) A company must have power over the investee;

b) it must be exposed to variable returns from its investment and

c) it must have the ability to use that power to affect the amount of the returns.

Control was previously defined as the ability to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 also contains additional guidance indicating when a company can exercise control over an investee. This guidance on the issue of if and when a company cannot exercise control even though it owns more than 50 % of the voting rights is not relevant for SFC because SFC either directly or indirectly owns 100 % of the voting rights in all its subsidiaries. Management concludes that in accordance with the new definition of control and the related guidance in IFRS 10 the Group can exercise control over all its subsidiaries. Accordingly no assessment that differs from IAS 27 is made.

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 effective for annual periods beginning on or after January 1, 2014. It was endorsed by the EU in December 2012. The standard had no impact on the consolidated financial statements because SFC does not hold any interests in joint arrangements.

IFRS 12 "Disclosure of Interests in Other Entities": The standard establishes the required disclosures 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 is effective for annual periods beginning on or after January 1, 2014 and was endorsed by the EU in December 2012. The standard had no impact on the consolidated financial statements.

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 EU in April 2013. The standard had no material impact on the consolidated financial statements.

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". This applies when the parent company meets 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 EU in November 2013. The standard had no impact on the consolidated financial statements because the Company does not meet the definition of an investment entity.

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 2014:

Amendments to IAS 1 "Disclosure Initiative": In December 2014, the IASB published amendments to IAS 1 "Presentation of Financial Statements". The amendments are intended to be improvements to financial reporting with respect to the notes and include (a) a stronger focus on the principle of materiality, (b) a further breakdown of the minimum items to be shown on a balance sheet and the recognition of subtotals, (c) greater flexibility in preparing the notes with respect to the order of the notes and (d) revocation of the provisions in IAS 1 regarding identification of significant accounting policies as part of the notes. Entities are required to apply the new version for annual periods beginning on or after January 1, 2016, and it has not yet been endorsed by the EU. The impacts of first-time adoption cannot be reliably estimated until a more detailed analysis is performed, and such analysis is not yet complete.

Amendments to IAS 16 and IAS 38 "Clarification of Acceptable Methods of Depreciation and Amortization": The amendment to IAS 16 makes it clear that the use of revenue-based methods to calculate the depreciation of property, plant and equipment is not appropriate. The amendment to IAS 38 introduces the rebuttable presumption that revenues are not an appropriate basis for amortizing intangible assets. This presumption can only be rebutted in the following two cases:

a) When the intangible asset can be expressed as a measure of revenue. That would be the case, for example, if the term of a concession to extract mineral resources is not tied to a certain period of time, but to the total revenues generated by the mining of the mineral resources.

b) When revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

Entities are required to apply the new version for annual periods beginning on or after January 1, 2016, and it has not yet been endorsed by the EU. First-time adoption is not currently anticipated to have any impacts on the consolidated financial statements.

Amendments to IAS 19 "Employee Benefits": In November 2013, the IASB published amendments to IAS 19 "Defined Benefit Plans: Employee Contributions". The amendments introduce a choice with respect to 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. The amendments were endorsed by the EU in December 2014. It is anticipated that the first-time adoption of the new provisions will have no material effects on the presentation of the Group's assets, financial condition or earnings situation.

Amendments to IAS 27 "Equity Method in Separate Financial Statements": The amendments now allow the equity method to be used again to account for investments in subsidiaries, joint ventures and associates in an investor's separate financial statements. The amendments allow a company to recognize investments in subsidiaries, joint ventures and associates in separate financial statements either (a) at cost, (b) in accordance with IFRS 9 Financial Instruments or (c) using the equity method as in IAS 28 Investments in Associates and Joint Ventures. Entities are required to apply the new version for annual periods beginning on or after January 1, 2016, and it has not yet been endorsed by the EU. The first-time adoption of this amended standard is not currently expected to have material effects on the consolidated financial statements, because the election right applies to separate financial statements.

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 EU endorsed the amendments in December 2012. The first-time application is not currently expected to have any impact on the consolidated financial statements because the Group does not have any financial assets and liabilities that could be offset against each other.

Amendments to IAS 16 and IAS 41 "Agriculture: Bearer Plants": The amendments bring into the scope of IAS 16 bearer plants that are only used to create agricultural products, so that they are to be accounted for analogously to property, plant and equipment. To remove bearer plants from the scope and bring them into the scope of IAS 16, thereby allowing entities to account for them at amortized costs or in accordance with the new measurement model, the definition of a "bearer plant" was added to both standards. Entities are required to apply the new version for annual periods beginning on or after January 1, 2016. The amendments have not yet been endorsed by the EU. The first-time adoption is not expected to have any effects on the consolidated financial statements because bearer plants are not part of the Company's business model.

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

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

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

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

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

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

- In addition to comprehensive transitional provisions both for the transition and for ongoing application, IFRS 9 also contains wide-ranging disclosure requirements. New requirements versus IFRS 7 Financial Instruments: Notes result primarily from the rules on impairments.

The new standard is effective for annual periods beginning on or after January 1, 2018. The EU has yet not endorsed the standard. The effects of first-time adoption of IFRS 9 cannot be reliably estimated until a more detailed analysis is performed, and such analysis is not yet complete.

Amendments to IFRS 10 and IAS 28": Sales or contributions of assets between an investor and its associate/joint venture": The amendments address a conflict between the provisions of IAS 28 Investments in Associates and Joint Ventures and IFRS 10 Consolidated Financial Statements. They make it clear that in transactions with an associate or joint venture the amount of profit recognized depends on whether the assets sold or acquired constitute a business under IFRS 3. Entities are required to apply the new version for annual periods beginning on or after January 1, 2016. The EU has not yet endorsed the amendments. First-time adoption is not currently anticipated to have any effects on the consolidated financial statements.

Amendments to IFRS 10, IFRS 12 and IAS 28 "Applying the Consolidation Exception": The IASB approved amendments to IFRS 10, IFRS 12 and IAS 28 in December 2014. The amendments clarify the application of the consolidation exception when the parent company meets the definition of an investment entity. It is now explicitly stated that the exemption from the preparation of consolidated financial statements applies to subsidiaries of an investment entity that are themselves parent companies. A subsidiary that provides services related to the parent company's investment activities (investment-related services) is not to be consolidated if the subsidiary is itself an investment entity. A simplified use of the equity method is also possible for entities that themselves are not investment entities but hold investments in an associate that is an investment entity. Investment entities that measure all their subsidiaries at fair value must present all the disclosures on investment entities that are required by IFRS 12. Entities are required to apply the new version for annual periods beginning on or after January 1, 2016. The EU has not yet endorsed the amendments. First-time adoption is not currently expected to have any impact on the consolidated financial statements because the Company does not meet the definition of an investment entity.

Amendments to IFRS 11 "Accounting for Acquisition of Interests in Joint Operations": The amendments to IFRS 11 contain guidance on accounting for acquisition of interests in joint operations when such operations constitute a business within the meaning of IFRS 3. In such case all principles related to accounting for business combinations under IFRS 3 and other IFRSs are applicable as long as they do not conflict with the guidance in IFRS 11. The amendments are applicable to acquisitions of interests in an existing joint operation and to acquisitions of a joint operation upon its formation as long as the formation of the joint operation did not coincide with the formation of the business. Entities are required to apply the new version for annual periods beginning on or after January 1, 2016. The EU has not yet endorsed the amendments. First-time adoption is not currently anticipated to have any effects on the consolidated financial statements.

IFRS 14 "Regulatory Deferral Accounts": Under IFRS 14 Regulatory Deferral Accounts a company that is a first-time adopter of the IFRSs may, with a few limited exceptions, continue to recognize regulatory deferral accounts that it has recognized in its financial statements prepared under its previous accounting principles. This applies both to the first IFRS financial statements and to subsequent financial statements. Regulatory deferral accounts and changes to them must be shown separately in the statement of financial position and in the consolidated income statement or in comprehensive income. The new standard is effective for annual periods beginning on or after January 1, 2016. The EU has not yet endorsed the standard. First-time adoption is not expected to have any material effects on the Group's assets and liabilities, financial position or earnings.

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

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

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

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

The new standard is effective for annual periods beginning on or after January 1, 2017. The EU has not yet endorsed the standard. First-time adoption could necessitate material changes in the area of "internal controls" and the IT architecture because of the wide-ranging changes brought about by IFRS 15. The effects of first-time adoption of IFRS 15 cannot be reliably estimated until a more detailed analysis is performed, and such analysis is not yet complete.

IFRIC 21 "Levies": IFRIC 21 contains guidance on when to recognize a liability for a levy that is imposed by the government pursuant to statutory rules (such as bank levies). An entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. Levies do not have to be recognized until the event triggering payment occurs. The triggering event may also occur successively over a period of time, so that the liability may be accrued progressively. The new version is effective for annual periods beginning on or after July 1, 2014, and was endorsed by the EU in June 2014. First-time adoption is not currently expected to have any impact on the consolidated financial statements since the Company is not currently subject to any such levies.

Miscellaneous: "Improvements to International Financial Reporting Standards 2012", "Improvements to International Financial Reporting Standards 2013", "Improvements to International Financial Reporting Standards 2014": On December 12, 2013, the IASB issued its "Annual Improvements to IFRSs 2010-2012 Cycle" and "Annual Improvements to IFRSs 2011-2013 Cycle". On September 25, 2014, the IASB issued its "Annual Improvements to IFRSs 2012-2014 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 38 and IAS 24. The respective amendments are effective for reporting periods beginning on or after July 1, 2014 and are to be applied prospectively only. The EU endorsed the amendments in December 2014. The annual improvement project 2011-2013 made amendments to IFRS 1, IFRS 3, IFRS 13 and IAS 40, and is applicable to annual periods beginning on or after January 1, 2015. The EU endorsed the amendments in December 2014. The annual improvement project 2012-2014 made amendments to IFRS 5, IFRS 7, IAS 19 and IAS 34, and is applicable to annual periods beginning on or after January 1, 2016. The EU 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.

Estimation uncertainty and judgments

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

Assumptions and estimates relate mainly to:

Measurement of provisions: Management estimates are used to measure provisions. The carrying amount of warranty provisions, for example, is based on the historical development of warranties and on an assessment of all future, potential warranty cases, weighted by probability of occurrence. The long-term 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 fiscal year. No estimated useful lives were changed during the fiscal 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. In addition, the Company entered into a contract with the three Management Board members for a Stock Appreciation Rights Plan (SAR Plan). 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.

Scope of the consolidated financial statements

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

If the Company does not have a majority of voting rights, it still controls the investee if it has the practical ability through its voting rights to unilaterally direct relevant activities of the investee.

In determining whether its voting rights are sufficient for control, the Company takes all facts and circumstances into consideration, including:

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

Thus, the consolidated financial statements cover SFC as the ultimate parent company, SFC's U.S. subsidiary, the PBF Group, which was acquired in 2011, Simark Controls Ltd. and 541462 Alberta Ltd., which were acquired in 2013, and Simark Holdings Ltd., which was established in 2013. Subsidiaries are consolidated as of the date on which control is acquired and deconsolidated as of the date on which control is lost.

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 fiscal year of the companies included is the calendar year (January 1 to December 31).

The table below shows the direct and indirect stake the Company had in each of its consolidated subsidiaries as of December 31, 2014.

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	CAD
Simark Controls Ltd.	Alberta (Canada)	5.83	94.17	100.00	CAD
541462 Alberta Ltd.	Alberta (Canada)	15.00	85.00	100.00	CAD
PBF Group B.V.	Almelo (Netherlands)	100.00	–	100.00	EUR
PBF Power Srl	Cluj-Napoca (Rumania)	–	100.00	100.00	RON

In 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.

In fiscal year 2014 there were no changes to the ownership interests in the Group that would have resulted in loss of control. There were no material limitations on the ability of the Group of the subsidiaries to obtain access to or use the Group's assets or to meet the Group's liabilities.

ACCOUNTING PRINCIPLES

Revenue recognition

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

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 & 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 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 receivables 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 fiscal year 2014.

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

Leases are classified as finance leases if they transfer substantially all the risks and rewards incidental to ownership to the lessee. All other leases, where economic ownership remains with the lessor, are operating leases. In fiscal year 2014, there were several 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 unfinished goods 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 fiscal 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 when 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. Financial assets are impaired if there is objective evidence as a result of one or more events that occurred after the initial recognition of the asset that there has been a negative change in the expected cash flows from the financial investment. Objective evidence for our purposes essentially means significant financial difficulties on the part of customers or a breach of contract, such as payment default.

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

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

Government grants

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

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

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

Investment grants are deducted directly from acquisition costs.

Deferred and current 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.

Current taxes are recognized based on the actual country-specific tax rates.

Provisions

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

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

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

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

Financial liabilities

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

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

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

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

Consolidation

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

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

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

Foreign currency translation

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

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

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

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

in €

	Average rate	Average rate	Rate on reporting date	Rate on reporting date
	2014	2013	12/31/2014	12/31/2013
US-Dollar (USD)	1.3269	1.3282	1.2155	1.3767
Canadian Dollar (CAD)	1.4663	1.4163	1.4075	1.4636

2. NOTES ON THE CONSOLIDATED INCOME STATEMENT

(1) Sales

Sales are shown in the following table:

		in €
	2014	2013
Sales	**53,630,938**	**32,413,114**
thereof from POC	4,859,629	2,645,207

The 65.46 % increase in sales compared to the previous year is largely due to Simark Controls Ltd., which was acquired last year.

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 €
	2014	2013
Cost of materials	30,948,877	16,199,554
Personnel costs	3,567,321	2,887,827
Cost of premises	1,337,805	842,655
Other depreciation and amortization	797,995	731,186
Transport costs	663,547	661,398
Depreciation and amortization of self produced intangible assets	383,818	716,638
Consultancy	135,131	117,093
Other	135,396	332,148
Total	**37,969,890**	**22,488,499**

(3) Sales costs

Sales costs were as follows:

		in €
	2014	2013
Personnel costs	6,369,204	4,062,002
Depreciation and amortization	1,340,619	1,350,502
Advertising and travel costs	1,160,631	1,062,870
Consultancy/commissions	501,672	804,634
Cost of materials	97,765	110,608
Additions to allowances for receivables	116,718	11,890
Other	952,926	830,564
Total	**10,539,535**	**8,233,072**

(4) Research and development costs

Research and development costs were as follows:

		in €
	2014	2013
Personnel costs	3,198,177	3,309,768
Cost of materials	520,105	476,739
Consultancy and patents	460,720	558,508
Other depreciation and amortization	363,867	1,099,001
Cost of premisis	368,947	414,591
Impairment losses/Depreciation and amortization of self produced intangible assets	41,514	340,108
Other	221,228	249,297
Capitalization of self-produced intangible assets	–281,216	–206,595
Set-off against grants	–363,489	–808,165
Total	**4,529,853**	**5,433,253**

The figure for amortization of self-produced intangible assets includes €22,992 in impairment losses on capitalized development costs (previous year: €311,420).

(5) General administration costs

General administration costs were as follows:

		in €
	2014	2013
Personnel costs	2,509,892	1,840,478
Audit and consultancy costs	657,969	606,627
Investor relations/annual meeting	240,898	189,277
Insurance	196,040	197,708
Depreciation and amortization	164,737	153,210
Travel costs	159,148	172,341
Car-operating costs	120,581	108,496
Supervisory Board compensation	112,500	112,500
Recruiting costs	97,412	67,012
Costs of hardware and software support	66,018	51,869
Other	635,570	554,009
Set-off against grants	– 89,033	– 193,031
Total	**4,871,731**	**3,860,496**

(6) Other operating income

Other operating income was as follows:

		in €
	2014	2013
Foreign exchange transaction gains	95,641	71,963
Income from the reversal of provisions Simark earn-Out	15,289	0
Income from the reversal of provisions PBF earn-Out	0	921,331
Other	58,696	48,134
Total	**169,627**	**1,041,429**

(7) Other operating expenses

Other operating expenses were as follows:

		in €
	2014	2013
Contingent losses for premises	86,197	395,626
Foreign exchange transaction losses	48,545	189,342
Acquisition-related costs	0	1,076,409
Other	23,972	47,113
Total	**158,714**	**1,708,490**

(8) Restructuring expenses

There were no restructuring expenses in 2014. The expenses incurred in the prior year in the amount of €566,981 consisted almost entirely of payments related to layoffs.

(9) Financial result

Interest and similar income were as follows:

in €	2014	2013
Interest income from liquid funds	13,605	66,554
Total	**13,605**	**66,554**

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

in €	2014	2013
Interest cost on other provisions	83,317	75,242
Other	228,283	119,217
Total	**311,600**	**194,459**

(10) Income taxes

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

in €	2014	2013
Actual income taxes on the result for the current year	651,434	113,960
Deferred tax income (-)/expense (+) from:		
Reversal of deferred tax liabilities on other intangible assets	–391,665	–250,293
Recognition of deferred tax liabilities on capitalized development costs	23,875	40,800
Recognition of deferred tax assets on assets	0	1,531
Reversal/Recognition of deferred tax assets on inventories	–6,435	47,980
Recognition of deferred tax assets on other provisions	–18,098	–6,246
Balance income (–) / expenses (+) from income taxes	**259,111**	**–52,268**

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 25% (previous year: 18% to 26%) were applied.

Deferred tax assets and liabilities were as follows:

in €	12/31/2014	12/31/2013
Deferred tax assets		
Provisions	171,904	177,698
Loss carryforwards	35,905	120,427
Inventories	16,029	15,415
Other liabilities	203	158
Other	76,137	51,717
Total	**300,178**	**365,414**
Deferred tax liabilities		
Other intangible assets	1,034,931	1,401,505
Self-generated intangible assets	224,518	270,061
Other assets	49,776	63,378
Total	**1,309,225**	**1,734,944**

At the reporting date, there were tax losses carried forward in Germany and the United States in the amount of approximately € 43,275,357 (previous year: € 39,824,843) for corporate income tax purposes and approximately € 36,907,599 (previous year: € 33,806,060) for trade tax purposes. Deferred tax assets of € 35,905 (prior year: € 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. At December 31, 2014, no deferred tax assets had been recognized for € 79,915,346 (previous year: € 72,753,359) in tax loss carryforwards in the Group. Of these tax loss carryforwards, an amount of € 75,777,133 (previous year: € 68,854,454) can be carried forward indefinitely in Germany, while loss carryforwards in the US of € 4,138,213 (previous year: € 4,065,848) expire after 20 years. In addition, deferred tax assets on deductible temporary differences of € 6,103 (previous year: € 51,006) were not recognized either. Previous year figures have been adjusted on basis of the assessment of the tax loss carryforward.

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

The following table shows a reconciliation of the income taxes expected in the respective fiscal year to the actual tax expense (+) or tax income (-) shown on the consolidated income statement:

		in €
	2014	2013
Tax rate	27.38%	27.38%
Loss from ordinary operations	–4,567,152	–8,964,153
Expected tax income	–1,250,486	–2,454,385
Reconciliation to the reported tax income/expense		
Change in write-down of deferred tax assets	1,014,956	1,730,081
Differences in the tax rate	110,783	20,283
Taxes from permanent differences – non-deductible expenses	542,119	–40,223
Effect of goodwill impairment, non-tax-deductible	0	401,947
Differences arising from the currency translation	–99,646	31,237
Other	–58,614	258,793
Reported tax income/expense in the consolidated income statement	**259,111**	**–52,268**

(11) Cost of materials

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

		in €
	2014	2013
Raw materials and supplies and related goods	28,958,867	13,995,291
Related services	2,771,051	3,120,587
Total	**31,729,918**	**17,115,878**

(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 €
	2014	2013
Wages and salaries	11,381,288	8,939,678
Social security expenses required by law	1,359,898	1,215,237
Personnel costs from deferred payments (Simark)	1,136,643	0
Variables/bonuses	970,315	602,408
Other social security expenses/pensions	345,596	369,420
Expenses/income from SAR / Long Term Incentive Plan	118,428	–319,131
Personnel costs from earn-out	0	993,514
Restructuring expenses	0	566,981
Other	332,428	298,949
Total	**15,644,594**	**12,667,057**

The social security expenses required by law include the Company's share of € 555,210 in contributions to the public pension insurance system (previous year: € 618,841).

The average number of permanent employees was as follows:

	2014	2013
Full-time employees (incl. Management Board)	218	190
Part-time employees	32	31
Total	**250**	**221**

There was also an average of 7 (previous year: 6) 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 €	12/31/2014	12/31/2013
Finished goods	4,349,553	3,727,216
Raw materials and supplies	2,634,846	3,670,780
Unfinished goods	668,949	315,259
Total	**7,653,349**	**7,713,256**

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

in €	12/31/2014	12/31/2013
Raw materials and supplies – before impairment	2,913,176	3,934,562
Impairment	– 278,330	– 263,782
Net book value	**2,634,846**	**3,670,780**

in €	12/31/2014	12/31/2013
Unfinished and finished goods – before impairment	5,479,528	4,552,046
Impairment	– 461,026	– 509,571
Net book value	**5,018,502**	**4,042,476**

A total of € 131,532 for the impairment of inventories (previous year: € 313,365) was expensed to the consolidated income statement. Inventories with a remaining book value of € 4,745,728 were pledged as collateral for liabilities (previous year: € 3,501,976).

(15) Trade accounts receivable

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

in €	12/31/2014	12/31/2013
Trade accounts receivable – gross	11,774,226	9,424,795
Allowances for risk of default	– 227,872	– 166,746
Total	**11,546,354**	**9,258,049**

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 € 8,691,311 (previous year: € 4,883,323) were pledged as collateral for liabilities.

Trade accounts receivable with a remaining book value before write-downs of € 3,528,463 (previous year: € 2,220,700) were pledged as collateral for an as yet unused credit line (original interest rate of 5.6 %) in the amount of € 219,122 (previous year: € 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 €
	12/31/2014	12/31/2013
Proceeds shown	4,859,629	2,645,207
Costs incurred and gains recognized under contracts on or before the reporting date	6,384,315	3,568,464
Partial settlements	5,222,906	4,523,329
Production contracts with a positive balance due from the customer (reported as receivables from percentage-of-completion)	**1,219,263**	**217,932**
Production contracts with a negative balance due from the customer (reported as liabilities from percentage-of-completion)	**– 57,853**	**– 1,172,797**

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 fiscal year 2014, project volumes increased by a mere € 2,824 (previous year: decrease by € 7,617) because of these kinds of changes and because of exchange rate differences. In this connection, estimated total project costs remained the same as last year (prior year: increase by € 6,148). Consequently, sales increased by € 2,824 in 2014 (previous year: decrease of € 7,617), and the gross profit increased € 2,824 (previous year: decrease of € 13,765). As in the previous year, the change in total project costs will not cause any increase in contract costs in subsequent years (previous year: € 0).

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

(17) Income tax receivables

The income tax receivables in the amount of € 3,711 (previous year: € 110,014) relate to refunds of tax (including the solidarity surcharge) withheld on investment income 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 €	12/31/2014	12/31/2013
Deferred income	349,205	197,804
Other advance payments	217,543	209,204
Receivables from grants	45,400	81,644
VAT receivables	17,033	312,553
Prepayments made	14,337	236,186
Other	67,970	170,276
Total	**711,486**	**1,207,667**

The other assets and receivables include financial assets in the amount of € 262,943 (previous year: € 291,924).

(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 time deposit blocked in favor of the landlord in the amount of € 285,000 in connection with the lease for the Company's building at Eugen-Sänger-Ring 7. In the previous year there was a bank guaranty in the amount of € 285,000, for which time deposits in the amount of € 285,000 were pledged.

(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 01/01/2013	**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**
Additions	139,312	31,836	0	281,216	0	0	452,364
Disposals	– 23,781	0	0	0	0	0	– 23,781
Differences arising from the currency translation	6,295	30,101	0	0	284,050	166,045	486,491
as at 12/31/2014	**852,843**	**475,318**	**571,487**	**4,969,419**	**13,550,580**	**6,985,999**	**27,405,646**
Depreciation and impairment losses as at 01/01/2013	**– 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**
Scheduled depreciation	– 86,404	– 50,257	– 18,522	– 383,818	0	– 1,533,264	– 2,072,264
Disposals	22,526	0	0	0	0	0	22,526
Impairment losses	0	0	0	– 22,992	0	0	– 22,992
Differences arising from the currency translation	– 4,985	– 7,992	0	0	0	– 70,052	– 83,028
as at 12/31/2014	**– 578,725**	**– 193,754**	**– 560,206**	**– 3,829,913**	**– 1,468,032**	**– 2,961,891**	**– 9,592,521**
Carrying amounts							
as at 01/01/2013	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**
as at 12/31/2014	**274,118**	**281,564**	**11,281**	**1,139,506**	**12,082,548**	**4,024,108**	**17,813,125**

Development costs

Grants of € 452,522 (previous year: € 1,001,196) were received in connection with development activities and were shown as a reduction of research and development costs (€ 363,489, previous year: € 808,165) and of general administration costs (€ 89,033, previous year: € 193,031).

There were indications in fiscal year 2013 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 fiscal year 2013. 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 related to the Security & Industry segment.

Impairment Tests for Goodwill

The goodwill in the consolidated financial statements relates to the differences between the purchase prices for the PBF Group and Simark Controls Ltd. and the net assets of the businesses acquired, as measured under IFRS 3.

The goodwill of the PBF Group was fully allocated to the cash-generating unit PBF Group within the Security & Industry segment, while the goodwill from the merger with Simark Ltd. was fully allocated to the Oil & Gas segment.

To figure the recoverable amount in the two cases, we measured the fair value less costs to sell by discounting the projected cash flows. Fair value is determined using the total material inputs under stage 3 in the hierarchy under IFRS 13.

In doing so, the planned cash flows from the three-year planning (2015 to 2017) prepared by Management was used. In addition, the plan values were then extrapolated using a growth rate of 1.5 % (2018) and 0.5 % (2019), which was also recognized as the sustainable growth rate.

Goodwill of the PBF Group

The goodwill of the PBF Group amounted to € 4,671,937.

The material assumptions made in determining the fair value less costs to sell are revenue growth, operating EBITDA margin and the cost of capital used.

Revenue growth and EBITDA margin

The assumptions result from the budget prepared by Management, which includes a projection of revenue, operating costs and the investments and amortization for a period of three years. The relevant cash flows result from the revenue and profit planning and other working capital assumptions.

The growth assumptions are based on the general economic environment, the performance of the relevant markets and the specific tapping of new markets in terms of region (Asia) and industry (lasers, semiconductors, security), particularly on the basis of system solutions. Because of this identified potential, an above-average growth rate is expected, which corresponds to a compound average growth rate (CAGR) of approximately 9.3 % p.a. over the entire planning horizon.

The planned growth in EBITDA margin is based on the historically observable gross margin and on detailed planning of resources and costs of materials. The long-term expected operating EBITDA margin amounts to approximately 13 %.

Cost of capital

The cost of capital used to discount the cash flows is the weighted average cost of capital (WACC), which was determined on the basis of a group of comparable companies in the same industry as the PBF Group using publicly available data. The WACC indicates the average weighted return required by equity and debt providers based on the relative portion of each type of capital provided and the time value of money. An analysis of the costs of equity and debt and the capital structure at present values is necessary to determine the WACC. The cost of capital used in the reporting year was approximately 7.8 % (or approximately 7.3 % after subtracting the terminal growth rate).

There were no indications of goodwill impairment during the reporting year. To estimate the sensitivity of the measurement result, scenario analyses were conducted, the results of which did not exceed the carrying amount even if material assumptions were changed in ways considered possible.

Goodwill of Simark Controls Ltd.

The goodwill on the acquisition of Simark Controls Ltd. amounts to € 7,410,611 (CAD 10,430,435).

The material assumptions in determining the fair value less costs to sell are revenue growth, the operating EBIDTA margin and the cost of capital used.

Revenue growth and EBITDA margin

The assumptions result from the budget prepared by management, which includes a projection of revenue, operating costs and the investments and amortization for a period of three years. The relevant cash flows result from the revenue and profit planning and other working capital assumptions.

The growth assumptions are based on the segment-specific market environment and the currently observed growth rates of the company. Over the entire planning horizon, the average compound annual growth rate (CAGR) amounts to approximately 13.6 % p.a.

The planned growth in EBITDA margin is based on the historically observable gross margin and on detailed planning of resources and costs of materials. The long-term expected operating EBITDA margin amounts to approximately 12 %.

Cost of capital

The cost of capital used to discount the cash flows is the weighted average cost of capital (WACC), which was determined on the basis of a group of comparable companies in the same industry as Simark Ltd. using publicly available data. The WACC indicates the average weighted return required by equity and debt providers based on the relative portion of each type of capital provided and the time value of money. An analysis of the costs of equity and debt and the capital structure at present values is necessary to determine the WACC. The cost of capital used in the reporting year was approximately 8.1 % (or approximately 7.6 % after the subtracting the terminal growth rate).

There were no indications of goodwill impairment during the reporting year. To estimate the sensitivity of the measurement result, scenario analyses were conducted, the results of which did not exceed the carrying amount even if material assumptions were changed in ways considered possible.

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

As part of the PBF Group acquisition, customer relationships, technology and the 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 01/01/2014	**1,408,354**	**1,231,359**	**14,309**	**2,654,022**
Changes in the scope of consolidation	0	0	0	0
as at 12/31/2014	**1,408,354**	**1,231,359**	**14,309**	**2,654,022**
Depreciation and impairment losses as at 01/01/2014	**– 366,758**	**– 427,556**	**– 14,309**	**– 808,623**
Scheduled depreciation	– 176,044	– 205,227	0	– 381,271
as at 12/31/2014	**– 542,802**	**– 632,783**	**– 14,309**	**– 1,189,894**
Carrying amounts as at 01/01/2014	**1,041,596**	**803,803**	**0**	**1,845,399**
as at 12/31/2014	**865,552**	**598,576**	**0**	**1,464,128**
Remaining term of depreciation and amortization (in years)	5	3	0	

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

				in €
	Simark brand	Customer relationships	Order book	Total
Acquisition costs as at 01/01/2014	**36.661**	**3.828.291**	**300.980**	**4.165.932**
Changes in the scope of consolidation	0	0	0	0
Differences arising from the currency translation	1.461	152.588	11.996	166.045
as at 12/31/2014	**38.122**	**3.980.878**	**312.977**	**4.331.977**
Depreciation and impairment losses as at 01/01/2014	**0**	**– 346.288**	**– 203.665**	**– 549.953**
Scheduled depreciation	– 12.198	– 1.042.659	– 97.135	– 1.151.992
Differences arising from the currency translation	– 510	– 57.366	– 12.176	– 70.052
as at 12/31/2014	**– 12.707**	**– 1.446.313**	**– 312.977**	**– 1.771.997**
Carrying amounts as at 01/01/2014	**36.661**	**3.482.003**	**97.315**	**3.615.979**
as at 12/31/2014	**25.415**	**2.534.565**	**0**	**2.559.980**
Remaining term of depreciation and amortization (in years)	2	2 – 3	0	

(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 01/01/2013	**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**
Additions	62,385	234,929	297,314
Disposals	–18,966	–220,679	–239,646
Differences arising from the currency translation	2,872	14,472	17,344
as at 12/31/2014	**1,821,672**	**3,454,957**	**5,276,630**
Depreciation and impairment losses as at 01/01/2013	**–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**
Scheduled depreciation	–231,130	–427,429	–658,558
Disposals	18,951	213,937	232,888
Impairment losses	–338,735	0	–338,735
Differences arising from the currency translation	–487	–5,070	–5,557
as at 12/31/2014	**–1,408,801**	**–2,266,778**	**–3,675,579**
Carrying amounts			
as at 01/01/2013	582,653	1,817,638	2,400,291
as at 12/31/2013	**917,980**	**1,378,019**	**2,295,999**
as at 12/31/2014	**412,871**	**1,188,179**	**1,601,049**

Fixtures and fittings with a remaining book value of € 1,473,297 have been pledged as collateral for liabilities (previous year: € 1,174,213).

(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 01/01/2014	**1,880,539**	**609,586**	**23,245**	**2,513,371**	**88,466**
Differences arising from the currency translation	0	0	3,835	3,835	0
Additions	475,181	86,197	69,606	630,984	0
Interest cost	58,219	25,098	0	83,317	0
Use	– 452,445	– 170,643	0	– 623,088	– 4,117
Reversal	– 246,153	0	0	– 246,153	– 23,844
as at 12/31/2014	**1,715,341**	**550,238**	**96,686**	**2,362,265**	**60,505**
of which with a remaining term of between one and five years	1,207,004	432,877	96,686	**1,736,567**	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 2.90 % (previous year: 3.43 %) for those obligations that would first be due after two years, 3.07 % (previous year: 3.59 %) for those due after three years, 3.26 % (previous year: 3.76 %) for those due after four years and 3.45 % (previous year: 3.93 %) 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 2.90 % to 3.62 % (previous year: 3.43 % to 4.22 %) depending on the remaining term.

Other miscellaneous provisions

The item other miscellaneous provisions includes a bonus payable annualy to sales employees for a period of 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. The short-term liabilities to banks consist of a variable interest rate loan to Simark Holdings Ltd. in the amount of € 677,482 (previous year: € 402,651) that matures on August 15, 2018 and drawdowns on Simark Controls Ltd.'s credit line in the amount of € 804,653 (previous year: € 1,179,549) and the PBF Group's credit line in the amount of € 530,878 (previous year: € 556,936). The long-term portion of the loan for Simark Holdings Ltd. comes to € 3,045,313 (previous year: € 2,281,526) 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 €

	12/31/2014	12/31/2013
Other equipment, fixtures and fittings	141,893	73,743
Net book value capitalized in conjunction with finance leases	**141,893**	**73,743**

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 €

	12/31/2014			12/31/2013		
	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	50,967	1,708	49,259	53,566	1,795	51,771
between 1 and 5 years	107,776	21,342	86,433	38,354	7,595	30,759
Total	**158,743**	**23,050**	**135,692**	**91,920**	**9,390**	**82,530**

(28) Other liabilities

Other short-term liabilities were as follows:

		in €
	12/31/2014	12/31/2013
Deferred payment from the acquisition (Simark)	1,184,133	0
Variables/bonuses	877,210	668,569
VAT	440,840	241,722
Outstanding vacation	335,980	252,299
Wage tax	267,402	244,949
Christmas bonus	128,243	154,210
Social security	125,654	81,578
Trade association contributions	48,000	49,000
Retention of business records	30,600	30,500
Compensatory tax for the severely disabled	10,180	10,920
Overtime	8,680	4,756
Contingent consideration from acquisition (Simark)	0	961,406
Restructuring expenses	0	443,407
Long Term Incentive Plan	0	77,161
Supervisory board compensation	0	50,000
Expenses from termination of contracts	0	25,200
Accruals for invoices	0	15,334
Other	79,563	18,628
Total	**3,536,483**	**3,329,640**

Other long-term liabilities as at December 31, 2014 relate exclusively to the obligation recognized from the Stock Appreciation Rights Plan (SAR Plan) for Management Board members in the amount of € 118,428. In the prior year this item related exclusively to the non-current portion of an obligation resulting from the termination of employment relationships (€ 70,648).

Other liabilities include financial liabilities of € 1,232,133 (previous year: € 1,060,406).

(29) Income tax liabilities

The income tax liabilities of € 153,270 (previous year: € 72,937) 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 € 8,611,204 (previous year: € 8,020,045) and was divided into 8,611,204 (previous year: 8,020,045) bearer shares without par value, with a notional amount in the capital stock of € 1.00 per no-par-value share.

In reliance on the authorization granted by the general meeting held on May 6, 2013 (authorized capital 2013), and with the Supervisory Board's consent, the Company increased its capital stock pursuant to the articles of association by € 591,159, from € 8,020,045 to € 8,611,204, through the issuance of 591,159 new bearer shares of common stock without par value (no-par-value shares) with a notional amount in the capital stock of € 1.00 each and full dividend rights starting January 1, 2014, in exchange for cash, with the preemptive subscription right of existing shareholders excluded. The execution of the capital increase was recorded in the Commercial Register of the Local Court of Munich on December 2, 2014. 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 € 71,954,950 at the reporting date (previous year: € 69,569,925). The increase of € 2,672,039 is attributable to capital increase described above, in which 591,159 no-par-value shares of stock with a notional amount in the capital stock of € 1.00 per non-par-value share were issued at a price of € 5.52 each. The costs of € 287,014 associated with the capital increase were then debited to the capital surplus account, without recognition in profit or loss. Deferred tax assets were not formed on these costs.

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 Section 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.

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 € 2,643,126 on one or more 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 Section 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.

Authorization to acquire own shares

The shareholders' meeting on May 6, 2010, authorized the Company to acquire its own shares by May 5, 2015, up to 10 % of the Company's share capital 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 € 2,401,734 (previous year: € 1,634,275) were recognized from operating leases in 2014.

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 €
	12/31/2014	12/31/2013
Minimum rent payments under operate leases		
within 1 year	1,978,902	1,850,423
between 1 and 5 years	5,379,770	6,159,372
> 5 years	232,873	1,246,923
Total	**7,591,545**	**9,256,718**

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 € 6,917,617 (previous year: € 11,223,253) as of the reporting date. These relate primarily to blanket orders for raw materials and supplies.

Contingent liabilities

There is a contingent liability for the contingent consideration in the form of second cash component in connection with the acquisition of Simark in the amount of € 1.18 million, due in 2016 (previous year: 2.39 million).

(33) Financial instruments

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

CARRYING AMOUNTS SHOWN ON THE BALANCE SHEET		in €
	12/31/2014	12/31/2013
Financial assets		
Loans and receivables		
Trade accounts receivable	11,546,354	9,258,049
Other assets and receivables – short term	262,943	290,848
Cash and cash equivalents	6,122,418	7,142,536
Cash and cash equivalents with limitation on disposal	285,000	285,000
Financial liabilities		
Liabilities carried at amortized cost		
Liabilities to banks	5,058,326	4,420,661
Trade accounts payable	6,871,734	5,086,833
Liabilities under finance leases	135,692	82,530
Other liabilities – short term	1,232,133	99,000
Liabilities measured as at fair value through profit or loss		
Other liabilities – short term	0	961,406

The carrying amounts 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 carrying amount 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 carrying amounts of the financial assets and financial liabilities carried at amortized cost in the previous year were close to the fair values, as well, because they were all short-term. Financial assets and liabilities measured at fair value are assigned to one of the following three hierarchy levels: Financial assets and financial liabilities are assigned to Level 1 if there are quoted prices in active markets for identical assets and liabilities. They are assigned to Level 2 if the inputs on which the fair value measurement is based are observable either directly as prices or indirectly from prices. Financial assets and liabilities are assigned to Level 3 if the fair value measurement is not based on observable inputs. In fiscal year 2014 there were no financial liabilities fair valued as Level 3 liabilities. The contingent consideration for the acquisition of Simark Controls Ltd. (the earn-out component), which was fair-valued at € 961,406 last year, had a fair value of € 0 at December 31, 2014.

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

RECONSILIATION OF THE FINANCIAL INSTRUMENTS		in €
	2014	2013
Balance sheet amount as at 01/01	**961,406**	**1,313,581**
Changes affecting profit or loss	– 15,289	– 901,097
Additions	0	961,406
Disposals	– 946,117	– 412,484
Balance sheet amount as at 12/31	**0**	**961,406**

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

EXPENSES AND INCOME FROM THE FINANCIAL INSTRUMENTS		in €
	2014	2013
Financial assets		
Loans and receivables		
Trade accounts receivable		
Income from write-downs of trade accounts receivable	17,017	6,209
Expense from write-downs of trade accounts receivable	– 116,718	– 11,891
Income from currency translation of trade accounts receivable	93,722	70,749
Expense from currency translation of trade accounts receivable	– 37,349	– 184,241
Cash and cash equivalents		
Interest income	13,605	66,555
Net result of loans and receivables	**– 29,723**	**– 52,619**
Financial liabilities		
Liabilities carried at amortized cost		
Liabilities to banks		
Interest expense	– 228,283	– 34,830
Trade accounts payable		
Income from currency translation of trade accounts payable	1,919	1,214
Expense from currency translation of trade accounts payable	– 11,196	– 5,101
Net result of liabilities carried at amortized cost	**– 237,560**	**– 38,717**
Financial liabilities		
measured at fair value through profit or loss		
Other liabilities		
Income from the reversal of liabilities Simark/PBF earn-out	15,289	921,331
Net result of liabilities carried at fair value through profit or loss	**15,289**	**921,331**

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 and the cash capital increase in November 2014 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 €
	12/31/2014	12/31/2013
Equity	**27,588,933**	**29,062,957**
As a percentage of total capital	58.4%	61.0%
Long-term liabilities	6,295,965	5,917,537
Short-term liabilities	13,371,035	12,669,182
Liabilities	**19,667,000**	**18,586,719**
As a percentage of total capital	41.6%	39.0%
Total equity and liabilities	**47,255,933**	**47,649,676**

SFC's capital structure changed in fiscal year 2014 because of the capital increase, which was only partially able to offset the consolidated loss for the period. SFC still shows an equity ratio of 58.4% (previous year: 61.0%).

One of the instruments employed by the Company for internal steering in fiscal year 2014 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 €

	2014	2013
EBIT (earnings before interest and taxes)	**–4,269,158**	**–8,836,248**
Restructuring expenses	0	566,981
Reported as production costs of work performed to generate sales		
Impairment of fixed assets	338,735	0
Impairment of intangible assets identified in acquisitions	97,135	210,467
Expenses for acquisition-related materials	0	27,739
Expenses for acquisition-related personnel costs	196,412	171,679
Reported as research and development costs		
Impairment losses capitalized development	0	311,420
Impairment of goodwill	0	734,016
Reported as sales costs		
Expenses from contract terminations	117,500	50,000
Impairment of intangible assets identified in acquisitions	1,054,857	357,853
Expenses for the management board SAR Plan	50,210	0
Expenses for personnel, bonus	69,606	24,021
Expenses for acquisition-related personnel costs	743,819	650,155
Impairment of goodwill	0	734,016
Reported as general administrations costs		
Expenses from contract terminations	42,045	30,000
Expenses for the management board SAR Plan	68,218	0
Expenses for acquisition-related personnel costs	196,412	171,679
Reported as other operating expenses		
Contingent losses from rent expenses and leasing	86,197	395,626
Acquisition-related costs	0	1,076,409
Other one off effects	0	28,125
Reported as other operating income		
Income from the reversal of earn-out provision identified in acquisitions	–15,289	–921,331
Underlying operating result (EBIT)	**–1,223,301**	**–4,217,392**

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 € 11,546,354 in trade accounts receivable (previous year: € 9,258,049), the five largest customers account for € 1,257,311, € 472,029, € 433,706, € 324,827 and € 302,770 (previous year: € 714,555, € 556,347, € 498,626, € 411,709 and € 359,329 attributable to the five largest 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 €
	2014	2013
Write-downs at 1/1	**166,746**	**103,924**
Changes in the scope of consolidation	0	84,377
Additions	116,718	11,890
Use	– 38,574	– 27,234
Release	– 17,017	– 6,212
Write-downs at 12/31	**227,872**	**166,746**

There are also past-due trade accounts receivable that have thus far not been written down in the amount of € 3,362,522 (previous year: € 2,193,882). These can be broken down by maturity range as follows:

		in €
	2014	2013
Gross book value of the impaired receivables	227,872	284,376
Specific write-downs	– 227,872	– 166,746
Net book value of the impaired receivables	**0**	**117,631**
Not past due or impaired	8,183,831	6,946,537
Past due and not impaired		
Up to one month past due and not impaired	1,998,813	1,169,043
One to three months past due and not impaired	723,375	595,266
Three to six months past due and not impaired	439,984	408,181
Over six months past due and not impaired	200,350	21,392
Receivables per balance sheet	**11,546,354**	**9,258,049**

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

No write-downs of the other financial assets were taken. There were no past-due receivables in this regard at the balance sheet date.

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

Liquidity risk

Liquidity risk describes the possibility that SFC may not be able to meet its payment obligations. This risk was counteracted by the capital increases in May 2007 and November 2014. However, the cash reserves dropped significantly from the prior year due to the Simark acquisition and net loss in 2014.

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

SFC is subject to liquidity risks from the financial liabilities that it holds, which are presented undiscounted in the table below on the basis of their earliest possible maturity. The cash flows from financial instruments that are short-term and long-term assets are also shown. The remaining net liquidity outflow is covered by existing cash.

						in €
	2014			2013		
	Total	1 year	> 1 year	Total	1 year	> 1 year
Original financial liabilities						
Liabilities to banks	–5,058,326	–2,013,013	–3,045,313	–4,420,661	–2,139,136	–2,281,526
Trade accounts payable	–6,871,734	–6,871,734	0	–5,086,833	–5,086,833	0
Liabilities under finance lease	–135,692	–49,259	–86,433	–82,530	–51,771	–30,759
Other financial liabilities	–1,232,133	–1,232,133	0	–1,060,406	–1,060,406	0
Total cash outflow	**–13,297,886**	**–10,166,139**	**–3,131,746**	**–10,650,430**	**–8,338,145**	**–2,312,284**
Original financial assets						
Cash and cash equivalents	6,407,418	6,407,418	0	7,427,536	7,427,536	0
Trade accounts receivable	11,546,354	11,546,354	0	9,258,049	9,258,049	0
Other financial assets	262,943	262,943	0	290,848	290,848	0
Total cash inflow	**18,216,714**	**18,216,714**	**0**	**16,976,433**	**16,976,433**	**0**
Net liquidity from financial instruments	**4,918,829**	**8,050,575**	**–3,131,746**	**6,326,003**	**8,638,288**	**–2,312,284**

With respect to those financial liabilities having a residual maturity of more than one year, the Group expects to make interest payments of € 459,194 (previous year: € 496,555) through the end of the liabilities' term, assuming an interest rate of 5.20 % (previous year: 6.22 %).

Cash and cash equivalents with limitation on disposal are included.

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 € 4,671 (previous year: € 2,624). 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 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 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 fiscal year 2014.

There would have been a positive effect of € 225,818 (previous year: € 164,540) on the Group's equity if, when translating the assets and liabilities of SFC Energy Inc. at December 31, 2014, the exchange rate had fluctuated by – 5 % and a negative effect of € 225,818 (previous year: € – 164,540) if the rate had fluctuated by + 5 %. There would have been a negative effect of € 998,533 (previous year: € – 1,027,868) on the Group's equity if, when translating the assets and liabilities of Simark Controls Ltd. at December 31, 2014, the exchange rate had fluctuated by – 5 % and a positive effect of € 998,533 (previous year: € 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, 2014 would have led to an decrease of € 2,756 (previous year: € – 838) in the foreign currency result if the rate had fluctuated by – 5 % and an increase of € 2,756 (previous year: € 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 position is calculated on the basis of actual and planned foreign currency positions and adjusted in the context of the rolling year-end forecast. If large open positions exist, 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. 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 2014 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)	2.0 – 4.0	2.0	2.0 – 4.0
Contractual remaining term on 12/31/2014 (years)	1.0	1.0	1.0 – 2.0
Outstanding number of phantom shares at the beginning of the 2014 reporting period (1/1/2014)	61,582	31,853	33,951
during the 2014 reporting period			
Phantom shares awarded	0	0	0
Phantom shares forfeited	36,317	18,785	33,951
Phantom shares exercised	0	0	0
Phantom shares expired	0	0	0
Phantom shares outstanding at the end of the 2014 reporting period (12/31/2014)	**25,265**	**13,068**	**0**
Exercisable phantom shares at the end of the 2014 reporting period (12/31/2014)	**0**	**0**	**0**

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	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**

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, 2014 and December 31, 2013 was based on the following inputs:

Measurement date	12/31/2014	12/31/2013
Remaining term (years)	1.0	1.0 – 3.0
Share price on the measurement date	€ 5.50	€ 3.93
Strike price	€ 0.00	€ 0.00
Expected volatility	23.22 %	28.30 % – 35.94 %
Risk-free interest rate	–0.12 %	0.10 % – 0.48 %
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 historic volatility is indicative of future trends, which means that 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: € 0.00).

For the year ended December 31, 2014, SFC AG expensed the following amount for cash-settled share-based payment arrangements under the LTIP:

		in €
	2014	2013
Income for cash-settled share-based payment transactions	0	–319,131

At December 31, 2014, liabilities of € 0 and € 0 were accrued under other short-term liabilities and other long-term liabilities, respectively (previous year: € 77,161 and € 0).

Stock Appreciation Rights Plan

As part of the new Management Board employment agreements, the Company entered into a contract for the creation of a stock appreciation rights plan (SAR Plan) with the three Management Board members, Dr. Podesser (tranche PP1), Mr. Pol (Tranche HP1) and Mr. Schneider (Tranche StS1). The goal of the plan is to foster a business policy that is strongly aligned with shareholder interests in order to promote the long-term appreciation of the shareholders' stakes in the Company.

The plan envisages the payment of variable compensation in the form of stock appreciation rights (SARs). One SAR entitles its holder to a cash payment equal to the share price upon exercise less the exercise price. Once vested, SARs can be exercised within one year's time, except on blackout dates, provided certain performance targets are reached. The number of SARs available to exercise largely depends on the average price of SFC's stock for the 30 trading days prior to the end of the vesting period (reference price). The number of SARs for beneficiaries that will expire at the respective expiration date is as follows:

Reference price in €	Tranche PP1 of SAR expiring on April 1, 2015	Tranche PP1 of SAR expiring on April 1, 2016	Tranche PP1 of SAR expiring on April 1, 2017	Tranche HP1 of SAR expiring on January 1, 2015	Tranche StS1 of SAR expiring on Sept. 1, 2015	Tranche StS1 of SAR expiring on Sept. 1, 2016	Tranche StS1 of SAR expiring on Sept. 1, 2017
< 5.00	120,000	120,000	120,000	90,000	60,000	60,000	60,000
5.00 – 5.99	110,000	110,000	110,000	82,500	55,000	55,000	55,000
6.00 – 6.99	100,000	100,000	100,000	75,000	50,000	50,000	50,000
7.00 – 7.99	90,000	90,000	90,000	67,500	45,000	45,000	45,000
8.00 – 8.99	80,000	80,000	80,000	60,000	40,000	40,000	40,000
9.00 – 9.99	70,000	70,000	70,000	52,500	35,000	35,000	35,000
10.00 – 10.99	60,000	60,000	60,000	45,000	30,000	30,000	30,000
11.00 – 11.99	50,000	50,000	50,000	37,500	25,000	25,000	25,000
12.00 – 13.99	40,000	40,000	40,000	30,000	20,000	20,000	20,000
14.00 – 15.99	30,000	30,000	30,000	22,500	15,000	15,000	15,000
≥ 16.00	0	0	0	0	0	0	0

One of the performance targets involves the requirement that the average share price for the 30 trading days prior to the end of the vesting period exceed the average share price for the 30 trading days prior to the award of the SARs. In addition, the stock price must have outperformed the Frankfurt Stock Exchange's ÖkoDAX as of the end of the vesting period.

The SARs awards have been classified and measured as cash-settled share-based payment transactions pursuant to IFRS 2.30. Their fair market value will be remeasured on each balance sheet date using a Monte Carlo model, taking into account the terms on which the SARs were awarded.

The status of the SARs in 2014 is shown in the following table:

	Tranche PP1	Tranche HP1	Tranche StS1
Number of stock appreciation rights (SAR)	360,000	90,000	180,000
Maximum term (years)	7.00	5.00	7.00
Outstanding number of SAR at the beginning of the reporting period (1/1/2014)	0	0	0
during the 2014 reporting period			
SAR awarded	360,000	90,000	180,000
SAR forfeited	0	82,500	0
SAR exercised	0	0	0
SAR expired	0	0	0
SAR outstanding at the end of the reporting period (12/31/2014)	360,000	7,500	180,000
Exercisable SAR at the end of the reporting period (12/31/2014)	0	0	0
The following inputs were used in the measurement at December 31, 2014:			
Measurement date	12/31/2014	12/31/2014	12/31/2014
Remaining term (in years)	6.25	4.00	6.67
Expected volatility	38.73 %	38.67 %	43.00 %
Risk-free interest rate	0.11 %	0.09 %	0.15 %
Dividend yield	0.00 %	0.00 %	0.00 %
Strike price	1.00 €	1.00 €	1.00 €
Share price as of the measurement date	5.50 €	5.50 €	5.50 €

For the term, the length of time from the measurement date to the end of the respective agreement was used. The share price given was the closing price in XETRA trading for December 31, 2014. The volatility shown is based on the historical volatility of the SFC share over time frames matching the respective remaining terms. Volatility expectations are based on the assumption that historic volatility is indicative of future trends, and thus the actual volatility may deviate from the assumptions. The expected dividend yield is based on market estimates for SFC's dividend per share in 2014 and 2015.

At December 31, 2014, a liability of € 118,428 was recognized in connection with the SAR Plan under other liabilities (€ 118,428 thereof under other long-term liabilities) (previous year: € 0, with € 0 thereof under other long-term liabilities). The amount expensed for the period from January 1 to December 31 was € 118,428 (previous-year period: € 0).

(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 fiscal years 2013 and 2014:

Management Board members

Dr. Peter Podesser, Simbach am Inn, a businessman (Chairman)
Gerhard Inninger, Munich, who holds a degree in finance (until May 16, 2014)
Steffen Schneider, Gräfelfing, a businessman (as of September 1, 2014)
Hans Pol, Ede, Netherlands, a businessman (as of January 1, 2014)

Supervisory Board members

Tim van Delden, Düsseldorf, who holds a degree in engineering (Chairman)
David William Morgan, Rolvenden (United Kingdom), MA ACA, a businessman (Deputy Chairman)
Dr. Jens Müller, Munich, who holds a degree in chemistry (until May 16, 2014)
Hubertus Krossa, Wiesbaden, a businessman (since May 16, 2014)

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 in fiscal year 2014.

The compensation of persons in key positions was as follows:

				in €
	2014		2013	
	Fixed portion	Variable portion	Fixed portion	Variable portion
Management Board	718,158	296,040	572,274	86,326
Supervisory Board	112,500	0	112,500	0
Total	**830,658**	**296,040**	**684,774**	**86,326**

We had € 449,273 in liabilities to persons in key positions as of the reporting date (previous year: € 282,898).

The variable portion includes the expense for the Stock Appreciation Rights Plan (SAR Plan) for members of the Management Board.

FINANCIAL YEAR 2014				in €
	Fixed compensation	Short-term performance based compensation	Long-term performance based compensation	Total
Dr. Peter Podesser	370,648	112,571	76,468	559,687
Gerhard Inninger	79,970	18,374	0	98,344
Hans Pol	200,564	30,000	19,623	250,187
Steffen Schneider	66,976	16,667	22,337	105,980
Total	**718,158**	**177,612**	**118,428**	**1,014,197**

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**

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 Plan (LTIP) were reversed in fiscal year 2013. No payments from the LTIP have yet been made to Dr. Podesser.

(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

	2014	2013
Number of shares in circulation at the beginning of the period	8,020,045	7,502,887
Number of shares in circulation at the end of the period	8,611,204	8,020,045
Weighted average number of shares in circulation	**8,069,308**	**7,675,273**
Number of potentially dilutive shares of common stock	0	0
Weighted average number of shares used to calculate the diluted earnings per share	**8,069,308**	**7,675,273**
Consolidated net loss (€)	**–4,826,263**	**–8,911,885**
Net loss per share diluted (€)	–0.60	–1.16
Net loss per share undiluted (€)	–0.60	–1.16

(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 (€ 660,765; previous year: € 1,247,771) as well as time and call deposit accounts (€ 5,461,653; previous year: € 5,894,765).

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 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 implementing the realignment of its business with the core markets "Oil & Gas," "Security & Industry" and "Consumer".

The segment reporting in fiscal 2014 and the prior-year figures were adjusted to fit the new internal reporting structure.

The "Oil & Gas" segment covers distribution and service as well as product integration for power supply, instrumentation and automation products for the oil & gas market.

The "Security & Industry" segment is highly diversified and could include any area of industry, except oil & gas, where professional users run electrical equipment away from the grid and use SFC's EFOY Pro fuel cell. This includes applications in security and surveillance, traffic management, wind power and environmental technology, as well as defense and security applications for military organizations and government authorities. The product portfolio for this market also includes the portable JENNY, the vehicle-based EMILY, the SFC Power Manager and network solutions. Additionally, PBF sells its high-performance electronic components for integration into precision defense equipment as well as into testing and metering systems in this segment.

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

There is no offsetting between the segments. The net result from interest income and interest expenses is shown in the financial result.

Below is a breakdown of sales and non-current segment assets by region:

in €

	Sales from transactions with external customers		Long-term Assets	
	2014	2013	12/31/2014	12/31/2013
North America	30,499,555	10,187,749	10,488,083	11,194,459
Europe (not including Germany)	12,944,192	12,420,514	7,188,753	7,559,401
Germany	7,804,914	7,144,709	1,737,338	2,595,948
Asia	1,793,583	1,918,501	0	0
Rest of the world	588,694	741,641	0	0
Total	**53,630,938**	**32,413,114**	**19,414,174**	**21,349,808**

Sales were broken down by region on the basis of each customer's registered office. Sales of € 7,804,914 (previous year: € 7,144,709) were generated in the Group's home market of Germany.

In fiscal year 2014, 11.1 % of total sales was generated with a single customer. In the previous year no single customer accounted for more than 10 % of sales.

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

		in €
	2014	2013
Security & Industry	590,634	734,827
Consumer	445,074	447,990
Oil & Gas	98,797	263,770
Total	**1,134,505**	**1,446,586**

There was interest income of € 8,597 in the Security & Industry segment, € 5,002 in the Consumer segment and € 7 in the Oil & Gas segment.

Interest expense came to € 91,784 in Security & Industry, € 30,629 in Consumer and € 189,187 in Oil & Gas.

The internal reporting is limited to income and expense items. Thus, there are no balance sheet items addressed in segment reporting.

(39) Auditor's fees

The auditor's fees were:

		in €
	2014	2013
Financial statements	129,000	124,500
Others	11,000	0
Tax consultancy	4,326	386
Total	**144,326**	**124,886**

(40) Declaration of conformity with the German Corporate Governance Code

As required by § 161 of the German Stock Corporation Act (AktG), the Management Board and Supervisory Board issued a declaration of conformity with the German Corporate Governance Code in 2014 and published it on the website of SFC Energy AG (www.sfc.com/en/investors/corporate-governance). The Management Board and Supervisory Board published an updated declaration of conformity for 2015 on SFC Energy AG's website on March 20, 2015. This declaration of conformity will remain available on the Internet for the next five years and thus be accessible to the public on a long-term basis. It is also published in the Annual Report as part of the Corporate Governance Report.

(41) Material events after the balance sheet date

The Company is not aware of any material events after the balance sheet date affecting the course of business..

Brunnthal, March 24, 2015

The Management Board

Dr. Peter Podesser	**Steffen Schneider**	**Hans Pol**
CEO	CFO	CSO

SFC ENERGY AG, BRUNNTHAL
CONSOLIDATED FINANCIAL STATEMENTS AND GROUP MANAGEMENT REPORT FOR FINANCIAL YEAR 2014
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 24, 2015

The Management Board

Dr. Peter Podesser	**Steffen Schneider**	**Hans Pol**
CEO	CFO	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 2014. 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 Sec. 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 Sec. 317 German Commercial Code (HGB) and German generally accepted standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany (IDW). 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 Sec. 315a Abs. 1 German Commercial Code (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 modifying 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, 24 March 2015

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

Götz
Wirtschaftsprüfer (German public auditor)

Pinckernelle
Wirtschaftsprüfer (German public auditor)

FINANCIAL CALENDAR 2015

February 5, 2015	Preliminary Figures 2014
March 26, 2015	Annual Report 2014
May 5, 2015	Q1 Report
May 7, 2015	Annual General Meeting 2015
May 21, 2015	19. Munich Capital Market Conference 2015
August 3, 2015	Q2 Report
November 10, 2015	Q3 Report
in November, 2015	DVFA Analysts' Conference

SHARE INFORMATION

Bloomberg Symbol	F3C
Reuters Symbol	CXPNX
WKN	756857
ISIN	DE0007568578
Number of shares	8,611,204
Stock Category	No-par value shares
Stock segment	Prime Standard, Renewable Energies
Stock exchange	Frankfurt, FWB
Designated Sponsors	Oddo Seydler Bank AG, M.M. Warburg & CO

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Statements about the future

This interim report contains statements and information about the future. Such passages contain such word as "expect", "intend", "plan", "believe", "aim", "estimate", etc. Such statements about the future are based on current expectations and certain assumptions. They therefore also contain a number of risks and uncertainties. A multitude of factors, many of which are beyond the control of SFC, affect our business, our success, and our results. These factors can lead the Group's actual results, success, and performance to deviate from the results, success, and performance in the statements made explicitly or implicitly about the future. SFC assumes no obligation to update any forward looking statements.