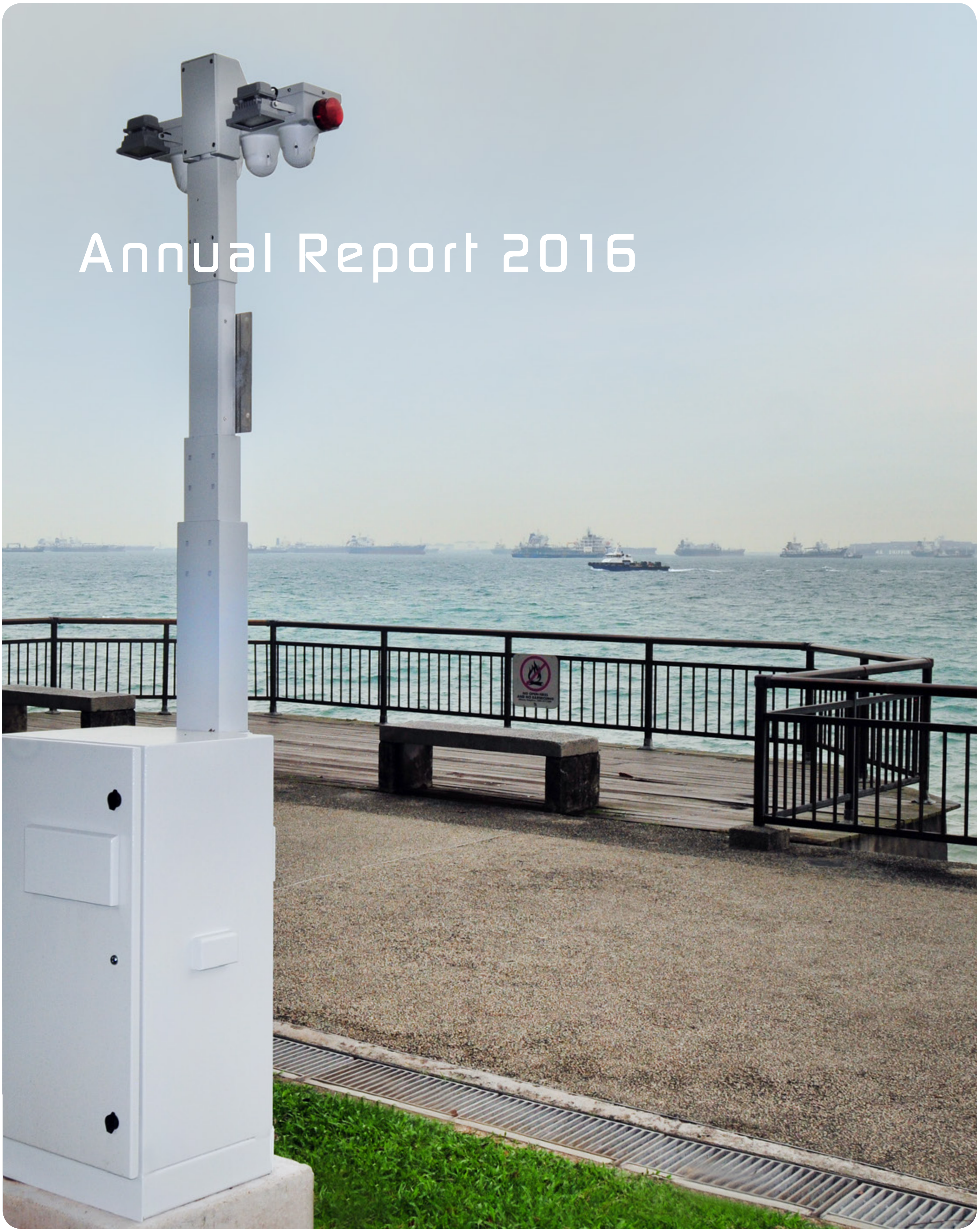


Annual Report 2016

SFC ENERGY

SFC ENERGY AG CONSOLIDATED KEY FIGURES

in k€

	1/1 – 12/31/2016	1/1 – 12/31/2015	Change in %
Sales	44,041	47,310	– 6.9 %
Gross profit	13,247	13,227	0.2 %
Gross margin	30.1 %	28.0 %	–
EBITDA	– 2,508	– 4,650	46.1 %
EBITDA margin	– 5.7 %	– 9.8 %	–
EBITDA underlying	– 2,658	– 2,978	10.7 %
EBITDA margin underlying	– 6.0 %	– 6.3 %	–
EBIT	– 4,898	– 10,645	54.0 %
EBIT margin	– 11.1%	– 22.5%	–
EBIT underlying	– 4,112	– 4,392	6.4 %
EBIT margin underlying	– 9.3 %	– 9.3 %	–
Consolidated net loss	– 4,993	– 10,669	53.2 %
Net loss per share, undiluted	– 0,58	– 1.24	53.2 %
Net loss per share, diluted	– 0,58	– 1.24	53.2 %

	12/31/2016	12/31/2015	Change in %
Order backlog	16,852	11,759	43.3 %

	12/31/2016	12/31/2015	Change in %
Equity	13,339	16,558	– 19.4 %
Equity ratio	39.5 %	46.1 %	–
Balance sheet total	33,793	35,889	– 5.8 %
Cash (freely available)	1,756	3,277	– 46.4 %

	12/31/2016	12/31/2015	Change in %
Permanent employees	228	235	– 3.0 %

CONTENT

LETTER TO SHAREHOLDERS

DEAR FELLOW SHAREHOLDERS,

Although, the 2016 financial year was overall dissatisfactory due to the difficult Oil & Gas market, SFC Energy has reached key milestones in its operations. The SFC Energy Group's sales decreased to € 44,041k in the reporting period compared to € 47,310k in the prior year. Major reason for the decline was the weak demand in the Oil & Gas market. However, despite the decrease in revenues the profitability of SFC Energy Group improved significantly. Tight cost control and a better product mix was responsible for EBITDA improving from – € 4,650k in 2015 to – € 2,508k in 2016.

Below we are providing additional details on the development for each of our business segments (Oil & Gas, Security & Industry, Consumer) in the year under review as well as a guidance for 2017.

Oil & Gas

After a tough start into the year with the oil price hitting a 13-year low at USD 27 in the first quarter of 2016, it then stabilized above USD 50 in the fourth quarter and at the beginning of 2017. The very conservative spending behavior of SFC's customers observed in most of the year 2016 has continued to ease over the course of the last quarter of the year. Compared to the previous year, sales in the Oil & Gas segment decreased by 25.7 % from € 25,976k to € 19,296k. Cost adjustments and cost control were still very important while keeping the team as big as possible in order to be in front of customers.

Despite the challenges we also achieved further growth and progress in our fuel cell business. 2016 sales of EFOY Pro fuel cells grew by 40 % over 2015 due to the significant value they bring to the operators of off-grid measurement & instrumentation, communications, surveillance and other mission critical assets. In addition, we further expanded our cooperation with Schneider Electric and now sell Schneider Electric's Telemetry & Remote SCADA Solution (TRSS) products all across Canada.

Since the beginning of 2017 the activity for existing production is visibly picking up again and customers are investing in both replacements and expansion capex.

Security & Industry

The Security & Industry segment is now the largest segment of SFC Energy Group. Sales grew by 20.1 % from € 17,570k in 2015 to € 21,096k in 2016. The increase in sales resulted from the commercial and defense fuel cell business as well as the power electronics business (PBF). PBF's strong growth of 15,2 % to € 12,798k is based on both long-standing and new customers. The commercial fuel cell business also grew on a broad basis, rising by 27.4 % to € 4,808k in 2016 compared to € 3,774k in 2015. The growth was driven by global demand for reliable power solutions for surveillance in Asia, Europe and the Americas. The defense business grew even more by 29.3 % from € 2,697k in 2015 to € 3,489k in 2016. This growth was broadly based on multiple countries like Belgium, Germany, India, Israel, the United States, etc. The products were also broadly mixed between serial products as well as Joint Development Agreements (JDAs).

With a solid order book of more than € 13,521k the Security & Industry segment is set for a strong 2017. The order book and the positive outlook is supported by PBF, the commercial as well as the defense fuel cell business. Over the past two years, we have focussed investments to further improve our defense products, including efficiency, robustness, run-time, durability, and weight-reduction. Our confidence in the defense sector is based on the planning of the relevant defense organizations. In addition, we have enlarged the team in the defense business in order to break through in various regions in the upcoming years.

Consumer

The consumer segment was with sales of € 3,649k in 2016 slightly below the previous year's € 3,764k. Growth of more than 14 % in markets like Germany was not sufficient to compensate declining markets like France or Norway.

However, the important trade fairs in the caravan market we participated in during 2016, showed that our partners look very bullish into the current business year and confirm the underlying economic growth dynamics. We expect sales in 2017 to be at or above the 2016 level.

Financing

In August SFC Energy AG completed a capital increase raising proceeds of € 1,500k and in October raised a loan and issued an option bond. The Company received gross proceeds from the capital measures in the amount of € 2,000k.

Conclusion

Following two challenging years we are now looking with confidence to the underlying fundamentals in all our three segments. Based on the strong order book by the end of 2016 and the good start into 2017 we estimate a revenue target of € 50,0 – 55,0 million and a further significant improvement in profitability.

Our positive outlook for 2017 is based in particular on two issues: On the one side, with the growing security needs of individuals as well as of government agencies, we see increasing investments of our customers in the Defense & Security business, both in the private and in the public sector. On the other hand, we have noticed a positive development in the Oil & Gas business in recent months. With the oil price being at a level of around USD 50, we now see a notable increase in investments, which should gain momentum in the current year.

Our sincere thanks go to our employees for their hard work. We would also like to thank our customers, partners and suppliers as well as our investors and shareholders for their continued trust and their constructive support.

Sincerely,
The Management Board SFC Energy AG

Dr. Peter Podesser
CEO

Steffen Schneider
CFO

Hans Pol
CSO Power Electronics

Marcus Binder
CSO Defense & Security

POWER ESSENTIALS: SFC ENERGY'S INTELLIGENT POWER SOLUTIONS FOR OFF-GRID, GRID BASED AND BACK-UP POWER APPLICATIONS

More and more electric and electronic devices have to function anywhere, anytime. Consumers want to use their mobile phones, laptops, GPS, lights, coolers and many other modern convenience devices without power limitations on board of their motor home, their boat, in their holiday cabin, when hunting or fishing. Not only e-mobility as one of today's big future topics, but also increasing digitalization dynamics and the resulting data floods demand innovative and efficient power storage and power management solutions. Industry and government users face the challenge of having to operate portable instruments, cameras or measuring devices at remote locations and in difficult conditions, whose reliability must not depend on the power and lifetime of a battery. Even on-grid devices, e.g. critical or highly sensitive systems, require reliable back-up power resp. specifically "smoothed" power.

The major benefit of SFC Energy's power solutions for all these applications is: 100 % reliable power anytime and anywhere, customized for individual requirements, in any season and weather, fully automatic, without requiring any user intervention even over long periods of time.

OIL & GAS

SECURITY & INDUSTRY

CONSUMER

OIL & GAS INDUSTRY

After a deep recession, industry experts expect a moderate but steady recovery of the oil and gas market on the basis of stabilizing oil prices. After a longer no-investment period producers are now again looking at investing in production increases and technology innovation. More efficiency and profitability are the industry's key drivers when it comes to investment decisions. In this context, new market opportunities open up for those oil & gas industry suppliers whose products and services contribute to a better availability of existing structures or to completely new, alternative solutions. A further important factor in the industry is environmental protection. Oil & gas producers want and must improve their carbon footprint and introduce more environmentally friendly productions processes, also with regard to carbon tax. This trend has significantly increased their interest in sustainable products. SFC Energy supports customers in this area with fully integrated value added solutions, mainly in two sectors.

MEASURING INSTRUMENTS, POWER GENERATION & DISTRIBUTION AND INSTRUMENTATION

SFC Energy's intelligent solutions help oil & gas producers meet the industry's strict legal and environmental regulations. The use of SFC's products enables real time monitoring and control of electric measuring, control, and monitoring devices at wells and pipelines, while increasing production efficiency, speed and reliability. SFC Energy's fully integrated oil & gas portfolio includes innovative specialized products, including intelligent motor control systems, frequency converters, measuring systems and security solutions.

SCADA computer systems

SCADA systems are computer controlled systems intended to measure, control and monitor oil and gas production processes. They are used in the operation of well systems and pipelines, where they collect, visualize and analyze real time data for regulating and optimizing 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. Reliable power availability is an important prerequisite to ensure that these important systems can operate reliably even away from the grid. Therefore, SFC Energy also offers SCADA systems in combination with reliable off-grid power supplies, especially solar modules. In hybrid operation with solar the fuel cell ensures reliable, intervention-free system operation over long periods of time, even in toughest weather and environment conditions.

VFD systems

VFD (variable frequency drive) systems govern the speed and torque of the motors on drill rigs, pumps, ventilators, compressors and other specialized rotary equipment. They adjust the drive systems' output fully automatically to current ambient conditions, protect them from overload and thus safeguard system reliability, efficiency, optimized processes, and enhanced production. 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 power is a constant, expensive challenge. Many systems are operated off the grid at remote, difficult to access locations, ambient conditions often are hard, strict environmental regulations must be observed. To ensure safe production at all times sensors, measuring instruments, pumps, and control systems have to reliably work at all times. Ensuring 100 % power availability is complicated and expensive: Cold, dark winter months can quickly push generators and solar modules beyond their limits. Batteries have to be exchanged regularly. Which means an equally regular need for tedious, expensive service and maintenance trips to the equipment sites.

For applications like these SFC Energy has developed a portfolio of innovative integrated energy solutions that can be precisely configured to meet specific application requirements. Protected in special cabinets, weatherproof outdoor boxes or robust housings power generator, power storage, power management and inverter will reliably supply power to the devices 24/7, in any weather and even in the most challenging conditions. The systems can easily be combined with other power generators including solar modules, wind and water generators. Hybrid operation offers key advantages for users: In a solar module/fuel cell combination the module will provide power to the application in fair weather in a very resource-efficient way. In foul weather or winter, when solar power is no longer sufficient, the fuel cell will automatically switch on and produce power. Power management and power storage are adapted to match the individual configuration. The final result is a fully integrated plug and play solution: The customer simply connects the equipment to the integrated system, and the off-grid power source is ready to use. SFC Energy's portfolio of off-grid power supplies for industrial applications is featured in the "Security & Industry" section below.

MARKET TREND

Despite a challenging industry environment SFC Energy was able to grow the Canadian oil and gas market in 2016. SFC Energy's extension of the sales and service business partnership with Schneider Electric for telemetry & SCADA in all of Canada contributed to this effect. An important step for larger success in the oil and gas market is higher fuel cell power. In this context, hybrid systems with SFC Energy's most powerful fuel cell to date, the 500 W EFOY Pro 12000 Duo, are growing significantly in importance. The systems are integrated in a weatherproof cabinet and designed to work reliably in extreme temperature conditions from –40 °C to +50 °C.

SFC Energy's USP for major projects is the Company's convenient one-stop-shop approach. SFC Energy offers complete product and support service from planning and design of customized solutions to installation and extensive post-purchase expert service over the complete system lifetime.

SECURITY & INDUSTRY

The demand for security systems and solutions exploded in 2016, also due to a growing number of terrorist attacks. Governments, administrations and private companies react with a large variety of innovative, sensitive infrastructure, environment and monitoring equipment, e.g. cameras, early warning, monitoring and security systems. Many of these systems require off-grid power when they are used in areas without available power infrastructure, e.g. public space surveillance, public event security, construction area safety, or infrastructure protection. All these applications need a reliable, weatherproof, and – in many cases – invisible and inaudible power supply.

SFC Energy offers a steadily increasing portfolio of high performance, cost efficient fuel cell based power supplies for security and industry applications. All products are delivered in integrated, weatherproof, user friendly plug and play installations, with the customer defining the parameters from a large portfolio of hybridization, battery, power and temperature options.

SFC Energy customers in this demanding segment include professional industry and government users in the security & surveillance, wind, telecommunication, traffic management and environmental industries, as well as numerous international authorities and defense organizations. SFC offers an innovative portfolio of mobile, stationary and back-up power supply solutions to these customers:

OFF-GRID POWER SUPPLY

EFOY Pro fuel cell

The EFOY Pro fuel cell provides reliable weather independent power for off-grid industrial applications, anywhere, anytime. On location, the fuel cell charges the batteries that deliver power to the devices, quietly, fully automatically and with almost zero emissions. It features an extremely flexible configuration: It can be hybridized with all conventional alternative power generators and power storages. For outdoor applications it integrates into virtually any housing solution, can be remote controlled and, once installed, will supply fully automatic power for months on end, without requiring any user intervention. This eliminates tedious battery exchanges and costly service trips, thus enabling precious cost and time savings. EFOY Pro is especially successful as mobile power supply in official and service vehicles. Here, it enables hours and hours of operation of the on-board devices without having to idle the engine or having to take the vehicle in for recharging. Customers like Germany's Federal Office for Goods Transport have outfitted their complete vehicle fleet with the environmentally friendly, silent power supplies, because the EFOY Pro fuel cell saves them money on the fleet and increases the fleet's mission-readiness multiple times. An additional decisive benefit for the on-board users is the fuel cell's emission-free, silent and fully automatic operation.

EFOY ProCube and EFOY ProEnergyBox

EFOY ProCube and EFOY ProEnergyBox are maintenance free, weatherproof, fully integrated all-in-one solutions for mobile and stationary outdoor applications. In a robust, easy to carry box the EFOY ProCube contains fuel cell, fuel cartridge and battery. All the user has to do is connect the device and switch it on. The EFOY ProEnergyBox was specifically developed for operation in extreme weather conditions from –40 °C to +50 °C. In minus temperature, the fuel cell's off-heat is used to keep the system warm and prevent battery and electronics from freezing, ensuring reliable operation.

EFOY ProCabinet

EFOY ProCabinet is a weatherproof stationary cabinet solution for reliable autonomous off-grid power. This product, too, can be hybridized with other power supplies. EFOY ProCabinet is used for stand-alone operation as power supply for sensors and measuring instruments, surveillance cameras or telecommunication repeater stations, or as a back-up power source.

EFOY ProTrailer

With the EFOY ProTrailer the EFOY Pro fuel cell is even more mobile. On the trailer, the EFOY Pro fuel cell is installed with fuel cartridges and up to four solar modules, and is connected to the devices to be operated, e.g. security and surveillance cameras, communication devices, oil, gas, or traffic management systems. The pre-installed, highly flexible trailer is moved to the site and ready to operate within just a few minutes. It is used for public event safety, e.g. public concerts, construction site monitoring or border protection.

Portable SFC Energy Network

The SFC Energy Network was specifically developed for defense applications. Special forces use the man-portable, lightweight hybrid system to operate their devices directly and to recharge their batteries during their missions. The SFC Energy Network consists of SFC's JENNY fuel cell, fuel cartridge and intelligent power management. Several international defense organizations are using the SFC Energy Network as an important part of their Special Forces and mobile mission command equipment.

EMILY fuel cell

EMILY is another power product for defense applications featuring ultimate charging flexibility. The robust fuel cell will simultaneously charge conventional and modern lithium-ion and lithium-polymer batteries on board of military vehicles or as a stationary power source in the field. EMILY was the world's first fuel cell officially approved by a defense organization and has been assigned a NATO stock number.

MARKET TREND

Faced with insecure environments and a growing feeling of threat many people and organizations want to operate security equipment also away from the grid. This is why this market has been showing sustainable growth in recent time. Rising demand is expected specifically for off-grid and back-up power for homeland, border, and public infrastructure security equipment.

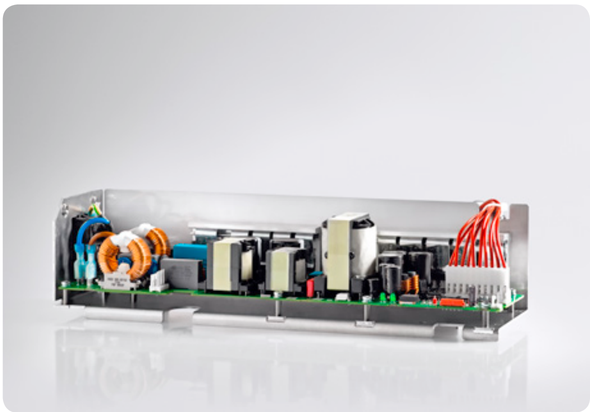
Power electronics

In addition to power supply solutions for off-grid applications, SFC Energy develops and markets a series 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 first be "processed" to avoid serious damage to the system. SFC Energy develops and produces customized high quality power management systems for these uses, with extremely high power density. They are installed between the outlet and the device and reliably supply the device with precise "smoothed" power. This cuts the energy costs for operating the equipment and at the same time enhances its performance and service life.

Many renowned OEMs and system suppliers, both in Germany and abroad, rely on SFC Energy's power management expertise in every stage from system design 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 the customers with efficient product life cycle management.

SFC Energy's power electronics offering includes specialized high power electronic components, external and internal converters, switched mode power supplies and specialty coils.

Specifically for the demanding power supply requirements of high performance laser systems SFC Energy has developed an innovative power supply platform LAPS, which is fast becoming the industry gold standard. The compact, cost efficient platform can be easily retro-fitted in existing customer systems and can be adapted to meet specific requirements. On demand SFC Energy will deliver the platform as fully integrated laser system power solution complete with water cooling and housing.



The high order backlog for power electronics at year-end 2016 reflects the growing demand for high performance products for supplying stable, precise power to sensitive equipment and systems. The rise in demand also proves the benefit, maturity and technical quality of SFC Energy's products in this segment. And it is also a result of SFC Energy's consistent service orientation: Power management experts are available to assist customers with competent support over the complete system lifetime. SFC Energy sees good growth potential in this market for the next years.

CONSUMER

The consumer market for power supplies continues to grow, as more and more electric and electronic devices are used away from the grid. Consumers want to enjoy the many comfort and safety functions of their devices wherever they are. At the same time experts observe an increasing demand for grid independent power supplies as reliable back-up power source for important security, communication, emergency and household equipment in power outages and other emergency scenarios. SFC Energy has been successfully selling power supplies and power storages for supplying reliable off-grid power to electric and electronic equipment. The systems are used in consumer, outdoor, home back-up and emergency applications all over the world.

EFOY COMFORT

SFC Energy's EFOY COMFORT fuel cell supply reliable off-grid power to motor homes, sailboats and holiday cabins in Europe and the world. Connected to the battery, the silent, environmentally friendly fuel cells produce power on demand, fully automatically. The owner does not have to do anything. EFOY COMFORT is available in a variety of power levels.

EFOY GO!

At a weight of only 5.8 kg the portable EFOY GO! is an innovative mobile power outlet for conveniently supplying power to off-grid leisure, vacation, outdoor and adventure applications away from the grid. The little power pack provides reliable power to all kinds of travelling devices like mobile phones, laptops, GPS, lights or coolers. Ultramodern lithium technology delivers large amounts of energy at minimum weight. Devices are simply plugged into EFOY GO!'s 230 V, 12 V socket or two USB ports. EFOY GO! can be charged using an EFOY COMFORT fuel cell, a solar module, a car cigarette lighter or the grid at home.

MARKET TREND

Low interest rates are driving consumer market sales, as many consumers are rather investing their money in leisure vehicles and activities. Another factor is the growing terror threat, which makes many consumers, especially the older generation, chose flexible, mobile travelling options. The caravanning market has been benefitting strongly from these trends. Here, the EFOY COMFORT fuel cell is well established as alternative off-grid power supply for motor homes.

DEFENSE & SECURITY – LEVERAGING NEW POTENIALS

An interview with Marcus Binder, CSO for SFC Energy's national and international defense & security business since March 1, 2017

Your function at SFC Energy is Chief Sales Officer for the defense and security business. What is your motivation for this task?

Marcus Binder: I have always been fascinated by innovative technologies. The most important factor for me is practicality. The best innovation is worthless, if it can't be applied to deliver real benefits to the user. And it must be well designed: Smooth and speedy installation, easy use, ultimate flexibility. This passion for good technology has always been part of my professional career. It has driven my studies in electrical engineering at the University of the Bundeswehr, my 13 years as a Bundeswehr officer, and then my career at ESG Elektroniksystem- und Logistik GmbH – an electronic system and logistics system integrator for the defense & public security, cyber/IT and automotive markets. As an officer I had hands-on experience on the pivotal role innovative technologies play in the success of a mission – and in survivability. In different functions at ESG I was responsible for success and sales of technical projects, and after that, for several years, as ESG product life cycle manager, for innovative technology logistics services and solutions for defense & government, the defense industry and various other industries.

In my position as CSO, I can use all the knowledge and experience from these tasks for making SFC Energy's fuel cell products successful. In my understanding these powerful products are very attractive in all those markets where safety, availability and flexibility of power supplies are major success factors.

What, in your opinion, is SFC Energy's position compared to the competition?

Marcus Binder: I have experienced SFC Energy's products in my former profession and I have long been aware that the Bundeswehr and several other international defense organizations successfully use them. This is how I know their strength. In these products SFC Energy consistently combines technology excellence and applicability for unique advantages in its application. In defense and government applications reliable off-grid power is a growing concern. After all, all those electric and electronic devices have to perform reliably even away from the grid. I know that the procurement departments of these organizations are intensively looking for really good solutions to this problem. There are not many alternatives: Due to their respective individual limitations, solar modules and generators cannot offer the same user flexibility as fuel cells do. However, there are not many commercially available fuel cells. SFC Energy's products are different: They have an excellent track record in a broad variety of applications. A SFC product was the world's first fuel cell officially introduced with a NATO stock number in a defense organization. Almost from the beginning, SFC Energy has been developing defense power sources together with the German Bundeswehr and other NATO organizations. It is therefore not only an excellent technology and a strong patent position that define SFC Energy's competitive edge, but also many years of experience and a deep knowledge of the concerns and requirements in these demanding industries.

How do you expect the defense segment to develop? What makes you confident that SFC will finally achieve the expected national defense market breakthrough in the current year?

Marcus Binder: The current development of security and economic conditions gives rise to the expectation that major defense organizations will begin to re-invest in the modernization of their structures. We know that budget cuts almost completely stalled any innovation projects in the industry over the last years, while at the same time the need for new technologies has risen significantly. Special Forces and other decentralized operating units require most modern equipment to ensure safety and success of their missions, and these devices require 24/7 power in any terrain. SFC fuel cells feature a mature technology with a proven track record in the applications of the German Bundeswehr and other organization. We continually enhance our products to further increase their performance and reliability, while at the same time developing completely new power supply solutions based on fuel cells together with various NATO and PfP[1] organizations for their specific requirements. Several of these solutions are already used in field tests. We expect a rising demand not only from the German Bundeswehr, but also internationally, as soon as the budgets will be released. Our products are ready!

With shifted responsibilities and a strong focus on core issues in the Management Board SFC Energy has laid the foundations for significant growth in the coming years. In addition to defense, which other applications and regions, in your opinion, hold the biggest medium term sales potential for SFC Energy?

Marcus Binder: Other exciting markets for SFC Energy are public authorities and government business, e.g. police forces, border protection, homeland security, disaster control. For safety applications SFC products feature significant benefits: They are almost inaudible and non-detectable, environmentally friendly and fully automatic. They can be used anywhere – in a vehicle, in an inconspicuous box, or even underground – to power covert missions. We offer them in fully integrated man portable, mobile and stationary versions. Very recently an SFC distribution partner in Singapore won an important image recognition and border protection tender with EFOY Pro fuel cells, as no other power supply featured the environmental protection and reliability of the fuel cells. We see an enormous potential here for the coming years.

1 PfP stand for Partnership for Peace, a flexible instrument for the cooperation of NATO and partner countries. 22 countries in East and Southeast Europe, South Caucasus, Central Asia, and Western Europe currently participate in PfP.

MILESTONES IN 2016

MARKET AND PRODUCT NEWS

JANUARY 2016

+++ SFC celebrates 10th Anniversary of the EFOY fuel cell +++

Since 2006 the international EFOY brand has established itself as a synonym for reliable, weather independent, environmentally friendly power away from the grid. With over 36,000 fuel cells sold, six generations and two platforms, it has become the world's most popular fuel cell, from Japan, to Europe, Canada and the U.S..
10 years EFOY stand for quality, top service and product innovation.

+++ Integration of EFOY Pro fuel cell into Video Surveillance Systems of the French Ministry of Defense +++

EFOY Pro fuel cells ensure uninterrupted, reliable power supply to surveillance systems of the French Ministry of Defense. In hybrid operation with solar panels they enable 100 percent system uptime and extremely long system autonomy. The EFOY Pro fuel cells are installed by French system integrator 4G Technology.

FEBRUARY 2016

+++ Thermoprodukter AB becomes new official distributor of EFOY COMFORT fuel cells and EFOY GO! for the Swedish caravan market +++

Thermoprodukter AB distributes both brands to consumers in the marine and caravan market in Sweden. The proven partnership aims at further growing the Swedish caravan market.

MARCH 2016

+++ Dutch subsidiary PBF Group B.V. and Whisper Power B.V. enter into Power Electronics Manufacturing Agreement +++

Whisper Power produces the full range of their AC PowerCube high power inverter series at SFC Energy's manufacturing site in Cluj, Romania, which already manufactures other high quality power electronics of PBF. The manufacturing agreement is a first step towards a closer development and marketing partnership.

+++ Dutch subsidiary PBF Group B.V. receives major order for External Transformer Units used in high quality laser systems +++

The External Transformer Units are used in the operation of high tech laser equipment for the production of consumer electronics.

APRIL 2016

+++ Dutch subsidiary PBF Group B.V. receives Power Electronics Development Order for Aviation Applications +++

In the framework of the agreement PBF will design exclusive, customized power supply solutions for galley systems operated on board of commercial airplanes. Galley systems are used to store, prepare and serve food and beverages on board. The power supply solutions will ensure safe, reliable and highly efficient in-flight operation of the devices.

+++ WCCTV selects SFC Energy's EFOY Pro Fuel cell as power source for their Rapid Deployment CCTV Tower surveillance systems +++

WCCTV's all-in-one Rapid Deployment CCTV Towers are specifically engineered to meet the challenge of securing remote sites. To ensure uninterrupted off-grid power availability, WCCTV has launched a tower solution with integrated EFOY Pro fuel cells.

JUNE 2016

+++ SFC Energy receives largest Asian single order for EFOY Pro fuel cells from Singapore sales & marketing partner Innoverde +++

Innoverde serving prime customer Oneberry Technologies in Singapore will procure several hundred units of EFOY PRO 2400 over 24 months. Fuel cells will be used to provide reliable off-grid power to security and surveillance equipment in Singapore. The contract award builds on the success of five years of extensive business development of SFC Energy and Oneberry Technologies in Singapore.

JULY 2016

+++ Extension of sales and service agreement between Schneider Electric and Simark Controls Ltd. to include Eastern Canada +++

In the context of the agreement, Simark Controls now sells Schneider Electric's Telemetry & Remote SCADA Solution (TRSS) products all across Canada. The solutions enable operators to efficiently monitor and control field equipment and operations across widely dispersed infrastructures. Applications range from simple reservoir level measurement in the water and waste water industries to complex well pad optimization and other production based processes in the oil & gas industry.

AUGUST 2016

+++ PBF Group B.V. receives major follow-up order for high power supply solutions for security, safety and communication needs +++

The order of a large, international security systems company for the delivery of high power supply solutions for security, safety and communication needs will generate total revenues of € 4.7 m over 24 months, starting in Q4 2016. Positioned between power source and device, PBF's high power supplies ensure that highly sensitive, safety-related public address and professional audio systems used at airports, railway stations, event locations etc. are supplied with the exact voltage they require.

SEPTEMBER 2016

+++ EFOY COMFORT and EFOY GO! available at Conrad Electronic +++

Conrad will sell the off-grid power expert's popular EFOY COMFORT fuel cells and EFOY GO! mobile power pack online and at all local Conrad shops.

+++ SFC Energy receives order for its new UFC Underground Fuel Cell from International Defense Force +++

The International Defense Force uses SFC Energy's UFC to reliably power sensor and surveillance equipment in harsh environments. In the mission scenario of this order, the UFC must reliably power the devices for up to two years without any user attendance or fuel cartridge exchanges. For this purpose it is equipped with two standard M28 SFC fuel cartridges (total of 56 l of fuel).

+++ Hybrid EFOY ProCabinet with 500 W fuel cell for pipeline applications of major midstream Oil & Gas Company in Canada +++

SFC Energy's EFOY ProCabinet Hybrid Solution powers remote densitometers and associated heaters along pipelines. It uses SFC Energy's most powerful fuel cell to date, the EFOY Pro 12000 Duo, combined with solar panels and batteries for a 12/24 Volt DC power system. The system was developed for extreme temperatures from –40°C to +50°C. Remote operation capabilities enable data collection, system configuration, and monitoring. All components are housed in a weatherproof enclosure.

OCTOBER 2016

+++ EFOY Pro fuel cell powers Event Monitoring Systems on board of Volkswagen Amarok Pickup +++

Volkswagen uses the maintenance free, environmentally friendly power sources for mobile event monitoring systems on board of their Amarok pickup. The Amarok with mobile monitoring system is part of Volkswagen's security strategy. Video systems on board apply a proprietary Volkswagen technology, developed for autonomous, mobile operation with maximum flexibility in any terrain and independent from the grid. The Amarok uses SFC Energy's EFOY Pro 12000 Duo.

+++ SFC Energy signs Partner Agreement with FC TecNrgy Pvt Ltd for Indian Defense and Industry Markets +++

The new partner will promote marketing and sales of SFC Energy's fuel cell products to the Indian defense, homeland security, and oil & gas markets. Here they power off-grid devices in the most difficult and challenging climatic conditions, e.g. at extremely high altitudes up to 5,500 m/16,500 feet and in extremely low temperatures.

NOVEMBER 2016

+++ SFC Energy partner AG Group delivers man portable SFC Energy Network to Belgian Army +++

The Belgian Special Forces will use the portable energy network to reliably power soldier devices in a wide variety of missions in austere environments.

SUPERVISORY BOARD REPORT

SUPERVISION OF COMPANY MANAGEMENT

The dominant factors in the 2016 financial year were the Company's capital market strategy, the Company's financing options and the commercial challenges resulting from general market developments. The Supervisory Board actively participated in these efforts by advising and holding discussions with the Management Board. In the year under review, the Supervisory Board performed the duties incumbent on it by law, and under the Company's Articles of Association and its Rules of Procedure. It closely supervised the efforts of the Management Board and regularly advised and carefully monitored the latter's management of the Company. The Supervisory Board also satisfied itself that the Company was properly managed in compliance with applicable laws and regulations. The Supervisory Board was involved early and directly in all decisions of fundamental importance for the Company, as described in more detail below. The Supervisory Board reviewed transactions requiring its consent and discussed each of these with the Management Board.

SUPERVISORY BOARD MEMBERSHIP

Pursuant to Article 10 para. 1 of the Company's Articles of Association, the Supervisory Board of SFC Energy AG was made up of three members in the 2016 financial year. These members of the Supervisory Board were (i) Tim van Delden, (ii) David Morgan, and (iii) Hubertus Krossa. In financial year 2016, 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 twelve times during the 2016 financial year: on 15 February, 17 March, 21 April (to review the financial statements for the 2015 financial year), on 14 June, 30 June, 28 July, 11 August, 23 August, 30 September, 13 October, 26 October and 14 December 2016. Four of these meetings, on 21 April, 14 June, 28 July and 14 December 2016, which all Supervisory Board members attended, were held in person. The other eight meetings on 15 February, 17 March, 30 June, 11 August, 23 August, 30 September, 13 October and 26 October were held via conference call. In addition, the members of the Supervisory Board consulted one another between the meetings by telephone, in person or by email if required.

During the Supervisory Board's meetings, the Management Board provided the Supervisory Board with comprehensive and timely information regarding the Company's revenue, profit and, in particular, cash flow performance, budget planning, the Company's and the Group's current position, including the risk position, risk management and corporate compliance, strategic goals and any changes in the Company's organization and personnel. The Supervisory Board discussed the organization of the Company and the Group with the Management Board, ensured that the Company's organization and risk management were effective, and discussed material Company strategy and policy issues with the Management Board. At various Supervisory Board meetings, the

Management Board reported to the Supervisory Board on the status of individual business units, the Company's and the Group's economic, financial, technological and strategic position, the Company's domestic and international growth strategy and material developments and events, for instance regarding (imminent) litigation. Regular topics at the Supervisory Board meetings also included finance and controlling, sales and marketing, operations, quality management, human resources, and research & development. In addition, the Management Board reported on the strategic situation of the international subsidiaries of SFC Energy AG and on key developments related to those subsidiaries.

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

Another important topic at the Supervisory Board meetings during the 2016 financial year was, once again, the Company's capital market strategy and liquidity. The Supervisory Board was informed in detail by the Management Board, using external consultants, about possible measures to gain access to new investors at home and abroad, to finance further growth and to improve the Company's Equity Story, discussed these measures both internally and with the Management Board, and weighed up their pros and cons. The Supervisory Board was also kept regularly informed about the status of implementation and it accompanied and monitored this process. Further, on a number of occasions over the course of 2016, the Supervisory Board dealt with the matter of the creation of an additional position on the Management Board in order to boost sales and distribution. In this regard, the Supervisory Board held a number of meetings with several candidates as part of a structured selection process, which took some time. The Supervisory Board also addressed the matter of the potential to extend the current term of office and the Management Board Service Agreement of the Chairperson of the Management Board, Dr Peter Podesser, on a number of occasions over the course of 2016.

At its meeting held via conference call on 15 February 2016, the Supervisory Board primarily discussed the cash-flow plan for the current year and other financing options with the Management Board. This meeting also concerned the engagement of a consultancy firm, which is to support the Company in determining strategic options, with the Supervisory Board then providing its consent for this engagement after a discussion on this matter. In the Supervisory Board meeting held by telephone on 17 March 2016, the Supervisory Board tackled the additional financing of the Company and further investment by HPE in the convertible bond. In addition, the Supervisory Board also discussed the continuing cash-flow plan with the Management Board and exchanged thoughts and ideas on further potential investors.

At its meeting on 21 April 2016, 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 2015 financial year. Representatives of the auditor attended the meeting, reported on the key outcomes of their audit and gave an opportunity for questions or queries to be raised. The Supervisory Board also dealt with the agenda for the annual general meeting and the proposal for the appointment of the auditor for the financial year 2016. Furthermore, the Supervisory Board also had an in-depth discussion on current developments and performance, and on opportunities and risks regarding the business development and performance of each of the business units and of the Company's subsidiaries. Against this backdrop, the Company's current liquidity and financial position were also discussed again with the Management Board. In addition, the Supervisory Board also addressed the potential options to bring investors on board based on the recommendations of the consultancy firm engaged in this context. At its meeting on 14 June 2016 the Supervisory Board dealt once more with specific options for financing and bringing investors on board, along with receiving an update on the current position at the relevant business unit subsidiaries. Along with returning to the issue of potential investors, the main topic for discussion at the Supervisory Board meeting conducted by conference call of 30 June 2016 was the supply of liquidity to the Company and its subsidiaries. The current developments in the "Defense" business unit and prospects for the future was the main item to be addressed at the Supervisory Board meeting of 28 July 2016. In addition to that, there were discussions on specific financing options and ongoing talks with certain investors. The Supervisory Board meeting held via conference call on 11 August 2016 saw the issue of Company financing and, in particular, the potential investment by HPE and a German family office by means of a capital increase using authorised capital with the exclusion of subscription rights. The Management Board reported on the latest developments in the "Defense" business unit and discussed them with the Supervisory Board. The Supervisory Board meeting via conference call of 23 August 2016 saw a discussion on the situation and further course of action in relation to two shareholder lawsuits brought against resolutions passed at the 2016 annual general meeting. The decision was formally made by written resolution of 16 September 2016 to appoint Mr Marcus Binder a member of the Management Board with effect as of 1 March 2017 to 28 February 2020, who will initially focus on the sale and distribution of SFC products and services on the national defense market and then successively take over sales responsibility for the entire national and international fuel cell business from the Chairperson of the Management Board, Dr Peter Podesser.

The Supervisory Board meeting, featuring an in-depth discussion with the Management Board, held on 30 September 2016 primarily dealt with the current situation in the "Defense" business unit and the impact of the fact that a contract that was expected to be awarded to the Company in 2016 in the defense unit would no longer be awarded due to the need to make technological upgrades in the current financial year. Against this backdrop the Supervisory Board also had an in-depth discussion with the Management Board on the current liquidity situation and other, short-term financing options.

The Supervisory Board meeting held via conference call on 13 October 2016 saw another discussion on the financing and liquidity situation at the Company. The Supervisory Board held consultations on taking out a loan and issuing an option-linked bond with the exclusion of a subscription right for shareholders by means of a private placement with an investor and lender from Singapore and provided its consent for this measure.

As part of the meeting by conference call of 26 October 2016, the Supervisory Board was primarily informed in detail by the Management Board on current developments, the risks and problems in the various business units and subsidiaries of SFC Energy AG and the liquidity situation and outlook at the end of the year and discussed all of this with the Management Board.

The Supervisory Board meeting of 14 December 2016 saw the Management Board give another detailed report to the Supervisory Board on the current developments in the various business units and the subsidiaries at SFC Energy. The 2017 budget and the 2018-19 medium-term plan were also discussed with the Management Board and resolved upon. Following its resolution of 14 December 2016, the Supervisory Board also took the early opportunity to extend the term of office of the Chairperson of the Management Board, Dr Peter Podesser, originally due to run until 31 March 2017, along with his Management Board Service Agreement, for three further years and thus until 31 March 2020. Other Supervisory Board meeting issues included risk management at the SFC Group and the selection process for the auditor for the coming financial year.

After the close of the reporting period, CFO and Management Board Member Steffen Schneider tendered a request to the SFC Energy AG Supervisory Board to terminate his management board service agreement prematurely, in order to allow him to pursue a personal career opportunity. The Supervisory Board regrets Steffen Schneider's decision; however, after careful consideration, the Board granted his wish to prematurely end the contract. As per the arrangement with the Supervisory Board, Mr Schneider will leave the Management Board on the best possible terms at the close of the day on which the annual general meeting is set to take place, thus 17 May 2017. The Supervisory Board would like to express its thanks to Steffen Schneider for his tireless work and for his contribution to the success of the Company. His managerial position within the SFC Group (CFO), in terms of his functional duties, will be taken on by Mr Gerhard Inninger. Mr Inninger will report to the Chairperson of the Management Board, Dr Peter Podesser, who will then take on responsibility for finance at Management Board level, with Mr Schneider leaving behind this post. Mr Inninger was already CFO at SFC Energy AG between the years 2011 and 2014.

COMMITTEES

The Supervisory Board did not set up any committees in the 2016 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 (Handelsgesetzbuch).

Compensation of Supervisory Board members is shown individually and broken down by component in the compensation report, which is reproduced in the annual report (page 45 et seqq.).

In the 2016 financial year, as in previous years, the Supervisory Board thoroughly examined potential conflicts of interest affecting its members and discussed and agreed upon its procedure for handling such conflicts, should they arise. In the year under review, the Supervisory Board did not identify any conflict of interest regarding the members of the Supervisory Board. In addition, the Supervisory Board stated at its meeting on 21 April 2016 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.

David Morgan, member of the Supervisory Board and also chairperson of the advisory board at Conduit Ventures Ltd. (Conduit), informed the Supervisory Board at the meeting on 21 April 2016 that Conduit's advisory board was currently inactive and that he was not in receipt of any remuneration or other benefit for holding this office.

The Company is committed to complying with the recommendations of the German Corporate Governance Code. The Declaration of Conformity to be made by the Management Board and Supervisory Board on a yearly basis, and most recently of 28 March 2017, is available on the Company's website at http://www.sfc.com/de/investoren/corporate-governance#header. It is also reproduced in the annual report (on page 36).

ACCOUNTING

Deloitte GmbH (formerly Deloitte & Touche GmbH) Wirtschaftsprüfungsgesellschaft, Munich, was chosen and appointed by the annual general meeting to audit the Company's financial statements for financial year 2016 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 31 December 2016 as prepared by the Management Board in accordance with the German Commercial Code, along with the management report, including the bookkeeping, and issued an unqualified audit opinion. Under Section 315a of the German Commercial Code, the Group's consolidated financial statements were prepared on the basis of International Financial Reporting Standards (IFRS) as applicable in the European Union. The auditor also issued an unqualified audit opinion on the consolidated financial statements and the group management report.

The Supervisory Board met to review the financial statements on 28 March 2017. 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 31 December 2016 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 28 March 2017, it approved the annual and consolidated financial statements for financial year 2016 and the corresponding management reports. The annual financial statements for 2016 were thus approved 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 2016 financial year.

Brunnthal, 28 March 2017

The Supervisory Board

Tim van Delden
(Chairperson)

THE SFC ENERGY SHARE

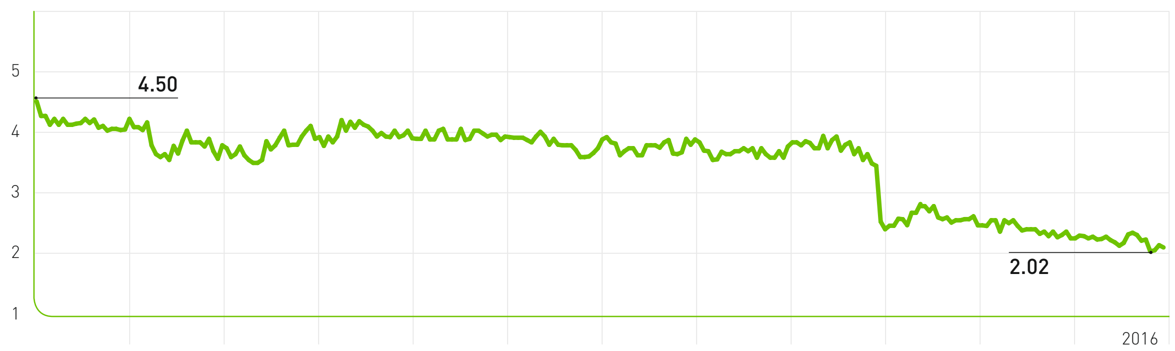
PERFORMANCE OF INDEXES

The international equities markets were a challenging environment in the year under review, especially for investors in Germany and the rest of Europe. Not until year end did the DAX post positive growth for the year as a whole.

On January 4, 2016 the new year got off to a weak start for the DAX, at 10,486 points, with concerns about a recession in the global economy and prices continued to fall until February, with the index declining to 8,699 points. After a temporary recovery, the British vote to exit the EU led to losses again in the second quarter. In the first half of the year, there was a marked volatility on the international equity markets. In the third quarter of 2016, important factors influencing the equity markets improved, and the fears of a new recession that had existed at the beginning of the year evaporated. The data from Germany was particularly positive. Not only did the economic conditions improve, but so did corporate profits. The DAX, for example, ended the year at 11,481 points, up 6.9 % over the 2015 closing price of 10,743 points. On the other hand, the TecDAX was down 1.0 %.

PERFORMANCE OF THE SFC SHARE

SFC SHARE PRICE FROM BEGINNING OF JANUARY 2016 TO END OF DECEMBER 2016 in €



The SFC Energy AG share did not benefit from the stabilization of commodity prices last year. While a barrel of North Sea Brent crude oil cost USD 36.98 at December 31, 2015, the price rose by 45.3 % over the course of the year and stood at USD 53.72 at December 31, 2016. The SFC share was able to hold its own in a difficult market environment of the first nine months, with only a slightly negative sideways movement. As a result of a postponed large-scale project in the field of defense, the share was ultimately down 55.1 % from the 2015 closing price of € 4.50.

SFC shares opened the 2016 trading year on January 4 at a price of € 4.42, which was also the high for the year. The lowest price in the 12-month period was € 1.95 on December 16, 2016. The SFC Energy share ended the year at a closing price of € 2.02 on December 30, 2016. The average daily trading volume in the past fiscal year amounted to 4,574 shares (previous year: 5,206). At the balance sheet date of December 31, 2016, the market capitalization of SFC Energy AG was € 18.3 million, on the basis of 9.05 million shares and a closing price of € 2.02. At the end of 2015, its market value was € 38.7 million, with 8.61 million shares and a closing price of € 4.50 per share (all figures based on Xetra prices).

INVESTOR RELATIONS

The SFC Energy AG share is listed in the strictly regulated Prime Standard market segment of the Frankfurt Stock Exchange. The Company informs its shareholders immediately about events of significance for its business or its share price by means of press releases and ad-hoc announcements. In addition, the Management Board of SFC Energy AG maintains close contact with investors, analysts and the financial press as part of an ongoing, transparent capital market communication. In the past fiscal year, the Management Board held numerous individual discussions with these target groups. In addition, the Management Board presented SFC Energy AG at numerous roadshows and participated in the German Equity Forum in Frankfurt am Main in November 2016. Investors can get a current overview of the business in the Investor Relations section of the SFC Energy AG website at www.sfc.com.

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

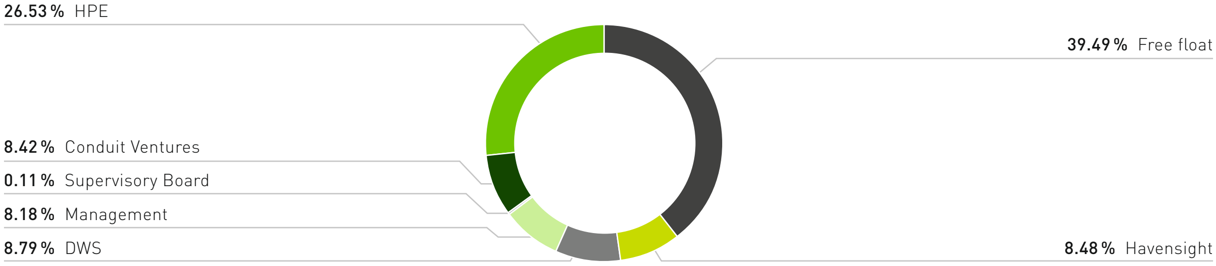
ANALYST RESEARCH

The SFC share is regularly analyzed and evaluated by two renowned research firms: Warburg Research GmbH and First Berlin Equity Research GmbH. In their most recent study, published February 17, 2017, the analysts at First Berlin recommend buying the SFC Energy share with a price target of € 4.10. Information is available to interested investors at www.sfc.com in the Investor Relations/Share section.

SHAREHOLDER STRUCTURE

The shareholder structure of SFC Energy AG did not change significantly during the past fiscal year. On the 2016 balance sheet date, approximately 52.3 % of the Company's shares were held by institutional investors, who accompany and support the Company in its growth. The extended management including the Supervisory Board held approximately 8.2 % of the voting rights. At December 31, 2016, 39.5 % of the voting shares were in free float.

SHAREHOLDER STRUCTURE 12/31/2016 — in %



CAPITAL INCREASE

In August 2016, SFC Energy AG increased the Company's share capital from € 8,611,204.00 to € 9,047,249.00 by issuing 436,045 new bearer shares. The new shares with dividend entitlement beginning January 1, 2016, were placed at a price of € 3.44 per share through a private placement with HPE Growth Capital and a German family office. The Company received gross proceeds from the capital increase of approximately € 1.5 million for further growth and strengthening of its equity base.

BONDS AND LOAN

In December 2015, SFC Energy AG issued a convertible bond with a total face value of € 1,650,000.00 maturing in 2018, divided into convertible bonds with a face value of € 50,000.00 each. The convertible bonds were placed in a private placement with existing investors of the Company. In January and March 2016, additional convertible bonds with a total nominal value of € 1,650,000.00 were issued, resulting in a total of € 3,300,000.00. The total amount can be increased up to a total of € 5.0 million by means of a subsequent increase.

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

In October 2016, SFC Energy AG took out a loan in the amount of € 1,997,500.00 and issued an option-linked bond. The option-linked bond was issued by means of a private placement, with shareholders' preemptive rights excluded.

The bond with a face value of € 2,500.00, maturing in 2021, has a coupon of 4.0 % p.a. The issue price of the option-linked bond was set at 100 % of the face amount. In addition, the individual option-linked bonds offer an option right to 161,427 no-par-value bearer shares of the Company at an option price of € 2.4779, each with a pro-rata amount of € 1.00 of per share of the Company's capital. From the warrant-linked bond issue and the loan, the Company received gross issue proceeds of € 2.0 million, which was used to strengthen liquidity.

ANNUAL MEETING

At the Annual General Meeting on June 14, 2016 in Munich, the Management Board informed the shareholders about the Company's performance in financial year 2015 and answered their questions. The shareholders of SFC Energy AG ratified the acts of the Management Board and the Supervisory Board and approved all agenda items by a large majority. Nearly 60 % of the share capital was represented at the shareholders' meeting at the time of the vote. The detailed voting results are available on the SFC Energy AG website at www.sfc.com in the Investor Relations section.

DIRECTORS' SHAREHOLDINGS

	12/31/2016
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 Supervisory Board must agree upon a deductible of at least 10 % of the loss up to at least the amount of one and a half times the fixed annual compensation of the individual Supervisory Board member. With resolution of May 7, 2015 the general meeting of SFC Energy AG granted the Supervisory Board pre-emptive safeguards against liability risks, in order to ease the recruitment of professional qualified and independent supervisory board members. The recruitment of professional qualified and independent supervisory board members is a key objective of SFC Energy AG, whose fulfillment entails special challenges given the Company's geographically dispersed business operations, its orientation towards capital markets and its limited financial resources. According to this resolution, Section 16 para. 2 of the Articles of Association of the Company entitles the Supervisory Board Members to receive insurance coverage from the Company under a deductible-free D&O (directors' and officers' liability insurance) policy. As a result, the Company deviates from the recommendations set forth in the Code.

- According to Section 4.2.3 para. 2 Sentence 6 of the Code, the amount of compensation of the Management Board shall be capped, both overall and for the variable compensation components. With the beginning of the 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, potential conflicts of interest, the number of independent members of the Supervisory Board, an age limit laid down in the Supervisory Board's Rules of Internal Procedure and diversity. Setting specific targets or quotas in advance that exceed the legally required target quota of women for the Supervisory Board under Section 111 para. 5 AktG, however, is something which the Supervisory Board considers to be neither necessary nor reasonable due to the fact that to do so would be to impose a sweeping restriction on the selection of suitable candidates particularly for SFC Energy AG, as a small, stock-listed German stock corporation (Aktiengesellschaft) with a supervisory board that is composed of only three members. Accordingly, the Corporate Governance Report does not mention any such objectives. As a result, the Company deviates from the recommendation set forth in Section 5.4.1 paras. 2 and 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.

Brunnthal, March 28, 2017

SFC Energy AG

The Management Board
The Supervisory Board

The declaration of conformity can be accessed at any time via the company's website at www.sfc.com/en/investoren/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 report, quarterly communications and on its website. As part of its investor relations activities, the Company further regularly meets with analysts and institutional investors. The Company also holds an analysts' conference each year. The last such conference took place on November 21, 2016.

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

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

The Management Board

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

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 Power Electronics, and Steffen Schneider as Chief Financial Officer (CFO). On September 16, 2016, the decision was taken by the Supervisory Board of SFC Energy AG to appoint Mr Marcus Binder a member of the Management Board with effect as of March 1, 2017 to February 28, 2020, with him assuming the newly created role of CSO Defense & Security. In accordance with a corresponding resolution of December 14, 2016, the Supervisory Board also took the opportunity to extend the term of office of the Chairperson of the Management Board, Dr. Peter Podesser, originally due to run until March 31, 2017, along with his Management Board Service Agreement, for three further years and thus until March 31, 2020.

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

Potential conflicts of interest for members of the Management Board must be disclosed to the Supervisory Board immediately. The other members of the Management Board are to be informed thereof. Members of the Management Board may only take on outside activities, especially Supervisory Board seats in companies outside of the Group, with the consent of the Supervisory Board. The consent of the Supervisory Board is also required for significant transactions between the Group companies on the one hand and the members of the Management Board as well as related persons or enterprises on the other. These transactions must conform with standard market conditions. No such agreements existed in the reporting period. Equally, no conflicts of interest have arisen in the year under review. During the 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, 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).

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

Supervisory Board Membership

Pursuant to Article 10 para. 1 of the Company's Articles of Association, in financial year 2016 the Supervisory Board of SFC Energy AG was made up of three members, who were elected by the shareholders. In the 2016 financial year, the members of the Supervisory Board were (i) Tim van Delden, (ii) David Morgan, and (iii) Hubertus Krossa. In accordance with the recommendations of the German Corporate Governance Code, Tim van Delden and David Morgan were elected individually at the Annual General Meeting on May 9, 2012. Likewise, Hubertus Krossa was elected individually at 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 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, No. 4 HGB (German Commercial Code)", p. 42). To ensure compliance with the legal requirements, the Supervisory Board will continue to base its proposals for candidates to the shareholders primarily on the knowledge, skills and experience of eligible male and female candidates. In this respect, the Supervisory Board will also appropriately take account of the international activities of the Company, potential conflicts of interest, the number of independent members of the Supervisory Board, an age limit laid down in the Supervisory Board's Rules of Internal Procedure and diversity. Setting specific targets or gender-specific quotas in advance that exceed the legally required target quota of women for the Supervisory Board under Section 111 para. 5 AktG, however, is something which the Supervisory Board considers to be neither necessary nor reasonable due to the fact that to do so would be to impose a sweeping restriction on the selection of suitable candidates particularly for SFC Energy AG, as a small, stock-listed German stock corporation (Aktiengesellschaft) with a supervisory board that is composed of only three members.

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

Potential conflicts of interest of Supervisory Board members

Provisions for avoiding and dealing with potential conflicts of interest are laid out in the Supervisory Board's internal rules of procedure. Every member of the Supervisory Board is supposed to disclose conflicts of interest to the Supervisory Board. The Supervisory Board shall provide information on conflicts of interest that arise and how they have been dealt with in its report to the General Meeting. In the financial year 2016, as in previous years, the Supervisory Board thoroughly examined potential conflicts of interest affecting its members and discussed and agreed upon its procedure for handling such conflicts, should they arise. In the year under review, the Supervisory Board did not identify any conflict of interest regarding the members of the Supervisory Board.

The Supervisory Board's term of office generally amounts to five years. 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 close of the Annual General Meeting in 2017. Therefore, new members shall be proposed for election to the Supervisory Board at the 2017 Annual General Meeting.

Supervisory Board Committees

In financial year 2016, the Supervisory Board did (as in previous years) not form any committees since it is – consistent with the legal literature on this subject – of the opinion that the setting up of committees within a supervisory board made up of only three members does not seem adequate and will not lead to any efficiency improvements in terms of the exercise of the advisory and controlling functions. The setting-up of a nominating committee is – according to the view of the Supervisory Board – further irrelevant since there are no employee representatives on the Company's Supervisory Board.

Disclosure of relevant corporate governance practices

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

Risk management

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 p. 86.

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" or WpHG), and, since July 3, 2016, pursuant to Art. 19 of the Market Abuse Regulation '(Regulation (EU) No 596/2014, MAR), the members of SFC Energy AG's Management and Supervisory Boards and certain senior executives, as well as individuals and entities closely related to and affiliated with them, are required to report purchases and sales of shares in the Company and of any related financial instruments. In the last financial year, none of the members of the Management Board and Supervisory Board or other employees in managerial positions conducted transactions that they were required to report.

All directors' dealings pursuant to Section 15a WpHG and Art. 19 MAR 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, 2016 was 2.46 %, of which 1.29 % were held by Management Board Member Hans Pol and 1.17 % by the chairman Dr. Peter Podesser. As of this date, the members of the Supervisory Board held 0.11 % of the shares issued by the Company.

Accounting and Auditing

The consolidated financial statements of SFC Energy AG as well as the Company's interim reports are prepared in accordance with the International Financial Reporting Standards (IFRS) pursuant to the guidelines of the International Accounting Standards Board. Deloitte GmbH (formerly Deloitte & Touche GmbH) Wirtschaftsprüfungsgesellschaft, Munich, was appointed by the Ordinary Annual General Meeting to audit the Company's financial statements for financial year 2016 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 amendments to the AktG by virtue of 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. These target quotas for the proportion of women on the Management Board, the two executive levels below the Management Board and on 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.

So as to achieve synchronization with the financial year of the Company, which follows the calendar year, the Supervisory Board set the end of December 31, 2016 as the deadline for attaining the target quota on the Supervisory Board, and the Management Board did the same for attaining the target quota for the two executive levels below the Management Board.

Due to the expiry of the deadline for attaining the target quota, under Section 289a para. 2 No. 4 HGB 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 this 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. Equally, there must be a report on the setting of new target quotas following the expiry of the deadlines.

Female target quota for the Supervisory Board

At its meeting on July 28, 2015, the Supervisory Board had set a target of 0% for the proportion of women on the Supervisory Board for the period up to the close of December 31, 2016. Back at that time, the Company's Supervisory Board had three male members and thus had a female quota of 0%. All members of the Supervisory Board had been elected to the Supervisory Board for a period running until the close of the annual general meeting for

2017 and none of the members of the Supervisory Board had informed the Company that they wished to leave their office prior to the expiry of their term of office. There were also no plans to increase the size of the three-person board, which was working efficiently.

By the close of December 31, 2016, no changes were made in the composition of the Supervisory Board, meaning that the target of 0% that had been set was then also achieved.

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

Female target quota for the Management Board

At its meeting on July 28, 2015, the Supervisory Board had set a target of 0% for the proportion of women on the Management Board for the period up to the close of December 31, 2016. Back at that time, the Company's Management Board had three male members and thus had a female quota of 0%. Dr Peter Podesser had been appointed by the Supervisory Board as a member of the Management Board up to March 31, 2017, Mr Hans Pol up to June 30, 2018 and Mr Steffen Schneider up to August 31, 2017. There were no plans to make any changes in personnel on the Management Board or to increase the size of the Management Board.

By the close of December 31, 2016, no changes were made in the composition of the Management Board, meaning that the target of 0% that had been set was then also achieved.

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

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

With regards the targets for the proportion of women at the two executive levels below the Management Board, the Management Board at its meeting on September 10, 2015 set a target quota for the proportion of women for the executive level below the Management Board at 30% and, at the same time, determined that there was only one executive level below the Management Board at the Company. At that time, the proportion of women at the first executive level below the Management Board was 33.33%; it was not possible to determine a proportion of women in the second executive level, since such a level did not exist. The Management Board set this target quota and made this determination on the basis of the following definition of the two executive levels: the Management Board determined the company's executive levels based on the direct reporting lines to the Management Board and discipline sovereignty. All executives were members of the management team and had authority over other employees qua direction and guidance rights. Only persons employed by the Company were taken into consideration. On the basis of these criteria, the Company only had one executive level below the Management Board, and this executive level comprised of six persons, of whom two were female and four male. Therefore, the proportion of women in the first executive level below the Management Board was 33.33%; it was not possible to determine a proportion of women in the second executive level (since such a level did not exist).

By the close of December 31, 2016, the proportion of women in the first executive level was 33.33%, meaning that the target of 30% that had been set was then also achieved.

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

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

COMPENSATION REPORT

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

System of Compensation for the Management Board

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

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

In addition, the members of the Management Board receive variable compensation if pre-defined performance targets are met (performance-based bonus). In financial year 2016, 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. This provision on the transaction bonus has since expired.

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 has been participating in the LTIP since 2009. The LTIP is based on a so-called phantom stock model and is divided into different performance periods of three years each: financial years 2009 to 2011, 2010 to 2012, 2011 to 2013, 2012 to 2014 and 2013 to 2015. The cash compensation awarded at the end of each of the three-year periods predominantly depends on the Company's share price and the attainment of a defined EVA (Economic Value Added) target for the respective period.

With the beginning of the 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. Hans Pol received a second SAR Program tranche (SARP 2015–2018 or TR2) with the renewal of his service contract. Marcus Binder, who was appointed as a member of the Management Board by virtue of a resolution dated September 14, 2016 with effect of March 1, 2017 to February 28, 2020, shall receive a third SAR Program tranche (SARP 2017–2019) as part of his service contract. This also applies to the contractual extension of the Chairman of the Management Board, Dr. Peter Podesser, whose service contract was extended ahead of time for an additional three years, up to March 2020. More detailed information about the SAR Program can be found under the heading "Share Options Programs".

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

Management Board's Compensation in 2016

Compensation of the members of the Management Board totaled € 784,209.00 in financial year 2016. Compensation in financial year 2016 included the fixed compensation, non-cash perquisites, variable profit and performance-based compensation, expenditure for the SAR Program and premiums for accident, pension, and life insurance. The above total includes all amounts that were laid out in 2016 or set aside as provisions in the consolidated financial statements for 2016, less the amounts that had been set aside as of December 31, 2015.

The individual disclosure of the compensation of each member of the Management Board is published according to sample tables provided in the German Corporate Governance Code. Chart 1 illustrates the benefits granted in the financial year 2016. Chart 2 shows the amount disbursed. Since no cap on the amount paid as variable compensation has been established (with regard to the LTIPs and the SARP), no maximum achievable compensation is disclosed. This is a deviation from the German Corporate Governance Code.

TABLE 1 – BENEFITS GRANTED TO MEMBERS OF THE MANAGEMENT BOARD 2016* IN €

	Dr. Peter Podesser			Hans Pol			Steffen Schneider		
	CEO/Chairman			CSO			CFO		
	since 1.11.2006			since 1.1.2014			since 1.9.2014		
Benefits	**2015**	**2016**	**2016 (Min)**	**2015**	**2016**	**2016 (Min)**	**2015**	**2016**	**2016 (Min)**
Fixed Income	350,000	350,000	350,000	172,500	180,000	180,000	180,000	180,000	180,000
Fringe Benefits	23,722	23,312	23,312	19,411	17,846	17,846	19,876	33,051	33,051
Total	**373,722**	**373,312**	**373,312**	**191,911**	**197,846**	**197,846**	**199,876**	**213,051**	**213,051**
One-year variable compensation	56,946	0	0	8,029	0	0	5,287	0	0
Multi-year variable compensation	0	0	0	209,956	0	0	0	0	0
LTIP 2011 – 2013	0	0	0	0	0	0	0	0	0
LTIP 2012 – 2014	0	0	0	0	0	0	0	0	0
LTIP 2013 – 2015	0	0	0	0	0	0	0	0	0
SARP 2014 – 2016	0	0	0	0	0	0	0	0	0
SARP 2015 – 2018	0	0	0	209,956	0	0	0	0	0
Total	**430,668**	**373,312**	**373,312**	**409,896**	**197,846**	**197,846**	**205,163**	**213,051**	**213,051**
Service cost	0	0	0	0	0	0	0	0	0
Total	**430,668**	**373,312**	**373,312**	**409,896**	**197,846**	**197,846**	**205,163**	**213,051**	**213,051**

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

TABLE 2 – ALLOCATION OF MANAGEMENT BOARD COMPENSATION 2016 (AMOUNTS DISBURSED) in €

	Dr. Peter Podesser		Hans Pol		Steffen Schneider	
	CEO/Chairman		CSO		CFO	
	since 1.11.2006		since 1.1.2014		since 1.9.2014	
Allocation	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**
Fixed Income	350,000	350,000	172,500	180,000	180,000	180,000
Fringe Benefits	22,889	23,312	9,411	17,846	18,989	33,051
Total	**372,889**	**373,312**	**181,911**	**197,846**	**198,989**	**213,051**
One-year variable compensation	144,510	0	38,029	0	16,667	0
Multi-year variable compensation	0	0	0	0	0	0
LTIP 2011–2013	0	0	0	0	0	0
LTIP 2012–2014	0	0	0	0	0	0
LTIP 2013–2015	0	0	0	0	0	0
SARP 2014–2016	0	0	0	0	0	0
SARP 2015–2018	0	0	0	0	0	0
Total	**517,399**	**373,312**	**219,940**	**197,846**	**215,656**	**213,051**
Service cost	0	0	0	0	0	0
Total	**517,399**	**373,312**	**219,940**	**197,846**	**215,656**	**213,051**

Compensation of the Supervisory Board

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

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

The compensation (including non-cash perquisites) of the individual members of the Supervisory Board in 2016 breaks down as follows:

FINANCIAL YEAR 2016 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, onwards and replaces the existing LTIP. Hans Pol received a second SARP tranche (SARP 2015 – 2018 or TR2) with the renewal of his service contract. Marcus Binder, who was appointed as a member of the Management Board by virtue of a resolution dated September 16, 2016 with effect of March 1, 2017 to February 28, 2020, shall receive a third SAR Program tranche (SARP 2017 – 2019) as part of his service contract. This also applies to the contractual extension of the Chairman of the Management Board, Dr. Peter Podesser, whose service contract was extended ahead of time for an additional three years, up to March 2020.

After the end of a fixed waiting period, the virtual stock options confer the right to cash pay out depending on the stock exchange price of the shares of SFC Energy AG at the date the right is exercised. The total number of the virtual stock options to be issued to members of the Management Board is limited and will be reduced retrospectively if the stock exchange price of the shares of SFC Energy AG at previous agreed cut-off dates falls below certain thresholds. The SAR-Program 2014 – 2016 has a term of seven years. However, only after a waiting period of four years has expired, a part of the virtual stock options may be exercised subject to the achievement of certain pre-agreed performance targets. The exercise price payable is € 1.00 per virtual stock option.

The terms of the SAR Program 2014 – 2016 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 2016

BASIS OF THE GROUP

The Group's Business Model

Organizational structure of the Group and locations

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

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

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

The Company's German location is in Brunnthal. SFC was represented in the United States by its subsidiary SFC Energy Inc. in Winter Park, Florida until December 2016. PBF is headquartered in Almelo, Netherlands, and Cluj, Romania. Simark is headquartered in Calgary, Canada, and has additional offices in Edmonton, Vancouver and Montreal.

Segments, sales markets, products and services

The Management Board steers 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 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 and electrical instruments to monitor and control production and logistics processes. SFC AG is the first company in the world with mass-produced commercial products in the area of direct methanol fuel cells (DMFC) for multiple target markets.

In the Security & Industry segment, SFC AG generates sales in the Industry and Defense & Security markets. 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, using SFC AG'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 military 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, Asia and the United States. In the Consumer segment, SFC AG sells compact fuel cell generators under the EFOY COMFORT brand to generate electricity for RVs, sailboats and cabins through established commercial channels (wholesalers, retailers and OEMs). In addition, SFC AG offers the portable outlet EFOY GO!, a battery with an integrated power converter, via these channels as well as in 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, lasers, defense and 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, and power supply components and drives for different applications in the oil and gas industry, as well as to a limited extent the mining, forestry and municipal utilities markets. Simark distributes its products directly. Simark's revenues are exclusively attributable to the Oil & Gas segment.

Objectives and strategies

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

Steering system

For internal steering purposes, the Management Board uses consolidated sales, gross margin, the underlying operating result before depreciation and amortization (EBITDA) 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 financial year 2015, the Group again focused its portfolio primarily on integrated complete solutions. The Group continued its efforts to systematically build up international markets and expand its market penetration.

Research and development

The Group continues to make considerable investments in research and development. A total of € 5,726k was spent on R&D in financial year 2016 (prior year: € 7,657k), including costs related to joint development projects.

We capitalized € 435k in development work in 2016, versus € 994k the year before. The reason for the decrease was that development activities moved into areas that cannot be capitalized, and that research work increased. Amortization of capitalized development costs is reported as production costs of work performed to generate sales. Impairment charges in the amount of € 121k were taken on capitalized development costs of SFC AG in financial year 2016 (prior year: € 0k). There were no impairment charges on the goodwill of PBF (prior year: € 1,747k). 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 write-downs on the purchase price allocation and impairment charges on the goodwill of PBF, was therefore 7.9 % (prior year: 17.4 %).

Forty-five employees (15 at SFC AG, 28 at PBF and 2 at Simark), around one-fifth of the people employed by the Group, primarily worked on developing direct methanol fuel cell technology or converters and power supplies and incorporating them into the Group's products as of the reporting date. The SFC Group pursues an active patent strategy to expand the barriers to entry in its markets and to safeguard its own competitive edge and marketing options. SFC AG currently holds a portfolio of 18 granted patents (prior year: 18).

The focus of SFC AG's research and development activities was as follows in financial year 2016:

- The Company continued to make quality improvements to its series products.

- New energy solutions for the defense sector were developed and qualified.

    1. Preparation and delivery of a buriable air-cooled energy solution in connection with a development project based on EFOY Pro 2400.

    2. Development, qualification and delivery of a buriable water-cooled energy solution in connection with a development project with an international defense force.

    3. Development of a buriable air-cooled energy solution on the basis of the water-cooled energy solution in connection with procurement by an international defense force.

- Completion of the development of JENNY 1200 and making it ready for mass production on the basis of an order from an international defense force. Followed by mass production support on the basis of customer feedback and ongoing implementation of improvements.

- 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.

- Evaluation and qualification of the EFOY Pro 12000 Duo in a field-test program, followed by mass production.

- 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.
- Design, development and transition to mass production of considerably larger fuel cartridges to increase the availability of methanol with use of the EFOY Pro 12000 Duo.

- Design and development of a wireless communication interface for EFOY COMFORT as an addition to the existing EFOY app.

- Research and design of energy solutions for back-up and off-grid use with peak performance of up to 5 kW.

- Ongoing improvement and further development of energy solutions for industrial use.

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.

- The first prototypes of the 3.5 kW laser power supply (LAPS3500), a part of the laser platform, were tested at a new customer's location. The newest prototypes were delivered to selected customers. Given the postitive reactions of these customers, we expect that they will go into mass production.

- Due to the outstanding performance of the LAPS3500 tests were conducted to see whether the 8 kW version could be replaced with two LAPS3500.

- The first batches from serial production of an inverter project were delivered. The customer was satisfied with the delivered quality and the punctual delivery. The project will now move from R&D into production.

- The development of an energy supply for the aviation industry began in February 2016. After the prototypes were designed, built and tested, they were then improved. Production of the second prototype began in late Q4 2016, and it will be delivered in early 2017.

- A development project with the goal of expanding the power output of existing products. Initial prototypes were delivered to customers in late Q3 2016 for testing in Q4 2016. The project will be continued in 2017.

- The development of a 2.5 kW power supply for the laser market began in late Q3 2016. Initial prototypes will be delivered in Q1 2017.

- An order to manufacture a prototype for a complete laser system (LASY) was received in late Q3 2016. Laser diodes can be operated directly with this system. This system is based on LAPS3500. Initial operational prototypes were delivered in late Q4.

- An order to develop a 100 W power supply for use in a medical application was received in late 2016. Prototypes are to be delivered in Q1 2017.

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

- 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. EFOY ProCube was released and moved from R&D into production.

- Production management of the new product platform EFOY GO!.

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 received in financial year 2016 was € 933k (prior year: € 383k).

ECONOMIC REPORT

Macroeconomic and sector-based background conditions

Momentum of the global economy remains moderate with little growth

Stagnant global trade, subdued investment, and heightened policy uncertainty marked the difficult year 2016 for the world economy, according to reports by the World Bank[1]. In their January report, the Bank's experts estimated global growth at a post-crisis low of 2.3 % in 2016 and projected that it would rise to 2.7 % in 2017, reflecting receding obstacles to activity in commodity exporters and continued solid domestic demand in commodity importers. Experts at ifo, Insee and Istat[2] expect the gross domestic product to increase by 0.4 % in the first two quarters of 2017. They believe that the main drivers of this moderate upturn will be a steady growth in private and public spending and a somewhat more dynamic development of investments due to financing terms, which continue to be favorable. The worldwide recovery of developed economies and developing countries should also stimulate external demand.

Germany economy: continuation of the upturn in a difficult global economy

In its economic forecast 2016 – 2018 published in December 2016, the ifo Institute[3] expects the robust upturn experienced by the German economy as of 2013 to continue. The experts expect real gross domestic product to grow by 1.9 % for 2016.

The Federal Ministry for Economic Affairs and Energy (BMWi[4]) reported in January 2017 that the German economy grew by 1.9 % in 2016 in an unsteady external economic environment. Economic growth was thus slightly stronger than predicted in the German government's autumn projection. In statistical terms, this development was again driven by domestic demand. Government and private spending, in particular, but also construction investment rose considerably. Investment in equipment rose as well, albeit to a lesser extent. Driven by strong domestic demand, imports rose more strongly than exports, resulting in foreign trade making a slightly negative contribution to growth.

1 World Bank Group, "Global Economic Prospects", January 10, 2017, p. 19.
2 ifo, Insee, Istat: "Moderater Aufschwung setzt sich fort", January 11, 2017.
3 ifo Konjunkturprognose 2016 – 2018, December 16, 2016.
4 BMWi Federal Ministry for Economic Affairs and Energy, press release "Die wirtschaftliche Lage in Deutschland im Januar 2017", January 12, 2017.

Oil & Gas market

To evaluate the economic trends in the markets in which Simark operates (instrumentation and metering systems, power supply components and drives, and security and surveillance technology), on the international oil and gas markets was used.

Canada, which is Simark's home market, is the fifth largest gas and sixth largest crude oil producer in the world. Canadian energy production has almost doubled since 1980. At the end of 2015, Canada had a total of 171 billion barrels of reserves and thus the third largest crude oil supplies in the world after Venezuela and Saudi Arabia[5]. The Canadian oil and gas industry is the largest private sector investor in the country, with total investments of CAD 36 billion in 2016. In 2014 this figure amounted to as much as CAD 81 billion, while it stood at CAD 42 billion in 2015.

The Oil & Gas market continued to feel the impact of lower oil prices in 2016. According to the "2016 Review" of the Canadian National Energy Board (NEB)[6] in January 2016, the daily spot price of West Texas Intermediate (WTI) crude oil reached its lowest point in 13 years at USD 26.68 per barrel. In the following months, the price of WTI generally fluctuated between USD 40 and USD 50 per barrel before ending the year at USD 53.75 per barrel – a near doubling of price over the course of the year. During 2016, crude oil prices often fluctuated in response to releases of new data on drilling, production and storage. Announcements made by the Organization of Petroleum Exporting Countries (OPEC) and geopolitical events around the globe also contributed to oil price volatility. Despite the price of WTI nearly doubling in 2016, WTI averaged USD 42.69 per barrel for the year – approximately USD 6 less than the annual average price of WTI in 2015 and the lowest annual average price since 2004.

WEST TEXAS INTERMEDIATE (WTI) OIL PRICE Dollar per barrel

Source: NEB (National Energy Board, "2016 Review: Oil prices hit 13-year low in January 2016, double by end of year!", January 11, 2017.)

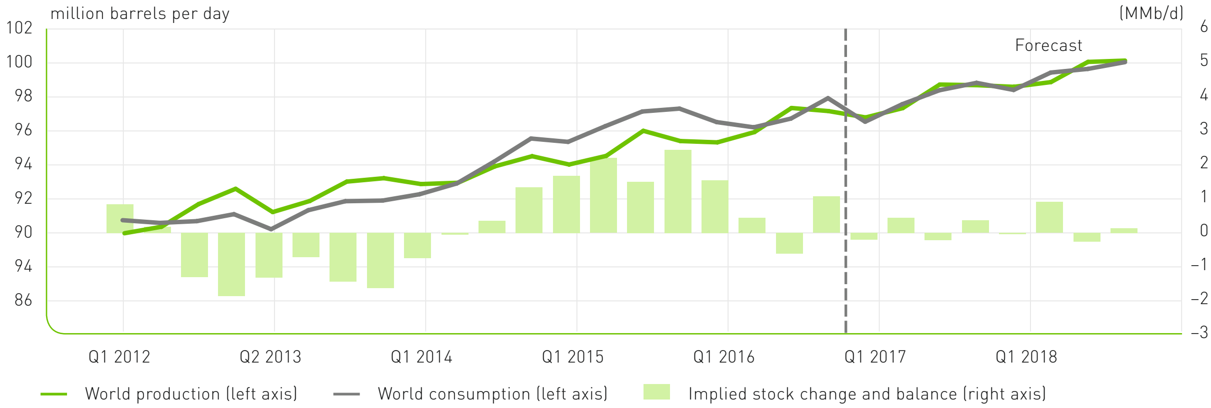
According to the NEB 2016[6] Canada produced an average of 3.85 million barrels per day (Mb/d). Contrary to the fears expressed in the 2016 half-year report, the Fort McMurray wildfire[7] in the summer did not result in long-term oil sand production losses. By August, production had completely recovered.

5 Canadian Association of Petroleum Producers CAPP, website, Basic Statistics & Canadian Economic Contribution.
6 National Energy Board, Market Snapshot: Canadian oil production, January 2, 2017.
7 National Energy Board, 2016 Review: "Short-lived effect on crude oil exports due to the Fort McMurray wildfire", January 10, 2017.

According to the U.S. Energy Information Administration (EIA) in its latest Energy Outlook[8] global petroleum inventories are estimated to have increased by 0.8 million b/d in 2016. EIA expects the oil market to be relatively balanced in 2017 and 2018, with inventory draws averaging 0.1 million b/d in 2017, and builds averaging 0.2 million b/d in 2018. This forecast is based on new estimates that assume lower consumption.

According to EIA, global petroleum production was 97.22 million b/d in 2016, while it is expected to increase slightly to 98.03 million b/d in 2017.

WORLD LIQUID FUELS PRODUCTION AND CONSUMPTION BALANCE **in €**



Source: EIA (EIA, "Short Term Energy Outlook", February 7, 2017.)

According to EIA, benchmark North Sea Brent crude oil spot prices averaged USD 55/barrel in January 2017, thus reaching the highest monthly average for Brent spot prices since July 2015, with a USD 1 increase from December and a USD 24 increase from January 2016. EIA forecasts Brent crude oil prices to average USD 55/b in 2017. West Texas Intermediate (WTI) crude oil prices are forecast to average about USD 1/b less than Brent prices in 2017.

In November the International Energy Agency IEA[9] published its World Energy Outlook 2016. In it the Agency states that a cumulative USD 44 trillion in investment is needed to ensure global energy supply until 2040, 60 % of which goes to oil, gas and coal extraction and supply, 20 % to renewable energies. An extra USD 23 trillion is required for improvements in energy efficiency. The Agency sees a considerable risk in the investment bottleneck in the Oil & Gas industry and above all sees a great need for investment in more environmentally friendly production plants and in increased efficiency.

8 EIA, Short-term Energy Outlook, February 7, 2017.
9 IEA, "World Energy Outlook 2016", November 2016.

Security and industry market

a) Fuel Cells

In its Fuel Cell Technologies Market Report 2015[10] published in August 2016 the US Department of Energy indicates that globally, more than 60,000 fuel cells, totaling over 300 MW, were shipped worldwide in 2015. The number of megawatts shipped grew substantially—by more than 65 %. The Department reports that increasingly powerful products are being deployed in stationary applications. The number of mobile applications is also growing. The Fuel Cell Industry Guide published by the Fuel Cells Working Group of the German Mechanical Engineering Association (VDMA)[11] also indicates that the market for fuel cells and fuel cell components is growing steadily. Worldwide it has long since surpassed the billion euro mark. The VDMA economic forecast predicts fuel cell revenues in the range of € 1.8 billion for the year 2020. Revenues in the area of stationary power and heat supply reached just under € 150 million in Germany alone in 2015. By continuing the National Innovation Program for Hydrogen and Fuel Cells and the program for fuel cell heating systems, the German government and industry hope to promote quicker adoption of alternative automobile drives with fuel cells. To promote research the Federal Ministry of Transport will make an additional € 161 million available by 2018.

b) 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), 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) was used.

In an updated outlook published in September 2016 the ZVEI[12] following preliminary calculations for 2015 reported a volume of € 3.61 trillion for the global electronics market. This represents a 3 % increase over 2014. The association predicts 3 % growth in each of 2016 and 2017. For the "electronic components" submarket, for which the Association mentions a volume of € 834 billion for 2014 in its 2016 report, it expects 3 % growth in 2016 and 4 % growth in the following year.

The Association[13] forecasts production in the German electronics industry to grow by 1.5 % in 2017. This would mean that the industry would again reach the 2008 record level of sales of € 182 billion by the end of 2017. In 2016 production in the German electronics industry was up 1.4 % over the prior year in the period from January to November despite a politically turbulent year with the Brexit vote, the U. S. election and numerous geopolitical crises. Sales including services, software and currency effects increased by a significantly smaller 0.3 % to € 162.3 billion. For the entire year 2016, the Association expects total sales of € 179 billion. Exports were up 4 % in the period from January to November, rising to € 165.5 billion. The largest export countries were the United States and China, with two thirds of all industry exports going to Europe.

10 U.S. Department of Energy "Fuel Cell Technologies Market Report 2015", August 2016.
11 VDMA: Press release "Branchenführer Brennstoffzellenindustrie Deutschland 2016: Brennstoffzellenindustrie bereit zum Markthochlauf", April 28, 2016.
12 ZVEI-Welt-Elektromarkt - Ausblick bis 2017, September 2016.
13 ZVEI, press release 4/2017: „ZVEI erwartet 2017 Produktionsplus von 1,5 Prozent für Elektroindustrie", January 24, 2017.

In the "electronic components" submarket (in-house manufacturers and electronic manufacturing services providers) the ZVEI reported in June 2016[14] that sales were up 10.7 % in Germany in 2015, rising to € 21.1 billion (2014: € 19.1 billion). The Association attributes the strong growth in this submarket to the heavy demand from the automotive and industrial electronics sectors.

c) Defense & Security

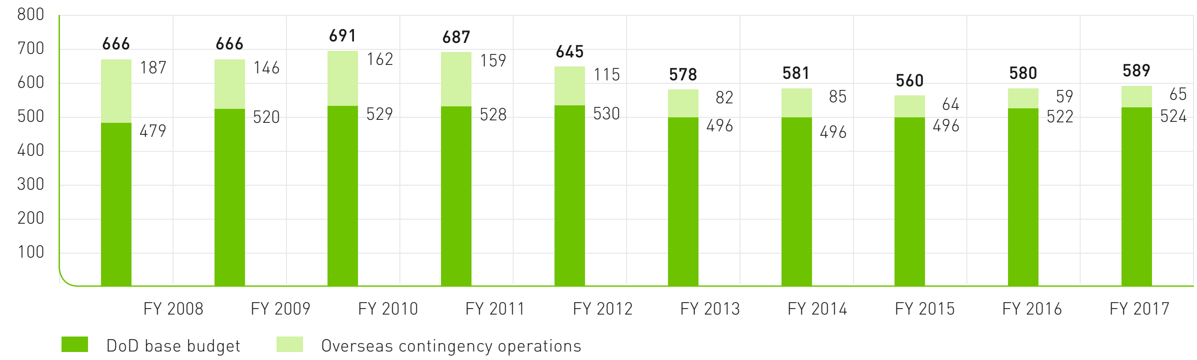
In its most recent evaluation of global military capacities and the defense industry, the International Institute for Strategic Studies IISS[15] indicates that total global military spending fell by 0.4 % in real terms in 2016, largely driven by reductions in the Middle East. The fall would have been even larger were it not offset by increases in Asia. After overtaking Europe as the second largest defense spending region in 2012, Asia in 2016 spent 1.3 times more than Europe on defense when measured in constant dollars. According to the IISS, western military technological superiority is increasingly challenged, while China appears to be reaching near-parity with the West and is beginning to offer for export some of its modern military systems. Increasingly complex weapon and military systems are making additional modernization demands on the defense organizations. At the same time, the Institute observes an increased trend towards mergers, acquisitions and buyouts, despite the poor security situation in many countries. The grounds for this are believed to be a combination of market uncertainty, budget constraints and procurement considerations. Although defense spending generally remains significant, the experts believe that the defense market will remain challenging for industry, particularly because the firms have to face volatile political and economic conditions that demand comprehensive insights and appropriate strategies that must constantly be adapted to confront new situations.

In this challenging security environment, well-trained special secret operations forces are gaining significantly in importance. For the US the IISS expects security policy to trend towards competition among the superpowers as a result of the new President. However, some programs may be significantly delayed because of changeovers in the Defense Department personnel. In Europe the Islamic terrorist attacks have increased awareness of vulnerability through instability and violence. The issue of migration is still a burden on the economies of the host countries, even though the number of refugees has decreased. Relations with Russia are still clouded by the conflicts in Ukraine and Syria. In Asia, where defense forces traditionally take on party regime and internal security duties, there is a growing need to be equipped for conventional warfare against external forces, supported by an enhanced resource basis.

According to Deloitte in its "2017 Global Aerospace and Defense Sector Outlook"[16] after multi-year declines in defense budgets global defense spending is expected to increase by 3.2 % in 2017. In the United States growth is expected to be driven by the newly elected U.S. administration's increased focus on strengthening the U.S. military by increasing defense budgets to increase the naval and aircraft fleet. After defense spending in the U.S. declined from 2010 to 2015, and then increased by USD 20 billion in 2016, it is expected to grow by another USD 9 billion, rising to USD 589 billion in 2017.

14 Data: ZVEI Frühjahrsbelebung in der Elektronindustrie, June 8, 2016.
15 IISS: "The Military Balance 2017", February 16, 2017.
16 Deloitte "2017 Global aerospace and defense sector outlook", January 2017.

US DEPARTMENT OF DEFENSE BUDGET in US$billion



Source: Deloitte (Graph: Deloitte "2017 Global aerospace and defense sector outlook", January 2017.)

In China (2015: +7.4 %), Russia (2015: +7.5 %), Saudi Arabia (2015: +5.7 %) and South Korea (2015: +3.6 %), budgets have been increasing steadily since 2015. Defense spending is expected to increase in Europe as well, especially since the new U.S. President has called for NATO members to dedicate 2.0 % of their GDP to military expenditure. The proposed increase in spending is approximately USD 5.8 billion per year, to be utilized primarily for buying more hardware and increase R&D spending.

In the face of global political tensions, terrorist threats, and armed conflicts in many parts of the world, the need for intelligence, surveillance, and communications equipment is growing strongly among defense and government agencies. Of great interest in particular are armored ground vehicles, light air support as well as modern monitoring, reconnaissance and communication equipment and electronic sensors.

Deloitte also sees an increased joint venture and M&A trend in the defense industry to access new markets, particularly foreign markets, to reduce competition, as well as to share risks and costs. Key factors for success according to Deloitte are technology and cost leadership and a local presence in the target regions, either through subsidiaries or partners.

Leisure

a) Caravaning

According to the European Caravaning Federation (ECF)[17] sales figures reached a seven-year high in the European market for RVs and caravans in 2016. A total of 170,064 new leisure vehicles were registered in Europe. This represents another 10.6 % increase in sales. The strongest growth was in Germany (see below), followed by France (27,443 new registrations, +8.3 %) and the United Kingdom (25,950 new registrations, +7.1 %).

17 Data: ECF European Caravaning Federation, "Leisure Vehicles Grow throughout Europe", January 16, 2017.

Sales were up in other European countries as well: 8,806 new vehicles were sold in Sweden in 2016 (+22.3 %), and 4,077 in Spain (+14.7 %). The Netherlands (+6.9 %), Denmark (+9.5 %) and Italy (+6.0 %) continued their upward trend. The RV market, which is so attractive for SFC Energy, again performed well: overall 96,410 new RVs were registered in Europe in 2016, which represents an impressive increase of 18.3 %. Newly registered caravans also increased in 2016, rising by 1.9 % to 73,654 vehicles sold.

Following a record year in 2015, the German caravaning industry continued to perform well in 2016, according to its industry association, Caravaning Industrie Verband e.V. (CIVD)[18]. New registrations increased significantly over the course of the entire year 2016, rising by 16.4 % and thus greatly exceeding the very optimistic expectations – the best result in 25 years. There were a total of 54,883 new leisure vehicle registrations in Germany in 2016. New registrations of RVs saw extraordinarily strong growth: at 35,135, the number of newly registered units was the highest ever, again clearly surpassing the record high in 2015: the RV market was up 23.9 % over the prior year. New caravan sales were up 5.1 % in 2016, rising to 19,748 vehicles.

Overall the German caravaning industry[19] produced around 101,060 leisure vehicles in 2016, which was an increase of 19.2 %. Exports from Germany to the rest of Europe increased by 13.6 % to 46,100 units. Of 57,000 RVs that were produced (+22.6 %), 24,600 were exported (+24.8 %), while 21,500 of 44,060 caravans that were produced (+15.0 %) were sold abroad (+3.0 %). For 2017 the CIVD[20] expects additional significant growth, both in Germany and in the export market, based on its annual survey of members.

b) Marine market

The water sport industry in Germany is still on a growth course, according to the information published by the German Watersport Industry Association (BVWW)[21] after the "boat 2017" trade show. The market remains stable internationally as well, although without any strong momentum worth mentioning. There is a noticeable trend towards motor boats and yachts, which could increase in Germany as well as around the world. Sales fell somewhat in the sailing yacht segment. Overall the industry expects sales of maritime goods and services to total around € 2 billion for 2016 (not including megayachts).

The market segments equipment, accessories, and boat service and maintenance are significant sources of revenue in the maritime industry. Boat owners invested around € 680 million in their boats and yachts in 2016, thus reaching the prior year's level despite the freakish weather in the past year. The industry also expects strong demand for equipment and accessories in the coming year. Particularly when people buy used boats, they spend more on new equipment and accessories. The same is still true of older boat owners, who have decided to keep their boat and make it more comfortable and safer for life on board.

18 CIVD Caravaning Industrie Verband e.V.; "Caravaning liegt im Trend", January 16, 2017.
19 CIVD Caravaning Industrie Verband e.V.; "Caravaning-Produktion und -Export wachsen erneut", January 16, 2017.
20 CIVD Caravaning Industrie Verband e.V.; "Optimistischer Ausblick auf 2017", January 16, 2017.
21 Bundesverband Wassersportwirtschaft (BVWW), "Moderates Marktwachstum" December 1, 2016.

EARNINGS AND FINANCIAL POSITION

Earnings position

The SFC Group (the "Group") posted sales of € 44,041k in financial year 2016. This represents a decline of 6.9 % from the prior year (€ 47,310k).

SFC AG had sales of € 11,947k, and was thus above the prior year's level (€ 10,233k). This was particularly attributable to a significant increase in sales in the civil industry market due to heavy demand for secure power supply and in the defense submarket.

PBF had sales of € 12,798k, and was thus also above last year's level (€ 11,101k). The primary reason for this increase was the healthy order book at customers of PBF and the introduction of new products.

At € 19,296k, Simark's sales were down by around 25.7 % versus the twelve-month period in 2015 (€ 25,976k). The main reason for this was customers' unwillingness to spend due to relatively low oil prices, particularly in the first half of 2016.

In a comparison of the two financial years, EBIT for the Group improved from minus € 10,645k to minus € 4,898k.

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 to retain key employees of € 34k (prior year: € 1,334k) and depreciation/amortization resulting from the purchase price allocation of € 936k (prior year: € 1,087k).

- Subsequent measure of the acquisition of PBF: There were no impairment charges on the goodwill of PBF in financial year 2016 (prior year: € 3,493k).

- Other expense and income in 2016: income in the amount of € 217k due to reversal of provisions in connection with the SAR Plan and Management Board transaction bonus (prior year: expense of € 136k) and € 32k in expenses for severance pay (prior year: € 203k).

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

		in k€
	2016	2015
EBIT (earnings before interest and taxes)	**–4,898**	**–10,645**
Reported as production costs of work performed to generate sales		
Expenses for acquisition-related personnel costs	0	203
Impairment of intangible assets identified in acquisitions	0	35
Expenses from contract terminations PBF	12	94
Expenses from contract terminations SFC	0	29
Expenses from contract terminations Simark	12	0
Reported as research and development costs:		
Impairment of goodwill PBF	0	1,747
Impairment losses capitalized development PBF	0	61
Reported as sales costs		
Amortization of intangible assets identified in acquisitions	936	1,052
Expenses for acquisition-related personnel costs	0	769
Expenses from contract terminations Simark	8	0
Expenses for personnel, bonus Simark	34	159
Income/Expenses for the management board SAR Plan	–114	85
Impairment of goodwill PBF	0	1,746
Reported as general administrations costs		
Expenses for acquisition-related personnel costs	0	203
Expenses for the management board SAR Plan	–103	51
Expenses from contract terminations PBF	0	19
Underlying operating result (EBIT)	**–4,112**	**–4,392**
Sheduled depreciation SFC	777	625
Sheduled depreciation Simark and amortization of intangible assets identified in acquisition	1,014	1,183
Sheduled depreciation PBF	600	694
Impairment PBF	0	3,493
EBITDA	**–2,508**	**–4,650**
Sheduled depreciation SFC	777	625
Sheduled depreciation PBF	600	694
Sheduled depreciation Simark and amortization of intangible assets identified in acquisition	77	96
Underlying EBITDA	**–2,658**	**–2,978**

Underlying EBITDA also improved. Underlying EBITDA was minus €2,658k in financial year 2016. In 2015, underlying EBITDA was minus €2,978k.

The Group's sales and earnings figures were thus well below expectations and the forecast from the prior year, which had initially assumed sales of € 50 million to € 52 million and significantly improved underlying EBITDA and a significantly improved underlying EBIT. This forecast was revised in a press release on September 29, 2016, due to the lack of receiving an order for a large project in the defense industry and the continuing uncertainty in the Oil & Gas market, with the Group thus forecasting sales in the range € 40 million to € 42 million and lower profitability and liquidity. Ultimately this forecast was surpassed due to a strong fourth quarter.

Sales by segment

The following table shows a comparison of segment sales for the 2016 financial year:

SALES BY SEGMENT			in k€	in %
Segment	**2016**	**2015**	**Change**	**Change**
Oil & Gas	19,296	25,976	– 6,680	– 25.7
Security & Industry	21,096	17,570	3,526	20.1
Consumer	3,649	3,764	– 115	– 3.0
Total	**44,041**	**47,310**	**– 3,269**	**– 6.9**

Sales fell in the Oil & Gas segment from € 25,976k to € 19,296k particularly due to the weak oil price in the first half of 2016 and the related decline in spending in Canada. This segment contains exclusively the sales of Simark. Sales came from the sale and integration of power, instrumentation and automation products for the North American Oil & Gas market.

SFC's sales in the Security & Industry market increased from € 17,570k to € 21,096k. PBF, which generated all of its sales in this segment, accounted for € 12,798k (prior year: € 11,101k) of this amount. SFC AG's sales increased from € 6,469k to € 8,298k, for an increase of 28.3 %, with the number of EFOY units sold in 2016 up from 665 to 871.

This trend at SFC AG was attributable both to the civil industry market, which was up by € 1,040k over the prior year, and to the Defense & Security market, in which SFC AG's sales increased by 29.3 %, from € 2,697k in 2015 to € 3,489k in 2016. Large projects in Israel and India were particularly responsible for this.

Sales in the Consumer segment were down slightly, dropping from € 3,764k in the previous year to € 3,649k in financial year 2016. The number of fuel cells sold fell slightly from 1,281 to 1,191.

Sales by region

Sales by region evolved as follows:

SALES BY REGION

Region	2016	2015	Change in k€	Change in %
North America	19,679	26,390	–6,711	–25.4
Europe (excluding Germany)	13,305	11,990	1,315	11.0
Germany	6,142	6,705	–563	–8.4
Asia	3,099	1,468	1,631	111.1
Rest of the world	1,816	757	1,059	139.9
Total	**44,041**	**47,310**	**–3,269**	**–6.9**

The significant decline in sales in North America, the Group's most important market, resulted from the continuing crisis in the oil & gas business in Canada in financial year 2016.

In the European market (not including Germany) PBF generated sales of € 8,333k (prior year: € 7,531k), while SFC AG posted sales of € 4,972k (prior year: € 4,459k).

In Germany, SFC AG's sales fell from € 4,424k to € 3,147k in financial year 2016. PBF contributed sales of € 2,995k in Germany, up from € 2,281k during the prior year.

Germany's share of sales declined from 14.2 % to 14.0 % during financial year 2016.

PBF contributed to the Group's business in Asia, with sales of € 1,295k (prior year: € 1,126k). SFC AG increased significantly to € 1,804k in Asia (prior year: € 342k). Sales in the rest of the world increased from € 757k to € 1,816k due to orders from foreign defence forces.

Gross profit

Gross profit in financial year 2016 was € 13,247k, or 30.1 % of sales. This is almost the same as in the prior year and represents an increase of 2.1 percentage points. In the prior year it stood at € 13,227k or 28.0 % of sales. The improvement in gross profit was primarily due to a lower percentage of sales by Simark, which has lower margins. The margin in the Oil & Gas segment is 22.8 % (prior year: 22.3 %) because of the different business model at Simark, while the subsidiaries SFC AG and PBF generated a margin of 29.1 % (prior year: 25.6 %) in the Consumer segment and 36.9 % (prior year: 36.8 %) in the Security & Industry segment.

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

GROSS PROFIT			in k€	in %
Segment	2016	2015	Change	Change
Oil & Gas	4,406	5,805	– 1,399	– 24.1
Security & Industry	7,779	6,457	1,322	20.5
Consumer	1,062	965	97	10.0
Total	**13,247**	**13,227**	**20**	**0.1**

Because of the market conditions in Canada, particularly in the first half of 2016, gross profit in the Oil & Gas segment fell by € 1,399k.

Due to the strong increase in sales, the Security & Industry segment's gross profit was € 7,779k, which was above the prior year's € 6,457k. The gross margin in this segment increased slightly due to the product mix, from 36.8 % to 36.9 %.

In the Consumer segment, the gross margin increased 10.0 % over the prior year. The reason for this was a lower allocation of overheads at SFC AG due to the strong Security & Industry business.

Sales costs

The Group's sales costs fell by 27.0 %, from € 12,499k to € 9,126k. The high decrease in sales costs at the Group level in comparison with the prior year is primarily attributable to the one-time effect on the impairment taken on the goodwill of PBF in the prior year, in the amount of € 1,746k, and to the contingent consideration related to the acquisition of Simark that was included in the prior year.

Group-wide, sales costs as a percentage of sales fell from 26.4 % to 20.7 %.

The Group company SFC AG experienced a decrease to € 3,548k (prior year period: € 3,884k).

Sales costs for Simark, including effects from the purchase price allocation, were € 4,275k (prior year including cash component: € 5,880k)

Distribution costs for PBF rose slightly to € 1,001k (prior year: € 988k).

Research and development costs

Research and development costs fell by € 1,658k, from € 5,806 k to € 4,148k in financial year 2016. The reason for the change in R&D costs was the one-time effect of the impairment charges on the goodwill of PBF in the amount of € 1,747k in financial year 2015.

SFC AG's research and development costs remained almost the same at € 1,058k (prior year: € 1,076k). This includes impairment charges on capitalized development costs in the amount of € 121k (prior year: € 0k).

PBF's research and development costs amounted to € 2,902k, and were thus higher than in the prior year (€ 2,762k). Higher consulting and personnel expenses contributed to the increase in R&D expenses at PBF in financial year 2016.

Simark is included in research and development costs for an amount of € 188k (prior year: € 221k).

General administration costs

General administration costs fell 12.0 % in 2016, from € 5,546k to € 4,883k. They were therefore 11.1 % in 2016 versus 11.7 % the year before when expressed as a percentage of sales. The main reason for the decrease in general administration costs was the lower personnel expenses at Simark and SFC AG.

Other operating income

The other operating income of € 96k (prior year: € 141k) included foreign exchange transaction gains of € 58k and € 3k in gains on sale of assets. Both income amounts were generated in connection with the shut down of SFC Energy Inc. In the previous year, there were € 112k in foreign exchange transaction gains.

Other operating expenses

Other operating expenses amounted to € 83k in financial year 2016 (prior year: € 161k). Other operating expenses included foreign exchange transaction losses (€ 38) and losses on disposals of assets (€ 1k) in financial year 2016. Both expenses occurred in connection with the shut down of SFC Energy Inc.

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

EBITDA increased from minus € 4,650k to minus € 2,508k. The EBITDA margin went from minus 9.9 % to minus 5.7 %. Adjusted for the one-off effects mentioned earlier, underlying EBITDA amounted to minus € 2,658k (prior year: minus € 2,978k), or minus 6.0 % (prior year: 6.3 %) of sales.

Operating result (EBIT)

The Group's EBIT improved considerably in 2016, climbing from minus € 10,645k to minus € 4,898k. The EBIT margin improved from minus 22.5 % to minus 11.1 %. Adjusted for the one-off effects mentioned earlier, underlying EBIT amounted to minus € 4,112k (prior year: minus € 4,392k), or minus 9.3 % (prior year: minus 9.3 %) of sales.

Interest and similar income

Interest and similar income fell from € 4k to € 0k, primarily because of the lower cash balance.

Interest and similar expenses

The interest and similar expenses item in the amount of € 687k (prior year: € 318k) consists of interest paid to banks and investors and the interest cost on liabilities and provisions.

Net income from participations

The net income from investments in the amount of € 211k (prior year: € 0k) results from the winding-up and deconsolidation of SFC Energy Inc. as of December 16, 2016. The main reason for this was exchange rate effects, which had previously been recognized in other comprehensive income without impact on the P&L.

Result for the year

The net loss changed in financial year 2016 to minus € 4,993k following a net loss of € 10,669k the year before. This includes the one-off effects mentioned above, in the total amount of € 786k (prior year: € 6,253k) for financial year 2016.

Earnings per share

Earnings per share under IFRS (basic and diluted) improved from minus € 1.24 (minus € 1.24) to minus € 0.58 (minus € 0.58) because of the change in the consolidated net result for the year.

New orders and order backlog

New orders in financial year 2016 totaled € 49,147k, compared with € 48,442k in 2015.

Altogether, the order backlog improved to € 16,852k at December 31, 2016 (prior year: € 11,759k), with € 2,359k of that amount attributable to SFC AG (prior year: € 2,897k) and € 11,355k to PBF (prior year: € 6,325k). Simark is included in this figure with € 3,138k (prior year: € 2,537k).

Financial position

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

Capital structure

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

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

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

In December 2015 SFC issued a tranche (€ 1,650k) of a convertible bond with a total face value of € 5,000k with a 10 % discount. € 1,485k was raised through a private placement. The fair value of the compound instrument was divided into a debt and an equity component. Transaction costs were allocated to the components on the basis of their share of the fair value. In addition, in January 2016, an additional tranche of the convertible bond in the amount of € 550k was placed in a private placement. With a 10 % discount this provided an intake of cash in the amount of € 495k. Another tranche of € 1,100k was placed in March 2016. With a 10 % discount this provided an intake of cash in the amount of € 990k.

To strengthen its equity base, SFC Energy AG increased the Company's capital on August 12, 2016, with the Supervisory Board's consent, from € 8,611,204 to € 9,047,249 by issuing 436,045 new bearer shares. The new shares with dividend entitlement as of January 1, 2016, were placed with an existing large institutional investor and a new private investor at a price of € 3.44 per share. The capital increase provided SFC with proceeds in the amount of € 1,475k.

In addition, on October 18, 2016, with the Supervisory Board's consent, SFC issued a secured loan in the amount of € 1,998k (duration until December 17, 2018 and an annual coupon of 13 %) and an option bond on the basis of the authorization granted at the annual meeting of the shareholders of SFC AG on June 14, 2016. The option bond was issued with the exclusion of SFC shareholders' preemptive rights by means of a private placement with a private investor and lender from Singapore. The option bond with a face value of € 2,500, maturing in 2021, pays 4.0 % interest p.a. The issue price of the option bond was set at 100 % of the face amount. In addition, the option bond offers an option right with a duration until October 19, 2026, to 161,427 no-par-value bearer SFC shares at an option price of € 2.4779 each, and each with a pro-rata amount of € 1.00 per share of SFC's capital. The loan and the option bond provided SFC with gross issue proceeds in the amount of € 2,000k. For the loan SFC AG assigned IP-rights (patents, brands, domains) with a residual book value of € 787, fixed assets with a residual book value of € 95,581 and inventories with a residual book value of € 3,491,600 to the lender as collateral.

Available cash and cash equivalents amounted to € 1,756k at December 31, 2016 (prior year: € 3,277k).

The total short-term and long-term liabilities to bank amounted to € 4,317k at December 31, 2016 (prior year: € 4,217k).

In connection with financing for the subsidiary Simark, comprehensive financial covenants were entered into with two lending banks depending on various threshold values at Simark, as were repayment clauses that apply in the event of a default. The following covenants and threshold values were agreed to for Simark at December 31, 2016:

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

The threshold value for the FDER was exceeded as of December 31, 2016. In discussions with the bank, a waiver was granted so that the breach of the covenant is deemed cured. SFC AG has given both banks a subordination agreement in the amount of the shareholder loan of CAD 2,637k.

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

- Equity ratio of 30 %: guarantee capital/total capital

The equity ratio of 30 % was not met as of December 31, 2016. The financing bank did not make use of their right of termination and stated in writing that they are not making use of it. PBF is currently in discussion with the bank to get the respective contractual amendment agreed. In addition, SFC AG gave the bank a subordination agreement in the amount of an existing shareholder loan of € 2,350k.

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

COMPANY'S EQUITY RATIO		in €
	12/31/2016	12/31/2015
Equity	**13,338,672**	**16,557,810**
As a percentage of total capital	39.5 %	46.1 %
Long-term liabilities *	7,118,901	4,088,175
Short-term liabilities *	13,335,382	15,243,272
Liabilities	**20,454,283**	**19,331,447**
As a percentage of total capital	60.5 %	53.9 %
Total equity and liabilities	**33,792,955**	**35,889,257**

* prior year adjusted, see Note (24)

The Group's capital structure worsened in 2016 due to the loss for the period and the debt instruments issued. The Group still shows an equity ratio of 39.5 % (prior year: 46.1 %).

As in the past, property, plant and equipment (not including deferred assets) is equity-financed, and current assets cover current liabilities.

Capital expenditures

The capital expenditures per segment are as follows:

	in €
	2016
Security & Industry	732,448
Consumer	170,858
Oil & Gas	16,937
Total	**920,243**

In financial year 2016, € 435k (prior year: € 994k) was capitalized for the further development of products. Capital expenditures were also made in software, machinery and equipment.

Total capital expenditures in 2016 came to € 920k (prior year: € 1,349k). Capital expenditures were financed with the Company's own funds or under existing loan agreements.

Financial leases were entered into to a small extent at Simark.

Cash and cash equivalents

There was a net cash outflow of € 1,522k in financial year 2016, whereas in 2015 the net cash outflow was € 2,849k. A significant reason for the outflow of cash in both financial years was the negative cash flow from operating activities.

At the end of December 2016, the Company had available cash and cash equivalents of € 1,756k (end of December 2015: € 3,277k). In addition, cash in the amount of € 285k (prior year: € 285k) was blocked in favor of a lessor. The block in the amount of € 150k in favor of a supplier in the prior year no longer exists.

There were short-term liabilities to banks in the amount of € 4,317k as of the reporting date (prior year: € 4,217). According to IAS 1.74 the long-term portion of the loan to Simark Controls Ltd. comes to € 1,907,638 (prior year: € 2,202,797) and is also reported under current liabilities to banks because of one covenant breach. After balance sheet date the respective bank granted a waiver so that despite the covenant breach the loan will not mature before January 1, 2018, provided all payments as contracted will be made by Simark Controls Ltd. SFC is expecting the repayment in the agreed term. The corresponding long-term portion of the prior year has been adjusted according to IAS 8.41 (reclassification of long-term to short-term liabilities to banks), because of a covenant breach in the prior year and also a granted waiver after balance sheet date.

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

Simark:	line of credit CAD 3,500k,	of which drawn: CAD 1,295k
PBF:	line of credit € 750k	of which drawn: € 375k
PBF:	line of credit € 500k	of which drawn: € 444k

Cash flow from ordinary operations

There was a net cash outflow of € 5,231k from ordinary operations in financial year 2016 versus a net cash outflow of € 1,864k in the prior year.

The primary cause of the outflow in 2016 was the loss for the year and the resulting negative operating cash flow before changes in working capital in the amount of € 1,658k, versus negative cash flow of € 4,276k in the prior year. In addition, material changes in working capital in 2016 were the reason for the negative cash flow from ordinary operations.

Cash flow from investment activity

Net cash used for investment activity totaled € 920k in the period under review (prior year: € 1,483k). The decrease is primarily attributable to the decrease in spending on capitalized assets from development projects from € 994k in the prior year to € 435k in 2016.

Cash flow from financial activity

There was a net cash inflow of € 4,274k from financial activity in 2016, in contrast to a net cash inflow of € 498k the prior year. The cash inflow in 2016 was primarily the result of the three corporate actions. First, cash was received from the second and third tranches of the convertible bond placement in the amount of € 1,485k (prior year: € 1,485k), and secondly, additional cash was provided by proceeds of the capital increase in the amount of € 1,475k. In October 2016, cash was also provided by the secured loan and option bond in the total amount of € 2,000k.

Assets & liabilities

Total assets fell by 5.8 %, from € 35,889k at December 31, 2015, to € 33,793k at December 31, 2016.

The equity ratio decreased from 46.1 % to 39.5 % in financial year 2016 due to the net loss for the period and the financing measures.

Inventories, trade accounts receivable and receivables from percentage-of-completion rose by € 699k, or 4.3 % over the prior year, primarily due to increased trade receivables due to the high sales at the financial year end.

The most significant intangible assets are the goodwill of Simark in the amount of € 7,378k (prior year: € 6,894k) and of PBF in the amount of € 1,179k (prior year: € 1,179k), other intangible assets relating to the acquisition of Simark in the amount of € 487k (prior year: € 1,362k) and PBF in the amount of € 702k (prior year: € 1,083k) and capitalized development costs in the amount of € 1,737k (prior year: € 1,757k). 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, € 435k was capitalized (prior year: € 994k) and € 455k was amortized (prior year: € 376k) in financial year 2016.

Non-current assets decreased from € 14,736k to € 13,737k. The share of non-current assets in total assets fell from 41.1 % to 40.7 % as a result.

Liabilities rose by 5.8 % from € 19,331k to € 20,454k.

Altogether, liabilities made up 60.5 % of total equity (prior year: 53.9 %). Long-term liabilities increased due to a long-term loan from an investor, while short-term liabilities decreased due to the lower trade payables.

With the net loss for the period, shareholders' equity decreased to € 13,339k at December 31, 2016, against € 16,558k at December 31, 2015.

Financial and non-financial performance indicators

The sustainable development of the Group is a high priority for the Management Board. The financial performance indicators used to steer the Group and its development in financial year 2016 are described above.

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

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

Supplier quality was slightly worse than in the prior year, with more than 4.5 % of deliveries having defects. The mean time to failure of fuel cells decreased by 11.0 % in comparison with the prior year. However, following the strong improvement by 59.0 % in the prior year, this is still a relatively good performance.

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

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

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

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

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

Employees at year end

The number of permanent employees was as follows as of December 31, 2016:

EMPLOYEES

	12/31/2016	12/31/2015	Change
Management Board	3	3	0
Research & development	45	49	–4
Production, logistics, quality management	86	89	–3
Sales & Marketing	68	69	–1
Administration	26	25	1
Permanent employees	**228**	**235**	**–7**

The Group employed 11 trainees, graduates, and student trainees as of December 31, 2016 (prior year: 8).

With 71 permanent employees at December 31, 2016, SFC AG had slightly fewer employees than in the prior year (77).

The number of employees at PBF increased from 92 to 98.

Simark had 59 employees as of the reporting date and thus employed fewer people than in the prior year (66).

Business and background conditions

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

COMPENSATION REPORT

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

Management Board Compensation

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

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

Members of the Management Board also receive variable compensation (performance-based bonus) if specific targets are met. The targets to reach in financial year 2016 were the amounts budgeted for consolidated sales (based on the budgeted exchange rate for the Canadian dollar to the euro), underlying gross margin, and underlying EBITDA, and each target was tied to one-third of the bonus.

Beginning in financial year 2014, the Company's Supervisory Board implemented a virtual stock option plan (SAR Plan 2014 – 2016, SAR Plan 2015 – 2018) in order to align the interests of the shareholders with those of the Management Board. The SAR Plan 2014 – 2016, which provides for the grant of virtual stock options to the members of the Management Board, is valid for any newly executed management board service agreements that go into effect on or after January 1, 2014, thus replacing the existing LTIP. Additional information on the SAR Plan 2014 – 2016 is available under "Stock Option Plans" on page 48 of the annual report.

The members of the Management Board also receive certain fringe benefits. The Company provides 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 Compensation in 2016

Members of the Management Board received € 784,209 in total compensation in financial year 2016. This compensation 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 2016 consolidated financial statements, less the amounts already set aside as of December 31, 2015.

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. Table 1 shows the benefits granted in financial year 2016, while Table 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.

TABLE 1 – BENEFITS GRANTED TO MEMBERS OF THE MANAGEMENT BOARD 2016* IN €

	Dr. Peter Podesser			Hans Pol			Steffen Schneider		
	CEO/Chairman			CSO			CFO		
	since 1.11.2006			since 1.1.2014			since 1.9.2014		
Benefits	**2015**	**2016**	**2016** (Min)	**2015**	**2016**	**2016** (Min)	**2015**	**2016**	**2016** (Min)
Fixed Income	350,000	350,000	350,000	172,500	180,000	180,000	180,000	180,000	180,000
Fringe Benefits	23,722	23,312	23,312	19,411	17,846	17,846	19,876	33,051	33,051
Total	**373,722**	**373,312**	**373,312**	**191,911**	**197,846**	**197,846**	**199,876**	**213,051**	**213,051**
One-year variable compensation	56,946	0	0	8,029	0	0	5,287	0	0
Multi-year variable compensation	0	0	0	209,956	0	0	0	0	0
LTIP 2011 – 2013	0	0	0	0	0	0	0	0	0
LTIP 2012 – 2014	0	0	0	0	0	0	0	0	0
LTIP 2013 – 2015	0	0	0	0	0	0	0	0	0
SARP 2014 – 2016	0	0	0	0	0	0	0	0	0
SARP 2015 – 2018	0	0	0	209,956	0	0	0	0	0
Total	**430,668**	**373,312**	**373,312**	**409,896**	**197,846**	**197,846**	**205,163**	**213,051**	**213,051**
Service cost	0	0	0	0	0	0	0	0	0
Total	**430,668**	**373,312**	**373,312**	**409,896**	**197,846**	**197,846**	**205,163**	**213,051**	**213,051**

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

TABLE 2 – ALLOCATION OF MANAGEMENT BOARD COMPENSATION 2016 (AMOUNTS DISBURSED) in €

	Dr. Peter Podesser		Hans Pol		Steffen Schneider	
	CEO/Chairman		CSO		CFO	
	since 1.11.2006		since 1.1.2014		since 1.9.2014	
Allocation	2015	2016	2015	2016	2015	2016
Fixed Income	350,000	350,000	172,500	180,000	180,000	180,000
Fringe Benefits	22,889	23,312	9,411	17,846	18,989	33,051
Total	**372,889**	**373,312**	**181,911**	**197,846**	**198,989**	**213,051**
One-year variable compensation	144,510	0	38,029	0	16,667	0
Multi-year variable compensation	0	0	0	0	0	0
LTIP 2011 – 2013	0	0	0	0	0	0
LTIP 2012 – 2014	0	0	0	0	0	0
LTIP 2013 – 2015	0	0	0	0	0	0
SARP 2014 – 2016	0	0	0	0	0	0
SARP 2015 – 2018	0	0	0	0	0	0
Total	**517,399**	**373,312**	**219,940**	**197,846**	**215,656**	**213,051**
Service cost	0	0	0	0	0	0
Total	**517,399**	**373,312**	**219,940**	**197,846**	**215,656**	**213,051**

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 Supervisory Board compensation was divided among the Supervisory Board members as follows in financial year 2016:

FINANCIAL YEAR 2016	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 an SAR 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. Mr. Hans Pol received a second tranche of the SAR Plan in connection with the extension of his employment agreement (SARP 2015–2018 or TR 2).

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 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 option provided the predefined profit targets have been met.

The main terms of 2014–2016 SAR Plan and the 2015–2018 SAR Plan 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)

Other related parties

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

GROUP ACCOUNTING-RELATED INTERNAL CONTROL SYSTEM AND RISK MANAGEMENT SYSTEM

Accounting-related internal control system

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

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

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

Bookkeeping for our U.S. subsidiary was primarily performed or monitored by the parent company, which ensured that accounting standards were applied uniformly throughout the Group.

Bookkeeping for the Dutch subsidiary PBF and its subsidiary 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 AG has reviewed the accounting-based internal control system and believes that it was fully functional in financial year 2016. The effectiveness of the internal control system is monitored by the Supervisory Board of SFC AG in accordance with the requirements of the Accounting Rule Modernization Act (Bilanzrechtsmodernisierungsgesetz), which went into force in May 2009. It is important to note that an internal control system does not provide absolute certainty that material misstatements in the financial statements will be avoided or discovered, regardless of how it is designed.

Risk Management System

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

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

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

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

RISK REPORTING WITH REGARD TO THE USE OF FINANCIAL INSTRUMENTS

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

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

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

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

Credit risk

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

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

The maximum amount of default is the net carrying amount of the receivable. No collateral from unpaid receivables was acquired or recognized during the reporting period or during the prior year. Receivables from the sale of products are secured for SFC AG through 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 capital increases in May 2007, November 2014 and August 2016. To further secure liquidity, a convertible bond was issued in December 2015. In January and March 2016, additional tranches were placed. In addition, in October 2016, the Company took out a loan and issued an option bond. However, the liquidity reserves dropped significantly from the previous year due to the net loss in 2016.

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 on the one hand 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.

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

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

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

Exchange rate risk

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

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

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

Credit risk

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

There is also the risk that the PBF loan will be terminated for failure to achieve defined earnings figures or other key indicators. The new investor loan is not subject to any financial covenants. However, there is a special termination right (known as "cross default") if SFC AG does not pay its other financial obligations, such as the convertible bond, when they fall due.

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

The capital stock of SFC AG totals € 9,047,249.00 and is divided into 9,047,249 ordinary bearer shares with no par value representing a notional amount of the capital stock of € 1.00 per share. The capital stock is completely paid-up. Each share confers one vote. The increase in the number of shares by 436,045 in comparison to the prior year resulted from the capital increase carried out in financial year 2016. For additional information, see the section entitled "Earnings per Share".

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

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

NAME	Stake as a %
Holland Private Equity B. V. (via HPE PRO Institutional Fund B. V.)*	26.53

* 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.

Shareholders have no special rights that confer control.

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

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

At the meeting of shareholders held on June 14, 2016, the Authorized Capital 2015 in § 5 (5) in the articles of association was revoked. The Management Board was authorized to increase the Company's capital, with the Supervisory Board's consent, by June 13, 2021, by issuing company shares up to a total of 50 % of the capital stock existing at the time of the resolution, or at the time the authorization is exercised, if the capital is lower at that time (Authorized Capital 2016).

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 adopted by the shareholders of SFC AG at their annual meeting on June 14, 2016, the Company's Management Board was authorized to issue, with the Supervisory Board's consent, by June 13, 2021, bearer convertible and/or option bonds or a combination of these instruments with a face value of up to € 14,000,000, with or without maturity limits and to grant to the bond holders conversion or option rights (including with a duty to convert) to new bearer shares of the Company with a notional amount of the capital stock of up to € 3,485,930, on terms to be defined in greater detail in the convertible bond or option bond conditions.

On August 12, 2016, the Management Board of SFC AG exercised the authorization in part, and with the Supervisory Board's consent, increased the capital stock of the Company from € 8,611,204 to € 9,047,249 by issuing 436,045 new no-par-value bearer shares.

On October 18, 2016, the Management Board of SFC AG exercised the authorization in part, and with the Supervisory Board's consent, issued a secured loan in the amount of € 1,998k and issued an option bond pursuant to the authorization granted at the annual shareholders' meeting on June 14, 2016. The option bond was issued with the exclusion of SFC AG shareholders' preemptive rights by means of a private placement with a private investor and lender from Singapore. The bond with a face value of € 2,500, maturing in 2021, pays 4.0 % interest p.a. The issue price of the warrant-linked bond was set at 100 % of the face amount. In addition, the option bond offers an option right to 161,427 no-par-value bearer SFC AG shares at an option price of € 2.4779, each with a pro-rata amount of € 1.00 of per share of SFC AG's capital.

In case of a change of control, the lender of the secured loan of € 1,997,500 has an extraordinary right to terminate the loan agreement. The loan can be called due within 10 days.

SFC AG has Conditional Capital 2011 in the amount of € 819,672 and Conditional Capital 2016 in the amount of € 3,485,930 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).

There are currently the following agreements with Management Board members at SFC AG, all of which are subject to a change in control as a result of an acquisition of the Company:

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

Mr. Hans Pol was appointed to the Management Board effective January 1, 2014 until June 30, 2015. His contract as a member of the Management Board contains a similar agreement on the 2014 – 2016 SAR Plan, with a duration 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 granted an additional 180,000 SARs on July 1, 2015 (SAR Plan 2015 – 2018).

Steffen Schneider was appointed to the Management Board for the period from September 1, 2014, to August 31, 2017. His contract as a member of the Management Board contains a similar agreement on the 2014 – 2016 SAR Plan, with a duration until September 1, 2021. Mr. Schneider was granted 180,000 SARs on September 1, 2014.

In financial year 2015 certain members of the Management Board were granted a transaction bonus. This transaction bonus provided for a cash payment in the event of a successful takeover of SFC AG, depending on the amount of the tender offer. This potential transaction bonus expired in 2016. There is no longer any comparable agreement.

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. It can still be expected that the general political uncertainty will have a negative influence on the business climate.

Market risks

Macroeconomic developments

In its January report the World Bank[22] states that important downside risks for the global economy stem from the heightened policy uncertainty in major economies. The IMF[23] expects a moderate acceleration in the global economy in 2017 and 2018, but simultaneously warns that this forecast is particularly uncertain in light of potential changes in the policy stance of the United States under the new administration, which could have an impact on the global economy. While potential financial stimuli and a less gradual normalization of monetary policy could have positive effects, a possible shift toward inward-looking policy protectionist policies could have negative effects. The IMF also bases its forecast on a firming of oil prices following the agreement among OPEC members and several other major producers to limit supply.

For Germany the ifo Institute[24] expects a slight decline in the increase of real gross domestic product (GDP) for 2017 to 1.5 %, which it blames on the lower number of working days in 2017 as compared with the prior year. In 2018 GDP is expected to grow by 1.7 %. The ifo Institution combines this forecast with a number of extremely high risks. Brexit, the US presidential election and the failed constitutional reform in Italy have greatly changed the global political landscape, with far-reaching and highly uncertain consequences for the global economy and Germany in the coming years. There will also be parliamentary or presidential elections in Europe in 2017 (e.g., France and the Netherlands).

Oil & Gas market

Following a difficult year in 2016, experts expect a moderate recovery in the international Oil & Gas markets in 2017. There is also the additional risk that the industry will delay its use of innovative technologies for a certain amount of time. The interplay of supply and demand will first have to stabilize, although the OPEC decision to reduce production volumes should stimulate the reduction of global oil reserves, even if some OPEC countries do not adhere to the announced production limits. That should support oil prices in 2017, but it remains to be seen whether countries such as the United States and Canada will react to this by stepping up their drilling activity. There could also be positive results from the adjustments that oil producers made in the crisis, as they learned to adapt their operating costs and investments in a low price environment. On the other hand, there are massive crude oil and refinery product reserves from the crisis, which will take some time to reduce, even if demand should exceed supply. Industry experts also expect that new capital-intensive large projects to be launched again in the near future if confidence in a more stable market situation is restored. On the other hand, the market is now open for investment in production optimization and efficiency enhancement measures. Environmentally-friendly technologies, such as SFC Energy's fuel cell solutions, are particularly important in this context, as both legal requirements and public pressure have a tremendous impact on environment awareness in the oil & gas sector.

22 World Bank Group, "Global Economic Prospects", January 10, 2017, p. 19.
23 International Monetary Fund IMF, "World Economic Outlook Update", January 2017.
24 ifo Konjunkturprognose 2016 – 2018, December 16, 2016

Security & Industry market

Fuel cells: It is still expected that the developing market of off-grid and mobile industrial systems will continue to grow in view of its increasing strategic importance. However, the dependence of many industries on the overall economic situation, government budgets and state economic programs plays an important role here.

Power electronics and switched mode network components: Power electronic components and systems are needed anywhere power is used. As a rule, the electronics industry develops in sync with the overall economy. The provision, storage and distribution of power play a very important role in the emerging energy markets and markets of the future, so there is constant and widespread demand for these parts. However, there are difficult-to-assess risks among large international customers.

Defense & Security: On the whole, experts expect defense spending to further increase worldwide due to the most recent terrorist attacks and the crisis in the Middle East, particularly in the areas of innovation, modernization and increased efficiency. Particularly in the surveillance and security industry and in the defense sector, the demand for reliable off-grid power solutions, such as the ones offered by SFC, is noticeably increasing. 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, spending could be deferred as a result of new priorities in government budgets. Projects might be completely put on hold or not even ordered in the first place.

Consumer market

Caravaning: The German caravaning association CIVD and the European Caravan Federation ECF are very optimistic about the future. RVs are more popular than ever. The increasing need for independence from full campgrounds has boosted this popularity. Low interest rates are also at play here, because for many retirement age people, their investment in their leisure vehicle has paid off considerably more than many other investments. 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.

Marine: All indicators suggest that the boat and water sport industry will continue to grow in the coming year, both in Germany and around the world. However, we can also assume that the maritime economy will experience less dynamic growth in significant European markets than in Germany. The sovereign debt crisis in the Mediterranean region, which has not yet been overcome, will make it difficult for the economy to recover. The politically unstable situation in the Middle East involves additional risks. The most significant basis for a stable maritime economy are the existing boating and water sport enthusiasts, who are generally extremely attached to their leisure activities and thus remain true to their hobby over long periods of time. Thanks to this group of buyers, who are gradually growing older, the demand for equipment, accessories and services will remain steady in the coming years. However, the end of this comfortable situation is already in sight, and the industry will therefore have to make additional ongoing efforts to attract new buyers for the maritime market.

Technological risks

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

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

Patent-related risks

As the intellectual property situation becomes more complicated and products become more complex, there remains a certain risk of possible patent infringement by SFC. However, as a result of its unique position as a supplier of commercial direct methanol fuel cell systems, SFC has obtained patents or filed patent applications (currently 18 patent families or decisions to grant received), which puts SFC in a strong position relative to its competitors. However, is it entirely possible that SFC may incur legal expenses to defend these patents. Due to SFC's orientation as a provider of energy supply solutions, there is a risk that integration solutions are covered by patents that have already been granted. SFC works continuously with experienced patent attorneys to ensure that it is operating in full compliance with the law by staying abreast of patents that may be relevant to the Company, including those granted in other countries.

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 AG to a comprehensive portfolio of American fuel cell patents belonging to the University of Southern California and California Institute of Technology. The agreement is intended to provide extensive certainty under patent laws for the sale of SFC's products to end consumers in the United States. This agreement is based on the sale of minimum numbers of fuel cell units. The agreement was amended in January 2014, with considerable reductions in minimum unit numbers and the associated payment risks. In the course of winding up SFC Energy Inc. the license was assigned to SFC AG in 2016.

Competition

SFC AG currently enjoys a unique position due to our leadership in DMFC (direct methanol fuel cell) systems technology and our marketing edge. Some of the ways SFC protects this advantage include intellectual property rights, swift action, and a resolute focus on one single technological concept. Some of its 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 its 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 industry markets. Consequently, there are risks from announcement effects and actual substitutes that could provoke uncertainty among market participants and lead to a loss of sales for SFC AG. The Company is countering those risks by focusing product development on standard products and system solutions.

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

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

Product risks

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

Procurement and production-related risks

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

In anticipation of a large order in the defense industry, SFC began advance production and put a large part of the expected order volume in storage as of December 31, 2015. But no order was placed in 2016 either. If this order does not come about, there is a risk that the inventories in the amount of around € 1.4 million, some of which has already been written down, will only be able to be sold to other customers to a smaller extent.

The products of two suppliers accounted for around 59.0 % of Simark's sales in 2016 (prior year 67.0 %). 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 € 42k on the balance sheet date.

In general, rising commodity and energy costs continue to pose a risk to the product margins. At 5 % volatility in the platinum price, the effect on expenses would be about € 15k annually.

Foreign exchange rate risks

Due to Simark's volume of business, SFC generates a substantial portion of its revenues in Canadian dollars, which are offset by expenses and payments in Canadian dollars.

In addition, SFC AG and Simark generate sales in U.S. dollars in North America that were 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 financial year 2016. There were no open currency forwards as of the reporting date. In that respect, foreign exchange risk exists for the unhedged portion of sales.

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

There would have been a positive effect of € 271,829 (prior year: € 263,165) on the Group's equity if, when translating the assets and obligations of SFC Energy Inc. as of December 31, 2016, the exchange rate had fluctuated by – 5 % and a negative effect of € – 271,829 (prior year: € – 263,165) if the rate had fluctuated by +5 %. There would have been a positive effect of € 867,594 (prior year: € 904,303) on the Group's equity if, when translating the assets and obligations of Simark Controls Ltd. as of December 31, 2016, the exchange rate had fluctuated by – 5 % and a negative effect of € – 867,594 (prior year: € – 904,303) if the rate had fluctuated by +5 %.

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 1 % on underlying EBITDA for the Group.

Financial and liquidity risks

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

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 loss for 2016 led to a decrease in cash on hand.

Due to the customer structure (high percentage of industrial customers, security officials, and wholesalers, low percentage of private end customers), there were no significant payment defaults in 2016 not addressed through write-downs. As of the reporting date, specific write-downs totaling € 188k had been recognized at SFC AG for at-risk receivables. There were specific write-downs of € 100k at PBF and specific write-downs of € 282k at Simark.

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

Interest rate risks

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

Interest rate risk otherwise results primarily from the investment of cash. As part of the capital increase in 2007, shares were also placed in the United States. In that context, SFC 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.

Personnel risks

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

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

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

IT risks

We have continued to expand and improve important IT features like back-up and archiving functions, restoring availability after outages, redundancy, and reliability. The monitoring of the highly-available server landscape was also adjusted to meet the growing needs. SFC ensures the availability and sustainability of its IT infrastructure by updating antivirus and other software and the server operating system on the file servers. In addition, there was greater cooperation between the Brunnthal, Almelo and Cluj 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 reacts to any objections by obtaining opinion letters. If changes are required, they will be made in a timely fashion. 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.

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

Other risks

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

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 2017 develops in accordance with the corporate planning that has been adopted. Further postponement or cancelation of planned large projects in the defense area could threaten the Company's survival.

REPORT ON OPPORTUNITIES

Market opportunities

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

Oil & Gas Industry

Simark's strong distribution and service organization in Canada should continue to accelerate the sales of SFC products in the Canadian Oil & Gas industry thanks to Simark's direct access to the market and further use of SFC's existing partnership structure. The next logical step is the further regional expansion of Simark's business operations into Eastern Canada and the United States. The increase in the international distribution of Simark products in the field of metering and instrumentation offers additional potential for growth. The return to relatively stable oil prices significantly stimulated demand in the last few months of 2016 as well as in 2017. Investments that had been postponed during the crisis are increasing noticeably, and now that the crisis is over, customers are negotiating and deciding on new projects.

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

Defense & Security

For financial year 2017, SFC has made more aggressive plans for this market compared with 2016, because the core parameters, such as the general security situation and increased defense budgets in the NATO member countries, have improved. A postponement effect is also included, because a planned contract was not implemented in 2016 due to technical inadequacies. 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 requisites for a continuation of the growth course in this market which has begun in 2015. A revival of demand in the key markets of Germany and Israel, combined with a geographical expansion of operations, for example to other NATO countries, such as France and the United Kingdom, but also to countries such as India and Singapore, 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 achieving defense spending of 2% of GDP is still met by only a few members. The pressure on other NATO members to increase their defense budget by members that are already spending more than 2% of GDP has increased significantly. This presents SFC with significant opportunities.

Broader customer base for PBF

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

Improved product mix

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

Other opportunities

Costs and efficiency

The necessary restructuring measures that were instituted in 2015 and continued in 2016 will lead to greater efficiency and an improved cost structure at PBF and Simark in 2017 and the following years. Meeting or exceeding planned targets could have an appreciable effect on earnings.

Innovation and further development

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

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

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

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

External factors

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

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

On January 27, 2017, a new version of the German Chemicals Prohibition Ordinance went into effect, providing relief for trade in SFC fuel cartridges. This new version contains an exception for the sale of methanol or mixtures containing methanol to be used in fuel cells. Dealers will no longer have to obtain permission from or report to the authorities, be reviewed by an expert or validate and document the minimum age and identity of buyers. This simplification could result in cost savings and have a positive effect on earnings.

DECLARATION ON CORPORATE GOVERNANCE

The Management Board issued the corporate governance statement for 2016 and published it on the website of SFC 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 28, 2017 and made 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. We still believe that there will be long-term growth in the Oil & Gas segment and expect a positive trend for SFC sales in 2017, compared to the prior year, because of the rising trend in oil and gas prices since reaching their low in 2016.

For 2017, SFC believes that there will be a further recovery in its Defense business and an expansion of its international Industry business. Most growth is expected in these markets and will be achieved through organic growth, in addition to strategic partnerships and a continued focus on complete solutions. In the Defense & Security market, management believes that contracts will be awarded in 2017 for projects that had been delayed. Accordingly, a significant increase in sales is expected in this segment.

The Company expects a return to growth due to the very positive trends in its core RV market. The Management Board believes that total sales in the Consumer segment will at least be at the previous year's level.

The Management Board therefore expects that consolidated sales will range from € 50 million to € 55 million in 2017 and that underlying EBITDA and underlying EBIT will improve significantly.

We expect the volatility on the global currency markets to continue in 2017. When calculating sales revenue and Simark's earnings, the Management Board assumes an exchange rate of 1.50 between the Canadian dollar and the euro. The Company's assumptions are based on sector forecasts. Planning is currently based on an oil price of USD 45 – 55. Falling oil and gas prices would have a negative impact on spending by oil and gas customers, particularly with respect to new projects. It is anticipated that capitalization of research and development costs will remain at the previous year's level. It is expected that the number of employees will remain the same or even increase. Quality indicators are also expected to improve.

On the reporting date, the Group had available cash and cash equivalents in the amount of € 1.8 million. With a trend for its operating result in financial year 2017 in line with forecasts for sales and earnings and financing measures, 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.

SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

Regarding significant events after the balance sheet date please refer to the notes for the financial year 2016.

Brunnthal, March 28, 2017

The Management Board

Dr. Peter Podesser
CEO

Steffen Schneider
CFO

Hans Pol
CSO Power Electronics

Marcus Binder
CSO Defense & Security

CONSOLIDATED FINANCIAL STATEMENTS

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

CONSOLIDATED FINANCIAL STATEMENTS

SFC ENERGY AG, BRUNNTHAL
CONSOLIDATED INCOME STATEMENT
FOR THE FINANCIAL YEAR FROM JANUARY 1 TO DECEMBER 31, 2016

in €

	Notes	2016	2015
Sales	(1)	44,041,375	47,310,120
Production costs of work performed to generate sales	(2)	–30,794,650	–34,083,397
Gross profit		**13,246,725**	**13,226,723**
Sales costs	(3)	–9,126,026	–12,499,308
Research and development costs	(4)	–4,148,298	–5,806,406
General administration costs	(5)	–4,882,662	–5,546,087
Other operating income	(6)	95,877	141,495
Other operating expenses	(7)	–83,491	–160,984
Operating loss		**–4,897,875**	**–10,644,567**
Interest and similar income	(9)	73	3,567
Interest and similar expenses	(9)	–686,771	–318,159
Income from investments	(9)	211,534	0
Loss from ordinary operations		**–5,373,039**	**–10,959,159**
Income taxes	(10)	380,308	290,178
Consolidated net loss		**–4,992,731**	**–10,668,981**
NET LOSS PER SHARE	(36)		
undiluted		–0.58	–1.24
diluted		–0.58	–1.24

SFC ENERGY AG, BRUNNTHAL
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR FROM JANUARY 1 TO DECEMBER 31, 2016

in €

	Notes	2016	2015
Consolidated net loss		**–4,992,731**	**–10,668,981**
OCI items that may be recycled to profit or loss in the future:			
Result from currency translations		372,898	–424,207
OCI items that were recycled to profit or loss:			
Result from currency translations		–150,347	0
Total other results	(30)	**222,551**	**–424,207**
Total comprehensive income		**–4,770,180**	**–11,093,188**

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, 2016

in €

	Notes	12/31/2016	12/31/2015
Current assets		**20,055,653**	**21,153,724**
Inventories	(14)	7,717,500	8,781,766
Trade accounts receivable	(15)	8,638,153	6,759,498
Receivables from Percentage-of-Completion	(16)	614,819	729,989
Income tax receivables	(17)	155,996	428,127
Other short-term assets and receivables	(18)	888,184	742,278
Cash and cash equivalents	(19)	1,756,001	3,277,066
Cash and cash equivalents with limitation on disposal	(20)	285,000	435,000
Non-current assets		**13,737,302**	**14,735,533**
Intangible assets	(21)	11,854,560	12,767,993
Property, plant and equipment	(22)	1,204,876	1,389,621
Financial assets	(33)	71	0
Other long-term assets and receivables	(18)	0	3,303
Deferred tax assets	(10)	677,795	574,616
Assets		**33,792,955**	**35,889,257**

SFC ENERGY AG, BRUNNTHAL CONSOLIDATED BALANCE SHEET AT DECEMBER 31, 2016

			in €
	Notes	12/31/2016	12/31/2015
Current liabilities		**13,335,382**	**15,243,272**
Provisions for taxes	(23)	85,928	57,463
Other provisions	(23)	560,119	609,563
Liabilities to banks *	(24)	4,316,886	4,216,928
Liabilities from prepayments	(25)	101,629	21,319
Trade accounts payable	(26)	5,789,615	7,262,550
Liabilities under finance leases	(27)	42,986	42,380
Liabilities from percentage-of-completion	(16)	262,871	0
Other short-term liabilities	(28)	2,175,348	2,827,058
Income tax liabilities	(29)	0	206,011
Non-current liabilities		**7,118,901**	**4,088,175**
Other long-term provisions	(23)	1,458,776	1,586,987
Liabilities under finance leases	(27)	20,849	45,400
Other long-term liabilities	(28)	4,861,199	1,316,756
Other liabilities	(28)	1,315	61,948
Deferred tax liabilities	(10)	776,762	1,077,084
Equity		**13,338,672**	**16,557,810**
Subscribed capital	(30)	9,047,249	8,611,204
Capital surplus	(30)	73,132,012	72,017,015
Other changes in equity not affecting profit or loss	(30)	– 489,904	– 712,455
Consolidated net loss	(30)	– 68,350,685	– 63,357,954
Liabilities and shareholders' equity		**33,792,955**	**35,889,257**

* prior year adjusted, see note (24)

SFC ENERGY AG, BRUNNTHAL
CONSOLIDATED CASH FLOW STATEMENT
FOR THE FINANCIAL YEAR FROM JANUARY 1 TO DECEMBER 31, 2016

				in €
		Notes	2016	2015
	Cash flow from ordinary operations			
	Result before taxes		**– 5,373,039**	**– 10,959,159**
+	Net interest income	(9), (37)	686,698	314,592
+	Depreciation/amortization of intangible assets and property, plant and equipment	(12), (21), (22)	2,390,195	5,994,275
–/+	Income/expenses from SAR Plan/ Long Term Incentive Plan	(32)	– 216,739	135,702
+	Changes in allowances	(14), (15)	977,072	332,150
–	Losses from disposal of property, plant and equipment	(21), (22)	– 2,807	– 11,489
+/–	Other non-cash expenses/income		– 49,815	– 81,921
	Changes to operating result before working capital		**– 1,488,805**	**– 4,275,850**
–	Changes to provisions	(23)	– 226,672	– 233,516
–/+	Changes to trade accounts receivable	(15)	– 1,715,938	4,261,723
+/–	Changes to inventories	(14)	264,140	– 1,309,255
+	Changes to other receivables and assets	(16), (17), (18)	18,175	397,247
–/+	Changes to trade accounts payable	(26)	– 1,685,363	643,137
–	Changes to other liabilities	(25), (28)	– 421,825	– 777,046
	Cash flow from ordinary operations before taxes		**– 5,256,288**	**– 1,293,560**
+/–	Income tax refund/payment	(10), (37)	24,893	– 570,387
	Cash flow from ordinary operations		**– 5,231,395**	**– 1,863,947**

SFC ENERGY AG, BRUNNTHAL
CONSOLIDATED CASH FLOW STATEMENT
FOR THE FINANCIAL YEAR FROM JANUARY 1 TO DECEMBER 31, 2016

in €

		Notes	2016	2015
	Cash flow from investment activity			
–	Investments in intangible assets from development projects	(21)	– 435,024	– 993,503
–	Investments in other intangible assets	(21)	– 184,149	– 61,668
–	Investments in property, plant and equipment	(22), (27)	– 301,070	– 293,619
+	Interest and similar income	(9), (37)	73	4,167
+/–	Payments for acquisition of bank deposits with limitation on disposal	(20)	150,000	– 150,000
+	Proceeds from disposal of property, plant and equipment	(21), (22)	205,458	11,500
	Cash flow from investment activity		**– 564,712**	**– 1,483,123**
	Cash flow from financial activity			
+	Payments from capital increase	(30)	1,499,995	0
–	Cash outflows for costs from capital increase	(30)	– 34,766	0
–	Repayment of financial debt	(24)	– 650,625	– 672,082
+	Proceeds from issuance of convertible bonds and options	(28)	3,485,000	1,485,000
–	Expenses from issuance of convertible bonds and options	(28)	– 85,255	– 113,899
+	Changes to current account liabilities	(24)	514,706	97,264
–	Repayment of liabilities under finace lease	(27)	– 47,085	– 54,124
–	Interest paid and other expenses	(9), (37)	– 407,821	– 244,514
	Cash flow from financial activity		**4,274,149**	**497,645**
	Net change in cash and cash equivalents		**– 1,521,958**	**– 2,849,425**
	Currency effects on cash and cash equivalents		893	4,073
	Net change in cash and cash equivalents			
	Cash and cash equivalents at beginning of period	(19)	3,277,066	6,122,418
	Cash and cash equivalents at end of period	(19)	1,756,001	3,277,066
	Net change in cash and cash equivalents		**– 1,521,958**	**– 2,849,425**
	Cash on the balance sheet			
	Cash and cash equivalents		1,756,001	3,277,066

SFC ENERGY AG, BRUNNTHAL
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR FROM JANUARY 1 TO DECEMBER 31, 2016

in €

	Notes	Subscribed capital	Capital surplus	Other changes in equity not effecting profit or loss	Net accumulated loss	Total
As of 01/01/2015		**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**
Consolidated net loss					– 4,992,731	– 4,992,731
Change in consolidation scope				– 150,347		– 150,347
Result from currency translation recognized in equity	(30)			372,898		372,898
Total comprehensive income						**– 4,770,180**
Capital increase						
Issuance of convertible bonds – equity component	(30)		84,890			84,890
Issuance of option bonds – equity component	(30)		923			923
Capital increase	(30)	436,045	1,063,950			1,499,995
Less costs from capital increase	(30)		– 34,766			– 34,766
As of 12/31/2016		**9,047,249**	**73,132,012**	**– 489,904**	**– 68,350,685**	**13,338,672**

SFC ENERGY AG, BRUNNTHAL
CONSOLIDATED SEGMENT REPORTING
FOR THE FINANCIAL YEAR FROM JANUARY 1 TO DECEMBER 31, 2016

in €

	Oil & Gas		Security & Industry		Consumer		Consolidated financial statements	
	2016	2015	2016	2015	2016	2015	2016	2015
Sales	19,295,564	25,975,939	21,096,513	17,569,605	3,649,298	3,764,576	44,041,375	47,310,120
Production costs of work performed to generate sales	–14,889,999	–20,171,517	–13,317,131	–11,112,641	–2,587,520	–2,799,239	–30,794,650	–34,083,397
Gross profit	**4,405,565**	**5,804,422**	**7,779,382**	**6,456,964**	**1,061,778**	**965,337**	**13,246,725**	**13,226,723**
Sales costs	–4,520,679	–6,189,428	–3,369,208	–5,243,538	–1,236,139	–1,066,342	–9,126,026	–12,499,308
Research and development costs	–188,672	–221,042	–3,638,957	–5,090,323	–320,669	–495,041	–4.148.298	–5,806,406
General administration costs	–1,298,093	–1,578,556	–3,015,357	–3,115,320	–569,212	–852,211	–4,882,662	–5,546,087
Other income/expenses (balance)	98,101	–115,262	–77,150	68,576	–8,565	27,197	12,386	–19,489
Operating loss (EBIT)	**–1,503,778**	**–2,299,866**	**–2,321,290**	**–6,923,641**	**–1,072,807**	**–1,421,060**	**–4,897,875**	**–10,644,567**
Adjustments EBIT	960,911	2,427,843	–151,577	3,787,306	–23,406	36,925	785,928	6,252,074
EBIT underlying	**–542,867**	**127,978**	**–2,472,867**	**–3,136,335**	**–1,096,213**	**–1,384,135**	**–4,111,947**	**–4,392,493**
Depreciation/amortization	–1,045,456	–1,191,456	–1,139,493	–4,545,311	–205,242	–257,507	–2,390,191	–5,994,274
EBITDA	**–458,322**	**–1,108,410**	**–1,181,797**	**–2,378,330**	**–867,565**	**–1,163,553**	**–2,507,684**	**–4,650,293**
Adjustments EBITDA	24,485	1,340,824	–151,577	294,199	–23,406	36,926	–150,498	1,671,949
EBITDA underlying	**–433,837**	**232,414**	**–1,333,374**	**–2,084,131**	**–890,971**	**–1,126,627**	**–2,658,182**	**–2,978,344**
Financial result							–475,164	–314,592
Result from ordinary operations							**–5,373,039**	**–10,959,159**
Income taxes							380,308	290,178
Consolidated net result							**–4,992,731**	**–10,668,981**

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, 2016

1. GENERAL ACCOUNTING POLICIES AND SCOPE OF CONSOLIDATION

SFC Energy AG (the "Company" or "SFC") is a stock corporation domiciled in Germany. The Company's headquarters 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 segments "Oil & Gas", "Security & Industry" and "Consumer".

Accounting principles

The consolidated financial statements for 2016 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, 2016, 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 financial statements. Accordingly, the consolidated financial statements are also in conformity with the IFRSs as published by the IASB.

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

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

The consolidated income statement was prepared using the cost-of-sales method. The additional disclosures of costs of materials and personnel costs are shown separately in the Consolidated Notes. The Notes also contain the disclosures required under § 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 March 28, 2017. 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, 2016, and were applied to the consolidated financial statements for the first time in financial year 2016:

Amendments to IFRS 11 "Acquisition of an interest in a joint operation": IFRS 11 contains rules for the balance sheet and income statement recognition of joint ventures and joint operations. While joint ventures are accounted for using the equity method, the presentation of joint operations provided for in IFRS 11 is comparable to proportional consolidation.

With the amendment to IFRS 11, the IASB regulates the recognition of an acquisition of interests in a joint operation that constitutes a business within the meaning of IFRS 3 Business Combinations. In such cases the acquirer should use the principles for recognition of business combinations under IFRS 3. In addition, the disclosure requirements of IFRS 3 also apply in these cases.

These amendments will not have material effects on the consolidated financial statements of SFC Energy AG.

Amendments to IAS 1 "Disclosure Initiative": The amendments relate to various disclosure issues. It is clarified that disclosures in the notes are only necessary when their content is material. This explicitly applies in cases where IFRS requires a list of minimum disclosures. Explanatory notes are also provided on the aggregation and disaggregation of line items in the balance sheet and the statement of comprehensive income. Furthermore, the amendments clarify how shares in other income of equity-accounted companies should be presented in the statement of comprehensive income. Finally, a model structure for notes is deleted so as to take greater account of individual company relevance.

These amendments will not have material effects on the consolidated financial statements of SFC Energy AG.

Amendments to IAS 16 and IAS 38 "Clarification of Acceptable Depreciation and Amortization Methods": With these amendments, the IASB provides additional guidelines for the establishment of an acceptable depreciation method. Revenue-based depreciation or amortization methods are therefore not permitted for property, plant and equipment and are only permitted in certain exceptional cases for intangible assets (rebuttable presumption of inappropriateness).

These amendments will not have material effects on the consolidated financial statements of SFC Energy AG.

Amendment to IAS 19 "Defined Benefit Plans": Employee contributions: The amendments clarify the rules on the allocation of employee contributions or third-party contributions to the service periods when the contributions are linked to the service periods. In addition, relief is provided where the contributions are independent of the number of years of service completed.

These amendments will not have material effects on the consolidated financial statements of SFC Energy AG.

Improvements to IFRS 2010–2012 "Amendments to IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38": Changes were made to seven standards as part of the annual improvement project. The adaptation of formulations in individual IFRSs is intended to clarify existing regulations. There are also changes with effects on the notes. The standards affected are IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38.

The amendments to IFRS 2 and IFRS 3 are to be applied to transactions that take place on or after July 1, 2014, despite the application of the rules for financial years beginning on or after February 1, 2015.

These amendments will not have material effects on the consolidated financial statements of SFC Energy AG.

Improvements to IFRS 2012–2014 "Amendments to IFRS 5, IFRS 7, IAS 19, IAS 34": Amendments were made to four standards in connection with the annual improvement project. The adaptions of formulations in individual IFRS/IASs intended to clarify the existing regulations. The standards affected are IFRS 5, IFRS 7, IAS 19 and IAS 34.

These amendments will not have material effects on the consolidated financial statements of SFC Energy AG.

The following three standards have also been mandatory since January 1, 2016, but are not relevant to the SFC Group:

- Amendments to IFRS 10, IFRS 12 and IAS 28 "Investment Companies: Application of Consolidation Exception"
- Amendment to IAS 16 and IAS 41 "Agriculture: Fruit-Bearing Plants"
- Amendment to IAS 27 "Equity Method in Separate 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 2016:

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

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

- IFRS 9 provides for three stages that now determine the amount of losses to be recognized and the calculation of interest revenue. As soon as a financial instrument is originated or purchased, 12-month expected credit losses are recognized in profit or loss (stage 1). If the credit risk increases significantly, full lifetime expected credit losses are recognized (stage 2). If the credit risk of a financial asset 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. The E.U. has 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 known inconsistency between the provisions of IFRS 10 and IAS 28 (2011) in the event of a sale of assets to an associated company or a joint venture or the contribution of assets to an associated company or joint venture.

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

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

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

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

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

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

In particular, qualitative and quantitative disclosures on each of the following points must be made:

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

The new standard is effective for annual periods beginning on or after January 1, 2018. The E.U. has 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 leases standard results in profound changes, particularly in the treatment of leases by lessees. The most serious change is that leases are no longer disclosed as off-balance-sheet transactions and thus as contingent transactions, but will instead have to be recognized in the balance sheet. This eliminates the previous differentiation between operating and finance leases for the lessee. In the future lessees will recognize a "right-of-use" asset and a lease liability for all leases within the scope of the standard. The asset will be amortized over the lease term in accordance with the provisions for non-financial assets and the liability is accounted for in accordance with the provisions for financial instruments. The new standard is applicable to financial years beginning on or after January 1, 2019. Early adoption of the standard is possible, provided that IFRS 15 "Revenue from Contracts with Customers" is also applied. The standard has not yet been endorsed by the E.U. A reliable estimate of the effects of the application of IFRS 16 can only be made after a detailed analysis, which has not yet been completed.

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

Subject to adoption in E.U. law, the amendments are applicable to compensation granted or changed in financial years that begin on or after January 1, 2018. Earlier application is permitted. A retroactive application is only possible without the use of later, better knowledge.

Amendments to IFRS 4 "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts": The adjustments relate to the initial application of IFRS for insurers, which results in increased volatility in results and a double conversion expense for a transitional period due to different times of entry into force of IFRS 9 and the new standard for insurance contracts.

The amendments provide for two optional solutions:

- Postponement of the Initial Application of IFRS 9: When applying IFRS 4 to existing insurance contracts, the companies concerned can continue to apply IAS 39 instead of IFRS 9 for financial years beginning prior to January 1, 2021. This applies only if IFRS 9 has not been applied previously.

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

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

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

The interpretation must be applied for the first time as of January 1, 2018, subject to adoption in E.U. law.

Amendments to IAS 7 "Disclosure Initiative": The objective of the amendments is to improve information about changes in the company's debt. Under the amendments a company must disclose changes in such financial liabilities when payments and disbursements are shown in the cash flow statements as cash flow from financing activities. Other financial assets are also included in the disclosures (such as assets from hedging transactions).

Changes in cash flows, changes from the acquisition or disposal of companies, changes in exchange rates, changes in fair value and other changes must be disclosed.

The IASB proposes presenting the disclosures in the form of a reconciliation statement from the initial balance sheet to the final amount on the final balance sheet, but also allows other presentations.

The interpretation must be applied for the first time in the first reporting period of a financial year beginning on or after January 1, 2017, subject to adoption in E.U. law. Earlier application is permitted.

Amendments to IAS 12 "Recognition of Deferred Tax Assets for Unrealized Losses": The amendments clarify the recognition of deferred tax assets for unrealized losses on debt instruments measured at fair value.

The interpretation must be applied for the first time in the first reporting period of a financial year beginning on or after January 1, 2017, subject to adoption in E.U. law. Earlier application is permitted.

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

The interpretation must be applied for the first time in the first reporting period of a financial year beginning on or after January 1, 2018, subject to adoption in E.U. law. Earlier application is permitted.

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

The interpretation must be applied for the first time in the first reporting period of a financial year beginning on or after January 1, 2018, subject to adoption in E.U. law. Earlier application is permitted.

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

Subject to adoption in E.U. law, the amendments to IFRS 12 are applicable for the first time in the first reporting period of a financial year beginning on or after January 1, 2017, and the amendments to IFRS 1 and IAS 28 are applicable for the first time in the first reporting period of a financial year beginning on or after January 1, 2018. Earlier application is permitted.

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 portion of the long-term provisions determined on the basis of these assumptions is discounted. The discount rates that had been used previously were adjusted in the year under review to reflect current market developments. Note 23 contains information about the discount rates used, the change in present value, and the impact of the rate adjustments. In addition, in forming contingent loss provisions for rent expenses (see Note 23), estimates concerning the likelihood of excess expenses 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" in the Section entitled "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 is based on profit forecasts for tax purposes. Please see Note 10 "Income taxes" for additional information.

Measurement of share-based payment: Beginning in financial year 2014, the Supervisory Board of the Company established a virtual stock option plan (SAR Plan 2014 – 2016, SAR Plan 2015 – 2018) with the goal of aligning shareholders' interests with those of the Management Board. The SAR Plan 2014 – 2016, which provides for the grant of virtual stock options to the members of the Management Board, applies to Management Board employment agreements entered into as of January 1, 2014, and replaces the previous LTIP. 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 AG and all companies directly or indirectly controlled by SFC AG. 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 AG as the ultimate parent company, the PBF Group, which was acquired in 2011, and Simark Controls Ltd., which was acquired in 2013. Subsidiaries are consolidated as of the date on which control is acquired and deconsolidated as of the date on which control is lost.

In financial year 2016 the American subsidiary SFC Energy Inc. was deconsolidated as of December 31, 2016, and is now recognised as an equity investment in the consolidated balance sheet. The company has been in liquidation since December 16, 2016, and is not of material importance for the consolidated financial statements due to limited scope of its business.

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

The table below shows the direct and indirect stake the Company had in each of its consolidated subsidiaries as of December 31, 2016.

FULLY CONSOLIDATED SUBSIDIARIES in %

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

In financial year 2016 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 AG generates the predominant portion of its revenues from the sale of fuel cell systems. The EFOY COMFORT product is commonly used in the consumer sector, primarily for caravans and boats. The industrial version, EFOY Pro, is being sold for off-grid industrial applications. The Company also generates revenues from the sale of fuel cell systems specifically developed for the defense & security segment (EMILY) and from the sale of portable fuel cells (JENNY). The Power Manager is also sold in this market. The Power Manager is a versatile electronic converter that enables and facilitates charging and operation of various types of electronic equipment and batteries with different power sources. Revenues are also generated from the sale of fuel cartridges and other products for network solutions.

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

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

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

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

These long-term development contracts and Simark's long-term production contracts are accounted for using the percentage-of-completion method (PoC method). The percentage of contract completion is determined using the ratio of costs incurred to the expected total cost (cost-to-cost method). Contracts are reported 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 AG 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 amortization periods are:

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

Cost of borrowing

If the production phase of an item of plant or equipment extends over a long period of time, any borrowing costs incurred until completion of the asset are capitalized as part of acquisition or manufacturing costs in accordance with the provisions of IAS 23. As during the prior year, there were no such borrowing costs during financial year 2016.

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 prior 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 financial year 2016, there were several finance leases at subsidiary Simark Controls Ltd. Please see Note 27 "Liabilities under 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 weighted average cost method is used to track consumption.

Financial assets

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

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

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

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

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

Compound financial instruments

Compound financial instruments issued by the Group include convertible bonds in euros, which can be converted into equity shares at the holder's option, as long as the number of shares to be issued has been determined and does not change through changes in fair value, and a special termination right connected with the convertible bonds. Two of the three convertible bonds were issued in 2016. An option bond was also issued in financial year 2016.

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

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

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

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

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

Financial liabilities are initially recognized at fair value. Pursuant to IAS 32.31, on initial recognition the total of the debt and equity component must be the issue proceeds of the compound financial instrument. Therefore, the value of the option component must be determined using the residual value method, by subtracting the debt component from the value of the consideration received on the issue date for the warrant as a whole.

The option bond is subsequently measured using the effective interest method at as financial liability measured at amortized cost (FLAC). The transaction costs of the loan are therefore distributed over the term through profit or loss. The equity component is not subsequently measured and therefore the book value remains unchanged.

Impairment of financial assets

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

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

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

Government grants

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

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

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

Investment grants are deducted directly from acquisition costs.

Deferred and actual taxes

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

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

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

Provisions

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

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

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

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

Financial liabilities

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

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

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

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

Consolidation

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

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

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

Foreign currency translation

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

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

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

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

in €

	Average rate	Average rate	Rate on reporting date	Rate on reporting date
	2016	2015	12/31/2016	12/31/2015
US-Dollar (USD)	1.1065	1.1097	1.0631	1.0893
Canadian Dollar (CAD)	1.4656	1.4188	1.4138	1.5130

2. NOTES TO THE CONSOLIDATED INCOME STATEMENT

(1) Sales

Sales are shown in the following table:

		in €
	2016	2015
Sales	**44,041,375**	**47,310,120**
thereof from POC	3,121,338	3,708,557

The 6.9 % decrease in revenues from the prior year is primarily attributable to the Oil & Gas segment. Because of the relatively low price of oil in the first half of 2016, customers did not spend very much. The positive sales performance in the Security and Industry segment was not able to fully offset this effect.

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 €
	2016	2015
Cost of materials	25,388,158	27,272,405
Personnel costs	2,740,952	3,654,958
Cost of premises	1,431,193	1,499,188
Transport costs	508,661	554,629
Depreciation and amortization of self developed intangible assets	332,936	316,017
Other depreciation and amortization	223,884	211,443
Consultancy	47,334	49,288
Capitalization of amortized development costs	– 59,843	0
Other	181,375	525,470
Total	**30,794,650**	**34,083,397**

(3) Sales costs

Sales costs were as follows:

		in €
	2016	2015
Personnel costs	5,184,928	6,433,966
Depreciation and amortization	1,132,824	3,046,994
Advertising and travel costs	981,321	1,120,589
Consultancy/commissions	445,299	274,242
Cost of materials	174,683	92,226
Additions to allowances for receivables	148,057	292,164
Other	1,058,914	1,239,127
Total	**9,126,026**	**12,499,308**

The strong decrease in amortization is primarily due to the one-time effect of the impairment charge in the amount of € 1,746,553 taken on the goodwill of PBF in the prior year.

(4) Research and development costs

Research and development costs were as follows:

		in €
	2016	2015
Personnel costs	2,960,318	2,913,007
Consultancy and patents	750,673	569,183
Cost of premises	378,360	359,295
Cost of materials	363,833	753,740
Other depreciation and amortization	366,917	2,174,709
Impairment losses/Depreciation and amortization of self developed intangible assets	123,374	8,321
Capitalization of self developed intangible assets	– 435,024	– 993,503
Set-off against grants	– 735,701	– 326,104
Other	375,548	347,758
Total	**4,148,298**	**5,806,406**

The figure for amortization of self-produced intangible assets includes € 121,000 in impairment losses on capitalized development costs (prior year: € 0).

The significant decrease in other amortization is primarily due to the one-time effect of the impairment charge in the amount of € 1,746,553 taken on the goodwill of PBF in the prior year.

(5) General administration costs

General administration costs were as follows:

		in €
	2016	2015
Personnel costs	2,015,656	2,454,465
Audit and consultancy costs	1,046,222	981,751
Investor relations/annual meeting	322,568	382,036
Insurance	244,385	213,815
Depreciation and amortization	210,255	236,791
Recruiting costs	193,407	184,779
Car-operating costs	123,101	146,965
Travel costs	118,289	187,568
Supervisory Board compensation	112,500	112,500
Costs of hardware and software maintenance	72,888	73,983
Set-off against grants	– 197,265	– 57,016
Other	620,656	628,449
Total	**4,882,662**	**5,546,087**

(6) Other operating income

Other operating income was as follows:

		in €
	2016	2015
Foreign exchange transaction gains	58,246	112,175
Income from the sale of property, plant and equipment	3,497	11,500
Other	34,134	17,820
Total	**95,877**	**141,495**

(7) Other operating expenses

Other operating expenses were as follows:

		in €
	2016	2015
Foreign exchange transaction losses	38,210	160,980
Expenses from the sale of property, plant and equipment	690	0
Other	44,591	4
Total	**83,491**	**160,984**

(8) Restructuring expenses

There were no restructuring expenses in financial year 2016 or in the prior year.

(9) Financial result

Interest and similar income were as follows:

		in €
	2016	2015
Interest income from liquid funds	73	3,567
Total	**73**	**3,567**

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

		in €
	2016	2015
Interest expense on option bond/loan	362,511	3,888
Other interest and similar expense	275,821	244,513
Interest costs on other provisions	48,439	69,758
Total	**686,771**	**318,159**

The interest and similar expense includes the interest expense on the convertible bond in the amount of € 304,634 (prior year € 3,887) and the loss on the fair value change in the termination component in the amount of € 3,304 (prior year: € 529). The interest expense on the loan amounted to € 57,877. The interest expense on the option bond amounted to € 42.

The income from participations contains an expense from the deconsolidation of SFC Inc. in the amount of € 938,324 and income recognized on the recycling of the currency effects of a claim by SFC AG on SFC Inc. in the amount € 1,149,858.

(10) Income taxes

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

		in €
	2016	2015
Actual income taxes on the result for the current year	–33,442	71,064
Deferred tax income (-)/expense (+) from:		
Reversal of deferred tax liabilities on other intangible assets	–338,788	–381,221
Reversal of deferred tax liabilities on capitalized development costs	–12,877	0
Recognition of deferred tax assets on other provisions	4,799	19,979
Balance Income (-)/expenses (+) from income taxes	**–380,308**	**–290,178**

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 % (prior year: 27.38 %).

Income taxes for the subsidiaries in the Netherlands, Romania and Canada (and in the United States in the prior year) are calculated using the applicable tax rate for the specific country. For the year under review, tax rates from 16 % to 25 % (prior year: 18 % to 26 %) were applied.

Deferred tax assets and liabilities were as follows:

		in €
	12/31/2016	12/31/2015
Deferred tax assets		
Loss carryforwards	293,781	223,654
Provisions	202,171	224,095
Inventories	150,854	58,280
Other liabilities	0	–9,658
Other	30,989	78,244
Total	**677,795**	**574,616**
Deferred tax liabilities		
Other intangible assets	302,008	624,879
Self developed intangible assets	325,781	371,529
Convertible bonds	25,344	27,735
Other assets	123,629	52,941
Total	**776,762**	**1,077,084**

At the reporting date, there were tax losses carried forward in Germany and Canada in the amount of approximately € 45,957,953 (prior year including the United States: € 47,757,884) for corporate income tax purposes and approximately € 43,105,719 (prior year: € 40,047,399) for trade tax purposes. Deferred tax assets of € 293,781 (prior year: € 223,654) have been recognized on these tax loss carryforwards of SFC AG and its Canadian subsidiary. As of December 31, 2016, no deferred tax assets had been recognized for € 87,334,038 (prior year: € 86,526,023) in tax loss carryforwards in the Group. Of these tax loss carryforwards, the entire amount of € 87,334,038 (prior year: € 81,583,273) can be carried forward indefinitely in Germany, while there are no more loss carryforwards in the consolidated financial statements due to the deconsolidation in the U. S. (prior year: € 4,942,930). In addition, no deferred tax assets were recognized on deductible temporary differences (prior year: € 9,050). The prior year amounts of loss carryforwards were adjusted to reflect the separate determination of the remaining loss carryforward.

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

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

		in €
	2016	2015
Tax rate	**27,38 %**	**27,38 %**
Loss from ordinary operations	**– 5,373,039**	**– 10,959,160**
Expected tax income	**– 1,471,138**	**– 3,000,618**
Reconciliation to the reported tax income/expense		
Change in write-down of deferred tax assets	914,420	1,117,289
Differences in the tax rate	– 339,700	246,145
Taxes from permanent differences – non-deductible expenses	693,293	513,322
Effect of goodwill impairment, non-tax-deductible	0	956,413
Differences arising from the currency translation	– 90,051	– 100,944
Other	– 87,132	– 21,785
Reported tax income/expense in the consolidated income statement	**– 380,308**	**– 290,178**

(11) Cost of materials

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

		in €
	2016	2015
Raw materials and supplies and related goods	24,061,759	25,587,047
Related services	1,864,915	2,531,323
Total	**25,926,674**	**28,118,370**

(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 €
	2016	2015
Wages and salaries	10,627,879	11,299,000
Social security expenses required by law	1,342,624	1,355,783
Variables/bonuses	505,557	423,369
Other social security expenses/pensions	296,248	333,590
Personnel costs from deferred payments (Simark)	0	1,174,695
Expenses for settlements	32,476	276,541
Expenses/income from SAR/Long Term Incentive Plan	–216,739	135,702
Other	317,051	457,717
Total	**12,905,096**	**15,456,397**

The social security expenses required by law include the Company's share of € 503,858 in contributions to the public pension insurance system (prior year: € 569,589).

The average number of permanent employees was as follows:

	2016	2015
Full-time employees (incl. Management Board)	196	205
Part-time employees	32	33
Total	**228**	**238**

There was also an average of 8 (prior year: 6) trainees, graduates and student trainees.

3. NOTES ON THE CONSOLIDATED BALANCE SHEET

(14) Inventories

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

		in €
	12/31/2016	12/31/2015
Finished goods	4,819,901	5,584,277
Raw materials and supplies	2,458,064	2,764,789
Unfinished goods	439,535	432,699
Total	**7,717,500**	**8,781,766**

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

		in €
	12/31/2016	12/31/2015
Raw materials and supplies – before impairment	2,646,582	3,059,060
Impairment	– 188,519	– 294,271
Net book value	**2,458,063**	**2,764,789**

		in €
	12/31/2016	12/31/2015
Unfinished and finished goods – before impairment	6,672,053	6,440,597
Impairment	– 1,412,617	– 423,620
Net book value	**5,259,436**	**6,016,976**

Inventories with a residual book value of € 3,712,476 were pledged as collateral for liabilities (prior year: € 3,370,282) and inventories with a residual book value of € 3,491,600 (prior year: € 0) were assigned by way of a collateral for liabilities.

(15) Trade accounts receivable

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

		in €
	12/31/2016	12/31/2015
Trade accounts receivable – gross	9,209,423	7,279,039
Allowances for risk of default	– 571,270	– 519,541
Total	**8,638,153**	**6,759,498**

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 residual book value of € 6,293,000 (prior year: € 6,063,860) were pledged as collateral for liabilities.

Trade accounts receivable with a residual book value before write-downs of € 2,438,606 (prior year: € 2,196,368) were pledged as collateral for an as yet unused credit line (original interest rate of 5.5 %) in the amount of € 375,370 (prior year: € 306,568).

(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 €
	12/31/2016	12/31/2015
Proceeds shown	3,121,338	3,708,557
Costs incurred and gains recognized under contracts on or before the reporting date	4,176,673	4,111,381
Partial settlements	3,824,727	3,381,391
Production contracts with a positive balance due from the customer (reported as receivables from percentage-of-completion)	**614,819**	**729,989**
Production contracts with a negative balance due from the customer (reported as liabilities from percentage-of-completion)	**– 262,871**	**0**

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.

Because of the increase in oil prices, significant investments were again made. This caused the number and the volume of projects to increase. In financial year 2016, project volumes at SFC therefore increased by € 134,857 (prior year: € 135,193). In this context, estimated total project costs changed by € 129,459 compared with the prior year (prior year: € 217,290). As a result the gross profit increased by € 5,398 (prior year: decrease by € 53,273). The effects in the change in costs will not cause any increase in contract costs in subsequent years (prior year: € 28,823).

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 € 155,996 (prior year: € 428,128) relate to income tax receivables at Simark Controls Ltd. in the amount of € 155,973 (prior year: € 359,756), at PBF in the amount of € 0 (prior year: € 67,279) and at SFC AG in the amount of € 23 (prior year: € 1,093) 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 €
	12/31/2016	12/31/2015
Deferred income	328,273	304,103
VAT receivables	169,524	218,474
Receivables from grants	157,904	0
Prepayments made	89,234	14,241
Other advance payments	0	50,595
Others	143,249	154,865
Total	**888,184**	**742,278**

The other current assets and receivables include financial assets in the amount of € 157,904 (prior year: € 50,595).

The other long-term assets and receivables relate to financial assets from the termination component of the convertible bond in the amount of € 0 (prior year: € 3,303 (see Note 28 “Other liabilities”).

(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 € 285,614 (prior year: € 285,000) in connection with the lease for the Company's building at Eugen-Sänger-Ring 7. No additional cash was blocked in financial year 2016 to secure trade payables in connection with a contract (prior year: € 150,000).

(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 01/01/2015	**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**
Additions	3,094	181,056	0	435,024	0	0	619,174
Disposals	0	–282,394	0	0	0	0	–282,394
Differences arising from the currency translation	3,437	–4,538	0	0	483,485	282,626	765,010
as at 12/31/2016	**906,825**	**410,335**	**571,487**	**6,397,946**	**13,517,558**	**6,966,694**	**28,770,845**
Depreciation and impairment losses as at 01/01/2015	**–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**
Scheduled depreciation	–85,107	–52,893	–1,781	–334,445	0	–1,317,697	–1,791,923
Disposals	0	119,345	0	0	0	0	119,345
Impairment losses	0	0	0	–121,000	0	0	–121,000
Differences arising from the currency translation	–1,835	1,597	0	0	0	–221,408	–221,646
as at 12/31/2016	**–757,883**	**–187,877**	**–570,308**	**–4,660,937**	**–4,961,138**	**–5,778,142**	**–16,916,285**
Carrying amounts							
as at 01/01/2015	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**	**260,285**	**2,960**	**1,757,430**	**8,072,935**	**2,445,030**	**12,767,993**
as at 12/31/2016	**148,942**	**222,458**	**1,179**	**1,737,009**	**8,556,420**	**1,188,552**	**11,854,560**

At SFC AG, IP rights (patents, trademarks, domain names) with a residual book value of € 787 (prior year: € 0) were assigned by way of collateral.

Development costs

Grants of € 932,966 (prior year: € 383,120) were received in connection with development activities and were shown as a reduction of research and development costs (€ 735,701 prior year: € 326,104) and of general administration costs (€ 197,265 prior year: € 57,016).

The delay in introducing the new EFOY PRO 12000 followed by deferred income from the product sale lead to an impairment of € 121,000 on capitalized development costs. The amount was determined on the basis of a calculated value in use, applying a discount rate between 7.64 % and 8.22 %. The impairment relates to the segment Security & Industry.

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 (2017 to 2019) prepared by Management was used. In addition, the plan values were then extrapolated using a growth rate of 1.5 % (2020) and 0.5 % (2021 ff.), which was also recognized as the sustainable growth rate.

Goodwill of the PBF Group

The goodwill of the PBF Group amounts to € 1,178,831 (prior year: € 1,178,831).

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

Revenue growth and EBITDA margin

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

The revenue 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 an average compound annual growth rate (CAGR) of approximately 6.82 % over the entire planning horizon (2017 – 2021).

The planned growth in EBITDA margin is based on historically observed gross margins and on a detailed resource and materials cost planning. The long-term expected operating EBITDA margin amounts to approximately 10.90 %.

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 9.05 % (or approximately 8.55 % after subtracting growth from the terminal value).

On the basis of the above, the goodwill was determined not to be impaired.

Goodwill of Simark Controls Ltd.

The goodwill on the acquisition of Simark Controls Ltd. amounts to € 7,377,589 (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 revenue growth assumptions are based on the segment-specific market environment and the currently observed growth rates of the company. Over the entire planning horizon (2017 – 2021), the average compound annual growth rate (CAGR) amounts to approximately 8.27 % 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 7.20 %.

Cost of capital

The cost of capital used to discount the cash flows is the weighted average cost of capital (WACC), which was determined on the basis of a group of comparable companies in the same industry as Simark Ltd. using publicly available data. The WACC indicates the average weighted required return of equity and debt providers based on the ratio between the capital provided and the time value of money. An analysis of the costs of equity and debt and the capital structure at time values is necessary to determine the WACC. The cost of capital used in the reporting year was approximately 10.00 % (or approximately 9.50 % after subtracting growth from the terminal value).

There were no indications of impairment of the goodwill during the reporting year.

Other intangible assets of the PBF 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 01/01/2016	1,408,354	1,231,359	14,309	2,654,022
as of 12/31/2016	1,408,354	1,231,359	14,309	2,654,022
Depreciation and impairment losses as of 01/01/2016	– 718,846	– 838,010	– 14,309	– 1,571,165
Scheduled depreciation	– 176,044	– 205,227	0	– 381,271
as of 12/31/2016	– 894,890	– 1,043,237	– 14,309	– 1,952,436
Carrying amounts as of 01/01/2016	689,508	393,349	0	1,082,857
as of 12/31/2016	513,464	188,122	0	701,586
Remaining term of depreciation and amortization (in years)	3	1	0	

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

in €

	Simark brand	Customer relationships	Order book	Total
Acquisition costs as of 01/01/2016	**35,465**	**3,703,418**	**291,163**	**4,030,046**
Differences arising from the currency translation	2,487	259,721	20,419	282,627
as of 12/31/2016	**37,952**	**3,963,139**	**311,582**	**4,312,673**
Depreciation and impairment losses as of 01/01/2016	**–20,688**	**–2,356,022**	**–291,163**	**–2,667,873**
Scheduled depreciation	–9,153	–927,273	0	–936,426
Differences arising from the currency translation	–1,786	–199,203	–20,419	–221,408
as of 12/31/2016	**–31,627**	**–3,482,498**	**–311,582**	**–3,825,707**
Carrying amounts as of 01/01/2016	**14,777**	**1,347,396**	**0**	**1,362,173**
as of 12/31/2016	**6,325**	**480,641**	**0**	**486,966**
Remaining term of depreciation and amortization (in years)	1	1	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 01/01/2015	**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**
Additions	29,137	258,514	31,470	319,121
Disposals	–38,912	–47,660	0	–86,572
Reclassification	0	30,459	–30,459	0
Differences arising from the currency translation	10,138	19,569	0	29,706
as of 12/31/2016	**1,891,402**	**3,808,170**	**31,470**	**5,731,042**
Depreciation and impairment losses as of 01/01/2015	**–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**
Scheduled depreciation	–101,849	–375,421	0	–477,270
Disposals	0	46,970	0	46,970
Differences arising from the currency translation	–1,718	–14,982	0	–16,700
as of 12/31/2016	**–1,636,852**	**–2,889,314**	**0**	**–4,526,166**
Carrying amounts				
as of 01/01/2015	412,871	1,188,179	0	1,601,049
as of 12/31/2015	**357,754**	**1,001,408**	**30,459**	**1,389,621**
as of 12/31/2016	**254,550**	**918,856**	**31,470**	**1,204,876**

At Simark Controls Ltd. and at PBF, equipment with a residual book value of € 1,074,442 (prior year: € 1,113,960) has been pledged as collateral for liabilities. At SFC AG, equipment with a residual book value of € 95,581 (prior year: € 0) has been assigned by way of 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 miscellaneous provisions	Total other provisions	Tax provisions
as of 01/01/2016	**1,722,255**	**456,408**	**17,887**	**2,196,550**	**57,463**
Differences arising from the currency translation	0	0	577	577	0
Additions	567,069	0	33,765	600,834	28,465
Interest cost	35,201	13,238	0	48,439	0
Utilization	– 211,969	– 110,084	0	– 322,053	0
Reversal	– 453,223	0	– 52,229	– 505,452	0
as of 12/31/2016	**1,659,333**	**359,562**	**0**	**2,018,895**	**85,928**
of which with a remaining term of between one and five years	1,209,298	249,478	0	**1,458,776**	0

Warranty provisions

Warranty provisions are reported at the present value of the net amount required to satisfy the obligations. The discount rate used is 1.67 % (prior year: 2.16 %) for those obligations that would first be due after two years, 1.89 % (prior year: 2.34 %) for those due after three years, 1.97 % (prior year: 2.74 %) for those due after four years and 2.14 % (prior year: 2.74 %) 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 2018 at the earliest. The amount to set aside in each case was based on current lease agreements. The discount factors ranged from 1.67 % to 2.14 % (prior year: 2.16 % to 2.74 %) depending on the remaining term.

Other miscellaneous provisions

The item other miscellaneous provisions in financial year 2016 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 € 674,462 (prior year: € 630,263) that matures on August 15, 2018 and a drawdown on Simark Controls Ltd.'s credit line in the amount of € 916,302 (prior year: € 640,722) and the PBF Group's credit line in the amount of € 818,484 (prior year: € 743,146). The long-term portion of the loan to Simark Controls Ltd. comes to € 1,907,638 (prior year: € 2,202,797) and is also reported under current liabilities to banks because of one covenant breach. After balance sheet date the respective bank granted a waiver so that despite the covenant breach the loan will not mature before January 1, 2018, provided all payments as contracted will be made by Simark Controls Ltd. SFC is expecting the repayment in the agreed term. The corresponding long-term portion of the prior year has been adjusted according to IAS 8.41 (reclassification of long-term to short-term liabilities to banks), because of a covenant breach in the prior year and also a granted waiver after balance sheet date.

(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 €	12/31/2016	12/31/2015
Other equipment, fixtures and fittings	67,652	89,886
Net book value capitalized in conjunction with finance leases	**67,652**	**89,886**

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 €

	12/31/2016			12/31/2015		
	Minimum lease payments	Finance charge portion of the lease payments	Liabilities under finance leases (present value)	Minimum lease payments	Finance charge portion of the lease payments	Liabilities under finance leases (present value)
Within 1 year	42,904	1,438	42,985	40,910	1,469	42,380
Between 1 and 5 years	25,078	4,966	20,850	34,190	11,210	45,400
Total	**67,982**	**6,404**	**63,835**	**75,100**	**12,680**	**87,780**

(28) Other liabilities

Other short-term liabilities were as follows:

in €

	12/31/2016	12/31/2015
Variables/bonuses	458,715	479,541
Outstanding vacation	354,323	290,450
Wage tax	317,683	261,704
VAT	153,101	50,492
Social security	139,247	147,691
Supervisory board compensation	112,500	25,000
Christmas bonus	95,474	133,330
Trade association contributions	39,600	37,000
Stock-Appreciation Rights Plan	36,076	192,181
Retention of business records	32,100	30,600
Compensatory tax for the severely disabled	9,480	9,480
Overtime	2,824	4,968
Deferred payment from the acquisition (Simark)	0	1,101,601
Other	424,225	63,020
Total	**2,175,348**	**2,827,058**

Other current liabilities include financial liabilities of € 152,100 (prior year: € 1,163,601).

The long-term liabilities at December 31, 2016, relate exclusively to the obligation recognized from the Stock Appreciation Rights Plan (SAR Plan) for Management Board members in the amount of € 1,315 (prior year: € 61,948).

Other long-term financial liabilities were as follows:

		in €
	12/31/2016	12/31/2015
Convertible bond – bond component	2,884,520	1,316,756
Other loan	1,975,061	0
Option bond	1,618	0
Total	**4,861,199**	**1,316,756**

The other long-term financial liabilities include the bond component of a convertible bond (tranche 1) in the amount of € 1,416,548 (prior year: € 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. Two tranches in addition to this first tranche were issued in financial year 2016. On January 11, 2016 an amount of € 495,000 was issued with a 4 % coupon and a face value of € 550,000. On March 17, an amount of € 990,000 was issued with a 4 % coupon and a face value of € 1,100,000.

The conversion right can be exercised at any time in the period from February 15, 2016 until the close of business on the 35th trading day before 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 repaid, and amounts to a fixed 4 % p.a. In addition, there is an extraordinary termination right for the issuers and the bond creditors 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 €
	12/31/2016	12/31/2015
Nominal amount of convertible bonds at date of issuance	2,970,000	1,485,000
Equity component	– 152,097	– 67,207
Fair value of termination component	4,383	3,833
Fair value of liability component	2,822,285	1,421,627
Transaction costs	– 108,757	– 108,757
Book value of liability component at date of issuance	2,713,528	1,312,869
Accrued interest less repayment	170,992	3,887
Total book value of liability component as of December 31	**2,884,520**	**1,316,756**

The other loan is a secured loan with a duration until December 17, 2018 and an annual coupon of 13 %.

In addition, an option bond was issued on October 19, 2016. The bond has a face value of € 2,500, matures in 2021 and pays an annual coupon of 4 %. The issue price of the option bond was set at 100 % of the face amount. In addition, the warrant-linked bonds offer an option right to 161,427 no-par-value bearer shares of the Company at an option price of € 2.4779, each with a pro-rata amount of €1.00 of per share of the Company's capital and a duration until October 19, 2026.

(29) Income tax liabilities

There were no income tax liabilities on the reporting date (prior year: € 206,011). In the prior year these related 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

With the Supervisory Board's consent, the Company's share capital was increased from € 8,611,204 to € 9,047,249 by issuing 436,045 new shares of no-par-value common stock with a notional amount of € 1.00 per share. The new shares with entitlement to dividends beginning January 1, 2016 were placed with a large existing institutional investor and a private investor at a price of € 3.44 per share. The capital increase provided SFC with gross issue proceeds in the amount of approximately € 1,475k.

Capital surplus

The capital surplus came to € 73,132,012 at the reporting date (prior year: € 72,017,015). The increase in the capital surplus resulted from the conversion component of the convertible bond in the amount of € 84,890, the option bond in the amount of € 923 and the capital increase in the amount of € 1,029,184.

Conditional capital

The Company has Conditional Capital 2011 in the amount of € 819,672 and Conditional Capital 2016 in the amount of € 3,485,930 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). 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

At the annual meeting held on June 14, 2016, the shareholders authorized the Management Board to increase the capital by up to € 4,305,602, by issuing new no-par-value bearer shares, on one or more occasions by June 13, 2021, with the Supervisory Board's consent, in exchange for cash contributions or contributions in kind (Authorized Capital 2016/I). 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.

Authorization to acquire own shares

The Company's Management Board is currently not authorized to purchase shares of the Company.

Other changes in equity not affecting profit or loss

The other changes in equity not affecting profit or loss relate to changes not recognized in profit or loss from foreign subsidiaries' currency translation.

4. OTHER DISCLOSURES

(31) Contingent liabilities

Contingent liabilities are possible obligations that arise from past events and whose existence will be confirmed only by the occurrence of one or more uncertain future events beyond the control of SFC. Furthermore, present obligations are contingent liabilities when it is not probable that they will be claimed and/or the amount of the obligation cannot be measured with sufficient reliability.

There were no identifiable contingent liabilities as of the reporting date.

(32) Other financial liabilities

The other financial liabilities result from leases entered into.

Obligations under operating leases

The Company has financial liabilities under operating leases, particularly from the leases for business premises and from motor vehicle, hardware, copier and office furniture leases.

Expenses of € 2,413,674 (prior year: € 2,450,457) were recognized from operating leases in 2016.

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 €

	12/31/2016	12/31/2015
Minimum rent payments under operate leases		
Within 1 year	1,900,724	1,874,851
Between 1 and 5 years	2,915,680	4,084,223
More than 5 years	0	0
Total	**4,816,404**	**5,959,074**

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 € 9,259,956 (prior year: € 3,151,516) as of the reporting date. These relate primarily to blanket orders for raw materials and supplies.

Contingent liabilities

There were no contingent liabilities as of the reporting date.

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 following covenants and threshold values were agreed to for Simark at December 31, 2016:

- Working Capital Ratio (WCR) (both banks):
  Short-term assets/short-term liabilities: > 1.20

- Debt Service Coverage Ratio (DSCR):
  EBITDA/debt service: > 1.20

- Funded Debt to EBITDA Ratio (FDER):
  Interest-bearing liabilities/EBITDA: < 2.50

The threshold value for the FDER was exceeded as of December 31, 2016. In discussions with the bank, a waiver was granted so that the breach of the covenant is deemed cured. SFC AG has given the banks a subordination agreement in the amount of the shareholder loan of CAD 2,637k.

PBF

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

- Equity ratio of 30 %: guarantee capital/total capital

The equity ratio of 30 % was not met as of December 31, 2016. The financing bank did not make use of their right of termination and stated in writing that they are not making use of it. PBF is currently in discussion with the bank to get the respective contractual amendment agreed. SFC assumes that an agreement can be reached. In addition SFC AG has a subordination agreement of T€ 2,350 with the bank of an already existing 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 €
	12/31/2016	12/31/2015
Financial assets		
Financial assets measured as at net book value		
Interests in SFC Energy Inc.	71	0
Loans and receivables		
Trade accounts receivable	8,638,153	6,759,498
Other assets and receivables – short-term	157,904	50,595
Cash and cash equivalents	1,756,001	3,277,066
Cash and cash equivalents with limitation on disposal	285,000	435,000
Financial assets measured as at fair value through profit or loss		
Other long-term assets and receivables	0	3,304
Financial liabilities		
Liabilities carried at amortized cost		
Liabilities to banks	4,316,886	4,216,928
Trade accounts payable	5,789,615	7,262,550
Liabilities under finance leases	63,835	87,780
Other long-term financial liabilities	4,861,199	1,316,756
Other liabilities – short-term	152.100	1.163.601

The book values of the financial assets and financial liabilities carried at amortized cost are largely the same as their fair values because, with the exception of the long-term portion of a loan taken out and the debt and termination component of a convertible bond issued, 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 shown at fair value on the balance sheet; the fair value of the bond component of all three tranches carried at amortized cost amounted to € 2,790,464 (prior year: € 1,423,630) at the reporting date. The fair value of the option bond carried at amortized cost amounted to € 1,610 at the reporting date, while the fair value of the loan amounted to € 2,047,224.

The book values of the financial assets and financial liabilities carried at amortized cost in the prior year are also close to the fair values because, with the exception of the long-term portion of a loan taken out, they were all short-term.

Financial assets and liabilities measured at fair value are assigned to one of the following three hierarchy levels: Financial assets and financial liabilities are assigned to Level 1 if there are quoted prices in active markets for identical assets and liabilities. They are assigned to Level 2 if the inputs on which the fair value measurement is based are observable either directly as prices or indirectly from prices. Financial assets and liabilities are assigned to Level 3 if the fair value measurement is not based on observable inputs. In financial year 2016 there were no financial liabilities or financial assets fair valued as Level 3.

The classification within fair value hierarchy is as follows:

FAIR VALUE HIERARCHY			in €
		12/31/2016	
	Level 1	Level 2	Total
Financial assets			
measured as at amortized cost			
Interests in SFC Energy Inc.	0	71	71
Loans and receivables			
Trade accounts receivable	0	8,638,153	8,638,153
Other assets and receivables – short-term	0	157,904	157,904
Cash and cash equivalents	0	1,756,001	1,756,001
Cash and cash equivalents with limitation on disposal	0	285,000	285,000
Financial liabilities			
Liabilities carried at amortized cost			
Liabilities to banks	0	4,316,886	4,316,886
Trade accounts payable	0	5,789,615	5,789,615
Liabilities under finance leases	0	63,835	63,835
Other long-term financial liabilities	0	4,861,199	4,861,199
Other liabilities – short-term	0	152,100	152,100

FAIR VALUE HIERARCHY			in €
		12/31/2015	
	Level 1	Level 2	Total
Financial assets			
Loans and receivables			
Trade accounts receivable	0	6,759,498	6,759,498
Other assets and receivables – short-term	0	50,595	50,595
Cash and cash equivalents	0	3,277,066	3,277,066
Cash and cash equivalents with limitation on disposal	0	435,000	435,000
Financial assets measured as at fair value through profit or loss			
Other long-term assets and receivables	0	3,304	3,304
Financial liabilities			
Liabilities carried at amortized cost			
Liabilities to banks	0	4,216,928	4,216,928
Trade accounts payable		7,262,550	7,262,550
Liabilities under finance leases	0	87,780	87,780
Other long-term financial liabilities	0	1,316,756	1,316,756
Other liabilities – short-term	0	1,163,601	1,163,601

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

EXPENSES AND INCOME FROM THE FINANCIAL INSTRUMENTS in €

	2016	2015
Financial assets		
Loans and receivables		
Trade accounts receivable		
Income from write-downs of trade accounts receivable	47,924	1,599
Expense from write-downs of trade accounts receivable	–148,057	–270,596
Income from currency translation of trade accounts receivable	54,146	105,355
Expense from currency translation of trade accounts receivable	–26,250	–79,127
Cash and cash equivalents		
Interest income	73	3,566
Interests		
Result from deconsolidation	211,534	0
Net result of loans and receivables	**139,369**	**–239,202**
Measured as at fair value through profit or loss		
Other long-term assets and receivables	–3,304	–529
Net result of financial assets measured as at fair value through profit or loss	**–3,304**	**–529**
Financial liabilities		
Liabilities carried at amortized cost		
Liabilities to banks		
Interest expense	–275,813	–288,215
Trade accounts payable		
Income from currency translation of trade accounts payable	4,100	6,819
Expense from currency translation of trade accounts payable	–11,960	–81,854
Other long-term financial liabilities		
Interest expense	–362,511	–3,887
Net result of liabilities carried at amortized cost	**–646,184**	**–367,136**

Capital management

SFC considers a strong financial profile for the Group to be a fundamental requirement for further growth. SFC's strategic orientation, and especially its chosen expansion strategy, will require further investments that will have to be financed to ensure future business success – particularly in product development, the tapping of further market segments and new regions, and expanding the business in existing market segments. The funds brought in through the May 2007 public stock offering and the cash capital increases in November 2014 and August 2016 and the convertible bond issued in December 2015 including the expansion in 2016 and the issue of a loan and an option bond in October 2016 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).

In December 2015 SFC issued a tranche (€ 1,650,000) of a convertible bond with a total face value of € 5,000,000 at a 10 % discount. € 1,485,000 was acquired through a private placement. The fair value of the compound instrument was divided into equity and debt components. Transactions costs were allocated to the components in accordance with their share of the fair value of each component. In addition, in January 2016, an additional tranche was placed in connection with the private placement of a convertible bond in the amount of € 550,000. With a 10 % discount, this provided the Company with cash in the amount of € 495,000. In March 2016 a further tranche of € 1,100,000 was placed. With a 10 % discount, this provided the Company with cash in the amount of € 990,000.

In addition, on October 18, 2016, with the Supervisory Board's consent, SFC issued a secured loan in the amount of € 1,997,500, as well as an option bond pursuant to the authorization granted at the annual meeting of the shareholders of SFC Energy AG on June 14, 2016. The option bond was issued with the exclusion of SFC shareholders' subscription rights by means of a private placement with a private investor and lender from Singapore. The bond with a face value of € 2,500, maturing in 2021, pays 4.0 % interest p.a. The issue price of the option bond was set at 100 % of the face amount. In addition, the option bond offers an option right to 161,427 no-par-value bearer shares of SFC at an option price of € 2.4779, each with a pro-rata amount of € 1.00 per share of SFC's capital. The corporate action provided SFC with gross issue proceeds of € 2,000,000.

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 €

	12/31/2016	12/31/2015
Equity	**13,338,672**	**16,557,811**
As a percentage of total capital	39.5 %	46.1 %
	7,118,901	4,088,175
Long-term liabilities *	13,335,382	15,243,272
Short-term liabilities *	20,454,283	19,331,447
	60.5 %	53.9 %
Liabilities	**33,792,955**	**35,889,257**
As a percentage of total capital	60.5 %	53.9 %
Total equity and liabilities	**35,889,257**	**35,889,257**

* prior year adjusted, see Note (24)

The capital structure of SFC changed in 2016, because of the issue of the convertible bond, the loan and the option bond. Because of the consolidated loss for the year, the equity ratio fell to 39.5 % (prior year: 46.1 %).

Underlying operating result

One of the instruments employed by the Company for internal steering in financial year 2016 was the "underlying operating result". The following table shows the reconciliation of the operating result (EBIT) reported in SFC's consolidated income statement to the underlying operating result:

RECONCILIATION TO UNDERLYING OPERATING RESULT (EBIT) — in €

	2016	2015
EBIT (earnings before interest and taxes)	**–4,897,875**	**–10,644,567**
Reported as production costs of work performed to generate sales		
Impairment of intangible assets identified in acquisitions	0	35,212
Expenses for acquisition-related personnel costs	0	202,987
Expenses from contract terminations	24,020	121,954
Reported as research and development costs		
Impairment losses capitalized development	0	61,282
Impairment of goodwill	0	1,746,553
Reported as sales costs		
Impairment of intangible assets identified in acquisitions	936,426	1,051,808
Expenses for the management board SAR Plan	–113,895	84,545
Expenses for personnel, bonus	42,221	158,959
Expenses for acquisition-related personnel costs	0	768,720
Impairment of goodwill	0	1,746,553
Reported as general administrations costs		
Expenses from contract terminations	0	19,358
Expenses for the management board SAR Plan	–102,844	51,157
Expenses for acquisition-related personnel costs	0	202,987
Underlying operating result (EBIT)	**–4,111,947**	**–4,392,491**

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 prior year. Receivables from the sale of products are secured for SFC through a reservation of ownership.

Of the € 8,638,153 in trade accounts receivable (prior year: € 6,759,498), the largest five customers account for € 608,580, € 497,719, € 469,526, € 455,641 and € 404,550, in total € 2,610,676 (prior year: five largest customers € 286,338, € 270,179, € 238,634, € 177,208 and € 176,391, for a total of € 1,148,750). 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 €
	2016	2015
Write-downs at 1/1	**519,542**	**227,872**
Additions	148,057	292,164
Use	–48,405	0
Release	–47,924	–494
Write-downs at 12/31	**571,270**	**519,542**

There are also past-due trade accounts receivable that have thus far not been written down in the amount of € 2,363,630 (prior year: € 2,146,257). These can be broken down by maturity range as follows:

		in €
	2016	2015
Gross book value of the impaired receivables	871,703	532,281
Specific write-downs	– 571,270	– 519,541
Net book value of the impaired receivables	**300,433**	**12,740**
Not past due or impaired	5,974,091	4,600,501
Past due and not impaired		
Up to one month past due and not impaired	1,306,303	1,121,547
One to three months past due and not impaired	351,307	347,999
Three to six months past due and not impaired	704,742	623,707
Over six months past due and not impaired	1,278	53,004
Receivables per balance sheet	**8,638,154**	**6,759,498**

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

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

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

Liquidity risk

Liquidity risk describes the possibility that SFC may not be able to meet its payment obligations. This risk was countered by the capital increases in May 2007, November 2014 and August 2016 and by the convertible bond issue in 2015 and 2016 and the loan as well as the option bond issue in October 2016. However, the cash reserves dropped significantly from the prior year due to the net loss in 2016.

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 €

	2016			2015		
	Total	1 year	> 1 year	Total	1 year	> 1 year
Non-derivative financial liabilities						
Liabilities to banks *	– 4,316,886	– 4,316,886	0	– 4,216,928	– 4,216,928	0
Trade accounts payable	– 5,789,615	– 5,789,615	0	– 7,262,550	– 7,262,550	0
Liabilities under finance leases	– 63,835	– 42,986	– 20,849	– 87,780	– 42,380	– 45,400
Other long-term financial liabilities	– 4,861,199	0	– 4,861,199	– 1,316,756	0	– 1,316,756
Other financial liabilities	– 152,101	– 152,101	0	– 1,163,601	– 1,163,601	0
Total cash outflow	**– 15,183,636**	**– 10,301,588**	**– 4,882,048**	**– 14,047,615**	**– 12,685,459**	**– 1,362,156**
Non-derivative financial assets						
Cash and cash equivalents	2,041,001	2,041,001	0	3,712,066	3,712,066	0
Trade accounts receivable	8,638,153	8,638,153	**0**	6,759,498	6,759,498	**0**
Other financial assets	157,904	157,904	0	50,595	50,595	0
Total cash inflow	**10,837,058**	**10,837,058**	**0**	**10,522,158**	**10,522,158**	**0**
Net liquidity from financial instruments	**– 4,346,578**	**535,470**	**– 4,882,048**	**– 3,525,457**	**– 2,163,301**	**– 1,362,156**

* prior year adjusted, see Note (24)

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 € 210,108 (prior year: € 298,539) through the end of the liabilities' term, assuming an interest rate of 6.91 % (prior year: 5.20 %). Interest at the rate of 4 %, or € 263,638 (prior year: € 198,000) must be paid on the convertible bonds until they mature. Interest at the rate of 13 % or € 568,400 must be paid on the loan until the end of its term. Interest at the rate of 4 % or € 501 must be paid on the option bond until 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 € 9,065 (prior year: € 5,231). The Group is not subject to any other material interest rate risk from variable-interest instruments.

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

Exchange rate risk

Due to Simark's volume of business, SFC will generate a substantial portion of its revenues in Canadian dollars, which will be offset by expenses and payments in Canadian dollars. In addition, SFC AG and Simark will generate sales in North America in U.S. dollars, which will be offset, in particular, by expenses and payments in U.S. dollars for the U.S. subsidiary. Furthermore, Simark purchases some of its products in U.S. dollars. No currency forwards were entered into in financial year 2016.

There would have been a positive effect of € 271,829 (prior year: € 263,165) on the Group's equity if, when translating the assets and obligations of SFC Energy Inc. as of December 31, 2016, the exchange rate had fluctuated by – 5 % and a negative effect of € – 271,829 (prior year: € – 263,165) if the rate had fluctuated by +5 %. There would have been a negative effect of € – 867,594 (prior year: € – 904,303) on the Group's equity if, when translating the assets and obligations of Simark Controls Ltd. as of December 31, 2016, the exchange rate had fluctuated by – 5 % and a positive effect of € 867,594 (prior year: € 904,303) 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 AG's, PBF's and Simark's foreign currency receivables and liabilities as of December 31, 2016 would have led to a decrease of € – 9,850 (prior year: € – 27,601) in the foreign currency result if the exchange rate had fluctuated by – 5 % and an increase of € 9,850 (prior year: € 27,601) if the rate had fluctuated by +5 %.

The objective of foreign currency management is to minimize exchange rate losses in comparison with budget assumptions. For that purpose, an open foreign currency position is calculated on the basis of actual and planned foreign currency positions and adjusted in the context of the rolling year-end forecast. If large open positions exist, most of the open balance is hedged with currency forwards to the extent the forecast and market expectations indicate significant deviations from the budgeted assumptions. There were no open currency forwards as of the reporting date. In this respect, foreign exchange risk exists for the unhedged portion of sales.

(34) Share-based payment

Stock Appreciation Rights Plan

Within 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 (Tranches HP1 and HP2) 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. There were no changes to the SAR Plan in financial year 2016.

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

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

The SARs awards have been classified and measured as cash-settled share-based 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 2016 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
Contractual remaining term on 12/31/2016 (years)				
Outstanding number of phantom shares at the beginning of the reporting period (1/1/2016)	240,000	7,500	120,000	180,000
during the 2016 reporting period				
SAR awarded	0	0	0	0
SAR forfeited	120,000	0	60,000	60,000
SAR exercised	0	0	0	0
SAR expired	0	0	0	0
SAR outstanding at the end of the reporting period (12/31/2016)	120,000	7,500	60,000	120,000
Exercisable SAR at the end of the reporting period (12/31/2016)	0	0	0	0

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

	Tranche PP1	Tranche HP1	Tranche StS1	Tranche HP2
Number of stock appreciation rights (SAR)	360,000	90,000	180,000	180,000
Maximum term (years)	7.0	7.0	7.0	7.0
Contractual remaining term on 12/31/2015 (years)				
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 following parameters were used in the measurement at December 31, 2016:

	Tranche PP1	Tranche HP1	Tranche StS1	Tranche HP2
Measurement date	12/31/2016	12/31/2016	12/31/2016	12/31/2016
Remaining term (years)	4.25	4.00	4.67	4.50
Expected volatility	40.55 %	41.51 %	41.12 %	39.76 %
Risk-free interest rate	– 0.59 %	– 0.62 %	– 0.53 %	– 0.41 %
Dividend yield	0.00 %	0.00 %	0.00 %	0.00 %
Strike price	€ 1.00	€ 1.00	€ 1.00	€ 1.00
Share price on the measurement date	€ 2.02	€ 2.02	€ 2.02	€ 2.02

The following parameters were used in the measurement in the prior year (at 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

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, 2016. The volatility shown is based on the historical volatility of the SFC share over time frames matching the respective remaining terms. Volatility expectations are based on the assumption that historic volatility is indicative of future trends. The expected dividend yield is based on market estimates for SFC's dividend per share in 2016 and 2017.

At December 31, 2016, a liability of € 37,390 was recognized under other liabilities in connection with the SAR Plan (€ 37,390 thereof under other long-term liabilities) (December 31, 2015: € 230,116, with € 230,116 thereof under other long-term liabilities). The amount expensed for the period from January 1 to December 31 was € – 192,726 (prior-year period: € 118,428).

(35) Related party transactions

IAS 24 "Related Party Disclosures" defines related parties as companies and persons that have the ability to directly or indirectly control or exercise significant influence over the reporting entity or that participate in the joint management of the reporting entity.

Persons in key positions at SFC are the Management Board members and the Supervisory Board members along with close members of their families. The members of the Management Board and the Supervisory Board were as follows in financial years 2015 and 2016:

Management Board members

Dr. Peter Podesser, Simbach am Inn, a businessman (Chairman)
Steffen Schneider, Gräfelfing, a businessman
Hans Pol, Ede, Netherlands, a businessman

Supervisory Board members

Tim van Delden, Düsseldorf, who holds a degree in engineering (Chairman)
David William Morgan, Rolvenden (United Kingdom), MA ACA, a businessman (Deputy Chairman)
Hubertus Krossa, Wiesbaden, a businessman

Companies that are directly or indirectly controlled by members of management in key positions or are under their significant influence are also classified as "related parties" under IAS 24 "Related Party Disclosures".

The compensation of persons in key positions was as follows:

in €

	2016		2015	
	Fixed portion	Variable portion	Fixed portion	Variable portion
Management Board	776,709	–216,761	765,455	174,241
Supervisory Board	112,500	0	112,500	0
Total	**889,209**	**–216,761**	**877,955**	**174,241**

The Company had € 188,394 in liabilities to persons in key positions as of the reporting date (prior year: € 411,622).

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

FINANCIAL YEAR 2016				in €
	Fixed compensation	Short-term performance based compensation	Long-term performance based compensation	Total
Dr. Peter Podesser	373,312	–20,011	–64,804	288,498
Hans Pol	190,346	0	–79,969	110,376
Steffen Schneider	213,051	–4,002	–47,975	161,074
Total	**776,709**	**–24,013**	**–192,748**	**559,948**

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**

(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 loss attributable to the holders of shares of common stock and a weighted average of the shares of common stock in circulation after eliminating all dilutive effects of potential shares of common stock. In financial year 2016 the diluted and basic earnings per share were identical because there was protection from dilution, because conversion into common shares would reduce the loss per share for the current year.

The weighted average of the shares of common stock at December 31, 2016 was as follows:

	2016	2015
Number of shares in circulation at the beginning of the period	8,611,204	8,611,204
Effect of the shares issued in August	58,139	0
Weighted average number of shares at December, 31	**8,669,343**	**8,611,204**

((37) Disclosures on the consolidated cash flow statement

The consolidated cash flow statement shows the origin and use of cash flows. In accordance with IAS 7 "Cash Flow Statements", cash flow statements break down cash flows into cash flow from ordinary operations, cash flow from investment activities and cash flow from financial activities. The "cash and cash equivalents" item in the cash flow statement corresponds to the "cash and cash equivalents" item in the balance sheet. Cash and cash equivalents consist of cash and credit balances in the amount of € 390,372 (prior year: € 849,473) as well as time and call deposit accounts in the amount of € 1,365,629 (prior year: € 2,427,593).

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

Because SFC invests surplus cash in short-term, low-risk financial securities, the interest that is received is allocated to the cash flow from investment activity. Interest payments are shown in the cash flow from financial activity.

(38) Disclosures on consolidated segment reporting

As part of the consolidated segment reporting pursuant to IFRS 8 "Operating Segments", the segments are broken down in accordance with the internal reporting to the Management Board and Supervisory Board that forms the basis for corporate planning and accounting for resources.

Internally, the Management Board uses sales, gross margin and EBITDA when steering the Group and implementing the realignment of its business with the core markets "Oil & Gas," "Security & Industry" and "Consumer".

As in the prior year, the segment reporting in financial year 2016 is the same as the internal reporting structure.

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

The "Security & Industry" 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	
	2016	2015	12/31/2016	12/31/2015
North America	19,678,696	26,389,726	8,062,034	8,681,559
Europe (not including Germany)	13,304,905	11,989,841	2,883,275	3,338,584
Germany	6,141,821	6,705,278	2,114,127	2,140,774
Asia	3,099,212	1,468,068	0	0
Rest of the world	1,816,741	757,207	0	0
Total	**44,041,375**	**47,310,120**	**13,059,436**	**14,160,918**

Sales were broken down by region on the basis of each customer's registered office. Sales of € 6,141,821 (prior year: € 6,705,278) were generated in the Group's home market of Germany.

In the financial year and the prior year, no single customer accounted for more than 10 % of sales.

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

		in €
	2016	2015
Security & Industry	480,752	306,615
Consumer	137,226	214,761
Oil & Gas	0	0
Total	**617,978**	**521,376**

There was interest income of € 52 in the Security & Industry segment, € 22 in the Consumer segment and € 0 in the Oil & Gas segment.

Interest expense came to € 318,724 in Security & Industry, € 126,915 in Consumer and € 241,132 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 €	2016	2015
Financial statements	129,500	129,500
Total	**129,500**	**129,500**

(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 2016 and published it on the website of SFC Energy AG (www.sfc.com/en/investors/corporate-governance). The Management Board and Supervisory Board published an updated declaration of conformity on SFC Energy AG's website on March 28, 2017. This declaration of conformity will remain available on the Internet for the next five years and thus be accessible to the public on a long-term basis. It is also published in the Annual Report as part of the Corporate Governance Report.

(41) Material events after the balance sheet date

On September 16, 2016, the Supervisory Board of SFC Energy AG engaged Mr. Marcus Binder to join the Management Board effective March 1, 2017. Along with the current CSO, Hans Pol, Mr. Binder be the CSO responsible for the defense and security market, while Hans Pol will focus exclusively on growing the business of the Dutch subsidiary PBF B.V. Group.

Steffen Schneider, Chief Financial Officer for SFC Energy AG, will resign from the Management Board for personal reasons at the end of the Annual General Meeting on May 17, 2017, by mutually amicable agreement with the Supervisory Board. His operational activities within the Group will be taken over by Gerhard Inninger. Mr. Inninger will report to the CEO Dr. Peter Podesser, who will assume the responsibility for the financial department on Management Board level. Mr. Inninger was already from 2011 to 2014 CFO of SFC Energy AG.

As of the current date, there are no further events of material significance that could have a material effect on the Group's assets and liabilities, financial position or results of operations.

Brunnthal, March 28, 2017

The Management Board

Dr. Peter Podesser
CEO

Steffen Schneider
CFO

Hans Pol
CSO Power Electronics

Marcus Binder
CSO Defense & Security

SFC ENERGY AG, BRUNNTHAL CONSOLIDATED FINANCIAL STATEMENTS AND GROUP MANAGEMENT REPORT FOR FINANCIAL YEAR 2016 RESPONSIBILITY STATEMENT

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group, and the group management report includes a fair review of the development and performance of the business and the position of the group, together with a description of the principal opportunities and risks associated with the expected development of the group.

Brunnthal, March 28, 2017

The Management Board

Dr. Peter Podesser
CEO

Steffen Schneider
CFO

Hans Pol
CSO Power Electronics

Marcus Binder
CSO Defense & Security

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 January 1 to December 31, 2016. The preparation of the consolidated financial statements and the group management report in accordance with the International Financial Reporting Standards (IFRS), as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315a (1) German Commercial Code (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 (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 production-related risks" and "Business and background conditions" 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, March 28, 2017

Deloitte GmbH
Wirtschaftsprüfungsgesellschaft

Götz
Wirtschaftsprüfer (German public auditor)

Pinckernelle
Wirtschaftsprüfer (German public auditor)

FINANCIAL CALENDAR 2017

February 16, 2017	Preliminary Figures 2016
April 6, 2017	Annual Report 2016
May 11, 2017	Q1 Interim Disclosure 2017
May 17, 2017	Annual General Meeting
August 3, 2017	Q2 Report 2017
November 9, 2017	Q3 Interim Disclosure 2017
November 27 – 29, 2017	German Equity Forum

SHARE INFORMATION

Bloomberg Symbol	F3C
Reuters Symbol	CXPNX
WKN	756857
ISIN	DE0007568578
Number of shares	9,047,249
Stock Category	No-par value shares
Stock segment	Prime Standard, Renewable Energies
Stock exchange	Frankfurt, FWB
Designated Sponsors	Hauck & Aufhäuser Privatbankiers KGaA

INVESTOR-RELATIONS

SFC Energy AG
Eugen-Saenger-Ring 7
85649 Brunnthal
Germany

Phone: +49 (0) 89 / 673 592 – 378
Fax: +49 (0) 89 / 673 592 – 169
Email: ir@sfc.com

IMPRINT

SFC Energy AG
Eugen-Saenger-Ring 7
85649 Brunnthal
Germany
Phone: +49 (0) 89 / 673 592 – 0
Fax: +49 (0) 89 / 673 592 – 369

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Editing: SFC Energy AG/CrossAlliance communication GmbH
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POLICE
CAMERA IN
OPERATION