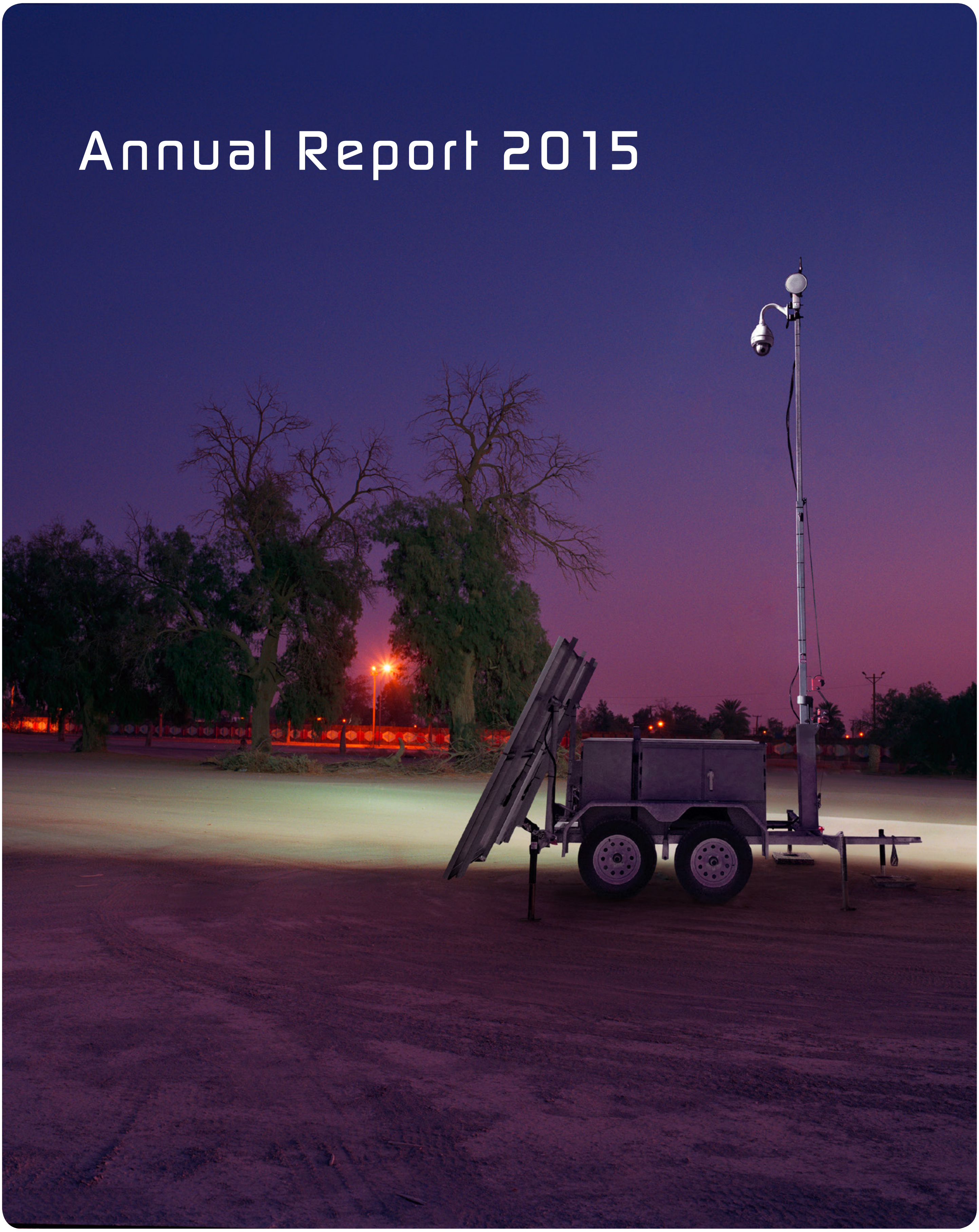
Annual Report 2015



SFC ENERGY

SFC ENERGY AG CONSOLIDATED KEY FIGURES

in k€

	1/1–12/31/2015	1/1–12/31/2014	Change in %
Sales	47,310	53,631	– 11.8 %
Gross profit	13,227	15,661	– 15.5 %
Gross margin	28.0%	29.2 %	–
EBITDA	– 4,650	–1,177	– 295.1 %
EBITDA margin	– 9.8 %	–2.2 %	–
EBITDA underlying	– 2,978	379	– 885.8 %
EBITDA margin underlying	– 6.3 %	0.7 %	–
EBIT	– 10,645	–4,269	– 149.4 %
EBIT margin	– 22.5 %	–8.0 %	–
EBIT underlying	– 4,392	–1,223	– 259.1 %
EBIT margin underlying	– 9.3 %	–2.3 %	–
Consolidated net loss	– 10,669	–4,826	– 121.1 %
Net loss per share, diluted	– 1.24	–0.60	– 106.7 %

	12/31/2015	12/31/2014	Change in %
Order backlog	11,759	10,626	10.7 %

	12/31/2015	12/31/2014	Change in %
Equity	16,558	27,589	– 40.0 %
Equity ratio	46.1 %	58.4 %	–
Balance sheet total	35,889	47,256	– 24.1 %
Cash (freely available)	3,277	6,122	– 46.5 %

	12/31/2015	12/31/2014	Change in %
Permanent employees	235	246	– 4.5 %

CONTENT

LETTER TO SHAREHOLDERS

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

DEAR FELLOW SHAREHOLDERS,

The past financial year for SFC Energy was unsatisfactory due to lower revenues and higher losses. In 2015 revenues decreased from € 53.6 million to € 47.3 million. The downturn affected all business segments. Major reasons were a weakness in the Oil & Gas market and the postponement of a large Defense project in 2016. Consequently our EBITDA decreased significantly from – € 1.2 million to – € 4.7 million.

Although the financial year 2015 was unsatisfactory, we achieved important milestones and managed to advance our business development in order to steer SFC Energy back on a sustainable growth and profitability course. Below we are providing additional details for each of our business segments (Oil & Gas, Security & Industry, Consumer) as well as a guidance for 2016.

Oil & Gas

The Oil & Gas segment remained in a difficult environment over the entire year with oil prices down by another 36.3% by the end of 2015 compared to the end of 2014. As a result, our producer customer base has adjusted their spending plans for a longer period of time at the lower price level. We expect the pressure on the oil and gas producers to remain high during 2016, as the industry continues to face the challenge of reducing production costs and increasing efficiency. Therefore, the so called "de-bottlenecking" of existing production, which has been a revenue driver for SFC Energy in the past business year, should continue during 2016.

We have set ourselves the task of continuously improving the efficiency of our business and have therefore adjusted our cost structure in Canada accordingly. Cost reductions kept the operating Oil & Gas business profitable. Further cost adjustments were executed in January and March 2016.

Despite the challenges we faced, we have also achieved significant progress in the Oil & Gas segment in the past business year. A highlight was the receipt of a CAD 1.3 million order for a complete e-house solution. In addition, the "return" of the SCADA business by partnering with Schneider Electric from April 2015 and the strong growth of EFOY energy solutions give us further confidence for 2016. A major milestone for us was the official listing of our EFOY Pro fuel cell on Gazprom's qualified vendor list. A subsidiary of the major Russian oil and gas producer decided after two years of severe field tests under the harshest weather and operating conditions for the integration of our fuel cell in their self-sufficient energy system.

Security & Industry

In the 2015 business year we accomplished some important successes in the Security & Industry segment.

We managed a major breakthrough in the internationalization of the SFC Energy business with the signing of a new partner agreement with Toyota Tsusho Corporation. Following careful and thorough analysis Toyota Tsusho has chosen SFC Energy as the right partner based on reliability, performance and quality as well as the maturity of the product. This collaboration with Toyota Tsusho is a key step for SFC Energy to grow in Japan and to increase the EFOY brand awareness in Asia.

We have also successfully launched the new EFOY Pro 12000, a powerful 500W fuel cell. First orders in telecom back-up, oil & gas, surveillance and wind show the substantial potential of the product.

The continued lumpiness at our Dutch subsidiary PBF led to the completion of a significant cost containment program with realized savings significantly lowering the break-even level. Part of the measures was the shift of significant parts of the production from the Netherlands to our location in Romania. Overall we managed to realize savings of € 0.3 million in 2015 and annual savings of € 1 million in the years thereafter. Furthermore, we have adapted the product strategy to the new market conditions. We have launched a new, modular product platform on the market. This semi-standardized platform allows us to acquire development projects much faster and more cost-effective.

The delivery of the EMILY fuel cell to the German Army ended two challenging years in the Defense market. The repeat business to the value of € 1.3 million was the result of years of hard work and product development by our entire team. In addition, we also received two further contract awards from another international Defense Force, one for stationary next generation fuel cells, the NGFC, with extremely long maintenance free operation, and one for the next generation of a portable, more powerful fuel cell, the Jenny 1200. Both contracts are of paramount and long-term importance for SFC Energy and will have a positive impact on the financial performance and profitability in 2016.

However, another major Defense program which was planned for realisation in 2015 was postponed into 2016 and therefore did not allow us to compensate for other segments. Nevertheless, together with follow-on orders in France we see attractive growth prospects in the global Defense market and a good chance for further orders from Defense Forces this year.

Consumer

In the Consumer segment we launched our innovative mobile power outlet EFOY GO! not only to our channel partners, but also to our new online shop. The EFOY GO! may be purchased at caravanning retailers or online on www.efoy-shop.com.

Over the course of the year, SFC Energy also participated at the important caravan fairs in Düsseldorf, Parma and Paris. The overall mood in the Caravan market improved significantly, however the actual development varied significantly from country to country. As some of the important European countries for SFC Energy did not develop so well yet, it did not result in growth in the past financial year. We are expecting a stable business in this segment for the current financial year with growth in traditional and new markets.

Convertible bond 2015/18

In December 2015 SFC Energy issued a convertible bond in the initial aggregate amount of € 1.65 million with a term of three years until 2018. The issue price was set at 90.0 % of the nominal value and has a conversion price of € 6.10. The convertible bond was placed with existing investors by way of a private placement. An additional € 1.65 million were placed with investors in 2016.

Oil price development

In 2016 the oil price continued to decrease and planning has been calibrated to a level of USD 30 per barrel. While experts foresee that by the end of 2016 demand will be higher than supply there is no clear consensus about the oil price development with target prices ranging from USD 20 to 60 per barrel. Therefore, our customers in the Oil & Gas segment will remain cautious with major investments and continue to improve the efficiency of their current production. However, even if the outlook in the Oil & Gas market has limited visibility at present, the market remains attractive in the medium term and continues to have an enormous growth potential in the long term.

Conclusion

The expansion of our business portfolio and the adaption of our cost structure to the new economic conditions increase the economic stability of the SFC Group. Based on current planning we estimate a revenue target of € 50 – 52 million and a significant improvement in profitability, due to significant product mix improvements and sustainable cost reductions at the locations in Canada and the Netherlands. Our expectations are also based on the significant revival of the Defense business and expected strong orders in 2016.

In the 2015 financial year we have reached key milestones in our operations and laid the foundation for a sustained positive business development. With more than 235 highly-motivated employees around the world working with great commitment and expertise for this future, we can achieve that. Our sincere thanks go to our employees for their hard work. We would also like to thank our customers and shareholders for their continued trust and their constructive support.

Sincerely,
The Management Board of SFC Energy AG

Dr. Peter Podesser
CEO

Steffen Schneider
CFO

Hans Pol
CSO

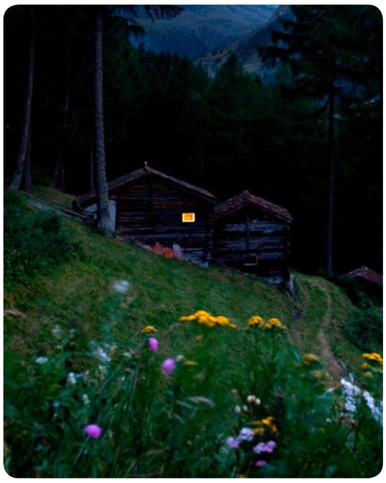
ENERGY SUPPLIED WHERE AND WHEN THE CUSTOMER NEEDS IT

SFC Energy's core competence is easy-to-operate electricity solutions that perfectly match a customer's needs for a given application. They include flexible hybrid power systems, reliable off-grid power supplies, intelligent power management and reliable emergency power – for both industrial and consumer uses. SFC Energy works closely with customers to develop and produce the systems and integrated solutions for this purpose at production and service sites in Germany, the Netherlands, Romania, Canada and the USA.

OIL & GAS INDUSTRY

SECURITY & INDUSTRY

CONSUMER



OIL & GAS INDUSTRY

OIL & GAS INDUSTRY

During 2015, the oil and gas industry was dominated by sharply declining oil prices that had declined still further as of the date of this report. Even industry experts no longer dare to predict how this market will evolve; a persistent reluctance to invest is clearly evident throughout the industry. Nevertheless, despite the expected general delay in new projects, optimization and modernization efforts are still expected, so as to enhance efficiency and cut costs at existing installations. There will be particular demand here for new technologies that reduce costs, along with systems that can optimize security, data transfers, and equipment monitoring and control. In applications like these, SFC Energy supports equipment operators in two areas.

Measuring instruments, power generation & distribution and instrumentation

SFC Energy's intelligent solutions help the oil and gas industry meet its strict legal requirements. They give it a real-time ability to monitor and control electrical measuring, control and monitoring equipment at drilling sites and on pipelines. They also enhance efficiency, speed and reliability in production. SFC Energy's fully integrated portfolio for the oil and gas industry includes not only innovative specialized products – including equipment for low and medium-voltage electrical applications, instrumentation and measurement systems, gas and flame detectors – but also security solutions.

SCADA computer systems

SCADA systems are computer-controlled systems intended to measure, monitor and control oil and gas production processes. They are used in operating pumping systems and pipelines. Here they gather, display and analyze real-time data that serve to regulate or optimize production parameters like output and speed. SCADA systems provide important data for monitoring production processes that can also serve as documentation of compliance with regulatory requirements for operation and environmental protection. To ensure that these important systems can operate reliably even off-grid, SFC Energy also offers SCADA systems in combination with reliable off-grid power supplies. For this, the Company often hybridizes SFC fuel cells with other alternative power sources, such as solar modules. In hybrid operation, the fuel cell ensures that a system can run safely, reliably and uninterruptedly, with no need for user intervention, over long periods and even in the toughest weather and environmental conditions, and even when there is not enough light for solar modules to generate power.

VFD systems

VFD systems (variable-frequency drives) govern the speed and torque of the motors on drill rigs, pumps, ventilators, compressors and other specialized rotary devices. They adjust the drive systems' output entirely automatically to current ambient conditions, protect them from overload, and thus safeguard systems' reliability, efficiency, optimized processes and enhanced production. Variable-frequency drives reduce operating costs, logistics costs and electricity costs, while minimizing expensive downtime and repairs on valuable equipment. The VFD systems sold by SFC Energy are designed and integrated specifically for their particular applications.

Off-grid power supply

For petroleum and natural gas wells and pipelines, a reliable supply of off-grid electricity is a constant, expensive challenge. To make sure production processes stay safe and reliable, sensors, measuring instruments, pumps and control systems must operate around the clock – even when they are far from civilization. Supplying power can get immensely complicated and expensive. Cold, dark winter months can quickly push generators and solar modules beyond their limits. Batteries have to be changed regularly. Which means an equally regular need for tedious, expensive service runs to the equipment sites.

For applications like these, SFC Energy offers a portfolio of integrated energy solutions that can be configured precisely to meet specific needs. Stand-alone power generators, power storage systems, power management equipment and inverters – well-protected in special control cabinets, weatherproof outdoor boxes or robust housings – reliably power the attached equipment around the clock, in any kind of weather and under the worst environmental conditions. They are easy to combine with other power sources like solar modules, wind or water-driven generators. This hybrid operation has key advantages for users. When a fuel cell is combined with a solar module, the module powers the application at no cost as long as the sun shines. But in bad weather or in winter, when solar power is no longer sufficient, the fuel cell automatically switches on and produces power. Any kind of battery can be used to store power. SFC Energy specialists work with integrators and customers to adapt power management to the configuration where needed. Ultimately the customer just connects its equipment to the integrated system, and the off-grid power socket is ready for use.

SFC Energy's individual off-grid power supply products are detailed in the "Security & Industry" section below.

In 2015, in spite of the difficult market environment, SFC Energy gained a major new customer in the important Russian market. After two years of testing under the harshest environmental conditions, the EFOY fuel cell was chosen to supply power to a self-contained energy system from LLC Gazprom Georesurs. The system provides reliable off-grid power for Gazprom's gas applications all over Russia. Over the long term, SFC Energy expects oil and gas markets all over the world to take a growing interest in its intelligent system solutions.

SECURITY & INDUSTRY

SECURITY & INDUSTRY

The terrorist attacks during 2015 highlighted the growing importance of sensitive infrastructural, environmental-protection and security applications like cameras, surveillance systems, measurement and control equipment, early warning systems and backup systems. Many of these are being used increasingly in mobile environments off the grid, for example to monitor public spaces or to ensure security of major events. A reliable power supply is indispensable so they can perform their tasks.

SFC offers a broad portfolio of high-performance power solutions for security and industrial applications. All products are provided as an integrated, weatherproof, user-friendly plug & play installation, and the customer sets its own parameters. A broad range of options is available, whether hybrid solutions, all kinds of battery configurations, or the exact level of power you want.

SFC customers in this demanding segment include not only professional industrial users from the security and surveillance industry, the wind power industry, telecommunications, traffic management and environmental technology, but also many international authorities and defense organizations. In view of the changing security situation, SFC Energy foresees sustainable growth potential in these demanding and constantly growing markets. Even far from the grid, people and organizations don't want to abstain from security systems and installations.

Off-grid power supplies

EFOY Pro fuel cell

The EFOY Pro fuel cell provides an off-grid power supply for industrial applications in any kind of weather and any season. It produces power on location – quietly, completely automatically, and with virtually no emissions. It's extremely flexible to use: a customer can hybridize it with any kind of alternative power source or energy storage system. It is robust, and can be integrated to be weatherproof in practically any housing solution. It can be remote-controlled and can run completely automatically for months, with no user intervention whatever. Since it eliminates expensive trips to change batteries or perform servicing, it saves money and precious time. The EFOY Pro also works especially well as a mobile power supply in official or service vehicles. Here it can power equipment on board for hours with no need to turn on the motor or take the devices in for recharging. Customers like Germany's Federal Office for Goods Transport have outfitted their entire vehicle fleet with these environmentally friendly, quiet power supplies, because the EFOY Pro fuel cell saves them money on the fleet and increases the fleet's mission-readiness multiple times. And users appreciate its quiet, entirely automated operating style.

EFOY ProCube

The EFOY ProCube is a maintenance-free, weatherproof power box for mobile and stationary outdoor use. This robust, easy-to-carry box contains a fuel cell, fuel cartridge and battery. All you need to do is connect your device to the EFOY ProCube and switch it on. The EFOY ProCube is designed for maximum flexibility. It's usable anywhere, in any season. You can set it up and get it running with just a step or two. That makes it perfect for all kinds of mobile uses, from powering traffic control equipment at a construction site to running cameras or sensors for months on end. It is also often used as an on-board power supply solution for vehicles and in covert investigations.

The EFOY ProEnergyBox

The EFOY ProEnergyBox was developed especially for challenging situations where equipment must operate reliably under extreme weather and environmental conditions. These systems work for very long periods without an operator and can withstand temperatures from +50°C to −40°C. When the temperature plunges below zero, the waste heat from the fuel cell is used to keep the system warm and prevent the battery and electronics from freezing. At high ambient temperatures, an effective heat conduction system protects the box components from overheating. Like all of SFC's integrated energy solutions, the EFOY ProEnergyBox can also be hybridized with other power sources like solar modules.

EFOY ProCabinet

The EFOY ProCabinet is a weatherproof control cabinet solution intended to furnish stationary systems with a self-contained off-grid power supply. This product is also designed to hybridize with other power sources. The EFOY ProCabinet can be used for "island" operation of installations like sensors or measuring instruments, surveillance cameras, and repeater stations, or also as a backup power supply for critical infrastructure.

EMILY Fuel Cell

This is a defense product with ultimate charging flexibility. In combination with up to four conventional batteries at a time, this robust fuel cell can charge today's lithium ion and lithium polymer batteries. The fuel cell is used to power electrical equipment on board military vehicles, or as a stationary power source in the field. The EMILY was the world's first fuel cell to be officially approved for use by a defense organization: the system has been assigned a NATO stock number, and the German Bundeswehr uses it in its vehicles.

Portable SFC Energy Network

The SFC Energy Network was specially developed for defense applications. Special forces use the portable, lightweight hybrid system to charge batteries while on mission or to power devices directly. It consists of SFC Energy's portable JENNY fuel cell, a fuel cartridge and intelligent power management. In operation, it recharges a wide variety of batteries and directly powers stationary and mobile devices quietly, entirely automatically, emission-free and undetectably. A number of additional international defense organizations placed orders for the JENNY fuel cell in 2015 to equip special forces and mobile task forces.

EFOY ProTrailer

The new EFOY ProTrailer is a reliable mobile power supply for security and surveillance cameras, communication devices, or applications in oil, gas and traffic management. An EFOY Pro fuel cell is installed on a trailer together with fuel cartridges and up to four solar modules, and is connected to the equipment to be powered. The trailer is driven directly to the operating site and can be ready to use there within minutes. This highly flexible mobile power supply can be used for such applications as ensuring security at major events, monitoring construction sites and providing border security.

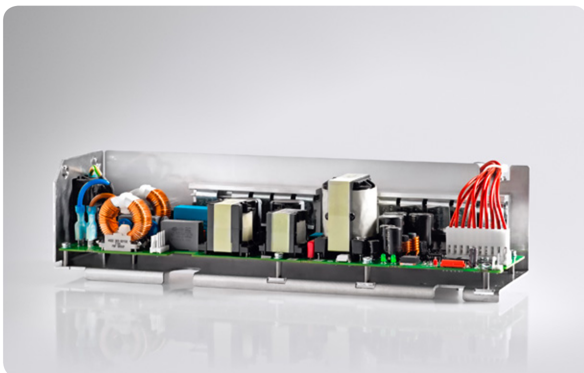
Power electronics

In addition to its power supply solutions for off-grid applications, SFC Energy also develops and sells a number of highly specialized power electronics solutions for on-grid uses. Before the power from a common utility line can be used in sensitive high-performance instruments like electron microscopes, high-tech video and audio systems, and laser installations, it must be "processed" first, or otherwise the device could be damaged or destroyed. SFC Energy develops and produces customized high-quality power management systems for these uses, with extremely high power density. They are installed between the wall outlet and the device and reliably supply the device with precise "smoothed" power. That cuts the energy cost for operating the equipment, and at the same time enhances its performance and service life.

Many well known OEMs and systems suppliers, both in Germany and in other countries, rely on SFC Energy's power management expertise in every stage from planning to production. SFC Energy produces small series in Europe; mass production is done in China. Customers benefit from fast development times and attractive prices. Even after a product is launched, SFC Energy continues to support its customers with efficient product life cycle management.

PBF has set a new standard in laser power supplies. The platform was developed to meet the dynamic needs of high-power laser systems. The power pack platform, with its compact, cost-efficient design, is easy to integrate into a customer's systems, and can also easily be adapted to customers' special requirements so as to fit their systems. The product platform is available in three variants: 1.5 kW, 3.5 kW and 12 kW. The power packs can be ordered either separately or in a fully integrated laser-system power solution for additional customer benefit, complete with water cooling and housing. Some laser makers with worldwide operations have already ordered the first prototypes for qualification tests in existing and new laser systems.

In this market, SFC Energy offers specialized high-power electronic components, internal and external converters, switched-mode power supplies and special coils.



CONSUMER

CONSUMER

The market for consumer power supply solutions is growing steadily. More and more people are using more and more mobile devices away from the grid. At the same time, demand for convenience and security is on the rise. There is a rising need for off-grid power generators as a source of reliable backup power for important security, communications and emergency systems, as well as home appliances, in the event of a power outage or other exceptional scenarios.

SFC Energy has been in this market for years, offering fuel cells to supply off-grid power to electric and electronic devices. A new product that has been on the market since 2015 is SFC Energy's mobile EFOY GO! power socket. It expands the Company's portfolio into new mobile products for leisure, outdoor and home backup or emergency power uses. Significant growth potential is expected in this segment over the next few years.

EFOY COMFORT

EFOY COMFORT fuel cells from SFC Energy have been successfully supplying recreational vehicles, sailboats and vacation cabins with off-grid electricity for years. These quiet, environmentally friendly fuel cells are connected to the battery, and recharge it entirely automatically as needed. The owner does not have to do anything. The EFOY COMFORT comes in a variety of power levels.

EFOY GO!

The portable EFOY GO!, weighing just 5.8 kg, is an entirely new kind of mobile power outlet for a convenient off-grid energy supply in leisure and outdoor activities. The little power pack provides reliable power for traveling devices like smartphones, GPS systems, lamps and cooling boxes. In its compact, robust housing, the EFOY GO! contains everything needed to supply off-grid power on the road. Ultramodern lithium technology makes it possible to carry large amounts of energy with you at minimal weight. Devices are simply plugged in like at home. The EFOY GO! has both a 230 V outlet and a 12 V outlet, as well as two USB ports. It's also flexible to charge – you can charge an EFOY GO! from sources like an EFOY COMFORT fuel cell, solar cells, a car cigarette lighter or an on-grid socket. The EFOY GO! expands the range of uses for SFC products into consumer applications in the fast-growing outdoor and adventure markets, the hunting and fishing sector, and smaller leisure vehicles and boats.

MARKET DEVELOPMENT, OIL PRICE, POWER SUPPLIES

An interview with the Management Board of SFC Energy

SFC Energy fell short of its revenue and earnings targets for the financial year 2015. What steps have you taken to return to a growth track this financial year, and to make a lasting improvement in earnings?

Dr. Peter Podesser: There were two main causes for our unsatisfactory performance. Firstly, we weren't able to grow as much as we had originally planned in the oil and gas market – a very important market for us – because the industry called a halt on almost every front in response to the unexpectedly protracted, sharp drop in oil prices. In the first phase, it was mainly major new exploration projects that got postponed. But over the course of the year there were also postponements on projects with new technologies like ours. In that market environment, I have to say that our concentration on technologies to improve efficiency helped us perform very creditably. Secondly, there was the postponement of a major project in the defense sector that would have closed the above mentioned gap. However, we haven't lost that project – we're now expecting it this year. Nevertheless, we have already responded to the situation in 2015 and cut costs to adjust to the changing market conditions.

You mentioned cost cuts. Can you give us more details about the steps you've initiated at your subsidiaries in Canada and the Netherlands?

Dr. Peter Podesser: In previous years we had already significantly cut costs at our organization in Germany, with structural adjustments, staff downsizing and efficiency enhancements. Last year we extended that process to our subsidiaries in the Netherlands and Canada. Our main focus in the Netherlands was on enhancing efficiency. We reorganized procedures, transferred additional production capacity from the Netherlands to Romania, and revised our staff structure. In Canada, we needed to adjust our organization to the change in market conditions, enabling us to do business in an economically reasonable way even within this difficult market environment.

The sharp, lasting drop in oil prices also took many experts by surprise. How do you expect oil prices to develop this year, and what does that imply for your plans in the Oil & Gas segment?

Dr. Peter Podesser: We've seen some slight early signs of recovery in the last few weeks, with oil prices climbing above the important 40-dollar line. But hardly any market expert would dare to make a specific forecast about what oil prices will do for the rest of this year. On average, our clients have planned their 2016 budgets on a price of USD 40 per barrel of West Texas Intermediate (WTI). At the beginning of this year, projections for 2016 ranged from USD 25 to USD 56. Of course that broad range makes planning harder for us as well. We've adjusted our plans to an oil price of USD 30, and we're confident that we can continue to operate profitably even in that environment. We offer our clients solutions to enhance their efficiency. Combining our fuel cell solutions for power supplies with SCADA (Supervisory Control and Data Acquisition) products, for example, can help our clients save significantly.

You still foresee considerable potential for SFC Energy in the oil and gas market over the medium term. What is that optimism based on?

Dr. Peter Podesser: We know from our discussions with oil and gas producers that they're very interested in applying our power generatoring solutions and technologies in a wide variety of scenarios. Our subsidiary

Simark Controls is a well-known, respected integrator in the Canadian market. Customers know from years of experience that Simark can provide them with fully integrated systems tailored to their individual needs. However, we also realize, especially because of low oil prices, that at the moment clients are still wary of investing in equipment and test systems as much as would be needed. On the other hand, they're realizing clearly from the weakness in oil prices that within the short to medium term, their only alternative is to make their production processes more cost-effective. On top of that, there's general agreement worldwide that oil prices can't remain at these levels for the medium term – not just for macroeconomic reasons of the balance between supply and demand, but also because of political pressure in some of the significant producing countries. It's also useful here to look at historical oil price curves from the past 40 years. So we're very confident about this market. And of course, getting our EFOY fuel cell, as part of a power supply solution, onto the Qualified Vendor List at Gazprom in Russia last year also shows we have good reason for that confidence.

Let's get back to the North American market. Have you seen any successes there lately? And what do you expect the markets in Canada and the USA to do in the medium term?

Dr. Peter Podesser: North America is an increasingly important market for us. Here we're mainly operating in industrial, oil and gas, and security applications. But our fuel cells are earning themselves a reputation in the leisure market, too – especially in the attractive marine segment. We're steadily expanding our presence in that market so we can quickly provide it with products and services, in the best possible way, right where they're needed. We serve the US market from our subsidiary SFC Energy Inc. in Gaithersburg, MD, and another office in Winter Park, FL. We sell fuel cartridges out of the SFC Logistics Center in Fairfield, OH. In Canada, our subsidiary Simark Controls, which is headquartered in Calgary, AB, and has offices in Edmonton, AB, Vancouver, BC, and Saskatoon, SK, is a very well established, successful integration expert for off-grid industrial power supply solutions. We're setting up for growth in these markets. In the first quarter of 2016, Simark Controls opened another office in Montreal, QC. From there we can also do an even more efficient, focused job of serving clients on Canada's French-speaking East Coast.

Business in the power electronics sector was down in 2015. What do you expect this year?

Hans Pol: We had to contend with a combination of factors in 2015 – postponements in deliveries for a major client because of substantial inventory reductions, and delays because the ramp-up of products at new clients took longer than planned. But that did lead us to carry through the cost-cutting measures we've already mentioned – our site in Romania has been especially helpful here, by combining cost advantages with the necessary quality standards. And we also adapted our product strategy and processes so we can respond faster to what our clients want. We put a new modular product platform on the market. It's semi-standardized, and enables us to offer our clients new products significantly faster and more economically, and to work profitably as a company.

You landed a great many new orders in the Security & Industry segment in 2015. What's your current assessment of the market environment in that sector?

Dr. Peter Podesser: The need for security has grown sharply all over the world – especially following the dreadful terrorist attacks this past year. The public sector has been giving a great deal of thought as to how major events, important infrastructure like stadiums and railroad stations, and event routes can be made more secure. Off-grid power supplies are a critical matter here. Electricity is obviously available along the city streets that an event like a major demonstration will follow. But the logistics of laying cable conflict with the mobility that security forces need for their cameras and communication systems in that situation. Solar modules aren't a solution here because they depend on the weather and aren't very portable. Generators are noisy and very noticeable. On the other hand, our fuel cells can be easily set up anywhere, very quietly and almost invisibly in a little box. Mobile solutions on trailers can also be combined very successfully with unobtrusively installed cameras. That makes it possible to take pictures anywhere without attracting much attention. Which is an extremely important advantage of our power generating solutions offer for both private and public security firms. Last year's orders in this segment show how very attractive our products are for this kind of application. We expect demand to keep growing internationally in 2016.

Let's turn back to the defense sector. What do you expect here, especially regarding the major project that got postponed to 2016?

Dr. Peter Podesser: The geopolitical picture has changed radically in a short time. At the policy level, the (Western) world has drawn its conclusions from that and generally switched defense spending from the "save" setting to "invest". For example, NATO members have readopted a target that they had long forgotten or abandoned – spending 2% of their respective GDPs on defense. In Germany and other EU countries, the budgets in these areas – and also for homeland security – were increased massively in 2016 for the first time in many years. Secure, mobile, lightweight power supplies play a key role in the process of further equipping and modernizing defense organizations. That is inherent in national and international armaments programs like the NATO Wales Summit Declaration. But it's also something that active forces in the field have been asking for. Our products meet exactly that need.

Having our major project postponed last year was of course frustrating. But the good news is that all the requirements have been met and the order has been included in the plans for this year. After all, our clients have been using our products successfully for years – and they can very clearly see the advantages of our technology, and want to apply it in new areas. Our breakthrough in Israel is a very impressive demonstration of that.

Since the end of 2015 the EFOY GO! has been on the market. What kind of acceptance is it getting, and what target groups did you have in mind for this innovation?

Hans Pol: The EFOY GO! is a new product moving in the direction of fully integrated solutions for emergency and backup power supplies in an extremely wide range of applications. Our power supplies are already a big success, and now we've added a highly efficient power storage system with the EFOY GO!. The EFOY GO! embodies everything that we've stood for over the years: innovative technology makes sure that users can carry a lot of electricity along with them at minimal weight. That also taps new markets for us, including the growing outdoor and adventure market, as well as the hunting and fishing segment.

You're confident that many of your successes and new partnerships from last financial year will provide a sound foundation for a return to a sustainable course of growth and profitability. Which cooperations do you consider especially important in this regard?

Dr. Peter Podesser: Along with our important new international orders for security solutions, another factor of special importance for us is certainly the cooperative arrangements that we set up last year with partners in the oil and gas industry in both Canada (Schneider Electric) and Russia. They show that our power supplies offer real added value here. We're also very happy about an order renewal from Volkswagen Commercial Vehicles to install our fuel cells in the fleet of toll enforcement vehicles for the German Federal Office for Goods Transport – that shows our power generating solutions offer crucial advantages for mobile applications: quiet, lightweight, environmentally friendly. We've been citing that as an example to help us persuade other major fleet operators to integrate our products. Another very important partnership for us is the one with Toyota Tsusho Corporation in Japan. Toyota Tsusho sells our fuel cells in the growing Japanese markets for emergency power supplies and off-grid power supplies in security and surveillance applications, as well as for seismic measurements, meteorology and environmental technology. We foresee a very big potential there.

SFC Energy issued a convertible bond in December 2015 for a total nominal value of € 1.65 million to start with, and has placed another €1.65 million with investors in 2016. Are you planning on increasing that in the coming months?

Steffen Schneider: The bond issues we carried out in late 2015 and early 2016 are sufficient to fully finance our current plans.

SFC stock is valued considerably lower than international competitors'. How are you planning to attract international investors' attention to SFC stock?

Steffen Schneider: We need to show results in 2016 – and we will. The defense business is a swing factor for us here. We're confident that we can also adjust our costs in the Oil & Gas segment to revenue levels in 2016, so that we'll continue to operate profitably. We assume that investors will give that the recognition it deserves and that the SFC stock will be valued fairly.

Where do you foresee SFC Energy AG being in 2020?

Dr. Peter Podesser: Our goal is to become the world's leading company for alternative, off-grid power supplies and emergency power supplies, with revenues in the triple-digit millions and attractive profitability.

2015 MILESTONES

MARKET AND PRODUCT NEWS

JANUARY 2015

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

In a 2014 customer satisfaction poll performed by SFC Energy 92.5 percent of almost 2,000 EFOY fuel cell owners say that they would recommend it anytime. The reasons: Easy operation, autonomy and independence, reliability, no noise, 24/7 power whenever and wherever.

FEBRUARY 2015

+++ SFC Energy receives follow up order by Volkswagen Commercial Vehicles for equipping the toll inspection vehicle fleet of the German Federal Office for Goods Transport (BAG) with EFOY Pro fuel cells +++

The big follow up order will equip another 306 Volkswagen T5 transporters with EFOY Pro fuel cells. The Federal Office for Goods Transport (BAG) uses the vehicles for toll inspection purposes all across Germany.

MARCH 2015

+++ SFC Energy launches EFOY Pro 12000 Duo, a 500 W fuel cell for industrial applications +++

The EFOY Pro 12000 Duo integrates proven SFC fuel cell technology with maximum scalability and application flexibility in SFC's most powerful fuel cell to date: It features a nominal power of 500 W and a power capacity of 12,000 Wh per day. Up to 5 EFOY Pro 12000 Duos integrated into one cabinet will deliver 60 kWh per day. Cabinets can be combined as required.

+++ Orga Aviation rents out EFOY ProCube to wind park builders and operators +++

Orga Aviation, Dutch provider of innovative helideck and obstruction lighting and navigation aids has selected the mobile EFOY ProCube by SFC Energy to deliver fully automatic power to the obstruction lights during wind park construction and maintenance. Fuel cells are supplied by SFC Energy's Danish partner AWILCO, specialist for off-grid and grid-based power generation and distribution.

APRIL 2015

+++ Schneider Electric and Simark Controls close sales and service business partner agreement for Western Canada +++

Simark Controls, a company of SFC Energy AG, will sell and service Schneider Electric Telemetry & Remote SCADA Solutions (TRSS) products in British Columbia, Alberta, Saskatchewan, Manitoba, Yukon and Northwest Territories. Telemetry & Remote SCADA Solutions enable efficient monitoring and control of field equipment and operations across widely dispersed infrastructures. This requires reliable off-grid power. For this application Simark offers a range of integrated, fully autonomous power supply solutions based on SFC Energy's EFOY Pro fuel cells.

+++ SFC Energy introduces new EFOY ProTrailer series +++

The EFOY ProTrailer is a trailer based hybrid power solution for security & surveillance, communication, oil & gas and traffic management applications. It integrates SFC Energy's EFOY Pro fuel cells with up to four solar modules for extremely long power autonomy and optimum power flexibility, without requiring any user attendance.

JUNE 2015

+++ PBF Group B.V. receives major order for premium power supply solutions +++

The major order of a large, international security systems company encompasses delivery of premium power supply solutions for security, safety and communication needs in Asia and Europe, with total revenues of EUR 3.16 million. The premium power supplies will be used to deliver stable voltage to public address and professional audio systems used at airports, railway stations, event locations etc.

JULY 2015

+++ EUR 1.2 Million Low Rate Initial Production Order for Integrated Next Generation Fuel Cell System from International Defense Force +++

The value of the LRIP (commonly used in military programs to designate the phase of initial, small-quantity production) amounts to EUR 1.2 million. SFC Energy will produce, test, and deliver units to the international Defense Force. The NGFC has been designed and developed under a JDA as a fully integrated power source for off-grid defense applications in unmanned scenarios in the field.

+++ EUR 1.3 Million Military Order by German Bundeswehr for Vehicle-Based and Stationary Power Supplies +++

The order represents repeat business for SFC Energy following the successful deployment of the EMILY fuel cell by the German Bundeswehr in December 2011. At the time, the EMILY was assigned a NATO stock number (NSN), and as of this date is the only fuel cell in Germany to have achieved this high level of standardization. The order amounts to approx. EUR 1.3 million. EMILY was specifically developed to meet the demanding requirements in defense applications, and fully complies with military standards. The automatic, silent, environmentally friendly generator provides reliable power to electric and electronic devices on board of defense vehicles, in the field and as a battery charger.

+++ Fisheries Supply is new marine distributor of EFOY COMFORT fuel cells in the Western United States +++

Fisheries Supply, a marine products specialist serving recreational boaters, boat dealers, builders and yards, chandleries and commercial fishermen across the Pacific Northwest, Alaska and beyond, will sell the full range of EFOY COMFORT fuel cells and fuel cartridges to customers along the West Coast of the United States, one of the largest recreational boat markets on the globe.

+++ Integration of EFOY Pro Fuel Cell into ZephIR Wind Lidar's Power Product +++

ZephIR Lidar, UK, includes SFC Energy's EFOY Pro 2400 fuel cell within their ZephIR Power system in sales to customers around the world. ZephIR Power is a low-cost, stand-alone power system designed specifically for the growing wind industry's continuing adoption of remote sensing, especially wind lidar systems. Thanks to the EFOY Pro, the Power system is capable of up to 12 months autonomous operation.

AUGUST 2015

+++ Initial Order for Portable JENNY 1200 fuel cells from an International Defense Force +++

The order is for the delivery of SFC Energy's JENNY portable fuel cells for use by soldiers in multi-day missions and has a total value of over EUR 700,000. SFC Energy has provided the international defense force with an option to purchase additional units subsequent to the initial delivery. Advantages of the fuel cell systems are a major reduction in the number of spare batteries to be carried by the soldiers, up to 80 % weight reduction in a 72-hour mission, fully automatic and silent battery recharge, no maintenance required, no detectable heat signature; and ultimately lower total cost of ownership.

+++ Sales launch of EFOY GO! mobile power for outdoor activities +++

The lightweight power pack to go (5.8 kg/ 12.8 lbs) was developed to deliver easy, convenient power away from the grid. On tour with a van, tent, boat, caravan or in a hunting or fishing cabin the mobile socket will provide plug & play power everywhere to all kinds of mobile devices. Customers can buy EFOY GO! at caravanning retailers or online in SFC Energy's new EFOY web shop www.efoy-shop.com

+++ CAD 1.3 million (EUR 0.9 million) purchase order from major international oil producer to Simark Controls Canada +++

With this order Simark, an established supplier of high quality custom integrated and manufactured solutions to the international oil & gas industry, continues to demonstrate growth in value added integration services offered to the oil and gas business sector in North America. The purchase order consists of a complete turnkey Electrical House (EHouse) including Variable Frequency Drives (VFDs) to operate SAGD submersible pumps (ESPs), Switchgear, and Control Equipment. The turnkey EHouse was delivered and deployed to Northern Alberta, Canada. Result – efficient and cost effective project execution with reliable, optimized performance for SAGD ESP operations in Heavy Oil.

SEPTEMBER 2015

+++ Toyota Tsusho Corporation becomes official partner for EFOY Pro fuel cells in Japan +++

In the context of the agreement Toyota Tsusho becomes an official representative of SFC Energy in Japan. A first order of EFOY Pro fuel cells has already been shipped to Toyota Tsusho in Japan. Both Toyota Tsusho and SFC Energy see a large market opportunity for SFC Energy's EFOY Pro fuel cells in Japan.

OCTOBER 2015

+++ EFOY Pro fuel cells integrated in Gazprom autonomous energy solution for remote gas production and SCADA applications +++

Gazprom Georesurs integrate the EFOY Pro fuel cell into their autonomous energy system САЭ-110. The system supplies reliable power to off-grid gas applications operated by Gazprom, Russia. Gazprom Georesurs selected the EFOY Pro fuel cell for integration into their system after two years of severe field tests in harshest weather and operating conditions. This is a solid prerequisite for further successful market penetration.

SUPERVISORY BOARD REPORT

SUPERVISION OF COMPANY MANAGEMENT

The dominant factors in the 2015 financial year were the Company's capital market strategy and the commercial challenges resulting from general market developments. The Supervisory Board actively participated in these efforts by advising and holding discussions with the Management Board. In the year under review, the Supervisory Board performed the duties incumbent on it by law, 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 the 2015 financial year the Supervisory Board of SFC Energy AG was made up of three members. In the 2015 financial year, the members of the Supervisory Board were (i) Tim van Delden, (ii) David Morgan, and (iii) Hubertus Krossa. In the 2015 financial year, Tim van Delden served as Chairman and David Morgan as Deputy Chairman of the Supervisory Board of the Company.

SUPERVISORY BOARD MEETINGS

In performance of its duties, the Supervisory Board met eight times during the 2015 financial year: on February 15, March 24 (to review the financial statements for the 2014 financial year), on May 7, July 28, October 27, November 10, November 25 and December 16, 2015. Six of these meetings, on February 15, March 24, May 7, July 28, October 27 and December 16, 2015, which all Supervisory Board members attended, were held in person. The other two meetings, on November 10 and November 25, 2015, were held as telephone conference calls. 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 organisation 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. The Supervisory Board's involvement in this context included the developments at the Company's Simark subsidiary due to the falling price of oil and the options available to SFC Energy AG in its "Defense" business unit.

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.

Another important topic at the Supervisory Board meetings during the 2015 financial year was, once again, the Company's 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. As an additional incentive in the search for strategic partners and to minimise conflicts of interest, the Supervisory Board advised the CEO, Dr. Peter Podesser, and the CFO, Mr. Steffen Schneider, of the prospect of a transaction bonus. The Supervisory Board was also kept regularly informed about the status of the implementation, accompanied it and monitored this process.

The Management Board explained the implementation of the new legislation on equal access of women and men to executive positions. The Supervisory Board set a target for the proportion of women on the Management Board at SFC Energy AG and reviewed the specific targets resolved upon for the composition of the Supervisory Board, along with how they were to be implemented and updated. In addition, the Supervisory Board dealt with the matter of taking out D&O insurance that meets the requirements specified at the general meeting and obtained assistance on this matter from the Management Board and external advisors.

At its meeting on February 12, 2015, the Supervisory Board dealt with the engagement of an investor relations advisor in the USA and the sales forecast for the year 2015, amongst other things. At its meeting on March 24, 2015, 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 the 2014 financial year. It also discussed the outlook for the financial position in the first quarter of 2015. As part of the meeting of May 7, 2015, the Supervisory Board was informed in detail by the Management Board on, among other things, current developments, the financial situation in the first quarter of 2015 and the risks and problems in the various business units and subsidiaries of SFC Energy AG, paying particular attention to the supply of liquidity to the Company and its subsidiaries. The topics covered at the Supervisory Board meeting on July 28, 2015, included an overview of the operations and activities of the various business units and the setting of a target for the proportion of women on the Company's Management Board and Supervisory Board. At the Supervisory Board meeting on October 27, 2015, the Management Board gave the Supervisory Board an extensive report on business performance in the first three quarters of the 2015 financial year and on the expectations for the remainder of the year. The other items on the agenda for this meeting were business performance and development (in particular at Simark and in the Defense business unit) and the Company's capital market strategy. At the Supervisory Board meeting on November 10, 2015, which took place by telephone conference call, the Management Board primarily provided the Supervisory Board with a report on the profit warning issued on November 9, 2015, and the reasons for doing so. The Supervisory Board requested regular reports on the Company's liquidity from the Management Board in this Supervisory Board meeting. The Supervisory Board meeting on November 25, 2015, which also took place by telephone conference call, once more dealt with the Company's capital market strategy. At the Supervisory Board meeting on December 16, 2015, the Supervisory Board held joint discussions with the Management Board on the budget for 2016, the mid-term plan for the SFC Group and its subsidiaries for 2016 to 2018, the Company's capital market strategy, and particularly the possibility of issuing a convertible bond, the planned succession arrangements for managing the Canadian subsidiaries and risk management at the SFC Group.

COMMITTEES

The Supervisory Board did not set up any committees in the 2015 financial year as it is of the opinion – which is consistent with the legal literature on this subject – that the efficiency of the advisory and controlling activities of a three-member board cannot be meaningfully increased by doing so.

CORPORATE GOVERNANCE

Information on Supervisory Board-related aspects of the Company's corporate governance can be found in the corporate governance report which is reproduced in the annual report (page 36 et seqq.) 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 44 et seqq.).

In the financial year 2015, 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 2015.

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, most recently from 29 March, 2016, is available on the Company's homepage at http://www.sfc.com/de/investoren/corporate-governance#header. It is also reproduced in the annual report (page 36 et seqq.).

ACCOUNTING

Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft, Munich, was chosen and appointed by the annual general meeting to audit the Company's financial statements for the the year 2015 and was engaged for the audit by the Supervisory Board. The Supervisory Board negotiated the audit engagement, indicated the focal points of the audit and engaged the auditors. The agreed focal points for the audit were:

IFRS consolidated financial statements

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

German Commercial Code-based annual financial statements

(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, 2015, 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 for the year 2015 on April 21, 2016. 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, 2015, 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 April 21, 2016, it approved the annual and consolidated financial statements for the year 2015 and the corresponding management reports. The annual financial statements for the year 2015 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 the financial year 2015.

Brunnthal, April 21, 2016

The Supervisory Board

Tim van Delden
Chairman

THE SFC ENERGY SHARE

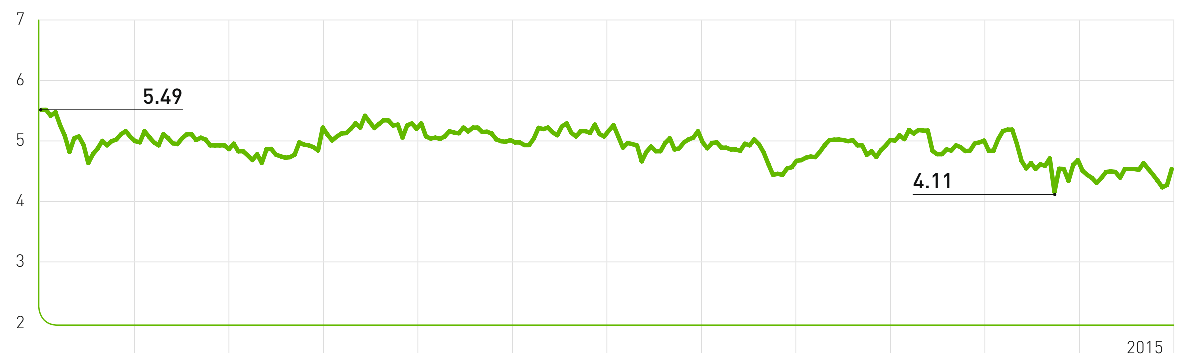
PERFORMANCE OF INDEXES

The 2015 stock market year was very mixed and characterized by a heightened sense of insecurity, with subsequent high volatility. At the beginning of the year the share market had entered its seventh bullish year, the third quarter, however, saw major corrections at all international stock exchanges, which also affected the SFC share.

DAX, Germany's leading index, opened the 2015 share year at 9,869 points on January 2. It continued its rally through the first quarter, breaking through the 12,000 point mark for the first time on March 16 in variable trading. While in the first quarter optimism had still been high at the stock exchanges due to the ECB's expansive monetary policy, the second quarter saw the markets pulled into the wake of the crisis in Greece. After a public debt compromise in Greece the stock markets reacted with relief – the DAX for example rose by almost 5 % from beginning to middle of July to a temporary high, but shortly afterwards the global indexes turned downward again. In the third quarter the mood on the international stock markets darkened even more. Burdened by global economy worries, fears of major growth setbacks in China, the insecure timing of the first interest rate hike in the United States, and the Volkswagen green test fiddle scandal, the DAX lost 12.6 % in the third quarter alone and recorded its weakest quarter in four years. In the further course of the year, Germany's leading index scored a plus of approx. 8.8 %.

PERFORMANCE OF THE SFC SHARE

SFC SHARE PRICE GRAPH FROM BEGINNING OF JANUARY 2015 TO END OF DECEMBER 2015 in €



In 2015, the share of SFC Energy AG could not avoid the impact of the strong oil price decline. At the end of December, a barrel of North Sea Brent was traded at approx. USD 36.70, a decline of 36,3 % over the course of 2015. As a consequence, the SFC share suffered from extensive profit-taking and recorded a 18.2 % price loss in 2015 compared to the closing price of € 5.50 in 2014.

On January 2, SFC Energy AG shares began the 2015 year at a price of € 5.67, which also marked their annual high. The annual low was € 4.11 on November 19, in the wake of the Company's revenue and profit warning for the 2015 business year. The SFC Energy AG share closed the year on December 30 at a price of € 4.50. The 2015 average trading volume was 5,206 shares (previous year: 8,919). At December 31, 2015, SFC Energy AG's market capitalization was € 38.7 million, on the basis of 8.61 million shares, at a closing price of € 4.50. In 2014 the market capitalization hat been € 47.4 million, with the same amount of shares and a year-end closing price of € 5.50. (All figures refer to Xetra prices).

INVESTOR RELATIONS

SFC Energy AG shares are traded in the strictly regulated Prime Standard segment of the Frankfurt Stock Exchange. The Company immediately discloses important events to shareholders in ad hoc or press releases. The Management Board of SFC Energy AG keeps close contact to investors, analysts and financial press by means of an open, transparent capital market communication. In addition to several international roadshows, e.g. in the U.S., in Canada and Switzerland, the Management Board presented the Company also at the German Equity Forum (Deutsches Eigenkapitalforum) in Frankfurt and at the Munich Capital Market Conference (Münchner Kapitalmarktkonferenz). Investors find up to date business performance insights on SFC Energy AG's webpage at www.sfc.com.

In 2015, Designated Sponsors were Oddo Seydler Bank AG, Warburg Research GmbH, and, as of the third quarter, Hauck & Aufhäuser Privatbankiers KGaA. In 2016, SFC Energy AG reduced the number of Designated Sponsors as part of the Company's cost reduction program to only one Designated Sponsor: Hauck & Aufhäuser Privatbankiers KGaA now supports SFC Energy AG and provides binding bid and offer prices on Xetra.

ANALYST RESEARCH

Three renowned research firms – Warburg Research GmbH, Oddo Seydler Bank AG, and First Berlin Equity Reseach GmbH – covered the SFC Energy AG share in 2015. In their latest research studies the analysts recommended holding resp. buying the SFC Energy AG share with target prices of € 5.40 to € 6.10. Interested investors find more information on the Company's Investor Relations pages at www.sfc.com.

SHAREHOLDER STRUCTURE

The shareholder structure of SFC Energy AG remained largely unchanged in 2015. On December 31, 2015, large institutional investors who follow and support the company's growth efforts held approx. 51.5 % of shares. Management and Supervisory Board held approx. 8.7 % of the shares. Free float was 39.8 %.

CAPITAL MEASURE

In December 2015 SFC Energy AG placed a convertible bond with a total initial par value of € 1,650,000.00 and with a maturity of three years until 2018, divided in convertible bonds at a nominal value of € 50,000.00 each. The convertible bonds were placed with existing investors by means of a private placement. The Management Board can further increase the total nominal value by means of an ex-post increase to a total of € 5,000,000.00. Two additional tranches were placed in January and March 2016 with a total initial par value of € 1,650,000.00.

The convertible bonds bear interest at 4.0 % p.a., payable semi-annually. The issue price was set at 90 % of the nominal value. The convertible bonds also grant a conversion right into no-par bearer shares (no-par value shares) with a pro-rata amount of nominal capital of € 1,00 per share at a conversion price of € 6.10. This represents a premium of approx. 36.0 % related to the SFC share's closing price on December 17, 2015. The bond (ISIN DE000A169KX4) is listed in the Open Market segment of the Frankfurt Stock Exchange.

ANNUAL MEETING

At the annual shareholders' meeting on May 7, 2015, the Management Board provided shareholders with insights on the 2014 business performance and answered general debate questions. The shareholders approved the Management's proposals under all agenda items by a broad majority. More than 64 % of the capital stock was represented at the annual meeting. The voting results are available in detail on the Investor Relations pages of SFC Energy AG's website at www.sfc.com.

DIRECTORS' SHAREHOLDINGS

	12/31/2015
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	6,250

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 29, 2016, the following statement refers to the version of the Code dated May 5, 2015, as published in the Bundesanzeiger on June 12, 2015.

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

- According to Section 4.2.3 para. 2 Sentence 6 of the Code, the amount of compensation of the Management Board shall be capped, both overall and for the variable compensation components. With the beginning of the 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 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 and a regular limit of length of membership to be specified for the members of the Supervisory Board and diversity. 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 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.

- According to Section 7.1.2 sentence 4, 1 ms. of the Code, the consolidated financial statements should be made publicly accessible within 90 days of the end of the financial year. The Company deviates from this recommendation this year because of the unforeseeable last-minute absence of an essential employee in the Financing & Controlling Department due to illness. This absence led to a considerable delay in compiling the consolidated financial statements, and, thus, made observance of the 90-day time restriction indeed impossible. Next year, the Company intends to keep to this deadline again.

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 23, 2015.

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

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

The Management Board

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

Notwithstanding the principle of overall responsibility according to which all members of the Management Board are jointly responsible for managing the Company, each member of the Management Board has sole responsibility for the area assigned to him or her. The Chief Executive Officer has primary responsibility for the overall management and business policy of the Company. He ensures coordination and consistency of business management within the Management Board and represents the Company in public. During the past financial year, the Management Board of SFC Energy AG comprised three members, Dr. Peter Podesser, who serves as Chief Executive Officer (CEO), Hans Pol, who is responsible for the sales function SFC/PBF, and Steffen Schneider as Chief Financial Officer (CFO).

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 financial year, Dr. Podesser was a member of the supervisory board of COC AG, Burghausen until July 31, 2015. Besides, no member of the Management Board was a member of the supervisory board of any non-group business partnership.

The Supervisory Board

The Supervisory Board appoints the Management Board and supervises the latter's management of SFC Energy AG. The Supervisory Board is directly involved in all decisions that are of fundamental importance for the Company. Pursuant to applicable law, the Company's Articles of Association and the Management Board's rules of internal procedure or resolutions adopted by the Supervisory Board, certain matters relating to the management of the Company require the Supervisory Board's consent. The Supervisory Board actively guides the Management Board through advice and discussions, performs the duties incumbent on it by law and the Company's Articles of Association, and continuously supervises the conduct of the Company's business on the basis of Management Board reports and joint meetings (see the Supervisory Board report on page 28 et seqq.).

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

Supervisory Board Membership

Pursuant to Article 10 para. 1 of the Company's Articles of Association, in the financial year 2015 the Supervisory Board of SFC Energy AG was made up of three members, which were elected by the shareholders. In the financial year 2015, the members of the Supervisory Board were (i) Tim van Delden, (ii) David Morgan and (iii) Hubertus Krossa. In accordance with the recommendations of the German Corporate Governance Code,Tim van Delden 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 para. 5 AktG. He served many years as a UK auditor and for several years, he has held various prominent positions in the field of corporate finance. Until its dissolution in the 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, with the exception of the legally required determination of a target quota for the proportion of women on the Supervisory Board (see in this regard also the section "Information required by Section 289a para. 2, Nos. 4 and 5 HGB (German Commercial Code)". 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.

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

Potential conflicts of interest of Supervisory Board members

In the financial year 2015, 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 2015.

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 synchronization of the electoral periods of the members of the supervisory board, Hubertus Krossa was, as an exception, only elected as a member until the closure of the General Shareholders' Meeting in 2017.

Supervisory Board Committees

In the financial year 2015, 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 Opportunities of the Group Management Report, on page 81 et seqq.

Transparency

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

Pursuant to Section 15a of the German Securities Trading Act *(Wertpapierhandelsgesetz)*, the members of SFC Energy AG's Management and Supervisory Boards and certain senior executives, as well as individuals and entities closely related to and affiliated with them, are required to report purchases and sales of shares in the Company and of any related financial instruments. In the last financial year, only the Supervisory Board member Hubertus Krossa concluded business mandatory to disclosure. Hubertus Krossa acquired 6,250 company shares for a total price of EUR 30,456.25 on March 6, 2015.

All directors' dealings pursuant to Section 15a of the German Securities Trading Act are published on the Company's website at www.sfc.com. The total number of shares in SFC Energy AG held by Management Board members as of December 31, 2015 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 0.12 % 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 the financial year 2015 and engaged for the audit by the Supervisory Board. The auditors participated in the Supervisory Board's discussions concerning the consolidated financial statements and reported on the material results of their audit. Shareholders and other interested parties can access the consolidated financial statements and interim reports on the Company's website.

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

The Supervisory Board is obliged, under the German act for the equally entitled participation of women and men in executive positions in the corporate and public sectors *(Gesetz für die gleichberechtigte Teilhabe von Frauen und Männern an Führungspositionen in der Privatwirtschaft und im öffentlichen Dienst)*, to determine a target quota for the proportion of women on the Supervisory Board, as well as a deadline for reaching this target. In addition the Supervisory Board is obliged to determine a target quota for the proportion of women on the Management Board and a deadline for reaching this target quota. The Management Board is obliged to determine target quotas for the proportion of women on the two executive levels below the Management Board, and deadlines for reaching such target quotas. The target quotas for the proportion of women on the Supervisory Board, the Management Board and the two executive levels below the Supervisory Board were to be determined by September 30, 2015, whereby July 30, 2017 was the latest deadline to be determined as the deadline for reaching the set targets.

According to Section 289a para. 2 No. 4 HGB (German Commercial Code), a report is to be made by the Supervisory Board for the targets regarding the Supervisory Board and the Management Board, and by the Management Board regarding the targets for the two executive levels below the Management Board in the statement of the corporate management about the attainment of the target quotas in the reporting period and, where necessary, about the reasons for non-attainment of the determined target quotas.

The Supervisory Board and Management Board of SFC Energy AG shall always be mindful of diversity when allocating board positions and executive functions within the Company.

In order to synchronize the end of the target quota deadlines with the company`s calendar-based financial year, the Supervisory Board determined the end of December 31, 2016 as the deadline for target attainment.

The Company`s Supervisory Board currently has three members who are all male, thus representing a female member quota of 0 %. All members of the Supervisory Board were elected to the Supervisory Board until the closure of the 2017 Annual General Meeting. To date, no Supervisory Board member has disclosed his intent to vacate his office prior to the expiration of tenure. No provision is made either to enlarge the efficiently working three-man Supervisory Board. For this reason, the Supervisory Board determined a target quota of 0 % for the proportion of women on the Supervisory Board by the end of December 31, 2016 at its meeting on July 28, 2015.

The Management Board consists currently of three members, who are all male, and therefore has an actual female member quota of 0 %. Dr. Peter Podesser is appointed until March 31, 2017, Hans Pol is appointed until June 30, 2018 and Steffen Schneider is appointed until August 31, 2017 as members of the Management Board. The Supervisory Board plans no personal change under the Management Board's members nor is planned to enlarge the number of Management Board Members. For this reason, the Supervisory Board determined a target quota of 0 % for the proportion of women on the Management Board by the end of December 31, 2016 at its meeting on July 28, 2015.

With regard to the specified targets for the proportion of women on the two executive levels below the Management Board, the Management Board initially defined these two executive levels: The Management Board determines the company`s executive levels based on the direct reporting lines to the Management Board and discipline sovereignty. All executives are members of the management team and have authority over other employees qua direction and guidance rights. Only persons employed by the Company have been taken into consideration. On the basis of these criteria, the Company only has one executive level below the Management Board, and this executive level comprises of six persons, of whom two are female and four male. The proportion of women on the first executive level below the Management Board therefore amounts to 33.33 % currently. The proportion of women on the second executive level is not to be determined (because it is not existent). The diversity of the executive personnel is an integral component of the Company`s corporate culture, and for the Management Board an important, however, non-binding aspect regarding the appointment of executive personnel. In order to grant the Company the greatest possible discretion regarding the appointment of executive personnel, the Management Board determined a target figure for the proportion of women for the executive level below the Management Board at 30 % at its meeting on September 10, 2015.

In order to synchronize the end of the target quota deadlines with the Company`s calendar-based financial year, the Management Board determined the end of December 31, 2016 as the deadline for target attainment.

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.

Compensation System of the Management Board

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

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

In addition, the members of the Management Board receive variable compensation if pre-defined performance targets are met (performance-based bonus). In the financial year 2015, 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.
In the financial year of 2015, a so-called transaction bonus was proposed for selected Board members of the Company. This transaction bonus aimed at the Company`s long term success shall be granted in the case of a successful public takeover bid by May 31, 2016, for SFC shares in the form of cash payment, subject to the amount of the particular takeover bid concerned.

Under a long-term incentive program (LTIP) of the Group, the members of the Management Board could – until the financial year 2015 – 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. The LTIP is based on a so called phantom stock model and is divided into different performance periods of three years each: financial years 2009 to 2011, 2010 to 2012, 2011 to 2013, 2012 to 2014 and 2013 to 2015. The cash compensation awarded at the end of each of the three-year periods predominantly depends on the Company's share price and the attainment of a defined EVA *(Economic Value Added)* target for the respective period. More detailed information about the LTIP can be found in the Group Management Report on page 71 et seqq.

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 "Stock Option Plans" on page 73 of the Annual Report.

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

Management Board's Compensation in 2015

Compensation of the members of the Management Board totaled € 1,045,727.00 in the financial year 2015. Compensation in the financial year 2015 included the fixed compensation, non-cash perquisites, variable profit and performance-based compensation, expenditure for the SAR program, the transaction bonus, and premiums for accident, pension, and life insurance. The above total includes all amounts that were laid out in 2015 or set aside as provisions in the consolidated financial statements for 2015, less the amounts that had been set aside as of December 31, 2014.

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 2015. Chart 2 shows the amount disbursed. Since no cap to the amount paid as variable compensation has been established (with regard to the LTIPs and the SARP), no maximum achievable compensation is disclosed. This is a deviation from the German Corporate Governance Code.

CHART 1 – COMPENSATION OF THE MANAGEMENT BOARD 2015 (AMOUNTS GRANTED*) in €

	Dr. Peter Podesser			Hans Pol			Steffen Schneider			Gerhard Inninger		
	Chairman			CSO			CFO			CFO		
	since 1.11.2006			since 1.1.2014			since 1.9.2014			16.8.2011 until 16.5.2014		
Benefits granted	2014	2015	2015 (Min)	2014	2015	2015 (Min)	2014	2015	2015 (Min)	2014	2015	2015 (Min)
Fixed compensation	350,000	350,000	350,000	180,000	172,500	172,500	60,000	180,000	180,000	67,742	0	0
Fringe benefits	20,648	23,722	23,722	20,564	19,411	19,411	6,976	19,876	19,876	12,228	0	0
Total	**370,648**	**373,722**	**373,722**	**200,564**	**191,911**	**191,911**	**66,976**	**199,876**	**199,876**	**79,970**	**0**	**0**
One-year variable compensation	112,571	56,946	0	30,000	8,029	0	16,667	5,287	0	18,374	0	0
Multi-year variable compensation	242,317	0	0	49,376	209,956	0	293,900	0	0	0	0	0
LTIP 2011–2013	0	0	0	0	0	0	0	0	0	0	0	0
LTIP 2012–2014	0	0	0	0	0	0	0	0	0	0	0	0
LTIP 2013–2015	0	0	0	0	0	0	0	0	0	0	0	0
SARP 2014–2016	242,317	0	0	49,376	0	0	293,900	0	0	0	0	0
SARP 2015–2018	0	0	0	0	209,956	0	0	0	0	0	0	0
Total	**725,536**	**430,668**	**373,722**	**279,940**	**409,896**	**191,911**	**377,543**	**205,163**	**199,822**	**98,344**	**0**	**0**
Service cost	0	0	0	0	0	0	0	0	0	0	0	0
Total	**725,536**	**430,668**	**373,722**	**279,940**	**409,896**	**191,911**	**377,543**	**205,163**	**199,822**	**98,344**	**0**	**0**

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

CHART 2 – ALLOCATION OF MANAGEMENT BOARD COMPENSATION 2015 (AMOUNTS DISBURSED) in €

	Dr. Peter Podesser		Hans Pol		Steffen Schneider		Gerhard Inninger	
	Chairman		CSO		CFO		CFO	
	since 1.11.2006		since 1.1.2014		since 1.9.2014		16.8.2011 until 16.5.2014	
Allocation	2014	2015	2014	2015	2014	2015	2014	2015
Fixed compensation	350,000	350,000	180,000	172,500	60,000	180,000	67,742	0
Fringe benefits	20,648	22,889	10,564	9,411	3,643	18,989	12,228	0
Total	**370,648**	**372,889**	**190,564**	**181,911**	**63,643**	**198,989**	**79,970**	**0**
One-year variable compensation	55,571	144,510	0	38,029	0	16,667	33,374	0
Multi-year variable compensation	0	0	0	0	0	0	77,161	0
LTIP 2011–2013	0	0	0	0	0	0	0	0
LTIP 2012–2014	0	0	0	0	0	0	49,974	0
LTIP 2013–2015	0	0	0	0	0	0	27,187	0
SARP 2014–2016	0	0	0	0	0	0	0	0
SARP 2015–2018	0	0	0	0	0	0	0	0
Total	**426,219**	**517,399**	**190,564**	**219,940**	**63,643**	**215,656**	**190,505**	**0**
Service cost	0	0	0	0	0	0	0	0
Total	**426,219**	**517,399**	**190,564**	**219,940**	**63,643**	**215,656**	**190,505**	**0**

Compensation of the Supervisory Board

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

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

The compensation (including non-cash perquisites) of the individual members of the Supervisory Board in 2015 breaks down as follows:

FINANCIAL YEAR 2015	in €
	Total
Tim van Delden, Chairman	50,000
David Morgan, Deputy Chairman	37,500
Hubertus Krossa, Supervisory Board Member	25,000
Total	**112,500**

Share Option Programs

With the beginning of the financial year 2014 the Supervisory Board of the Company has implemented a virtual stock option program (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. Hans Pol received a second SARP tranche (SARP 2015-2018 or TR2) with the renewal of his service contract.

After the end of a fixed waiting period the virtual stock options confer the right to cash pay out depending on the stock exchange price of the shares of SFC Energy AG at the date the right is exercised. The total number of the virtual stock options to be issued to members of the Management Board is limited and will be reduced retrospectively if the stock exchange price of the shares of 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 and 2015-2018 are as follows:

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

Date of Issuance	January 1, 2014 (Hans Pol TR 1); April 1, 2014 (Dr. Peter Podesser); September 1, 2014 (Steffen Schneider); July 1, 2015 (Hans Pol TR 2)
Term	7 years
Waiting period	4 years (Hans Pol TR 1); 4 to 6 years (Dr. Peter Podesser); 4 to 6 years (Steffen Schneider); 4 to 6 years (Hans Pol TR2)
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); July 1, 2016, July 1, 2017 and July 1, 2018 (Hans Pol TR2)
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)

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 2015

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., Gaithersburg, Maryland, USA (SFC); PBF Group B.V., Almelo, Netherlands, and its subsidiaries (PBF); and Simark Controls Ltd., Calgary, Canada (Simark). The three companies in Canada were merged as of June 30, 2015 or July 1, 2015. The acquiring company was Simark Controls Ltd.

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 Gaithersburg, Maryland. PBF is headquartered in Almelo, Netherlands, and Cluj, Romania. Simark is headquartered in Calgary, Canada, and has additional offices in Edmonton, Vancouver, Fort St. John and Saskatoon.

Segments, sales markets, products and services

Since financial year 2014, the Management Board has managed the Group based on the Oil & Gas, Security & Industry and Consumer segments. These segments represent the Group's most important sales markets.

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). In addition, SFC sells the portable power outlet EFOY GO!, a battery with an integrated converter, via the sales channels mentioned above as well as through an online shop.

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 analytical systems, research and science, defense & security, 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, gross margin, 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.

As in the financial year 2014, the Group's primary focus during the reporting period 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 € 7,657k was spent on R&D in the financial year 2015 (prior year: € 5,641k), including costs related to joint development projects.

Development expenses in the amount of € 994k were capitalized in the financial year 2015 (previous year: € 281k). The significant increase was attributable to the development costs incurred by SFC for the products EFOY Pro 12000 in the amount of € 623k and JENNY 1200 in the amount of € 199k. Amortization of capitalized development costs is reported as production costs of work performed to generate sales. Impairment charges on capitalized development costs were € 0 (previous year: € 23k). There were impairment charges on the goodwill of PBF in the amount of € 1,747k (previous year: € 0). 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 amortization on the purchase price allocation and the impairment charges on PBF goodwill, was therefore 17.4 % (prior year: 5.2 %).

Forty-nine employees (18 at SFC, 29 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 patent families (prior year: 18).

The focus of SFC's research and development activities was as follows in the financial year 2015:

- The Company continued to make quality improvements to its series products.
- New energy solutions were designed and developed for defense applications.

    1. Development and expansion of a buriable energy solution in connection with a development project in the defense sector.
    2. Resumption of development of JENNY 1200 and making it ready for mass production on the basis of an order from an international defense organization.

- 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.
- The Company evaluated and tested the EFOY Pro 12000 in a field test program, followed by a pre-production run.
- 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.
- A 3.5 kW and 1.5 kW laser power product platform was tested and is now available as a prototype in early 2016.
- The first prototypes for the 8 kW power supply input stage, an important product for the laser market, were dispatched.
- A project to produce various kinds of converters was launched in late 2015. The initial products from this project will be dispatched in early 2016.
- Preliminary technical work for a new development project in the aviation industry, which was started in February 2016.

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

- Existing development projects were continued with success, and some were put into mass production.
- Testing, optimization and systematic updating 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.
- The new EFOY GO! product platform was developed and put into mass production.

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 the financial year 2015 was € 383k (€ 453k).

ECONOMIC REPORT

Macroeconomic and sector-based background conditions

Moderate upswing in the global economy continues

According to the ifo Institute for Economic Research[1] the global economy expanded at a moderate pace in 2015. The economic situation in the emerging economies was somewhat stronger in the second half than in the first six months of the year. The experts attribute this to slightly less negative trends in key commodity-exporting emerging economies like Brazil, Russia and Indonesia, which have suffered from the sharp drop in oil prices since the middle of last year. In Russia economic sanctions resulting from the conflict with the West are also

1 Economic Forecast 2015-2017, ifo Institute for Economic Research, December 9, 2015

having a negative effect, while financial policy in Brazil is clearly curbing its economy. The economic dynamic in China and other commodity-importing emerging economies remained almost unchanged and moderate by historical comparison. In the advanced economies growth in overall economic output slowed somewhat in the second half of the year due to temporary, non-economic factors in the USA. The economic situation nevertheless remains underpinned by cheap commodity prices in nearly all advanced economies. However, this masks highly heterogeneous patterns of economic development in individual countries.

ifo experts believe that in the first half of 2016 the latest sharp drop in oil prices will give the world economy renewed impetus. They believe that the positive effects on oil-importing countries will be far higher due to the latter's' greater propensity to spend than the negative economic effects on oil-exporting economies. Since these effects will gradually fade over the course of this year, the global economic growth rate is expected to slow slightly. All in all, the ifo experts believe that overall economic output in the world increased by 3.0 % in 2015 and will expand by 3.5% this year and by 3.8% in 2017. World trade will only expand by 3.3% before its growth rate stabilizes at 4.2% in both subsequent years.

German economy follows overall economic trend

ifo experts expect the current modest upturn in Germany to continue. Following the 1.7% increase in real gross domestic product in 2015, real GDP is expected to grow by 1.9% in 2016, before the average rate then returns to 1.7% in 2017. Private consumption will continue to drive the upswing, which will be boosted by a renewed drop in oil prices, higher earnings and transfer, and a lighter tax burden on households. In addition, expansive stimuli from financial and social policy will be stronger, not least due to far higher government expenditure on consumption and transfers related to the influx of refugees.

While construction investment is expected to grow sharply over the forecasting period, equipment investment will only see a modest increase, despite favorable financing conditions. Since imports are expected to rise more than exports due to forecasts of strong domestic demand, there will be almost no stimuli from foreign trade.

According to the Federal Statistical Office (Destatis)[2] the economic situation in Germany was characterized by solid and steady growth in 2015. The price-adjusted gross domestic product (GDP) in Germany rose 1.7% on an annual average in 2015 on the previous year. In 2014 the GDP growth rate had been similar (+1.6%), while in 2013 it had been just 0.3%. Examining the longer-term economic growth reveals that growth in 2015 was above the average of the last ten years (+1.3%) again.

Consumption was the main driving force for German economic growth in 2015. While household final consumption increased by a price-adjusted 1.9%, government consumption spending even increased by 2.8% over the prior year. Gross fixed capital formation increased as well, with businesses and the government in Germany together spending 3.6% more on equipment – primarily machinery, equipment and vehicles – than they had in the prior year. The price-adjusted spending on construction was also up slightly by 0.2%. German foreign trade was more dynamic again in 2015. Price-adjusted exports of goods and services were up 5.4% on the previous year. As a similar growth rate was recorded for imports (+5.7%), the resulting balance of exports and imports made a relatively small contribution to GDP growth (+0.2 percentage points).

2 Statistisches Bundesamt Wiesbaden, Press Release 014/16; January 14, 2016

Total price-adjusted gross value added of all economic sectors rose 1.6 % in 2015 on the previous year. The economic performance in Germany on an annual average in 2015 was achieved for the first time by over 43 million persons in employment whose place of employment was in Germany. According to first provisional calculations, the number of persons in employment was higher by roughly 329,000, or 0.8 %, in 2015 than a year earlier. This is a continuation of the upward trend observed for the last ten years.

According to the Federal Ministry for Economic Affairs and Energy (BMWi)[3] the upward forces are continuing to prevail in the German economy, even though the signals from the outside economic environment are not all positive. Industrial output slowed in the fourth quarter of 2015, but recent reports of new orders give cause for optimism. The situation in the services sector, which is more oriented towards domestic demand, is continuing to point upwards. The business climate in industry also stabilized further. Business expectations improved for the fourth month in succession in January. The clear fall in oil prices, the low interest rates and a euro exchange rate favorable to the export industry also benefit the economy. The high influx of refugees is also stimulating demand, albeit to a limited extent.

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 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[4].

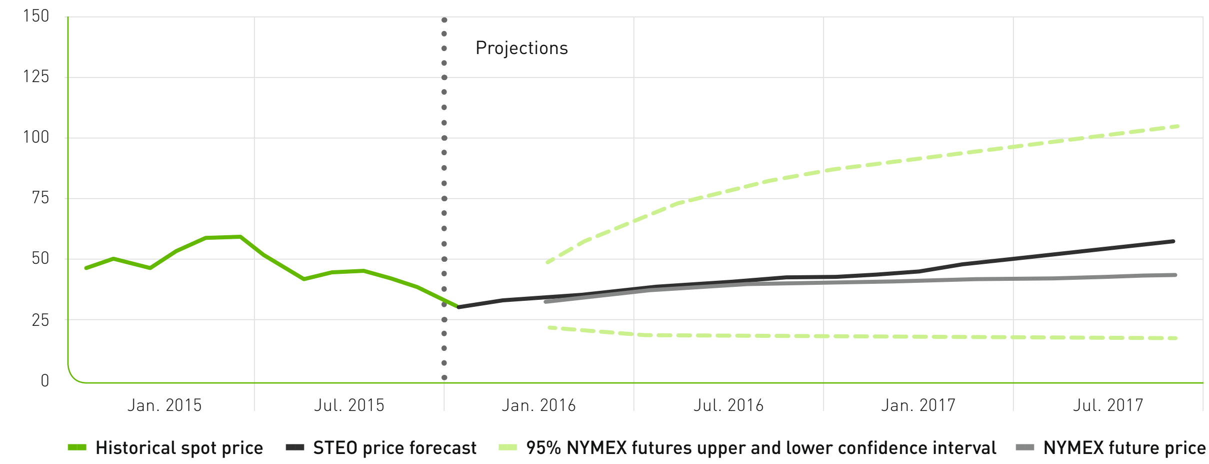
In June 2015, the Canadian Association of Petroleum Producers (CAPP) in its 2015 Crude Oil Forecast, Markets and Transportation Report[5], which is published in June of each year, indicated a slowdown in the growth of Canadian oil production over the next two decades due to the sharp drop in oil prices worldwide. CAPP expects Canadian oil production to increase by 43 % over the next few years from 3.7 million barrels per day in 2014 to 5.3 million barrels per day in 2030. In June 2014, CAPP had forecasted 6.4 million barrels per day for 2030. More recent data from Canada was not available at the time this report was prepared.

According to CAPP information from June, the Canadian oil and gas industry was expected to invest CAD 45 billion in 2015, 40 % less than the CAD 73 billion it invested in 2014. Canadian refineries still obtain nearly 80 % of their oil from foreign sources, so experts saw huge growth potential here in the summer of 2015 for the domestic oil industry. They also expected increasing demand for Canadian oil by Washington, California, Asia and Europe. In this context, proposals have been submitted for the construction of new pipelines to replace the rail shipments common to date.

3 BMWi Bundesministerium für Wirtschaft und Energie, Press Release "The Economic Situation in Germany in January 2016," January 13, 2016
4 Canadian Association of Petroleum Producers (CAPP), website, Basic Statistics
5 Canadian Association of Petroleum Producers (CAPP), press release, June 9, 2015

According to the U.S. Energy Information Administration's (EIA) most recent Energy Outlook[6], crude oil prices fell even further. The benchmark Brent and WTI (West Texas Intermediate – see chart 1) price curves show the sharp price fall. After North Sea Brent crude oil prices reached their low at a monthly average of USD 38/barrel in December 2015 – the lowest price since 2004 – they fell again in January 2016 to USD 31 and the lowest monthly average since December 2003. Brent crude oil prices averaged USD 52/barrel in 2015, down USD 47/barrel from the average in 2014 and lower than the EIA's earlier forecast. While the EIA in January still expected an average price of USD 40 for Brent in 2016 and USD 50 for 2017, thus significantly reducing their forecast from the previous year, in February they expected that the persistent worldwide oversupply could cause oil prices to fall even further. The EIA experts also stated that currently the forecasts for the average WTI price in 2016 range from USD 25 to USD 56 per barrel, which reflects a 95 % confidence interval and makes reliable forecasts impossible.

WEST TEXAS INTERMEDIATE (WTI) CRUDE OIL PRICE | **Dollar per barrel**



Source: EIA, Short-term Energy Outlook, February 9, 2016

EIA estimates that global oil inventories increased for the second year in a row in 2015 – by 1.9 million b/d, to be specific. This oversupply has contributed to oil prices reaching the lowest monthly average level since 2004. Global oil inventories are forecast to increase by an annual average of 0.7 million b/d in 2016, before the global oil market becomes relatively balanced in 2017. The EIA expects the first draw on global oil inventories in 15 consecutive quarters in the third quarter of 2017.

6 EIA, Short-Term Energy Outlook, January 12, 2016 and February 9, 2016

In the non-OPEC countries, the EIA reports that oil production was up by 1.3 million b/d in 2015, again mainly due to stepped up production in the United States. EIA expects non-OPEC production to decline by 0.6 million b/d in 2016, which would be the first decline since 2008. Most of the forecast decline in 2016 is expected to be in the United States, followed by North Sea producers and Russia. Non-OPEC production is forecast to decrease by an additional 0.1 million b/d in 2017.

Production in Canada is expected to increase in the forecasting period. The EIA indicates that production increased by 50,000 b/d in 2015 and will increase by that amount in 2016, as a number of oil sands projects that are under construction will begin production. These projects were commissioned before the sharp decline in crude oil price.

In the OPEC countries, which now again include Indonesia following the December resolution of OPEC members, crude oil production averaged 31.6 million b/d in 2015, an increase of 0.9 million b/d from 2014. Iraq led the OPEC production increases, with its production rising by 0.7 million b/d in 2015. Saudi Arabia also boosted production, with its production increasing by 0.3 million b/d in 2015. Experts expect production to grow in the OPEC countries by an additional 0.5 million b/d in 2016, with Iran expected to increase production once international sanctions targeting its oil sector are suspended. In 2017 production is expected to increase by an addition 0.6 million b/d, with Iran again accounting for most of the increase.

Security & Industry market

a) Fuel cells

According to consulting firm E4Tech, which published the Fuel Cell Industry Review[7] again in 2015, the fuel cell industry is still very much in the process of formation, although the market is consolidating and the number of providers again decreased. Total sales worldwide increased slightly in 2014 by a total 71,500 units, but the total capacity of the fuel cell systems sold was around 350 MW and thus almost twice as high as in the previous year. Only around 10% of the systems were sold in Europe; by far the greatest percentage of sales were in Korea and the United States. In terms of markets, the lion's share of fuel cells were sold in the telecommunications market. Experts expect slightly higher sales figures in 2016 than in 2015. The market targeted by SFC Energy in the lower to medium power range fell slightly in 2015. In this range experts believe that there are strong growth opportunities for fuel cells as off-grid power sources, particularly in industrial applications such as construction sites, sensors and oil and gas infrastructure projects, as well as the consumer market. The defense market is also seen by the experts as a stable, growing market, with stationary autonomously operating complete systems likely being of great interest to users. Overall, in 2015 there was a continuation of the trend toward integrated, remote-controlled, weather-independent solutions that are used far from any power outlets. The hybrid issue is becoming important again. Likewise, demand is growing for autonomous units to charge batteries used on board of 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[8] in July 2015 the world electronics market grew by 5% in 2014 to €3,701 billion. For 2015 and 2016 the Association forecast a growth of 5% each for the industry market, which is one of the

7 E4Tech: "The Fuel Cell Industry Review 2015," November 2015
8 Data: ZVEI "Welt-Elektromarkt – Ausblick bis 2016" July 24, 2015

largest in the world. The estimate indicates that in 2014, Asia, at € 2,188 billion, accounted for 59 % of the global market. The Asian market again experienced the strongest growth at 7 % in 2014, and the association expects that it increased by 7 % in 2015 and will do so again in 2016. The American market is estimated to have grown by 3 % to € 755 billion in 2014, bringing its share of the global market to 20 %. Its prospects for growth in 2015 and 2016 are expected to be 4 % in each year. Market growth in Europe was somewhat weaker in 2014, at 3 %, climbing to € 633 billion. The European electronics market today accounts for 18 % of the world market. It is expected to grow by 2 % and 3 % in 2015 and 2016, respectively, but it will grow more slowly than the global market. The German market grew by 2 % to € 109 billion in 2014, but it is still the fifth-largest in the world, after China, the U.S., Japan, and South Korea. For 2015 and 2016 the association expects slight growth of 3 % per year.

- In January 2016 the Association[9] reported growth in production in the German electronics industry of just a little less than 1 % on the previous year (for the period from January to November 2015). Revenues in the same period even grew by slightly under 4 % to € 162 billion. For the entire year, ZVEI expects industry growth of almost € 178 million. Foreign trade was particularly dynamic in 2015, and the ZVEI experts expect it to set a new record of around € 174 billion, including reimports in 2015. Thanks to the favorable exchange rate, exports to the United States showed especially strong growth, increasing by 16 % to € 14.5 billion. This made the United States the strongest importing country, ahead of China with € 13.6 billion. A total of 853,000 people worked in the industry in 2015, i.e., 8,000 more than in 2014. Overall orders in the German electronics industry were up by almost 9 % in the period under review, with domestic orders up 2 % and orders from abroad up an impressive 10 %. As a whole the business climate in the German electronics industry had picked back up by year end, and export expectations have increased significantly.

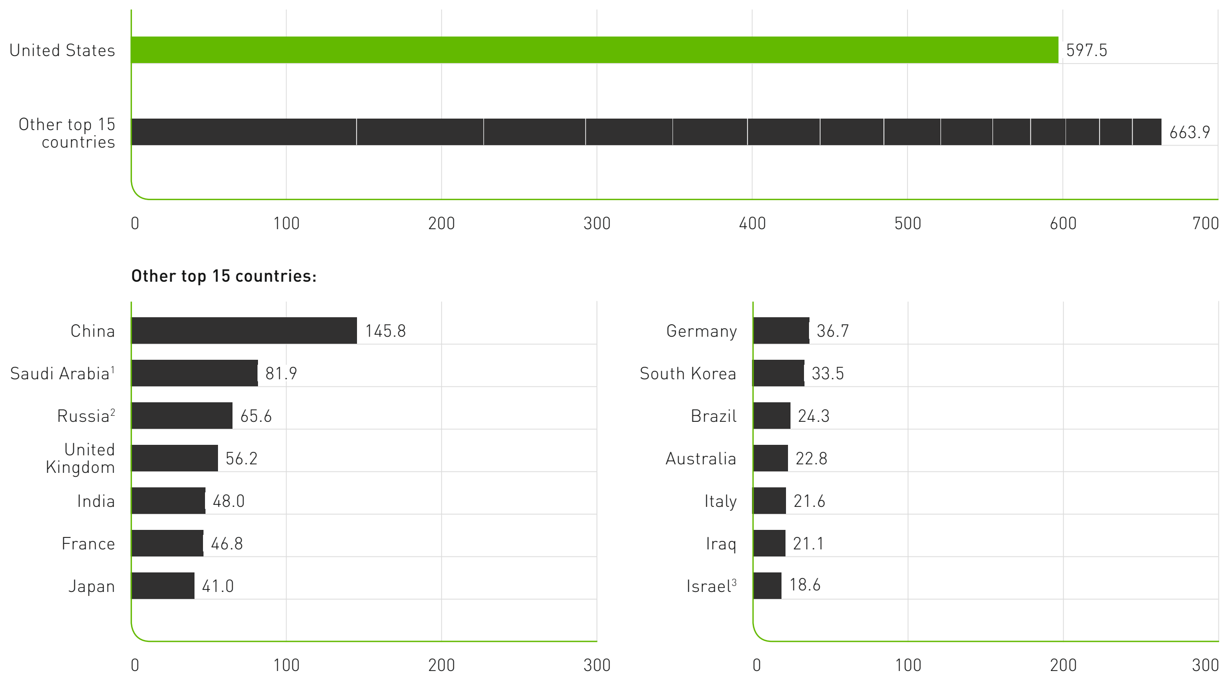
- In the submarket "electronic building components" (in-house manufacturers and electronic manufacturing services providers), in May 2015[10] ZVEI expected an 8.4 % increase in the market for electronic building components in Germany, rising to € 27.8 billion. In December 2015[11] it reported that sales had remained the same for the third quarter of 2015 and order intake had fallen by 8 % because of the traditionally increased order distribution in the automobile industry in the second quarter. According to the Association the companies say that the order intake in the third quarter was good.

c) Defense & Security

According to "The Military Balance 2016" report by the International Institute for Strategic Studies (IISS)[12], which analyzes the defense capabilities and budgets of 171 countries all over the world each year, the increase in high-profile terror attacks in late 2015 was the last signal in a year characterized by crises, conflicts and uncertainties. Islamic terror in France, Mali and the airspace over the Sinai Peninsula followed earlier terrorist attacks in Kenia, Lebanon, Pakistan, Afghanistan and other regions. The difficult conflicts and the increasing instability in Syria, Libya, Yemen and the Sahel not only help terrorists recruit new members but also support the terrorists' arguments in the information that they spread. Instability and violence also result in waves of refugees from the afflicted countries and place heavy demands on the ability of European countries to secure their borders. Because of these events and other precarious situations in the world in 2015, the overall increasingly complex international security situation left defense organizations with little room to develop radically new strategy initiatives. In the United States, according to the Institute, the main defense priorities are unlikely to change as the Obama administration winds down, although his successor will face a complex security environment that is likely to be further buffeted by the actions of an energized Russia and the rise of China and attendant economic and security concerns.

9 Data: ZVEI Press Release 2/2016, January 26, 2016, and ZVEI Economic Barometer of January 14, 2016
10 Data: ZVEI Press Release 95/2015, May 19, 2015
11 Data: ZVEI Press Release 95/2015, December 14, 2015
12 International Institute for Strategic Studies (IISS), "The Military Balance 2016," February 9, 2016

TOP 15 DEFENCE BUDGETS 2015 — in US$bn



1 Includes Interior Ministry funding; 2 Under NATO defence spending definition; 3 Includes US Foreign Military Assistance

NOTE: US dollar totals are calculated using average market exchange rates for 2015, derived using IMF data. The relative position of countries will vary not only as a result of acutall adjustments in defence spending levels, but also due to exchange-rate fluctuations between domestic currencies and the US dollar. The use of average exchange rates reduces these fluctuations, but the effects of such movements can be significant in a number of cases.

Source: International Institute for Strategic Studies' (IISS) "The Military Balance 2016", February 9, 2016

According to the IISS experts, we are now seeing the consequences of the many years of defense budget cuts in Europe, which were made even worse by the financial crisis. The terrorist attacks are affecting Europe on its home territory. Although this should bring issues of internal and external security increasingly into focus, the experts expect budgets in Europe to stagnate, if not to shrink even further. Only four of the 26 European NATO partners currently spend 2 % of their GDP on defense, as agreed. As a result, there is a shortfall of almost USD 100 billion vis-à-vis the plans. Against this backdrop, Smart Defense, a strategic initiative of NATO, plans to establish a cooperative approach to progressive defense technologies most cost effectively in the future. In October 2015 Belgium and the Netherlands as additional NATO partners signed a letter of intent in this regard[13].

The IISS experts believe that the modernization of equipment and weapon systems will also play a decisive role, as they believe that Western countries are in danger of being surpassed by countries like Russia or China. In particular the defense organizations must deal with the situation where there is less and less of a distinction between civil and military applications. The experts expect that defense spending will continue to increase, not only in Asia, but also in the Persian Gulf, driven by the lifting of oil sanctions in Iran, lower oil prices and the conflicts in the countries of that region.

In their outlook for the global aerospace and defense industry for 2016[14] the Deloitte market experts believe that after four years of declines in defense budgets, a new growth cycle will begin, in view of the increasing global

13 Data: NATO news, October 8, 2015 & November 9, 2015
14 Data: Deloitte Touche Tohmatsu Ltd: "Deloitte 2016 Global aerospace and defense sector outlook: Poised for a rebound", January 2016

threats, lower oil prices and increased or re-released (in the US) defense budgets for 2016, with a corresponding increase in global defense spending. The experts believe that in addition to the USA, specifically the United Arab Emirates, Saudi Arabia, India, South Korea, Japan, China and Russia will increase their defense budgets. In particular, they expect increased purchases of next generation military technologies and equipment. In the United States alone, the Deloitte experts expect the defense budget to increase by USD 13 billion, primarily with increased purchases abroad. These purchases have shown particularly strong growth in the past few years: from USD 21 billion in 2010 to USD 47 billion in 2015, which represents an increase of almost 120 %. European and Asian vendors in particular profit from this trend. Altogether the global aerospace and defense market is expected to grow by 3 % in 2016.

Consumer market

a) Caravaning

According to the CIVD[15] and the European Caravaning Federation (ECF)[16] the European motor caravan and caravan market did exceedingly well in 2015, with an extraordinarily strong performance, registering its highest sales in five years. New leisure-vehicle sales registered a substantial rise of 10 %, to 151,293 units. The European leisure-vehicle export sector scored a remarkable turnaround in 2015, with virtually all European markets reporting sales increasing – a considerable improvement over 2014, when sales increased in only seven European markets. Germany continued in its role as the driver of sales growth in Europe, with exceptionally high sales of new leisure vehicles in 2015. With 47,143 new vehicles registered, the German market saw sales jump almost 10 % over the previous year. Close behind were the United Kingdom, with 31,577 new registered vehicles, a 16 % jump over the prior year, and France with 25,334 new units and an increase of 9 %. A positive trend was even observed in 2015 in the Spanish market, which had been down for many years.

Most importantly, the motor caravan market, which is particularly attractive to SFC Energy, rose by almost 13 % in Europe, to 81,298 vehicles, of which 28,348 were registered in Germany alone, an increase of over 10 %. Sales of caravans were up 7.5 % throughout Europe, to 69,995 newly registered vehicles.

In 2015 the German caravanning industry surpassed the 7 billion mark for the first time[17], generating record sales of € 7.57 billion, the best results in its history. This was attributable not only to the market for new motor caravans and caravans, but also to solid sales of used vehicles and accessories. The accessory market, which is of particular interest to SFC Energy, was up almost 14 %, with sales of € 0.72 billion.

According to a member survey[18] in January, the CIVD expects continued growth in 2016, both in Germany and abroad, even after the record sales in the prior year.

15 Data: CIVD Caravaning Industrie Verband e.V., Press Release "Successful Year" of January 18, 2016
16 Data: ECF European Caravaning Federation, Press Release "Outstanding performance by the European leisure vehicle sector in 2015", January 18, 2016
17 CIVD Caravaning Industrie Verband e.V.; Press Release "Erneuter Rekordumsatz" of January 18, 2016
18 CIVD Caravaning Industrie Verband e.V.; Press Release "Beste Aussichten" of January 18, 2016

b) Marine market

According to the Federal Water Sports Industry Association (BVWW)[19], 2015 was a very successful year for the water sports industry in Germany. In a survey about the economy conducted by the Association in mid-2015, 75 % of the participants rated business as just as good as or better than in the prior year, with 44 % even reporting increased sales. Overall the Association expects total sales of maritime goods and services (excluding the megayacht segment) of around € 1.85 billion in 2015, which represents a 4 % increase over the prior year. German boat manufacturers fare extremely well vis-à-vis their international competitors, thanks to innovative products and good value for money. While the Association indicates that exports of motor yachts increased by 11.5 % in the first half of 2015, sales of sailboats fell by 13.9 %. Overall 1,483 motor yachts and sailing yachts with a total value of around € 130 million were exported to other countries in the first half of the year. The equipment sector is benefitting from the trend toward keeping one's own boat longer or buying a used boat. An additional factor is that the aging boat population is spending more time on board their yachts. Both result in additional spending, particularly in the area of comfort.

EARNINGS AND FINANCIAL POSITION

Earnings position

The SFC Group (the "Group") posted sales of € 47,310k in the financial year 2015, for a decrease of 11.8 % from the prior-year period's € 53,631k.

SFC had sales of € 10,233k, and was thus below the prior year's level (€ 11,180k). The reason for this was a clear decrease in sales in the civil industry business.

PBF had sales of € 11,101k, and was thus also under last year's level (€ 13,121k). This was primarily attributable to slower lead times for new products and the postponement of orders.

With sales of € 25,976k, Simark posted a decrease of around 11 % versus the twelve-month period in 2014 (€ 29,329k).

In a comparison of the two financial years, EBIT for the Group fell from minus € 4,269k to minus € 10,645k.

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 the bonus for personnel who stayed on board of € 1,334k (previous year: € 1,191k) and depreciation/amortization and expense resulting from the purchase price allocation of € 1,087k (previous year: € 1,152k).

- Subsequent measurement of the acquisition of PBF: Given the impairment of PBF's goodwill, there were impairment expenses of € 3,493k in the financial year 2015 (previous year: € 0k).

- Additional expenses in 2015: expenses for SAR plan and the management board transaction bonus (€ 136k) and expenses for severance pay (€ 203k).

19 Data: Bundesverband Wassersportwirtschaft (BVWW), Press Release zur boot "Maritime Wirtschaft auf Wachstumskurs", November 17, 2015

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

		in k€
	2015	2014
EBIT (earnings before interest and taxes)	**– 10,645**	**–4,269**
Production costs of work performed to generate sales		
Impairment of fixed assets	0	339
Expenses for acquisition-related personel costs Simark	203	196
Impairment of intangible assets identified in acquisitions Simark	35	97
Expenses from contract terminations PBF	94	0
Expenses from contract terminations SFC	29	0
Research and development costs		
Impairment of goodwill PBF	1,747	0
Impairment losses capitalized development PBF	61	0
Sales costs		
Impairment of intangible assets identified in acquisitions Simark	1,052	1,055
Expenses for acquisition-related personel costs Simark	769	744
Expenses from contract terminations PBF	0	118
Expenses for personel, bonus Simark	159	70
Expenses for the management board SAR plan	85	50
Impairment of goodwill PBF	1,746	0
General administration costs		
Expenses for acquisition-related personel costs Simark	203	196
Expenses for the management board SAR plan	51	68
Expenses from contract terminations PBF	19	42
Other operating income		
Income from the reversal of Earn-Out provision identified in acquisitions Simark	0	– 15
Other operating expenses		
Contingent losses from rent expenses and leasing	0	86
EBIT underlying	**– 4,392**	**–1,223**

Underlying EBITDA also decreased. Underlying EBITDA was minus € 2,978k in the financial year 2015. In 2014, on the other hand, underlying EBITDA was positive at € 379k.

The Group's sales and earnings figures were thus clearly below expectations and the forecast from the prior year, which initially assumed sales from € 55 million to € 65 million and a slight further positive improvement in underlying EBITDA and a slight further positive improvement in underlying EBIT. This forecast was revised with the press release of November 9, 2015, to revenues ranging from € 48 million to € 50 million and a lower profitability than in 2014, due to the weak environment in the Oil & Gas market and the postponement of a large project in the defense sector. This forecast was almost achieved.

Sales by segment

The following table shows a comparison of segment sales for the 2015 financial year:

SALES BY SEGMENT			in k€	in %
Segment	**2015**	**2014**	**Change**	**Change**
Oil & Gas	25,976	29,335	–3,359	–11.5
Security & Industry	17,570	20,186	–2,616	–13.0
Consumer	3,764	4,110	–346	–8.4
Total	**47,310**	**53,631**	**–6,321**	**–11.8**

Sales in the Oil & Gas segment fell from € 29,335k to € 25,976k. This segment contains exclusively the sales of Simark. Sales came from the sale and integration of products for the North American Oil & Gas market.

SFC's sales in the Security & Industry market were down from € 20,186k to € 17,570k. PBF, which generated nearly all of its sales in this segment, accounted for € 11,101k (previous year: € 13,121k) of this amount. SFC's sales fell by 8.4 %, from € 7,065k to € 6,469k, with the number of EFOY units sold down from 1,029 to 753. The reason for this decrease at SFC was the civil industry business, which was down by € 1,482k in comparison to the previous year. The large project in the field of traffic technology with a revenue volume of € 1,057k could not be repeated to that extent in 2015. On the other hand, SFC's revenues in the Defense sector were up 48.5 %, rising from € 1,816k in 2014 to € 2,697 in 2015. The delivery of 82 EMILY fuel cells to the German Bundeswehr in the third quarter of 2015 generated revenues of €1,272k, thus making a considerable contribution to this increase.

Sales in the Consumer segment were down in 2015, dropping from € 4,110k to € 3,764k. The number of fuel cells sold decreased slightly, from 1,450 to 1,281. Increased sales in North America were not able to fully offset the downward trend in France and Australia.

Sales by region

Sales by region evolved as follows:

SALES BY REGION			in k€	in %
Region	**2015**	**2014**	**Change**	**Change**
North America	26,390	30,500	–4,110	–13.5
Europe (excluding Germany)	11,990	12,944	–954	–7.4
Germany	6,705	7,805	–1,100	–14.1
Asia	1,468	1,794	–326	–18.2
Rest of the world	757	588	169	28.7
Total	**47,310**	**53,631**	**–6,321**	**–11.8**

In North America, the most significant market, the sharp decline in sales in the financial year 2015 resulted from the crisis in the Oil & Gas business in Canada.

In the European market (excluding Germany) PBF generated sales of € 7,531k (previous year: € 8,242k), while SFC generated sales of € 4,459k (previous year: € 4,702k).

In Germany, SFC's sales increased slightly, from € 4,407k to € 4,424k in financial year 2015. PBF contributed sales of € 2,281k in Germany, down from € 3,398k during the prior year.

Germany's share of sales declined from 14.6 % to 14.2 % during financial year 2015.

PBF dominated the Group's business in Asia, with sales of € 1,126k (prior year: € 1,224k). Most of SFC's sales in the financial year 2015 were for projects in the industrial market in Japan.

Gross profit

Total gross profit in the financial year 2015 was €13,227k or 28.0 % of revenues (previous year: € 15,661k or 29.1 % of revenues). 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 the Oil & Gas segment was 22.3 % (previous year: 26.0 %) because of Simark's different business model, while the group companies SFC and PBF achieved a margin of 25.6 % (previous year: 22.7 %) in the Consumer segment and a margin of 36.8 % (previous year: 35.1 %) in the Security & Industry segment. The gross profit at the group level fell by € 2,434k or 15.5 % in comparison with financial year 2014.

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

GROSS PROFIT			in k€	in %
Segment	2015	2014	Change	Change
Oil & Gas	5,805	7,637	– 1,832	– 24.0
Security & Industry	6,457	7,090	– 633	– 8.9
Consumer	965	934	31	3.3
Total	**13,227**	**15,661**	**– 2,434**	**– 15.5**

Due to the continuing market conditions in Canada, gross profit in the Oil & Gas segment fell by € 1,832k. In light of the situation in the Oil & Gas market, this was in line with expectations both in percentage and absolute terms.

The Security & Industry segment's gross profit was € 6,457k, which was below the previous year's € 7,090k. Primarily because of SFC's higher share of sales in the defense market, gross margin increased from 35.1 % to 36.8 %.

In the Consumer segment the gross margin increased by 2.9 % compared to the prior year. The reason for the lower margin in the financial year 2014 was the one-time effect of the write-down of a facility.

Sales costs

The Group's sales costs rose by 18.6 %, from € 10,540k to € 12,499k. The significant increase in sales costs is primarily due to the effect of the impairment charge for PBF's goodwill in the amount of € 1,746k.

Group-wide, sales costs as a percentage of sales increased from 19.7 % to 26.4 %.

The Group company SFC experienced an increase to € 3,884k (prior year period: € 3,520k).

Sales costs for Simark, including effects from the purchase price allocation and the prorated cash component, were € 5,880k (prior year: € 6,039k).

PBF's sales costs were € 988k (prior year: € 979k). In addition, the impairment expenses on PBF's goodwill were reflected in sales costs at the group level in the amount of € 1,746k.

Research and development costs

Research and development costs increased by € 1,276k in 2015, from € 4,530k to € 5,806k, not least because of the impairment expenses on the goodwill of PBF included in the current financial year in the amount of € 1,747k.

SFC's research and development costs decreased from € 1,581k to € 1,076k. The essential reason for this was the increase in capitalized development costs in 2015.

PBF's research and development costs were € 2,762k, thus increasing from the prior year's level of € 2,537k. Higher costs of consulting and other costs in connection with development activities contributed to the increase in research and development costs at PBF in the financial year 2015. In addition, the impairment expenses on PBF's goodwill were reflected in research and development costs at the group level in the amount of € 1,747k.

Simark is included in research and development costs for an amount of € 221k (prior year: € 412k).

General administration costs

General administration costs increased by 13.8 % in 2015, rising from € 4,872k to € 5,546k. They were therefore 11.7 % when expressed as a percentage of sales, versus 9.1 % the year before. The main reasons for the increase in general administration costs were the higher consulting expenses and the higher expenses in connection with investor relations topics at SFC and increased personnel costs at PBF.

Other operating income

The largest items in other operating income of € 141k (previous year: € 170k) were foreign exchange transaction gains of € 112k (previous year: € 96k).

Other operating expenses

Other operating expenses amounted to € 161k in the financial year 2015 (previous year: € 159k). The other operating expenses in financial year 2015 relate almost exclusively to foreign exchange losses (previous year: € 49k).

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

EBITDA fell significantly in the financial year 2015, from minus € 1,177k to minus € 4,650k. Accordingly, the EBITDA margin decreased from minus 2.2 % to minus 9.8 %. Adjusted for the one-off effects mentioned earlier, underlying EBITDA amounted to minus € 2,978k (previous year: plus € 379k), or minus 6.3 % (previous year: 0.7 %) of sales.

Operating result (EBIT)

The Group's EBIT fell considerably in 2015, decreasing from minus € 4,269k to minus € 10,645k. The EBIT margin deteriorated from minus 8.0 % to minus 22.5 %. Adjusted for the one-off effects mentioned earlier, underlying EBIT amounted to minus € 4,392k (previous year: minus € 1,223k), or minus 9.3 % (previous year: minus 2.3 %) of sales.

Interest and similar income

Interest and similar income fell from € 14k to € 4k, primarily because of the lower cash balance.

Interest and similar expenses

The interest and similar expenses item in the amount of € 318k (previous year: € 312k) consists of interest paid to banks and the interest cost on liabilities and provisions.

Result for the year

The net loss fell to € 10,669k in the financial year 2015, following a net loss of € 4,826k the year before. This includes the abovementioned exceptional items in the total amount of € 6,253k (previous year: € 3,046k) for financial year 2015.

Earnings per share

Earnings per share under IFRS (basic and diluted) deteriorated from minus € 0.60 to minus € 1.24, because of the greater net loss.

New orders and order backlog

New orders in financial year 2015 totaled € 48,442k, compared with € 46,621k in 2014.

Its order backlog at December 31, 2015 improved to € 11,759k (previous year: €10,626k). Of that amount, € 2,897k was attributable to SFC (previous year: € 685k) and € 6,325k was attributable to PBF (previous year: € 3,898k). Simark is included in this figure with € 2,537k (prior year: € 6,044k).

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, the cash capital increase in November 2014 and the convertible bond in December 2015 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 incorporation do not define any capital requirements. SFC is authorized to acquire its own shares on or before May 6, 2020, 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.

In December 2015 SFC issued a tranche (€ 1,650k) of a convertible bond with a total face value of € 5,000k and a discount of 10 %. A total of € 1,485k was brought in through a private placement. The fair value of the compound instrument was divided into its equity and debt components. Transaction costs were allocated to the components depending on each component's share of the fair value. At December 31, 2015, interest expense in the amount of € 4k was recognized on the income statement and financing costs of € 5k were recognized in other expenses. In addition, the termination component had to be written down in the amount of € 1k at the reporting date.

Available cash and cash equivalents amounted to € 3,277k at December 31, 2015 (previous year: € 6,122k).

The total short-term and long-term liabilities to bank amounted to € 4,217k at December 31, 2015 (prior year: € 5,058k).

Detailed covenants based on various Simark performance indicators and clauses requiring repayment in the event of default were entered into with the lenders in connection with the financing of subsidiary Simark. The following covenants and performance indicators at December 31, 2015, were agreed to for Simark:

- **Working Capital Ratio (WCR):** current assets / current liabilities: >1,20.
- **Debt Service Coverage Ratio (DSCR):** EBITDA / debt service: > 1,20.
- **Funded Debt to EBITDA Ratio (FDER):** interest-bearing liabilities / EBITDA: < 2.75.

The thresholds for WCR, DSCR and FDER were exceeded at December 31, 2015. A waiver was achieved in discussions with the banks so that the breach of the covenants can be seen as cured. This will impose additional liabilities on Simark in connection with a shareholders' loan vis-à-vis SFC AG at the end of March 2016 in the amount of CAD 1.7 million, but will allow it to grow its business in the coming years with a more solid financing basis. SFC AG gave the banks a declaration of subordination in the amount of the shareholder loan.

A financial covenant with the lender was agreed in connection with the financing of the subsidiary PBF. The loan agreement provides for compliance with the following covenant:

- Equity ratio of 35 %: secured capital/ total capital

The defined equity ratio was not achieved at December 31, 2015. A new loan agreement was entered into in discussions with the bank in March 2016 subject to compliance with the originally defined financial covenants. SFC AG gave the bank a declaration of subordination in the amount of € 2,350k of an already existing shareholder loan. This cured the breach of the financial covenant.

The following table shows the Group's equity and total assets at the respective reporting dates:

COMPANY'S EQUITY RATIO — in k€

	12/31/2015	12/31/2014
Equity	**16,558**	**27,589**
As a percentage of total capital	46,1	58,4
Long-term liabilities	6,291	6,296
Short-term liabilities	13,040	13,371
Liabilities	**19,331**	**19,667**
As a percentage of total capital	53,9	41,6
Total equity and liabilities	**35,889**	**47,256**

The Group's capital structure deteriorated in the financial year 2015 due to the net loss for the year. The Group still shows an equity ratio of 46.1 % (prior year: 58.4 %).

Property, plant and equipment continues to be financed with equity, and current assets cover current liabilities.

Capital expenditures

In the financial year 2015, € 994k (€ 281k) was capitalized for the further development of products. Capital expenditures were also made in software, machinery and equipment.

Total capital expenditures in 2015 came to € 1,349k (€ 750k). Capital expenditures were financed with the Company's own funds or under existing loan agreements.

A small number of finance leases were entered into.

Cash and cash equivalents

There was a net cash outflow of € 2,849k in the financial year 2015, but in 2014 there was a net cash inflow of € 1,029k. One of the main reasons for the outflow in cash in both financial years was the negative cash flow from operating activities.

At the end of December 2015, the Company's available cash and cash equivalents thus fell to € 3,277k (end of December 2014: € 6,122k). In addition, cash in the amount of € 285k (previous year: € 285k) was blocked in favor of a lessor, while cash in the amount of € 150k (previous year: € 0k) was blocked in favor of a supplier.

There were current liabilities to banks in the amount of € 2,014k as of the reporting date (prior year: € 2,013k).

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

Simark	Credit line CAD 3,500k,	of which drawn: CAD 969k
PBF	Credit line € 750k,	of which drawn: € 443k
PBF	Credit line € 300k,	of which drawn: € 300k

Cash flow from ordinary operations

There was a net cash outflow of € 1,864k from ordinary operations in 2015 versus a net cash outflow of € 3,553k in the prior year.

The primary cause of the outflow in 2015 was the loss for the year and the resulting negative operating cash flow before changes in working capital in the amount of € 4,276k, versus negative cash flow of € 1,117k in the prior year.

Cash flow from investment activity

Net cash used for investment activity totaled €1,483k in the period under review (previous year: € 618k). The increase is primarily attributable to the increase in investment of intangible assets from development projects, from € 281k in the previous year to € 994k in 2015.

Cash flow from financial activity

There was a total net cash inflow of € 498k from financial activity in 2015, in contrast to a net cash inflow of € 3,143k in the previous year. The cash inflow in 2015 was primarily attributable to the placement of the convertible bond by SFC. This provided SFC with € 1,371k (net) at December 31, 2015.

Assets & liabilities

Total assets fell by 24.1 %, from € 47,256k at December 31, 2014 to € 35,889k at December 31, 2015.

The equity ratio fell from 58.4 % to 46.1 % in financial year 2015 because of the loss for the period.

Inventories, trade accounts receivable and receivables from percentage-of-completion fell by € 4,148k, or 20.3 %, largely due to a weaker fourth quarter in 2015.

The most significant intangible assets are the goodwill of Simark in the amount of € 6,894k (previous year: € 7,411k), the goodwill of PBF in the amount of € 1,179k (€ 4,672k), other intangible assets relating to the acquisitions of Simark in the amount of € 1,362k (previous year: € 2,560k) and PBF in the amount of € 1,083k (previous year: € 1,464k) and capitalized development costs in the amount of € 1,757k (previous year: € 1,140k). Impairment charges in the amount of € 3,493k (€ 0k) were taken on the goodwill of PBF in financial year 2015. The decrease in other intangible assets relating to the Simark and PBF acquisitions reflects the amortization of the customer relationships and technology. With respect to the capitalized development costs, the sum of € 994k was capitalized (previous year: € 281k) and € 376k (previous year: € 407k) was amortized in the financial year 2015.

Non-current assets decreased from € 19,714k to € 14,736k. The share of non-current assets in total assets fell from 41.7 % to 41.1 % as a result.

Liabilities fell slightly by 1.7 %, from € 19,667k to € 19,331k.

Altogether, liabilities made up 53.9 % of total liabilities and shareholders' equity (previous year: 41.6 %).

With the net loss for the period, shareholders' equity decreased to € 16,558k at December 31, 2015, against € 27,589 at December 31, 2014.

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 the financial year 2015 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, with slightly less than 4 % of deliveries having defects, was slightly better than the prior year's level. The mean time to failure of fuel cells in the Industry segment was improved by 59 % due to the new generation of fuel cells.

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 its environmental management system is 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, 2015:

EMPLOYEES

	12/31/2015	12/31/2014	Change
Management Board	3	3	0
Research & development	49	51	– 2
Production, logistics, quality management	89	99	– 10
Sales & Marketing	69	70	– 1
Administration	25	23	2
Permanent employees	**235**	**246**	**– 11**

The Group employed 8 (previous year: 8) trainees, graduates and student trainees at December 31, 2015.

The number of permanent employees at SFC was 77 at December 31, 2015, and was thus higher than in the prior year (72).

The number of employees at PBF decreased from 97 to 92.

The number of employees at Simark at the reporting date was 66, and was thus lower than in the previous year (77).

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 convertible bond and future capital injections. 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 structure of the compensation. The compensation report also describes the underlying principles and the amounts of compensation paid to the Supervisory Board.

Management Board Compensation

Pursuant to the German Stock Corporation Act, 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 paid in twelve equal monthly installments.

Members of the Management Board also receive variable compensation (performance-based bonus) if specific targets are met. The targets to reach in the financial year 2015 were the amounts budgeted for consolidated sales (based on the budgeted exchange rate between the Canadian dollar and the euro), underlying gross margin and underlying EBITDA, and each target was tied to one-third of the bonus.

The possibility of a transaction bonus was granted to selected members of the Management Board in the financial year 2015. This transaction bonus, which is aimed at the long-term success of the Company, consists of a cash payment in the event of a successful takeover bid for SFC shares by May 31, 2016, depending on the amount of such bid.

Under the Group's long-term incentive plan (LTIP), until financial year 2014, the members of the Management Board were also eligible to receive bonus payments for a period equal to the term of their service agreements, under certain circumstances and if certain performance targets were met. Dr. Peter Podesser has participated in the LTIP since 2009. The LTIP is based on what is known as a phantom stock model and is divided into different performance periods of three years each: financial years 2009 to 2011, 2010 to 2012, 2011 to 2013, 2012 to 2014 and 2013 to 2015. The compensation at the end of each three-year period is paid in the form of cash and substantially depends on SFC's stock price and achievement of a defined EVA (economic value added) target for that period.

For 2014, the Company's Supervisory Board implemented a virtual stock option plan (SAR Plan 2014-2016) that is valid for any newly executed management board service agreements that go into effect on or after January 1, 2014. Additional information on the SAR Plan 2014-2016 is available under the heading "Stock Option Plans" on p. 73 of the Annual Report.

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

Management Board's Compensation in 2015

Members of the Management Board received € 1,045,727 in total compensation in the financial year 2015. This compensation in financial year 2015 included their base salaries, benefits, variable profit- and performance-based pay, the expenses for the SAR Plan, and the premiums for accident, pension and life insurance. This figure includes all amounts that were paid out or set aside in the 2015 consolidated financial statements, less the amounts already set aside as of December 31, 2014.

The compensation of the Management Board members is shown individually pursuant to the recommended sample tables in the German Corporate Governance Code, as amended on September 30, 2014. Chart 1 shows the benefits granted in the financial year 2015, while Chart 2 shows the amounts paid. Because the LTIP and the SAR Plan do not provide for any maximum amounts of compensation, no maximum amounts are shown, notwithstanding the recommendation in the German Corporate Governance Code.

CHART 1 – COMPENSATION OF THE MANAGEMENT BOARD 2015 (AMOUNTS GRANTED*) in €

	Dr. Peter Podesser			Hans Pol			Steffen Schneider			Gerhard Inninger		
	Chairman			CSO			CFO			CFO		
	since 1.11.2006			since 1.1.2014			since 1.9.2014			16.8.2011 until 16.5.2014		
Benefits granted	**2014**	**2015**	**2015 (Min)**	**2014**	**2015**	**2015 (Min)**	**2014**	**2015**	**2015 (Min)**	**2014**	**2015**	**2015 (Min)**
Fixed compensation	350,000	350,000	350,000	180,000	172,500	172,500	60,000	180,000	180,000	67,742	0	0
Fringe benefits	20,648	23,722	23,722	20,564	19,411	19,411	6,976	19,876	19,876	12,228	0	0
Total	**370,648**	**373,722**	**373,722**	**200,564**	**191,911**	**191,911**	**66,976**	**199,876**	**199,876**	**79,970**	**0**	**0**
One-year variable compensation	112,571	56,946	0	30,000	8,029	0	16,667	5,287	0	18,374	0	0
Multi-year variable compensation	242,317	0	0	49,376	209,956	0	293,900	0	0	0	0	0
LTIP 2011–2013	0	0	0	0	0	0	0	0	0	0	0	0
LTIP 2012–2014	0	0	0	0	0	0	0	0	0	0	0	0
LTIP 2013–2015	0	0	0	0	0	0	0	0	0	0	0	0
SARP 2014–2016	242,317	0	0	49,376	0	0	293,900	0	0	0	0	0
SARP 2015–2018	0	0	0	0	209,956	0	0	0	0	0	0	0
Total	**725,536**	**430,668**	**373,722**	**279,940**	**409,896**	**191,911**	**377,543**	**205,163**	**199,822**	**98,344**	**0**	**0**
Service cost	0	0	0	0	0	0	0	0	0	0	0	0
Total	**725,536**	**430,668**	**373,722**	**279,940**	**409,896**	**191,911**	**377,543**	**205,163**	**199,822**	**98,344**	**0**	**0**

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

CHART 2 – ALLOCATION OF MANAGEMENT BOARD COMPENSATION 2015 (AMOUNTS DISBURSED)								in €
	Dr. Peter Podesser		Hans Pol		Steffen Schneider		Gerhard Inninger	
	Chairman		CSO		CFO		CFO	
	since 1.11.2006		since 1.1.2014		since 1.9.2014		16.8.2011 until 16.5.2014	
Allocation	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**
Fixed compensation	350,000	350,000	180,000	172,500	60,000	180,000	67,742	0
Fringe benefits	20,648	22,889	10,564	9,411	3,643	18,989	12,228	0
Total	**370,648**	**372,889**	**190,564**	**181,911**	**63,643**	**198,989**	**79,970**	**0**
One-year variable compensation	55,571	144,510	0	38,029	0	16,667	33,374	0
Multi-year variable compensation	0	0	0	0	0	0	77,161	0
LTIP 2011–2013	0	0	0	0	0	0	0	0
LTIP 2012–2014	0	0	0	0	0	0	49,974	0
LTIP 2013–2015	0	0	0	0	0	0	27,187	0
SARP 2014–2016	0	0	0	0	0	0	0	0
SARP 2015–2018	0	0	0	0	0	0	0	0
Total	**426,219**	**517,399**	**190,564**	**219,940**	**63,643**	**215,656**	**190,505**	**0**
Service cost	0	0	0	0	0	0	0	0
Total	**426,219**	**517,399**	**190,564**	**219,940**	**63,643**	**215,656**	**190,505**	**0**

Compensation of the Supervisory Board

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

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

The table below shows the compensation paid to each member of the Supervisory Board in the financial year 2015:

FINANCIAL YEAR 2015	in €
Tim van Delden, Chairman	50,000
David Morgan, Deputy Chairman	37,500
Hubertus Krossa	25,000
Total	**112,500**

Stock Option Plans

For 2014, the Company's Supervisory Board implemented a virtual stock option plan (SAR Plan 2014-2016) with the goal of reconciling the interests of shareholders and management. The SAR Plan 2014-2016, which provides for the grant of SARs to members of the Management Board, applies to any newly executed management board service agreements that go into effect on or after January 1, 2014. It replaces the existing LTIP. Hans Pol received a second tranche of the SAR Plan (SARP 2015-2018 or TR 2) in connection with the extension of his Management Board employment agreement.

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

The main terms of the 2014-2016 and 2015-2018 SAR Plans are as follows:

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

Issue date	January 1, 2014 (Hans Pol Tranche 1); April 1, 2014 (Dr. Peter Podesser); September 1, 2014 (Steffen Schneider); July 1, 2015 (Hans Pol TR 2)
Term	7 years
Vesting period	4 years (Hans Pol TR1); 4 to 6 years (Dr. Peter Podesser), 4 to 6 years (Steffen Schneider); 4 to 6 years (Hans Pol TR2)
Expiry 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); July 1, 2016, July1, 2017 and July 1, 2018 (Hans Pol TR2)
Exercise price	€ 1.00
Performance target	Increase in share price from the issue date and outperformance of the benchmark index (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 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 the financial year 2015. The effectiveness of the internal control system is monitored by the Supervisory Board of SFC Energy AG in accordance with the requirements of the Accounting Rule Modernization Act (Bilanzrechtsmodernisierungsgesetz), which went into force in May 2009. It is important to note that an internal control system does not provide absolute certainty that material misstatements in the financial statements will be avoided or discovered, regardless of how it is designed.

Risk management system

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

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

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

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

RISK REPORTING WITH REGARD TO THE USE OF FINANCIAL INSTRUMENTS

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

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

Non-derivative financial instruments on the assets side of the balance sheet include cash and cash equivalents, trade accounts receivable, and other financial assets. In addition, the termination component of the convertible bond is shown as a derivative financial instrument. For materiality reasons, please see the statements in the Notes to the Consolidated Financial Statements. To the extent that default risks on the financial assets are probable, these risks are reflected in write-downs. On the liabilities side the liabilities to banks, trade payables, other liabilities from finance leases and the debt and equity components of the convertible bond are assigned to the financial instruments.

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, 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 and by the convertible bond issue in December 2015. However, the liquidity reserves dropped significantly from the previous year due to the net loss in 2015.

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

Interest rate risk

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

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 generates 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 balance sheet is calculated on the basis of actual and planned foreign currency positions and adjusted in the context of the rolling year-end forecast. There were no open currency forwards as of the reporting date. In this respect, foreign exchange risk exists for the unhedged portion of sales. There were no open currency forwards as of the reporting date.

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

Credit risk

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

If the covenants are breached there is the risk that a higher interest rate will have to be paid or that the loan will be accelerated. In addition to the earnings situation at Simark an increased need for financing can result in an increased covenant risk.

There is also the risk that PBF's loan 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[20]:

NAME	Stake as a %
Holland Private Equity B. V. (via HPE PRO Institutional Fund B. V.)	24.50

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.

At a meeting on May 7, 2015, the shareholders adopted a resolution cancelling the Authorized Capital 2013 in § 5 (5) of the articles of incorporation. The Management Board was authorized, with the consent of the Supervisory Board, to increase the Company's capital by May 6, 2020 by up to € 4,305,602.00 by issuing, on one or more occasions, a total of up to 4,305,602 new bearer shares of common stock without par value (no-par-value shares) in exchange for cash and/or in-kind contributions (Authorized Capital 2015).

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.

Pursuant to the resolution of the meeting of SFC Energy AG shareholders on May 7, 2015, the Company's Management Board was authorized to issue by May 6, 2020, with the Supervisory Board's consent, bearer convertible bonds or options or a combination of these instruments (referred to collectively as the bonds) with a total face value of up to € 14,000,000 with or without a term limit, and to grant conversion or options to the bond (also with conversion or option obligations) to new bearer shares of Company common stock with a notional amount of the capital stock of up to € 4,305,602 as defined in greater detail in the convertible bond or option terms and conditions.

On December 16, 2015, the Management Board of SFC Energy AG partially exercised the authorized granted by the shareholders' meeting, issuing a convertible bond 2015/2018 for up to € 5,000,000.00, divided into up to 100 bonds with a face value of € 50,000 each. The Management Board placed bonds totaling € 1,650,000.00 with two

20 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.

investors on December 18, 2015 and placed additional bonds totaling € 550,000.00 with an investor on January 11, 2016. Additional bonds in the amount of € 1,100,000.00 were placed in March 2016.

The Company has a Conditional Capital 2011 in the amount of € 3,576,443.00 and a conditional capital in the amount of € 729,159.00 (Conditional Capital 2015) for the grant 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 a combination 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.

At a meeting on May 7, 2015, the shareholders authorized the Management Board to acquire, by May 6, 2020, the Company's own shares up to 10 % of the Company's capital on May 7, 2015. No use had been made of this authorization as of the balance sheet date.

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

Dr. Peter Podesser's Management Board employment agreement was extended by three more years starting April 1, 2014. The contract specifies that Dr. Peter 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. Peter 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. Peter 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. Peter 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. A similar clause is included in the employment contract of CFO Steffen Schneider.

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).

Hans Pol was appointed to the Management Board until June 30, 2015, effective January 1, 2014. His Management Board employment agreement contains an agreement regarding the 2014–2016 SAR Plan that lasts until December 31, 2018. Mr. Pol was granted 90,000 SARs on January 1, 2014. On March 24, 2015 Mr. Pol's Management Board employment agreement was extended until June 30, 2018. In connection with that extension, Mr. Pol was awarded an additional 180,000 SARs on July 1, 2015 (2015-2018 SAR Plan).

Steffen Schneider was appointed to the Management Board until August 31, 2017, effective as of September 1, 2014. His Management Board employment agreement contains an agreement regarding the 2014–2016 SAR Plan that lasts until September 1, 2021. Mr. Schneider was granted 180,000 SARs on September 1, 2014.

A transaction bonus was granted to selected Management Board members in the financial year 2015. This transaction bonus consists of a cash payment in the event of a successful takeover bid for SFC shares, depending on the amount of such bid.

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

The ifo Institute for Economic Research believes that the political tension in the Middle East and the unpredictable interests of the parties to the numerous conflicts represent a significant risk for the global economy in 2016. Even though they do not expect any economic effects from the 2015 terrorist attacks, the political reactions to those attacks in France and other countries showed how explosive the geopolitical situation is. The experts say that an escalation in the conflicts in the Middle East could unsettle consumers, producers and investors across the world, thus putting a significant damper on growth. In such a scenario, oil prices could easily surge, since many Middle Eastern countries are among the world's largest oil producers.

There are also risks related to the gradual tightening of monetary policy in the United States, with the Fed making its first interest rate increases in December. The experts believe that this will increase the relative attractiveness of the United States as an investment location and will involve portfolio restructuring at the expense of other regions. In an extreme case scenario it may once again lead to capital outflows from the emerging countries, which could, in turn, lead to strong financial market turbulence, or even exchange rate crises.

According to the experts, the ECB's recent decision to extend its bond buying program may also threaten economic developments, and not only in the euro area. Easier access to cheap money can promote the formation of asset price bubbles, which could lead to painful upheavals in financial markets both within and outside Europe. Moreover, the ECB's government bond buying program creates false incentives for financial policy. A series of European governments, including those of Spain and Italy, are now already in a position to issue multi-year bonds with negative rates of return. However, in many places the resulting financial buffer is not being used to further reduce the public deficit, or even to repay debts. This means, according to the experts, that there is a growing risk of crisis-like upheavals and a reignition of the European debt crisis.

Oil & Gas market

The economic outlook for the Oil & Gas market is seen as very moderate in view of the continuing significant decline in oil prices. None of the organizations made any specific forecasts. 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. Because particularly in Canada several oil wells will be brought onstream in 2016, thus increasing the production volumes in this region, it is hard to predict how spending by oil producers will develop. 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: It is expected that the developing market for off-grid, mobile industrial systems will continue to grow because of its increasing strategic importance. However, the degree to which many industries depend on the overall economy, government budgets and economic stimulus plans will play an important role here as well.

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 emerging energy markets and the markets of the future, so there is constant and widespread demand for these parts. There are risks associated with the readiness of large international customers to place orders, which is still difficult to predict, since in the past two years, they tended to reduce their inventories rather than order new goods.

Defense & Security: Overall the experts expect that defense spending will increase worldwide under the influence of the most recent terrorist attacks and the trouble spots in the Middle East, particularly in the fields of innovation, modernization and efficiency enhancement. This could have a positive effective for SFC, both with respect to the development programs with defense partners and with respect to commercial orders. However, there could be delays due to new priorities in government budgets. Projects could be shut down completely or not even ordered to begin with.

Consumer market

Caravaning: The German caravaning association CIVD and the European Caravan Federation ECF are very optimistic about the future. 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. The German Federal Association of the Watersport Industry points out this risk, but still expects positive market growth in the single digits in 2016 in almost all market segments.

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 patent families or decisions to grant received), which puts us in a strong position relative to our competitors. However, it is 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. and SFC Energy AG to a comprehensive portfolio of American fuel cell patents belonging to the University of Southern California and the California Institute of Technology. The agreement is intended to provide extensive certainty under patent laws for the sale of SFC's products to end consumers in the United States. This agreement is based on the sale of minimum numbers of fuel cell units. The agreement was amended in January 2014, with considerable reductions in minimum unit numbers and the associated payment risks.

Competition

SFC currently enjoys a unique position thanks to its leadership in DMFC systems technology and SFC marketing edge. Some of the ways SFC protect this advantage includes intellectual property rights, swift action, and a resolute focus on one single technological concept. Some of the 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 SFC´s 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 the 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. SFC is countering those risks by focusing the product development on standard products and system solutions.

The Group faces the usual competitive risks with regard to PBF products. The Group ist 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.

The case in the Security & Industry segment mentioned in the previous year, in which we agreed to do technical follow-up work for the customer, has been successfully completed.

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 source 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.

In expectation of a large contract from the defense area, SFC began advance production and had a large portion of the expected order volume in its warehouse at December 31, 2015. The order was postponed to 2016. If the order does not come about, there is the risk that only a small part of the inventories in the amount of around € 2.6 million, which have not been written down, could be sold to other customers.

The products of two suppliers accounted for around 67 % of Simark's sales in 2015. 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 € 102k on the balance sheet date.

In general, rising commodity and energy costs continue to pose a risk to our product margins. At 5 % volatility in the platinum price, the effect would be about € 30k annually.

Foreign exchange rates risks

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

In addition, SFC 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 the financial year 2015. There were no open currency forwards as of the reporting date. In that respect, foreign exchange risk exists for the unhedged portion of sales.

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

A 5 % change in the exchange rate of the Canadian dollar compared with the assumptions used for corporate planning would have an effect of around 2 % on consolidated revenue and around 2 % 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, the cash capital increase in November 2014 and the convertible bond issue in December 2015 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 2015 led to a decrease in cash on hand. The breach of the covenant was cured as of December 31, 2015, through a shareholder loan from SFC AG to Simark totaling CAD 1.7 million.

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 2015 not addressed through write-downs. As of the reporting date, specific write-downs totaling € 165k had been recognized at SFC for at-risk receivables. There were specific write-downs of € 120k at PBF and specific write-downs of € 235k at Simark.

Additional liquidity risk could result from the postponement of large projects. An example of this is the postponement of a large project in the defense sector, as described above, because of the expected sales volume. If the turnover of inventory should not provide the expected cash flow in the future, this could pose a threat to the continued existence of the company as a going concern.

Interest rate risks

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

Interest rate risk otherwise results primarily from the investment of cash. As part of the capital increase in 2007, shares were also placed in the United States. In that context, SFC had to assume the contractual obligation to comply with certain tax laws in the United States. Consequently, no investments may exceed a three-month term at present. In that respect, the net interest income or expense of SFC is materially influenced by short-term interest rates. Since interest rates are currently low and there is less cash on hand, this risk is very limited and is around € 2k if interest rates change by 0.1 %.

Personnel risks

The Group 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 employees could leave the Group.

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

Risks related to the 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 backup and archiving functions, restoring availability after outages, redundancy, and reliability. Monitoring of the high-availability servers has also been adapted to growing needs. SFC ensures the availability and sustainability of its IT infrastructure by updating antivirus and other software and the server operating system on the file servers. 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 the financial year 2016 develops in accordance with the corporate planning that has been adopted. A postponement or non-contracting of planned large projects in the defense sector could pose a threat to the continued existence of the company as a going concern.

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. Products like EFOY GO! also open up new markets.

Oil & Gas Industry

Simark's strong distribution and service organization in Canada should further 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 further regional expansion of Simark's business operations into Eastern Canada and 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

SFC has made more progressive plans for this market in the financial year 2016 because core parameters, such as the general security situation and increased defense budgets of NATO member states, have changed. 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 the continuation of the growth course begun in 2015 in this market. Revival of demand in the key markets of Germany and Israel, combined with a geographical expansion of operations, for example in other NATO countries, such as France and the United States, are important steps in this direction.

Due to the various crises around the world, it appears that a shift in thinking is taking place in the NATO countries, which may result in a significant increase in defense budgets. NATO's goal of spending 2 % of GDP on defense is still met by only a few members. 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, such as for the laser industry, will make new projects progress more quickly and reduce development costs. This will further increase attractiveness to customers.

Improved product mix

The continuing trend over the past few years toward products that use fuel cells with higher power classes, such as the EFOY Pro 12000, and integrated product solutions in the area of power management offer considerable potential for improving gross margins at the product level. The combination of products like EFOY GO! with products sold by Simark will allow us to tap new opportunities, such as in the area of home back-up.

Other opportunities

Costs and efficiency

The necessary restructuring measures that were instituted in 2015 will lead to greater efficiency and an improved cost structure at PBF and Simark in 2016 and the following years. Meeting or exceeding planned targets could have an appreciable effect on earnings compared with financial year 2015. As a result of the continued collapse in the crude oil prices in January 2016 and to take into account the resulting changes in the market environment, an additional comprehensive cost-cutting plan for Simark has been adopted and was implemented in January and March 2016. In the financial year 2015 costs were again 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.

New products such as the Next Generation Fuel Cell (NGFC) and further developments based on the JENNY platform can be used by the police and other defense forces in border protection and defense against terrorists.

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 2015 and published it on the website of SFC Energy AG (www.sfc.com/en/investors/corporate-governance). It issued an updated corporate governance statement pursuant to § 289a of the German Commercial Code on March 29, 2016, 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 decisive importance for the Oil & Gas segment. While we still believe that there will be long-term growth in the Oil & Gas segment, we expect for SFC in 2016 a firm to noticeable decrease in sales in comparison to the prior year, because of the decrease in oil and gas prices.

For 2016, SFC believes that there will be another recovery in its Defense business and an expansion of its international Industry business in the Security & Industry Segment. 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 contracts will be awarded in 2016 for projects that had been delayed. Accordingly, a considerable increase in sales is expected in this segment.

The coming months will show to what extent the positive effects of lower oil and gas prices have on the Consumer segment will provide growth momentum. In the Consumer market, the availability of the new product platform EFOY GO! over the course of the entire year will stimulate growth. 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 consolidated sales ranging from € 50 million to € 52 million in the financial year 2016, and also expects a significantly improved underlying EBITDA and a significantly improved underlying EBIT.

We expect the volatility on the global currency markets to continue in 2016. In calculating the revenues and the profit of Simark, the Management Board has used an exchange rate of 1.50 euro per Canadian dollar. 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. It is anticipated that capitalization of research and development costs will remain slightly below the previous year's level. It is expected that the number of employees will 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 € 3.3 million. With a trend for its operating result in the financial year 2016 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 opportunities and risks described in the Risk and Opportunities Report.

SUBSEQUENT EVENTS AFTER THE BALANCE SHEET DATE

In January 2016 there was a private placement of an additional tranche of the convertible bond in the amount of € 550k. With a 10 % discount this provided cash in the amount of € 495k. An additional tranche in the amount of € 1,100k was placed in March 2016. With a 10 % discount, this provided cash in the amount of € 990k.

As of the time of going to press, no further material events have occurred that would have a material effect on the Group's assets and liabilities, financial position and earnings.

Brunnthal, April 21, 2016

The Management Board

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

CONSOLIDATED FINANCIAL STATEMENTS

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

CONSOLIDATED FINANCIAL STATEMENTS

SFC ENERGY AG, BRUNNTHAL
CONSOLIDATED INCOME STATEMENT
FOR THE FINANCIAL YEAR FROM JANUARY 1 TO DECEMBER 31, 2015

in €

	Notes	2015	2014
Sales	(1)	47,310,120	53,630,938
Production costs of work performed to generate sales	(2)	–34,083,397	–37,969,890
Gross profit		**13,226,723**	**15,661,048**
Sales costs	(3)	–12,499,308	–10,539,535
Research and development costs	(4)	–5,806,406	–4,529,853
General administration costs	(5)	–5,546,087	–4,871,731
Other operating income	(6)	141,495	169,627
Other operating expenses	(7)	–160,984	–158,714
Restructuring expenses	(8)	0	0
Operating loss		**–10,644,567**	**–4,269,158**
Interest and similar income	(9)	3,567	13,605
Interest and similar expenses	(9)	–318,159	–311,600
Loss from ordinary operations		**–10,959,159**	**–4,567,152**
Income taxes	(10)	290,178	–259,111
Consolidated net loss		**–10,668,981**	**–4,826,263**
NET LOSS PER SHARE	(36)		
undiluted		–1.24	–0.60
diluted		–1.24	–0.60

SFC ENERGY AG, BRUNNTHAL
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR FROM JANUARY 1 TO DECEMBER 31, 2015

in €

	Notes	2015	2014
Consolidated net loss		**–10,668,981**	**–4,826,263**
OCI items that may be recycled to profit or loss in the future:			
Result from currency translations		–424,207	376,055
Total other results	(30)	**–424,207**	**376,055**
Total comprehensive income		**–11,093,188**	**–4,450,208**

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, 2015

in €

	Notes	12/31/2015	12/31/2014
Current Assets		**21,153,724**	**27,541,581**
Inventories	(14)	8,781,766	7,653,349
Trade accounts receivable	(15)	6,759,498	11,546,354
Receivables from Percentage-of-Completion	(16)	729,989	1,219,263
Income tax receivables	(17)	428,127	3,711
Other short-term assets and receivables	(18)	742,278	711,486
Cash and cash equivalents	(19)	3,277,066	6,122,418
Cash and cash equivalents with limitation on disposal	(20)	435,000	285,000
Non-current assets		**14,735,533**	**19,714,352**
Intangible assets	(21)	12,767,993	17,813,125
Property, plant and equipment	(22)	1,389,621	1,601,049
Other long-term assets and receivables	(18)	3,303	0
Deferred tax assets	(10)	574,616	300,178
Assets		**35,889,257**	**47,255,933**

SFC ENERGY AG, BRUNNTHAL CONSOLIDATED BALANCE SHEET AT DECEMBER 31, 2015

in €

	Notes	12/31/2015	12/31/2014
Current liabilities		**13,040.475**	**13,371,035**
Provisions for taxes	[23]	57,463	60,505
Other provisions	[23]	609,563	625,698
Liabilities to banks	[24]	2,014,131	2,013,013
Liabilities from prepayments	[25]	21,319	3,220
Trade accounts payable	[26]	7,262,550	6,871,734
Liabilities under finance leases	[27]	42,380	49,259
Liabilities from percentage-of-completion	[16]	0	57,853
Other short-term liabilities	[28]	2,827,058	3,536,483
Income tax liabilities	[29]	206,011	153,270
Non-current liabilities		**6,290,972**	**6,295,965**
Other long-term provisions	[23]	1,586,987	1,736,567
Liabilities to banks	[24]	2,202,797	3,045,313
Liabilities under finance leases	[27]	45,400	86,433
Other long-term liabilities	[28]	1,316,756	0
Other liabilities	[28]	61,948	118,428
Deferred tax liabilities	[10]	1,077,084	1,309,225
Equity		**16,557,810**	**27,588,933**
Subscribed capital	[30]	8,611,204	8,611,204
Capital surplus	[30]	72,017,015	71,954,950
Other changes in equity not affecting profit or loss	[30]	–712,455	–288,248
Consolidated net loss	[30]	–63,357,954	–52,688,973
Liabilities and shareholders' equity		**35,889,257**	**47,255,933**

SFC ENERGY AG, BRUNNTHAL
CONSOLIDATED CASH FLOW STATEMENT
FOR THE FINANCIAL YEAR FROM JANUARY 1 TO DECEMBER 31, 2015

in €

		Notes	2015	2014
	Cash flow from ordinary operations			
	Result before taxes		**– 10,959,159**	**– 4,567,152**
+	Net interest income	(9), (37)	314,592	297,995
+	Depreciation/amortization of intangible assets and property, plant and equipment	(12), (21), (22)	5,994,275	3,092,550
+	Expenses from SAR Plan/Transaction bonus	(32)	135,702	118,428
+	Changes in allowances	(14), (15)	332,150	89,622
–/+	Gains/Losses from disposal of property, plant and equipment	(21), (22)	– 11,489	6,766
–	Other non-cash expenses/income		– 81,921	– 155,415
	Changes to operating result before working capital		**– 4,275,850**	**– 1,117,207**
–	Changes to provisions	(23)	– 233,516	– 238,257
+/–	Changes to trade accounts receivable	(15)	4,261,723	– 2,154,356
–/+	Changes to inventories	(14)	– 1,309,255	181,568
+/–	Changes to other receivables and assets	(16), (17), (18)	397,247	– 439,743
+	Changes to trade accounts payable	(26)	643,137	1,604,578
–	Changes to other liabilities	(25), (28)	– 777,046	– 968,981
	Cash flow from ordinary operations before taxes		**– 1,293,560**	**– 3,132,398**
–	Income tax payments	(10), (37)	– 570,387	– 420,737
	Cash flow from ordinary operations		**– 1,863,947**	**– 3,553,135**

SFC ENERGY AG, BRUNNTHAL
CONSOLIDATED CASH FLOW STATEMENT
FOR THE FINANCIAL YEAR FROM JANUARY 1 TO DECEMBER 31, 2015

in €

		Notes	2015	2014
	Cash flow from investment activity			
–	Investments in intangible assets from development projects	(21)	– 993,503	– 281,216
–	Investments in other intangible assets	(21)	– 61,668	– 171,148
–	Investments in property, plant and equipment	(22), (27)	– 293,619	– 181,000
+	Interest and similar income	(9), (37)	4,167	14,065
–	Payments for acquisition of bank deposits with limitation on disposal	(20)	– 150,000	0
+	Proceeds from disposal of property, plant and equipment	(21), (22)	11,500	1,246
	Cash flow from investment activity		**– 1,483,123**	**– 618,054**
	Cash flow from financial activity			
+	Payments from capital increase	(30)	0	3,263,198
–	Cash outflows for costs from capital increase	(30)	0	– 287,014
+	Raising of financial dept	(24)	0	1,363,971
–	Repayment of financial dept	(24)	– 672,082	– 469,701
+	Proceeds from issuance of convertible bonds	(28)	1,485,000	0
–	Expenses from issuance of convertible bonds	(28)	– 113,899	0
+/–	Changes to current account liabilities	(24)	97,264	– 431,047
–	Repayment of liabilities under finace lease	(27)	– 54,124	– 68,442
–	Interest paid and other expenses	(9), (37)	– 244,514	– 228,283
	Cash flow from financial activity		**497,645**	**3,142,682**
	Net change in cash and cash equivalents		**– 2,849,425**	**– 1,028,506**
	Currency effects on cash and cash equivalents		4,073	8,388
	Net change in cash and cash equivalents			
	Cash and cash equivalents at beginning of period	(19)	6,122,418	7,142,536
	Cash and cash equivalents at end of period	(19)	3,277,066	6,122,418
	Net change in cash and cash equivalents		**– 2,849,425**	**– 1,028,506**
	Cash on the balance sheet			
	Cash and cash equivalents		3,277,066	6,122,418

SFC ENERGY AG, BRUNNTHAL
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR FROM JANUARY 1 TO DECEMBER 31, 2015

in €

	Notes	Subscribed capital	Capital surplus	Other changes in equity not effecting profit or loss	Net accumulated loss	Total
As of 01/01/2014		**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 of 12/31/2014		**8,611,204**	**71,954,950**	**–288,248**	**–52,688,973**	**27,588,933**
Consolidated net loss					–10,668,981	–10,668,981
Result from currency translation recognized in equity	[30]			–424,207		–424,207
Total comprehensive income						**–11,093,188**
Capital increase						
Issuance of convertible bonds – equity component	[30]		67,206			67,206
Less costs from capital increase	[30]		–5,141			–5,141
As of 12/31/2015		**8,611,204**	**72,017,015**	**–712,455**	**–63,357,954**	**16,557,810**

SFC ENERGY AG, BRUNNTHAL
CONSOLIDATED SEGMENT REPORTING
FOR THE FINANCIAL YEAR FROM JANUARY 1 TO DECEMBER 31, 2015

in €

	Oil & Gas		Security & Industry		Consumer		Consolidated financial statements	
	2015	2014	2015	2014	2015	2014	2015	2014
Sales	25,975,939	29,335,224	17,569,605	20,185,697	3,764,576	4,110,017	47,310,120	53,630,938
Production costs of work performed to generate sales	−20,171,517	−21,697,836	−11,112,641	−13,095,691	−2,799,239	−3,176,363	−34,083,397	−37,969,890
Gross profit	**5,804,422**	**7,637,388**	**6,456,964**	**7,090,006**	**965,337**	**933,654**	**13,226,723**	**15,661,048**
Sales costs	−6,189,428	−6,578,561	−5,243,538	−2,992,243	−1,066,342	−968,730	−12,499,308	−10,539,535
Research and development costs	−221,042	−429,302	−5,090,323	−3,753,128	−495,041	−347,422	−5,806,406	−4,529,853
General administration costs	−1,578,556	−1,667,068	−3,115,320	−2,510,619	−852,211	−694,043	−5,546,087	−4,871,731
Other income/expenses (balance)	−115,262	−1,994	68,576	15,453	27,197	−2,547	−19,489	10,912
Operating loss (EBIT)	**−2,299,866**	**−1,039,537**	**−6,923,641**	**−2,150,531**	**−1,421,060**	**−1,079,089**	**−10,644,567**	**−4,269,158**
Adjustments EBIT	2,427,843	2,397,844	3,787,306	338,927	36,925	309,086	6,252,074	3,045,857
EBIT underlying	**127,978**	**1,358,307**	**−3,136,335**	**−1,811,605**	**−1,384,135**	**−770,003**	**−4,392,493**	**−1,223,301**
Depreciation/amortization	−1,191,456	−1,255,690	−4,545,311	−1,360,304	−257,507	−476,555	−5,994,274	−3,092,549
EBITDA	**−1,108,410**	**216,153**	**−2,378,330**	**−790,227**	**−1,163,553**	**−602,535**	**−4,650,293**	**−1,176,609**
Adjustments EBITDA	1,340,824	1,240,120	294,199	278,325	36,926	36,688	1,671,949	1,555,133
EBITDA underlying	**232,414**	**1,456,274**	**−2,084,131**	**−511,903**	**−1,126,627**	**−565,847**	**−2,978,344**	**378,524**
Financial result							−314,592	−297,995
Result from ordinary operations							**−10,959,159**	**−4,567,152**
Income taxes							290,178	−259,111
Consolidated net result							**−10,668,981**	**−4,826,263**

Please refer to Note (38) "Disclosures on consolidated segment reporting".

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR FROM JANUARY 1 TO DECEMBER 31, 2015

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 Company's product portfolio also includes accessories and spare parts, particularly fuel cartridges, solutions for combining fuel cell products with other power sources, power storage units and electrical devices, as well as mechanical, electronic and electrical instruments to monitor and control production and logistics processes. As a supplier of off-grid and grid-based power supply solutions, the Group serves the core markets "Oil & Gas", "Security & Industry" and "Consumer".

Accounting principles

The consolidated financial statements for 2015 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, 2015, there were no standards or interpretations to apply that were effective, but had not yet been endorsed by the E.U. and had an impact on the consolidated finance statements. Accordingly, the consolidated financial statements are also in conformity with the IFRSs as published by the IASB.

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

The consolidated financial statements are 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 format. The additional disclosures of costs of materials and personnel costs are shown separately in the Notes. The Notes also contain the disclosures required under § 315a para. 1 of the German Commercial Code, or HGB ("Consolidated Financial Statements under International Accounting Standards").

The Management Board of SFC Energy AG approved the consolidated financial statements for release to the Supervisory Board on April 21, 2016. 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, 2015 and were applied to the consolidated financial statements for the first time in the financial year 2015:

IFRIC 21 "Levies": IFRIC 21 contains guidance on when a liability for a levy must be recognized 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 E.U. 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 2013: On December 12, 2013, the IASB published the Annual Improvements to IFRSs 2011-2013 Cycle. The annual improvements process allows the IASB to make necessary, but non-urgent, amendments to IFRSs. 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 E.U. endorsed the amendments on December 18, 2014. Use of the new and revised standards will have no impact at all or no material impact on the consolidated financial statements.

New accounting standards not yet applied

Below is a summary of the new and revised standards, some of which have been endorsed by the European Commission, that were released by the IASB prior to this report's publication, but which the SFC Group did not early adopt for 2015:

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. The E.U. endorsed the amendments on December 18, 2015. The effects 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 introduced 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. The E.U. endorsed the amendments on December 2, 2015. First-time adoption is not currently anticipated to have any effects on the consolidated financial statements.

Amendments to IAS 19 "Employee Benefits": In November 2013, the IASB published amendments to IAS 19 entitled "Defined Benefit Plans: Employee Contributions". The amendments introduce a choice in the accounting for defined benefit plans when employees (or third parties) are required to make contributions. Entities are required to apply the amendments retrospectively for annual periods beginning on or after February 1, 2015. The amendments were endorsed by the E.U. 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. The E.U. endorsed the amendments on December 18, 2015. 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 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 were endorsed by the E.U. in November 23, 2015. The amendments have not yet been endorsed by the E.U. The first-time adoption is not expected to have any effects on the consolidated financial statements because the company's business model does not involve any bearer plants.

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 determining 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 measurements and different recognition of changes in value. The categorization is based on both the contractual cash flows of the instrument and the business model in which the instrument is held. These are therefore mandatory categories. However, companies also have individual options.

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

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

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

The new standard is effective for annual periods beginning on or after January 1, 2018. Thus far, the E.U. has 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. On December 17, 2015, the IASB decided to postpone the effective date of the amended standard indefinitely. Thus far, the E.U. 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 simplification in the use of the equity method is also possible for companies that themselves are not investment entities but hold investments in an associate that is an investment entity.

Entities are required to apply the new version for annual periods beginning on or after January 1, 2016. Thus far, the E.U. 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 the acquisition 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 E.U. endorsed the amendments on November 24, 2015. First-time adoption is not currently anticipated to have any effects on the consolidated financial statements.

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

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

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

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

The new standard is effective for annual periods beginning on or after January 1, 2018. Thus far, the E.U. has not 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.

IFRS 16 "Leases": The new standard on leases results in material changes, particularly in terms of how leases are accounted for by the lessee. The most significant change is that from now on, leases will no longer be regarded as tenancies and thus as pending transactions, but must instead be recognized in the balance sheet. This means that the difference between operating leases and finance leases will no longer apply for the lessee. From now on, lessees will have to recognize both a "right-of-use" asset and a lease liability for all leases that are covered by the standard. The asset value will be amortized over the term of the lease in accordance with the rules for non-financial assets and the liability will be recognized in accordance with the rules for financial instruments. The new standard is effective for annual periods beginning on or after January 1, 2019. Early adoption of the new standard is possible so long as IFRS 15 "Revenue from Contracts with Customers" is also applied. Thus far, the E.U. has not yet endorsed the standard. The effects of first-time adoption of IFRS 16 cannot be reliably estimated until a more detailed analysis is performed, and such analysis is not yet complete.

Miscellaneous: "Improvements of International Financial Reporting Standards 2012": On December 12, 2013, the IASB published its "Annual Improvements to IFRSs 2010-2012 Cycle" and on September 25, 2014, it published 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 February 1, 2015 and are to be applied prospectively only. The E.U. endorsed the amendments on December 17, 2014. The annual improvement project 2012-2014 made amendments to IFRS 5, IFRS 7, IAS 19 and IAS 39, and is applicable to annual periods beginning on or after January 1, 2016. The E.U. endorsed the amendments on December 15, 2015. 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. Note 23 contains information about the discount rates used, the change in present value, and the impact of the rate adjustments. In addition, in forming contingent loss provisions for rent expenses (see Note 23), estimates concerning the likelihood of drawing on the provisions are made.

Determination of useful lives for property, plant and equipment and intangible assets: The useful lives for non-current assets are based on estimates by management. SFC reviews the estimated useful lives of property, plant and equipment and intangible assets at the end of each financial year. No estimated useful lives were changed during the financial year. In the context of acquisitions, the useful life of the customer relationships was determined using statistical analyses and management estimates, while that of the acquired technology was determined using empirical values for the industry's average product life cycle (see "Intangible assets" under Section 2 "Accounting Principles").

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

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

Measurement of share-based payment: The Company has set up a Long Term Incentive Plan for members of the Management Board and selected executives. 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. The three companies Simark Controls Ltd., Simark Holdings Ltd. and 541462 Alberta Ltd. were merged as of June 30, 2015 or July 1, 2015. The acquiring company was Simark Controls Ltd. 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 (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, 2015.

FULLY CONSOLIDATED SUBSIDIARIES in %

Name of company	Registered office	Share			Currency
		directly	indirectly	total	
SFC Energy, Inc.	Gaithersburg (USA)	100.00	–	100.00	USD
Simark Controls Ltd.	Calgary (Canada)	100.00	–	100.00	CAD
PBF Group B.V.	Almelo (Netherlands)	100.00	–	100.00	EUR
PBF Power Srl	Cluj-Napoca (Romania)	–	100.00	100.00	RON

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

In the financial year 2015 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 a versatile electronic converter that enables and facilitates charging and operation of various types of electronic equipment and batteries with different power sources. Revenues are also generated from the sale of fuel cartridges and other products for network solutions.

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

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

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

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

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

Expense recognition

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

Intangible assets

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

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

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

Development costs are capitalized in accordance with IAS 38 "Intangible Assets" if a newly developed asset can be clearly defined, is technically feasible and is intended either for the Company's own use or is to be sold. Capitalization also presumes that it is likely that the development costs will be covered by future cash flows and the development expenses can be reliably measured. Capitalized development costs are amortized on a straight-line basis over the expected useful life of the asset. The useful life of the development costs to be amortized is 5 years at SFC and 6 years at PBF. Where requirements for capitalization are not met, expenses are recognized in the year in which they arise. Research costs are shown as current expenses under IAS 38.

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

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

- PBF customer relationships 8 years
- PBF technology 6 years

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

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

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

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

Property, plant and equipment

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

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

The depreciation periods are:

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

Cost of borrowing

If the production phase of an item of plant or equipment extends over a long period of time, any borrowing costs incurred until completion of the asset are capitalized as part of acquisition or manufacturing costs in accordance with the provisions of IAS 23. As during the previous year, there were no such borrowing costs during financial year 2015.

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 the financial year 2015, 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 work in process are carried at their production cost, including directly attributable costs and manufacturing and materials overhead.

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

Financial assets

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

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

SFC determines the classification of its financial assets upon initial recognition and reviews this classification at the end of each financial year, to the extent permissible and reasonable. None of the Group's financial assets had been classified as "held-to-maturity" or "available-for-sale" as of the reporting date.

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

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

Compound financial instruments

Compound financial instruments issued by the Group include convertible bonds in euros, which can be converted into equity shares at the holder's option, as long as the number of shares to be issued has been determined and does not change through changes in fair value, and a special termination right connected with the convertible bonds.

The debt component of the compound financial instrument will be initially recognized at the fair value of a similar liability that does not contain an option to convert it into equity. The equity component will be initially recognized as the difference between the fair value of the compound financial instrument and the fair value of the liability component. The termination component is initially recognized at fair value using a two-step option pricing model. Directly attributable transaction costs are recognized in proportion to the book values of the equity and debt components of the financial instrument at the time of initial recognition.

The debt component of the compound financial instrument will subsequently be measured at amortized cost using the effective interest rate method. The equity component of the compound financial instrument will be subsequently measured at the value initially recognized. The termination component, which is classified as an embedded derivative, will be subsequently measured at fair value.

Interest in connection with the financial liability will be recognized in profit or loss. Upon conversion at the maturity date the financial liability will be converted to equity without affecting profit or loss.

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.

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

Provisions

Provisions are recognized in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" if there is a current obligation to a third party from a past event that will probably lead to a future outflow of resources and can be reliably determined. This means that the probability of occurrence must be higher than 50%. Provisions are recognized for identifiable risks and contingent liabilities in the amount they are likely to cost and are not offset with reimbursements. Provisions are recognized for identifiable risks and contingent liabilities in the amount they are likely to cost and are not offset with reimbursements. 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 in the category "financial liabilities measured at amortized cost" are measured at initial recognition at the fair value of the received consideration less any transaction costs associated with the borrowing. After initial recognition, financial liabilities are measured at amortized cost using the effective interest method.

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

Consolidation

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

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

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

Foreign currency translation

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

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

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

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

in €

	Average rate 2015	Average rate 2014	Rate on reporting date 12/31/2015	Rate on reporting date 12/31/2014
US-Dollar (USD)	1.1097	1.3269	1.0893	1.2155
Canadian Dollar (CAD)	1.4188	1.4663	1.5130	1.4075

2. NOTES ON THE CONSOLIDATED INCOME STATEMENT

(1) Sales

Sales are shown in the following table:

		in €
	2015	2014
Sales	**47,310,120**	**53,630,938**
thereof from POC	3,708,557	4,859,629

The 11.79 % decrease in revenues from the previous year is attributable to the continuing weak environment in the Oil & Gas market in North America.

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 €
	2015	2014
Cost of materials	27,272,405	30,948,877
Personnel costs	3,654,958	3,567,321
Cost of premises	1,499,188	1,337,805
Transport costs	554,629	663,547
Depreciation and amortization of self developed intangible assets	316,017	383,818
Other depreciation and amortization	211,443	797,995
Consultancy	49,288	135,131
Other	525,470	135,396
Total	**34,083,397**	**37,969,890**

The strong decrease of the other depreciation and amortization is due to the lack of an asset write-down in the financial year 2014 in the amount of € 338,735.

(3) Sales costs

Sales costs were as follows:

		in €
	2015	2014
Personnel costs	6,433,966	6,369,204
Depreciation and amortization	3,046,994	1,340,619
Advertising and travel costs	1,120,589	1,160,631
Consultancy/commissions	274,242	501,672
Additions to allowances for receivables	292,164	116,718
Cost of materials	92,226	97,765
Other	1,239,127	952,926
Total	**12,499,308**	**10,539,535**

The depreciation and amortization for the financial year 2015 includes goodwill impairment pro-rata of PBF in the amount of € 1,746,553.

(4) Research and development costs

Research and development costs were as follows:

		in €
	2015	2014
Personnel costs	2,913,007	3,198,177
Other depreciation and amortization	2,174,709	363,867
Cost of materials	753,740	520,105
Consultancy and patents	569,183	460,720
Cost of premises	359,295	368,947
Impairment losses/Depreciation and amortization of self developed intangible assets	8,321	41,514
Set-off against grants	–326,104	–363,489
Capitalization of self developed intangible assets	–993,503	–281,216
Other	347,758	221,228
Total	**5,806,406**	**4,529,853**

The figure for amortization of self-produced intangible assets includes no impairment losses on capitalized development costs (previous year: € 22,992).

(5) General administration costs

General administration costs were as follows:

		in €
	2015	2014
Personnel costs	2,454,465	2,509,892
Audit and consultancy costs	981,751	657,969
Investor relations / annual meeting	382,036	240,898
Depreciation and amortization	236,791	164,737
Insurance	213,815	196,040
Travel costs	187,568	159,148
Recruiting costs	184,779	97,412
Car-operating costs	146,965	120,581
Supervisory Board compensation	112,500	112,500
Costs of hardware and software maintenance	73,983	66,018
Other	628,449	635,570
Set-off against grants	– 57,016	– 89,033
Total	**5,546,087**	**4,871,731**

(6) Other operating income

Other operating income was as follows:

		in €
	2015	2014
Foreign exchange transaction gains	112,175	95,641
Income from the reversal of provisions Simark Earn-Out	0	15,289
Other	29,320	58,696
Total	**141,495**	**169,627**

(7) Other operating expenses

Other operating expenses were as follows:

		in €
	2015	2014
Foreign exchange transaction losses	160,980	48,545
Contingent losses for premises	0	86,197
Other	4	23,972
Total	**160,984**	**158,714**

(8) Restructuring expenses

There were, as in the prior year, no restructuring expenses in 2015.

(9) Financial result

Interest and similar income were as follows:

		in €
	2015	2014
Interest income from liquid funds	3,567	13,605
Total	**3,567**	**13,605**

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

		in €
	2015	2014
Interest cost on other provisions	69,758	83,317
Other	248,401	228,283
Total	**318,159**	**311,600**

The other interest and similar expense includes the interest expense on the convertible bond in the amount of € 3,887 and the loss on the fair value change in the termination component in the amount of € 529.

(10) Income taxes

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

		in €
	2015	2014
Actual income taxes on the result for the current year	71,064	651,434
Deferred tax income (-)/expense (+) from:		
Reversal of deferred tax liabilities on other intangible assets	– 381,221	– 391,665
Recognition of deferred tax liabilities on capitalized development costs	0	23,875
Reversal / Recognition of deferred tax assets on inventories	0	– 6,435
Reversal / Recognition of deferred tax assets on other provisions	19,979	– 18,098
Balance income (–) / expenses (+) from income taxes	**– 290,178**	**259,111**

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

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

Deferred tax assets and liabilities were as follows:

		in €
	12/31/2015	12/31/2014
Deferred tax assets		
Provisions	224,095	171,904
Loss carryforwards	223,654	35,905
Inventories	58,280	16,029
Other liabilities	–9,658	203
Other	78,244	76,137
Total	**574,616**	**300,178**
Deferred tax liabilities		
Other intangible assets	624,879	1,034,931
Self developed intangible assets	371,529	224,518
Convertible bonds	27,735	0
Other assets	52,941	49,776
Total	**1,077,084**	**1,309,225**

At the reporting date, there were tax losses carried forward in Germany, the United States and Canada in the amount of approximately € 47,757,884 (previous year: € 43,275,357) for corporate income tax purposes and approximately € 40,047,399 (previous year: € 36,907,599) for trade tax purposes. Deferred tax assets of € 223,654 (prior year: € 35,905) have been recognized on these tax loss carryforwards of SFC and its U.S. and Canadian subsidiaries. As of December 31, 2015, no deferred tax assets had been recognized for € 86,526,203 (previous year: € 79,915,356) in tax loss carryforwards in the Group. Of these tax loss carryforwards, an amount of € 81,583,273 (previous year: € 75,777,133) can be carried forward indefinitely in Germany, while loss carryforwards in the U.S. of € 4,942,930 (previous year: € 4,138,213) expire after 20 years. No deferred taxes were recognized on deductible temporary differences in the amount of € 9,050 (previous year: € 6,103). The previous year amounts of loss carryforwards were adjusted in accordance with the separate determination of the remaining loss carryforward.

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

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

		in €
	2015	2014
Tax rate	**27.38 %**	**27.38 %**
Loss from ordinary operations	**– 10,959,160**	**– 4,567,152**
Expected tax income	**– 3,000,618**	**– 1,250,486**
Reconciliation to the reported tax income/expense		
Change in write-down of deferred tax assets	1,117,289	1,014,956
Differences in the tax rate	246,145	110,783
Taxes from permanent differences – non-deductible expenses	513,322	542,119
Effect of goodwill impairment, non-tax-deductible	956,413	0
Differences arising from the currency translation	– 100,944	– 99,646
Other	– 21,785	– 58,614
Reported tax income/expense in the consolidated income statement	**– 290,178**	**259,111**

(11) Cost of materials

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

		in €
	2015	2014
Raw materials and supplies and related goods	25,587,047	28,958,867
Related services	2,531,323	2,771,051
Total	**28,118,370**	**31,729,918**

(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 €
	2015	2014
Wages and salaries	11,299,000	11,381,288
Social security expenses required by law	1,355,783	1,359,898
Personnel costs from deferred payments (Simark)	1,174,695	1,136,643
Expenses for settlements	276,541	0
Variables/ bonuses	423,369	970,315
Other social security expenses/ pensions	333,590	345,596
Expenses/income from SAR/Transaction bonus	135,702	118,428
Other	457,717	332,428
Total	**15,456,397**	**15,644,594**

The social security expenses required by law include the Company's share of € 569,589 in contributions to the public pension insurance system (previous year: € 555,210).

The average number of permanent employees was as follows:

	2015	2014
Full-time employees (incl. Management Board)	205	218
Part-time employees	33	32
Total	**238**	**250**

There was also an average of 6 (previous year: 7) trainees, graduates, and student trainees during the year.

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 €	12/31/2015	12/31/2014
Finished goods	5,584,277	4,349,553
Raw materials and supplies	2,764,789	2,634,846
Unfinished goods	432,699	668,949
Total	**8,781,766**	**7,653,349**

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

in €	12/31/2015	12/31/2014
Raw materials and supplies – before impairment	3,059,060	2,913,176
Impairment	– 294,271	– 278,330
Net book value	**2,764,789**	**2,634,846**

in €	12/31/2015	12/31/2014
Unfinished and finished goods – before impairment	6,440,597	5,479,528
Impairment	– 423,620	– 461,026
Net book value	**6,016,976**	**5,018,502**

A total of € 62,553 for the impairment of inventories (previous year: € 131,532) was expensed to the consolidated income statement. Inventories with a remaining book value of € 3,370,282 were pledged as collateral for liabilities (previous year: € 4,745,728).

(15) Trade accounts receivable

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

in €	12/31/2015	12/31/2014
Trade accounts receivable – gross	7,279,039	11,774,226
Allowances for risk of default	– 519,541	– 227,872
Total	**6,759,498**	**11,546,354**

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 € 6,063,860 (previous year: € 8,691,311) were pledged as collateral for liabilities.

Trade accounts receivable with a remaining book value before write-downs of € 2,196,368 (previous year: € 3,528,463) were pledged as collateral for a credit line (original interest rate of 5.5 %) in the amount of € 306,568 (previous year: € 219,122).

(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 €
	12/31/2015	12/31/2014
Proceeds shown	3,708,557	4,859,629
Costs incurred and gains recognized under contracts on or before the reporting date	4,111,381	6,384,315
Partial settlements	3,381,391	5,222,906
Production contracts with a positive balance due from the customer (reported as receivables from percentage-of-completion)	**729,989**	**1,219,263**
Production contracts with a negative balance due from the customer (reported as liabilities from percentage-of-completion)	**0**	**– 57,853**

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.

Project volumes at SFC increased in the financial year 2015 by € 135,193 (previous year: € 2,824) because of the expansion of a project under a Joint Development Agreement. In this connection, estimated total project costs increased by € 217,290 over the last year (prior year: € 0). As a result, the gross profit fell by € 53,273 (previous year: increase by € 2,824). The change in total project costs will cause an increase in contract costs in subsequent years of € 28,823 (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 € 428,128 (prior year: € 3,711) relate to tax refund claims of Simark Controls Ltd. in the amount of von € 359,756 (prior year: € 0), PBF in the amount of € 67.279 (prior year: € 0) and SFC AG in the amount of € 1,093 (prior year: € 3,711) 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 €	12/31/2015	12/31/2014
Deferred income	304,103	349,205
VAT receivables	218,474	17,033
Other advance payments	50,595	217,543
Prepayments made	14,241	14,337
Receivables from grants	0	45,400
Others	154,865	67,970
Total	**742,278**	**711,486**

The other short-term assets and receivables include financial assets in the amount of € 50,595 (previous year: € 262,943).

The other long-term assets and receivables relate to financial assets from the termination component of the convertible bond in the amount of € 3,304 (see Note 28 "Financial Instruments").

(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 financial year 2015 additional cash in the amount of € 150,000 was blocked as collateral in connection with trade payables.

(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 01/01/2014	**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**
Additions	50,574	11,097	0	993,503	0	0	1,055,174
Disposals	– 4,902	0	0	0	0	0	– 4,902
Differences arising from the currency translation	1,779	29,796	0	0	– 516,507	– 301,931	– 786,863
as at 12/31/2015	**900,294**	**516,211**	**571,487**	**5,962,922**	**13,034,073**	**6,684,068**	**27,669,055**
Depreciation and impairment losses as at 01/01/2014	**– 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**
Scheduled depreciation	– 93,364	– 53,281	– 8,321	– 375,579	0	– 1,468,290	– 1,998,835
Disposals	4,902	0	0	0	0	0	4,902
Impairment losses	0	0	0	0	– 3,493,106	0	– 3,493,106
Differences arising from the currency translation	– 3,754	– 8,891	0	0	0	191,144	178,499
as at 12/31/2015	**– 670,941**	**– 255,926**	**– 568,527**	**– 4,205,492**	**– 4,961,138**	**– 4,239,037**	**– 14,901,061**
Carrying amounts							
as at 01/01/2014	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**
as at 12/31/2015	**229,353**	**260,286**	**2,960**	**1,757,430**	**8,072,935**	**2,445,030**	**12,767,993**

Development costs

Grants of € 383,120 (previous year: € 452,522) were received in connection with development activities and were shown as a reduction of research and development costs (€ 326,104; previous year: € 363,489) and of general administration costs (€ 57,016; previous year: € 89,033).

Impairment Tests for Goodwill

The goodwill in the 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 Controls Ltd. was fully allocated to the Oil & Gas segment.

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

In doing so, the planned cash flows from the three-year planning (2016 to 2018) prepared by Management was used. In addition, the plan values were then extrapolated using a growth rate of 1.5 % (2019) and 0.5 % (2020 ff.), which was also recognized as the sustainable growth rate.

Goodwill of the PBF Group

The goodwill of the PBF Group amounted to € 1,178,831 (previous year: € 4,671,937).

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

Revenue growth and EBITDA margin

The assumptions result from the budget prepared by management, which includes a projection of revenue, operating costs and the investments and amortization for a period of three years. The 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 11.1 % over the entire planning horizon.

The planned growth in EBITDA margin is based on the historically observed gross margin and on a detailed resource and materials cost planning. The long-term expected operating EBITDA margin amounts to approximately 7.9 %.

Cost of capital

The cost of capital used to discount the cash flows is the weighted average cost of capital (WACC), which was determined on the basis of a group of comparable companies in the same industry as the PBF Group using publicly available data. The WACC indicates the average weighted required return of equity and debt providers based on the ratio between the capital provided and the time value of money. An analysis of the costs of equity and debt and the capital structure at time values is necessary to determine the WACC. The cost of capital used in the reporting year was approximately 7.55 % (or approximately 7.05 % after subtracting the terminal growth rate).

On the basis of the above, the goodwill was determined to be impaired by € 3,493,106 in the reporting year, with half of that amount captured in the depreciation and amortization reported under sales costs and the other half in the depreciation and amortization reported under research and development costs. The main reasons for this impairment were the parameters used to determine the obtainable amount for the cash generating unit PBF Group, such as the forecast company-specific cash flows for the assumptions related to the market environment and economic growth, which were used in accordance with market expectations and industry forecasts.

To estimate the sensitivity of the measurement result, scenario analyses were conducted. Any change in material assumptions would result in an additional impairment of the goodwill.

Goodwill of Simark Controls Ltd.

The goodwill on the acquisition of Simark Controls Ltd. amounts to € 6,894,104 (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 compound average growth rate (CAGR) amounts to approximately 5.9 % p.a.

The planned growth in EBITDA margin is based on the historically observed gross margin and on a detailed resource and materials cost planning. The long-term expected operating EBITDA margin amounts to approximately 9.1 %.

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 Controls Ltd. using publicly available data. The WACC indicates the average weighted required return of equity and debt providers based on the ratio between the capital provided and the time value of money. An analysis of the costs of equity and debt and the capital structure at time values is necessary to determine the WACC. The cost of capital used in the reporting year was approximately 8.03 % (or approximately 7.53 % after subtracting the terminal growth rate).

There were no indications of impairment of the goodwill during the reporting year. To estimate the sensitivity of the measurement result, scenario analyses were conducted, that did not result in an excess of the carrying amount even if material assumptions 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 an order book were identified. Below is a statement of the other intangible assets resulting from the PBF Group acquisition:

in €

	Customer relationships	Technology	Order book	Total
Acquisition costs as of 01/01/2015	**1,408,354**	**1,231,359**	**14,309**	**2,654,022**
as of 12/31/2015	**1,408,354**	**1,231,359**	**14,309**	**2,654,022**
Depreciation and impairment losses as of 01/01/2015	**– 542,802**	**– 632,783**	**– 14,309**	**– 1,189,894**
Scheduled depreciation	– 176,044	– 205,227	0	– 381,271
as of 12/31/2015	**– 718,846**	**– 838,010**	**– 14,309**	**– 1,571,165**
Carrying amounts as of 01/01/2015	**865,552**	**598,576**	**0**	**1,464,128**
as of 12/31/2015	**689,508**	**393,349**	**0**	**1,082,857**
Remaining term of depreciation and amortization (in years)	4	2	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:

	Simark brand	Customer relationships	Order book	Total in €
Acquisition costs as of 01/01/2015	**38,122**	**3,980,878**	**312,977**	**4,331,977**
Differences arising from the currency translation	–2,657	–277,460	–21,814	–301,931
as of 12/31/2015	**35,465**	**3,703,418**	**291,163**	**4,030,046**
Depreciation and impairment losses as of 01/01/2015	**–12,707**	**–1,446,313**	**–312,977**	**–1,771,997**
Scheduled depreciation	–9,455	–1,077,565	0	–1,087,020
Differences arising from the currency translation	1,474	167,856	21,814	191,144
as of 12/31/2015	**–20,688**	**–2,356,022**	**–291,163**	**–2,667,873**
Carrying amounts as of 01/01/2015	**25,415**	**2,534,565**	**0**	**2,559,980**
as of 12/31/2015	**14,777**	**1,347,396**	**0**	**1,362,173**
Remaining term of depreciation and amortization (in years)	1	1–2	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	Payments in advance and assets under construction	Total
Acquisition costs as of 01/01/2014	**1,775,382**	**3,426,235**	**0**	**5,201,617**
Additions	62,385	234,929	0	297,314
Disposals	– 18,966	– 220,679	0	– 239,646
Differences arising from the currency translation	2,872	14,472	0	17,344
as of 12/31/2014	**1,821,672**	**3,454,957**	**0**	**5,276,630**
Additions	82,026	194,254	30,459	306,739
Disposals	– 7,450	– 76,243	0	– 83,693
Differences arising from the currency translation	– 5,209	– 25,680	0	– 30,889
as of 12/31/2015	**1,891,039**	**3,547,288**	**30,459**	**5,468,787**
Depreciation and impairment losses as of 01/01/2014	**– 857,401**	**– 2,048,216**	**0**	**– 2,905,617**
Scheduled depreciation	– 231,130	– 427,429	0	– 658,558
Disposals	18,951	213,937	0	232,888
Impairment losses	– 338,735	0	0	– 338,735
Differences arising from the currency translation	– 487	– 5,070	0	– 5,557
as of 12/31/2014	**– 1,408,801**	**– 2,266,778**	**0**	**– 3,675,579**
Scheduled depreciation	– 134,119	– 368,215	0	– 502,334
Disposals	7,449	76,232	0	83,681
Differences arising from the currency translation	2,186	12,880	0	15,066
as of 12/31/2015	**– 1,533,285**	**– 2,545,881**	**0**	**– 4,079,166**
Carrying amounts				
as of 01/01/2014	917,980	1,378,019	0	2,295,999
as of 12/31/2014	**412,871**	**1,188,179**	**0**	**1,601,049**
as of 12/31/2015	**357,754**	**1,001,408**	**30,459**	**1,389,621**

At Simark Controls Ltd. and at PBF equipment with a remaining book value of € 1,113,960 (prior year: € 1,473,297) has been pledged as collateral for liabilities.

(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 of 01/01/2015	**1,715,341**	**550,238**	**96,686**	**2,362,265**	**60,505**
Differences arising from the currency translation	0	0	– 163,814	– 163,814	0
Additions	233,071	0	85,016	318,087	0
Interest cost	46,228	23,531	0	69,759	0
Utilization	– 272,385	– 117,361	0	– 389,746	0
Reversal	0	0	0	0	– 3,042
as of 12/31/2015	**1,722,255**	**456,408**	**17,887**	**2,196,550**	**57,463**
of which with a remaining term of between one and five years	1,222,776	346,324	17,887	**1,586,987**	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 2.16 % (previous year: 2.90 %) for those obligations that would first be due after two years, 2.34 % (previous year: 3.07 %) for those due after three years, 2.54 % (previous year: 3.26 %) for those due after four years and 2.74 % (previous year: 3.45 %) 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 2017 at the earliest. The amount to set aside in each case was based on current lease agreements. The discount factors ranged from 2.16 % to 2.74 % (previous year: 2.90 % to 3.62 %), depending on the remaining term.

Other miscellaneous provisions

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

Tax provisions

The tax provisions are for corporate income taxes in the Netherlands and Romania and have a remaining term of less than one year.

(24) Liabilities to banks

The short-term portion of liabilities to banks consists of loans and overdraft facilities. The short-term liabilities to banks consist of a variable interest rate loan to Simark Controls Ltd. in the amount of € 630,263 (previous year: € 677,482) that matures on August 15, 2018 and a drawdown on Simark Controls Ltd.'s credit line in the amount of € 640,722 (previous year: € 804,653) and the PBF Group's credit line in the amount of € 743,146 (previous year: € 530,878). The long-term portion of the loan to Simark Controls Ltd. comes to € 2,202,797 (previous year: € 3,045,313) 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 €
	12/31/2015	12/31/2014
Other equipment, fixtures and fittings	89,886	141,893
Net book value capitalized in conjunction with finance leases	**89,886**	**141,893**

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 €

	12/31/2015			12/31/2014		
	Minimum lease payments	Finance charge portion of the lease payments	Liabilities under finance leases (present value)	Minimum lease payments	Finance charge portion of the lease payments	Liabilities under finance leases (present value)
Within 1 year	40,910	1,469	43,380	50,967	1,708	49,259
Between 1 and 5 years	34,190	11,210	45,400	107,776	21,342	86,433
Total	**75,100**	**12,680**	**87,780**	**158,743**	**23,050**	**135,692**

(28) Other liabilities

Other short-term liabilities were as follows:

in €

	12/31/2015	12/31/2014
Deferred payment from the acquisition (Simark)	1,101,601	1,184,133
Variables/ bonuses	479,541	877,210
Outstanding vacation	290,450	335,980
Wage tax	261,704	267,402
Stock-Appreciation Rights Plan/Transaction bonus	192,181	0
Social security	147,691	125,654
Christmas bonus	133,330	128,243
VAT	50,492	440,840
Trade association contributions	37,000	48,000
Retention of business records	30,600	30,600
Supervisory board compensation	25,000	0
Compensatory tax for the severely disabled	9,480	10,180
Overtime	4,968	8,680
Other	63,020	79,563
Total	**2,827,058**	**3,536,483**

Other short-term liabilities include financial liabilities of € 1,163,601 (previous year: € 1,232,133).

The other long-term liabilities at December 31, 2015, relate exclusively to the obligation recognized from the Stock Appreciation Rights Plan (SAR Plan) for Management Board members in the amount of € 61,948 (previous year: € 118,428).

The other long-term financial liabilities include exclusively the bond component of a convertible bond in the amount of € 1,316,756, which the Company issued on December 18, 2015 with a total value of € 1,485,000, an interest rate of 4 % and a face value of € 1,650,000. The bondholder is entitled to convert the bond into common stock at a conversion price of € 6.10.

The conversion right can be exercised at any time during the period from February 15, 2016 until the close of business on the 35th trading day prior to the maturity date on December 21, 2018. If the conversion right is not exercised, the bonds will be redeemed at their face value plus accrued interest on December 21, 2018. Interest is paid semi-annually until the conversion right is exercised or the loan is paid back and amounts to a fixed rate of 4 % p.a. The issuer and the bond creditors can also terminate without notice if certain events occur.

The convertible bond consists of three components: a debt component (financial liability), an equity component and a termination component (financial asset or financial liability). The equity component is shown in equity under the capital surplus (see Note 30 "Equity"). The effective interest rate of the financial liability is 12.74 %.

The item shown on the balance sheet under other long-term financial liabilities is calculated as follows:

		in €
	12/31/2015	12/31/2014
Nominal amount of convertible bonds at date of issuance	1,485,000	0
Equity component	– 67,206	0
Fair value of termination component	3,833	0
Fair value of liability component	1,421,627	0
Transaction costs	– 108,758	0
Book value of liability component as of date of issuance	1,312,869	0
Accrued interest based on calculated effective interest rate of 12,74 %	3,887	0
Total book value of liability component as of December 31, 2015	**1,316,756**	**0**

(29) Income tax liabilities

The income tax liabilities of € 206,011 (previous year: € 153,270) 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: € 8,611,204) and was divided into 8,611,204 (previous year: 8,611,204) 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 € 8,611,2014, 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 implementation of the capital increase was recorded in the Commercial Register at the local court in 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 € 72,017,015 at the reporting date (previous year: € 71,594,950). The increase in the capital surplus by € 62,065 resulted from the conversion component of the convertible bond issued on December 18, 2015.

Conditional capital

The Company has a conditional capital 2011 in the amount of € 3,576,443 and a conditional capital 2015 in the amount of € 729,159 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). In December 2015 a convertible bond was issued (see Note 28 "Other Liabilities"). 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

The shareholders' meeting on May 7, 2015 cancelled the Authorized Capital 2013 in § 5 (5) of the articles of incorporation. The Management Board was then authorized, with the Supervisory Board's consent, to increase the Company's capital by May 6, 2020, by up to € 4,305,602, by issuing, on one or more occasions, up to a total of 4,305,602 new bearer shares of common stock without par value (no-par-value shares) in exchange for cash and/or in-kind contributions (Authorized Capital 2015).

As a general rule, shareholders are to be granted a preemptive right to subscribe for these shares. However, under certain circumstances the preemptive subscription right of shareholders may be excluded with the Supervisory Board's consent. Pursuant to § 5(5) of the Articles of Incorporation, the terms of the capital increase are specified by the Management Board, with approval by the Supervisory Board.

Authorization to acquire own shares

The general meeting held on May 7, 2015 authorized the Management Board to acquire treasury shares on or before May 6, 2020 in an amount not to exceed ten percent of the Company's capital stock on May 7, 2015. 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 € 2,450,457 (previous year: € 2,401,734) were recognized from operating leases in 2015.

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 €
	12/31/2015	12/31/2014
Minimum rent payments under operate leases		
Within 1 year	1,874,851	1,978,902
Between 1 and 5 years	4,084,223	5,379,770
> 5 years	0	232,873
Total	**5,959,074**	**7,591,545**

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 € 3,151,516 (previous year: € 6,917,617) as of the reporting date. These relate primarily to blanket orders for raw materials and supplies.

Contingent liabilities

There are contingent liabilities for the contingent consideration in the form of the second cash component in connection with the acquisition of Simark in the amount of € 1.10 million (previous year: € 1.18 million). The amount was already paid while the consolidated financial statements for 2015 were being prepared.

Breach of financial covenants

Simark Controls Ltd.

Detailed covenants based on various Simark performance indicators and clauses requiring repayment in the event of default were entered into with the lenders in connection with the financing of subsidiary Simark Controls Ltd. The thresholds had been exceeded at December 31, 2015. In discussions with the banks, it was agreed that a shareholder loan will be made to Simark in March 2016 in the total amount of CAD 1.7 million to cure the breach of the covenants by Simark at December 31, 2015. The loan was actually made while the consolidated financial statements were being prepared. In addition, SFC AG gave the banks a declaration of subordination in the amount of the shareholder loan.

PBF

A financial covenant depending on an equity ratio of 35 % (secured capital/total capital) was entered into with the lender in connection with the financing of subsidiary PBF. This equity ratio was not met at December 31, 2015. In discussions with the bank, a new loan agreement was entered into in March 2016 subject to compliance with the originally defined financial covenants. In addition, SFC AG gave the bank a declaration of subordination in the amount of € 2.35 million of an already existing shareholder loan.

(33) Financial instruments

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

CARRYING AMOUNTS AS SHOWN ON THE BALANCE SHEET		in €
	12/31/2015	12/31/2014
Financial assets		
Loans and receivables		
Trade accounts receivable	6,759,498	11,546,354
Other assets and receivables – short term	50,595	262,943
Cash and cash equivalents	3,277,066	6,122,418
Cash and cash equivalents with limitation on disposal	435,000	285,000
Financial assets measured as at fair value through profit or loss		
Other long-term assets and receivables	3,304	0
Financial liabilities		
Liabilities carried at amortized cost		
Liabilities to banks	4,216,928	5,058,326
Trade accounts payable	7,262,550	6,871,734
Liabilities under finance leases	87,780	135,692
Other long-term financial liabilities	1,316,756	0
Other liabilities-short term	1,163,601	1,232,133

The book values of the financial assets and financial liabilities carried at amortized cost are largely the fair values because, with the exception of the long-term portion of a loan taken out and the loan and termination components in connection with the issue of the convertible bond, they were short-term in the reporting year. The book value of the long-term portion of the loan also corresponds to its fair value since it accrues interest at a floating rate of interest tied to market interest rates. The termination component in connection with the convertible bond issue is carried on the balance sheet at its fair value, and the fair value of the bond component carried at amortized cost was € 1,423,630 at the balance sheet date. The book values of the financial assets and financial liabilities carried in the previous year at amortized cost are also close to the fair values because, with the exception of the long-term portion of a loan taken out, as described, 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 the financial year 2015 there were no financial liabilities or financial assets fair valued as Level 3.

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

RECONCILIATION OF THE FINANCIAL INSTRUMENTS		in €
	2015	2014
Balance sheet amount as of 01/01	**0**	**961,406**
Changes affecting profit or loss	0	– 15,289
Disposals		– 946,117
Balance sheet amount as of 12/31	**0**	**0**

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

EXPENSES AND INCOME FROM THE FINANCIAL INSTRUMENTS		in €
	2015	2014
Financial assets		
Loans and receivables		
Trade accounts receivable		
Income from write-downs of trade accounts receivable	1,599	17,017
Expense from write-downs of trade accounts receivable	– 270,596	– 116,718
Income from currency translation of trade accounts receivable	105,355	93,722
Expense from currency translation of trade accounts receivable	– 79,127	– 37,349
Cash and cash equivalents		
Interest income	3,566	13,605
Net result of loans and receivables	**– 239,202**	**– 29,723**
Measured as at fair value through profit or loss		
Other long-term assets and receivables	– 529	0
Net result of financial assets measured as at fair value through profit or loss	**– 529**	**0**
Financial liabilities		
Liabilities carried at amortized cost		
Liabilities to banks		
Interest expense	– 288,215	– 228,283
Trade accounts payable		
Income from currency translation of trade accounts payable	6,819	1,919
Expense from currency translation of trade accounts payable	– 81,854	– 11,196
Net result of liabilities carried at amortized cost	**– 367,136**	**– 237,560**
Financial liabilities		
Measured at fair value through profit or loss		
Other liabilities		
Income from the reversal of liabilities Simark/PBF Earn-Out	0	15,289
Net result of liabilities carried at fair value through profit or loss	**0**	**15,289**

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, the cash capital increase in November 2014 and the issuance of convertible bond in December 2015 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).

Pursuant to the resolution of the meeting of SFC Energy AG shareholders on May 7, 2015, the Company's Management Board was authorized to issue by May 6, 2020, with the Supervisory Board's consent, bearer convertible bonds or options or a combination of these instruments (referred to collectively as the bonds) with a total face value of up to € 14,000,000 with or without a term limit, and to grant conversion or options to the bond (also with conversion or option obligations) to new bearer shares of Company common stock with a notional amount of the capital stock of up to €4,305,602 as defined in greater detail in the convertible bond or option terms and conditions.

The Group's capital management focuses on cash and cash equivalents (see "Cash and Cash Equivalents"), equity (see "Equity") and liabilities to banks (see "Liabilities to Banks").

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

COMPANY'S EQUITY RATIO		in €
	12/31/2015	12/31/2014
Equity	**16,557,811**	**27,588,933**
As a percentage of total capital	46,1 %	58,4 %
Long-term liabilities	5,944,648	6,295,965
Short-term liabilities	13,386,798	13,371,035
Liabilities	**19,331,447**	**19,667,000**
As a percentage of total capital	53,9 %	41,6 %
Total equity and liabilities	**35,889,257**	**47,255,933**

The capital structure of SFC changed in 2015, because of the issue of a convertible bond. Because of the consolidated loss for the year, the equity ratio fell to 46.1 % (previous year: 58.4 %).

Underlying operating result

One of the instruments employed by the Company for internal steering in the financial year 2015 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 €
	2015	2014
EBIT (earnings before interest and taxes)	**– 10,644,567**	**– 4,269,158**
Reported as production costs of work performed to generate sales		
Impairment of fixed assets	0	338,735
Impairment of intangible assets identified in acquisitions	35,212	97,135
Expenses for acquisition-related personel costs	202,987	196,412
Expenses from contract terminations	121,954	0
Reported as research and development costs		
Impairment losses capitalized development	61,282	0
Impairment of goodwill	1,746,553	0
Reported as sales costs		
Expenses from contract terminations	0	117,500
Impairment of intangible assets identified in acquisitions	1,051,808	1,054,857
Expenses for the management board SAR Plan	84,545	50,210
Expenses for personel, bonus	158,959	69,606
Expenses for acquisition-related personel costs	768,720	743,819
Impairment of goodwill	1,746,553	0
Reported as general administrations costs		
Expenses from contract terminations	19,358	42,045
Expenses for the management board SAR Plan	51,157	68,218
Expenses for acquisition-related personel costs	202,987	196,412
Reported as other operating expenses		
Contingent losses from rent expenses and leasing	0	86,197
Reported as other operating income		
Income from the reversal of Earn-Out provisions identified in acquisitions	0	– 15,289
Underlying operating result (EBIT)	**– 4,392,491**	**– 1,223,301**

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 € 6,759,498 in trade accounts receivable (previous year: € 11,546,354), the largest five customers account for € 286,338, € 270,179, € 238,634, € 177,208 and € 176,391, for a total of € 1,148,750 (previous year: € 1,257,311, € 472,029, € 433,706, € 324,827 and € 302,770, for a total of € 2,790,643 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:

DEVELOPMENT OF WRITE-DOWNS OF TRADE ACCOUNTS RECEIVABLES		in €
	2015	2014
Write-downs at 1/1	**227,872**	**166,746**
Additions	292,164	116,718
Use	0	– 38,574
Release	– 494	– 17,017
Write-downs at 12/31	**519,542**	**227,872**

There are also past-due trade accounts receivable that have thus far not been written down in the amount of € 2,146,257 (previous year: € 3,362,522). These can be broken down by maturity range as follows:

		in €
	2015	2014
Gross book value of the impaired receivables	532,281	227,872
Specific write-downs	– 519,541	– 227,872
Net book value of the impaired receivables	**12,740**	**0**
Not past due or impaired	4,600,501	8,183,831
Past due and not impaired		
Up to one month past due and not impaired	1,121,547	1,998,813
One to three months past due and not impaired	347,999	723,375
Three to six months past due and not impaired	623,707	439,984
Over six months past due and not impaired	53,004	200,350
Receivables per balance sheet	**6,759,498**	**11,546,354**

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

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

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

Liquidity risk

Liquidity risk describes the possibility that SFC may not be able to meet its payment obligations. This risk was counteracted by the capital increases in May 2007 and November 2014 and by the convertible bond issue in December 2015. However, the cash reserves dropped from the prior year due to the net loss in 2015.

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 €

	2015			2014		
	Total	1 year	> 1 year	Total	1 year	> 1 year
Original financial liabilities						
Liabilities to banks	– 4,216,928	– 2,014,131	– 2,202,797	– 5,058,326	– 2,013,013	– 3,045,313
Trade accounts payable	– 7,262,550	– 7,262,550	0	– 6,871,734	– 6,871,734	0
Liabilities under finance leases	– 87,780	– 42,380	– 45,400	– 135,692	– 49,259	– 86,433
Other long-term financial liabilities	– 1,316,756	0	– 1,316,756	0	0	0
Other financial liabilities	– 1,163,601	– 1,163,601	0	– 1,232,133	– 1,232,133	0
Total cash outflow	**– 14,047,615**	**– 10,482,661**	**– 3,564,954**	**– 13,297,886**	**– 10,166,139**	**– 3,131,746**
Original financial assets						
Cash and cash equivalents	3,712,066	3,712,066	0	6,407,418	6,407,418	0
Trade accounts receivable	6,759,498	6,759,498	0	11,546,354	11,546,354	0
Other financial assets	50,595	50,595	0	262,943	262,943	0
Total cash inflow	**10,522,158**	**10,522,158**	**0**	**18,216,714**	**18,216,714**	**0**
Net liquidity from financial instruments	**– 3,525,457**	**39,497**	**– 3,564,954**	**4,918,829**	**8,050,575**	**– 3,131,746**

With respect to those financial liabilities having a residual maturity of more than one year at Simark, the Group expects to make interest payments of € 298,539 (€ 459,194) through the end of the liabilities' term, assuming an interest rate of 5.20 % (previous year: 5.20 %). Interest of € 198,000 is to be paid on the convertible bond (interest rate of 4 %) until the end of its maturity.

Cash includes cash equivalents with limitations on disposal.

Interest rate risk

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

In addition, the Group is exposed to interest rate risk arising from short- and long-term floating-rate liabilities. An increase or decrease of 50 basis points in the interest rate level would have increased the net interest income or expense by € 5,231 (previous year: € 4,671). 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 generates 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 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 the financial year 2015.

There would have been a positive effect of € 263,165 (previous year: € 225,818) on the Group's equity if, when translating the assets and liabilities of SFC Energy Inc. at December 31, 2015, the exchange rate had fluctuated by – 5 % and a negative effect of € – 263,165 (previous year: € – 225,818) if the rate had fluctuated by +5 %. There would have been a negative effect of € -904,303 (previous year: € – 998,533) on the equity of Simark Controls Ltd. if, when translating the assets and liabilities of Simark Controls Ltd. at December 31, 2015, the exchange rate had fluctuated by – 5 % and a positive effect of € 904,303 (previous year: € 998,533) 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, 2015 would have led to a decrease of € – 27,601 (previous year: € – 2,756) in the foreign currency result if the exchange rate had fluctuated by – 5 % and an increase of € 27,601 (previous year: € 2,756) if the rate had fluctuated by +5 %. The objective of foreign currency management is to minimize exchange rate losses in comparison with budget assumptions. For that purpose, an open foreign currency balance sheet is calculated on the basis of actual and planned foreign currency positions and adjusted in the context of the rolling year-end forecast. There were no open currency forwards as of the reporting date. In this respect, foreign exchange risk exists for the unhedged portion of sales.

(34) Share-based payment

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

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

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

The status of the phantom shares in 2015 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 12/31/2015 (years)	0,0	0,0	1
Outstanding number of phantom shares at the beginning of the 2015 reporting period (1/1/2015)	25,265	13,068	0
during the 2015 reporting period			
Phantom shares awarded	0	0	0
Phantom shares forfeited	25,265	13,068	0
Phantom shares exercised	0	0	0
Phantom shares expired	0	0	0
Phantom shares outstanding at the end of the 2015 reporting period (12/31/2015)	**0**	**0**	**0**
Exercisable phantom shares at the end of the 2015 reporting period (12/31/2015)	**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)	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**

All phantom shares outstanding under the LTIP at the beginning of the financial year were thus forfeited as of December 31, 2015, and therefore, no new measurement of the phantom shares at December 31, 2015 is necessary.

For the year ended December 31, 2015, SFC AG expensed the following amount for cash-settled share-based payment arrangements under the LTIP: For the year ended December 31, 2015, SFC AG expensed the following amount for cash-settled share-based payment arrangements under the LTIP:

		in €
	2015	2014
Income for cash-settled share-based payment transactions	0	0

As of December 31, 2015, liabilities of € 0 and € 0 were accrued under other short-term liabilities and other long-term liabilities, respectively (previous year: € 0 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. In the financial year 2015 additional SARs were awarded to Mr. Pol in connection with the extension of his employment agreement as CEO (tranche HP2).

The plan provides for 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 granted in the financial year 2015 expiring at the balance sheet date is as follows:

Reference price in €	Tranche HP2 of SAR expiring on July 1, 2016	Tranche HP2 of SAR expiring on July 1, 2017	Tranche HP2 of SAR expiring on July 1, 2018
< 5.00	60,000	60,000	60,000
5.00 – 5.99	55,000	55,000	55,000
6.00 – 6.99	50,000	50,000	50,000
7.00 – 7.99	45,000	45,000	45,000
8.00 – 8.99	40,000	40,000	40,000
9.00 – 9.99	35,000	35,000	35,000
10.00 – 10.99	30,000	30,000	30,000
11.00 – 11.99	25,000	25,000	25,000
12.00 – 13.99	20,000	20,000	20,000
14.00 – 15.99	15,000	15,000	15,000
≥ 16.00	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 2015 is shown in the following table:

	Tranche PP1	Tranche HP1	Tranche StS1	Tranche HP2
Number of stock appreciation rights (SAR)	360,000	90,000	180,000	180,000
Maximum term (years)	7.0	7.0	7.0	7.0
Outstanding number of phantom shares at the beginning of the reporting period (1/1/2015)	360,000	7,500	180,000	0
during the 2015 reporting period				
SAR awarded	0	0	0	180,000
SAR forfeited	120,000	0	60,000	0
SAR exercised	0	0	0	0
SAR expired	0	0	0	0
SAR outstanding at the end of the reporting period (12/31/2015)	240,000	7,500	120,000	180,000
Exercisable SAR at the end of the reporting period (12/31/2015)	0	0	0	0

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

	Tranche PP1	Tranche HP1	Tranche StS1
Number of stock appreciation rights (SAR)	360,000	90,000	180,000
Maximum term (years)	7.0	7.0	7.0
Outstanding number of phantom shares at the beginning of the reporting period (1/1/2014)	360,000	90,000	180,000
during the 2014 reporting period			
SAR awarded	0	0	0
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 parameters were used in the measurement as of December 31, 2015:

	Tranche PP1	Tranche HP1	Tranche StS1	Tranche HP2
Measurement date	12/31/2015	12/31/2015	12/31/2015	12/31/2015
Remaining term (years)	5.25	5.00	5.67	6.50
Expected volatility	36.18 %	34.92 %	35.67 %	36.49 %
Risk-free interest rate	– 0.02 %	– 0.05 %	0.04 %	0.15 %
Dividend yield	0.00 %	0.00 %	0.00 %	0.00 %
Strike price	€ 1.00	€ 1.00	€ 1.00	€ 1.00
Share price on the measurement date	€ 4.50	€ 4.50	€ 4.50	€ 4.50

The following parameters were used in the measurement in the previous year (as of December 31, 2014):

	Tranche PP1	Tranche HP1	Tranche StS1
Measurement date	12/31/2014	12/31/2014	12/31/2014
Remaining term (years)	6.25	6.00	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 on 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, 2015. 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. Therefore, the actual volatility that occurs may differ from the assumptions. The expected dividend yield is based on market estimates for SFC's dividend per share in 2015 and 2016.

As of December 31, 2015, a liability of € 230,116 (€ 61,948 thereof under other long-term liabilities) was recognized under other long-term liabilities in connection with the SAR Plan (December 31, 2014: € 118,428, with € 118,428 thereof under other long-term liabilities). The amount expensed for the period from January 1 to December 31 was € 111,689 (prior-year period: € 118,428).

Transaction bonus

A transaction bonus was granted to selected members of the Management Board in the financial year 2015. This transaction bonus consists of a cash payment in the event of a successful takeover bid for SFC shares, depending on the amount of such bid.

The transaction bonuses 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 bonus was awarded.

The following parameters were used in the measurement as of December 31, 2015:

	Transactionbonus
Measurement date	12/31/2015
Remaining term (years)	0.42
Expected volatility	36.80 %
Risk-free interest rate	– 0.40 %
Dividend yield	0.00 %
Strike price	€ 0.00
Share price on the measurement date	€ 4.50

For the term, the length of time from the measurement date to the end of the respective agreement was used. For the sources and assumptions of the market parameters used, please see the discussion of the SARs.

At December 31, 2015, a liability of € 24,013 was recognized in connection with the transaction bonus under other liabilities (€ 24,013 thereof under other short-term liabilities) (December 31, 2014: € 0, with € 0 thereof under other short-term liabilities). The amount expensed for the period from January 1 to December 31 was € 24,013 (prior-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 the financial years 2014 and 2015:

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".

In financial year the Company generated revenues of € 641 from an arm length's transaction with a member of the Supervisory Board. There were no other transactions with related parties in 2015.

The compensation of persons in key positions was as follows:

in €	2015		2014	
	Fixed portion	Variable portion	Fixed portion	Variable portion
Management Board	765,455	174,241	718,158	296,040
Supervisory Board	112,500	0	112,500	0
Total	**877,955**	**174,241**	**830,658**	**296,040**

We had € 411,622 in liabilities to persons in key positions as of the reporting date (previous year: € 449,273).

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

FINANCIAL YEAR 2015 (in €)	Fixed compensation	Short-term performance based compensation	Long-term performance based compensation	Total
Dr. Peter Podesser	373,722	50,521	– 1,171	423,072
Hans Pol	191,911	8,029	77,009	276,949
Steffen Schneider	199,876	4,002	35,851	239,729
Total	**765,509**	**62,552**	**111,689**	**939,750**

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**

(36) Earnings per share

Earnings per share are calculated by dividing the consolidated net income for the year that is attributable to shareholders of the parent by the average number of shares in circulation. The calculation of diluted earnings per share is based on the profit attributable to the holders of shares of common stock and a weighted average of the shares of common stock in circulation after eliminating all dilutive effects of potential shares of common stock. In the financial year 2015, there were dilutive effects for the first time due to the convertible bond issue that must be taken into account in determining the number of outstanding shares as well as the dilutive effects on SFC's earnings. The following table shows the calculation of undiluted and diluted earnings per share:

CALCULATION OF BASIC AND DILUTED EARNINGS PER SHARE

	2015	2014
Number of shares in circulation at the beginning of the period	8,611,204	8,020,045
Number of shares in circulation at the end of the period	8,611,204	8,611,204
Weighted average number of shares in circulation	**8,611,204**	**8,069,308**
Number of potentially dilutive shares of common stock	9,767	0
Weighted average number of shares used to calculate the diluted earnings per share	**8,620,971**	**8,069,308**
Consolidated net loss (€)	**–10,668,981**	**–4,826,263**
Adjusted consolidated net loss (€)	**–10,665,774**	**–4,826,263**
Net loss per share diluted (€)	–1.24	–0.60
Net loss per share undiluted (€)	–1.24	–0.60

(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 (€ 849,473; previous year: € 660,765) as well as time and call deposit accounts (€ 2,427,593; previous year: € 5,461,653).

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

The segment reporting in the financial 2015 and the prior-year figures matched the internal reporting structure.

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

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

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

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

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

in €

	Sales from transactions with external customers		Long-term Assets	
	2015	2014	12/31/2015	12/31/2014
North America	26,389,726	30,499,555	8,681,559	10,488,083
Europe (not including Germany)	11,989,841	12,944,192	3,338,584	7,188,753
Germany	6,705,278	7,804,914	2,140,774	1,737,338
Asia	1,468,068	1,793,583	0	0
Rest of the world	757,207	588,694	0	0
Total	**47,310,120**	**53,630,938**	**14,160,918**	**19,414,174**

Sales were broken down by region on the basis of each customer's registered office. Sales of € 6,705,278 (previous year: € 7,804,914) were generated in the Group's home market of Germany.

No single customer accounted for more than 10 % of sales in 2015. In the previous year, 11.1 % of total sales was generated with a single customer.

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

		in €
	2015	2014
Security & Industry	306,615	590,634
Consumer	214,761	445,074
Oil & Gas	0	98,797
Total	**521,376**	**1,134,505**

There was interest income of € 2,292 in the Security & Industry segment, € 1,343 in the Consumer segment and € 0 in the Oil & Gas segment.

Interest expense came to € 72,253 in Security & Industry, € 27,732 in Consumer and € 218,174 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 €
	2015	2014
Financial statements	129,500	129,000
Others	0	11,000
Tax consultancy	0	4,326
Total	**129,500**	**144,326**

(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/de/investoren/corporate-governance). The Management Board and Supervisory Board have published an updated declaration of conformity for 2015 on SFC Energy AG's website on March 29, 2016. 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) Subsequent events after the balance sheet date

In January 2016 an additional tranche in the amount of € 550 thousand was placed in connection with a private placement of the convertible bond. With a 10 % discount this provided an intake of cash in the amount of € 495 thousand. Another tranche of € 1,100 thousand was placed in March 2016. With a 10 % discount this provided an intake of cash in the amount of € 990 thousand.

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

Brunnthal, April 21, 2016

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 2015 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, April 21, 2016

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 2015. The preparation of the consolidated financial statements and the group manage-ment 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 "Financial and liquidity risks", "Procurement and technical production risks" 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. In particular, Management points out that risks could arise threatening the Group as a going concern if large projects in the Defense segment are postponed or cancelled.

Munich, 21 April 2016

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

Götz
Wirtschaftsprüfer (German public auditor)

Pinckernelle
Wirtschaftsprüfer (German public auditor)

FINANCIAL CALENDAR 2016

March 3, 2016	Preliminary Figures 2015
April 28, 2016	Annual Report 2015
May 12, 2016	Q1 Interim Disclosure 2016
June 14, 2016	Annual General Meeting
August 3, 2016	Q2 Report 2016
November 8, 2016	Q3 Interim Disclosure 2016
November 21.-23., 2016	German Equity Forum

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	Hauck & Aufhäuser Privatbankiers KGaA

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Responsible: SFC Energy AG
Editing: SFC Energy AG / CrossAlliance communication GmbH
Concept and Design: Anzinger und Rasp

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.